

Rating Rationale
Alka Hospital Private Limited

Rating

Facilities	Amount (Rs. In Million)	Rating¹	Rating Action
Long Term Bank Facilities	437.28	CARE-NP BBB- [Triple B Minus] Credit watch with negative implications	Rating placed on credit watch with negative implications
Short Term Bank Facilities	47.72	CARE-NP A3 [A Three] Credit watch with negative implications	Rating placed on credit watch with negative implications
Total Facilities	485.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has placed the rating of ‘CARE-NP BBB-’ assigned to the long-term bank facilities and rating of ‘CARE-NP A3’ assigned to the short-term bank facilities of Alka Hospital Private Limited Rating (AHPL) on ‘credit watch’ with negative implications.

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Alka Hospital Private Limited Rating (AHPL) have been placed on credit watch with negative implications, following the ongoing pandemic of COVID-19 and its expected impact on the operational and financial performance of the company and on the overall hospital sector. CRNL shall be continuously monitoring the COVID-19 crisis and its impact on the business, financial risk profile and liquidity position of the company during this period. CRNL may remove the ratings from watch and would take a final action on the ratings once clarity emerges on these issues.

The ratings continues to derive strength from established track record of operation and experienced directors, wide range of health services offered, established college of Nursing, continuous addition of programs with high occupancy, comfortable financial performance with growth in profitability with moderate capital structure and moderate debt service coverage indicators in FY19 (audited, refers to 12 months period ending mid-July 2019). The rating also factors in growing demand of healthcare services in Nepal, diversified revenue profile and geographical advantage being located at prime locations. The ratings, however, are constrained by presence in highly competitive nature of the industry, exposure to volatile interest rates. The ability of the company to profitably scale-up its operations would be key rating sensitivity.

Detailed Description of the Key Rating Drivers

Impact of Covid-19 on the business of the company

The outbreak of Coronavirus disease 2019 (COVID-19) which was recognized as Pandemic by World Health Organization, has affected Nepal as well. As a measure to combat the pandemic, Government of

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 closing most of the organizations. GoN had provided relaxation in operation of companies dealing in essential items/services during the lockdown period. Considering the same, AHPL has been running its normal operations however the patients inflow has been low, which is affecting their cash flows. The cash flow of the company is expected to be in stress over the short term. Ability of the hospital in managing day to day expenses and meet its working capital requirement and increase in inflow of patient would be critical monitorable factors.

Key Rating Strength

Established track record and experienced directors in the related field

AHPL is providing health related services for more than 17 years (including through former APPL) and operating nursing college for more than 11 years. AHPL has two member Board of Directors, chaired by Mr. Tilak Bahadur (Puwar) Thapa. Mr. Thapa has been related to medicine field for about three decades. Mrs. Bidhya Shrestha, wife of Mr. Thapa is another director and has been engaged in medical field since beginning of Alka Pharmacy and is proprietor of Alka Pharmacy. There are 94 doctors engaged in the services provided by AHPL from about 29 specialties, most of them are associated with AHPL for around 9-10 years. AHPL is providing health services through 350 support staffs. Similarly, there are 32 faculty members (lecturer/ assistant lecturer) for the nursing college.

Wide range of health services offered

AHPL has been providing wide range of health services to the patients from its two units located at Jawalakhel and Ekantakuna, both in Lalitpur district. AHPL is providing health services with total bed capacity of 100 beds in total with around 94 doctors specialized in different areas. AHPL has been providing various specialized services and is equipped with modern 10 bedded ICU with four ventilators providing intensive care for critical Patients. Further, AHPL recently made renovation of 15 beds cabin with one new memo gram unit x-ray and Neonatal intensive care (NICU) with 5 beds and 2 ventilators in August, 2019.

Established college of Nursing, continuous addition of programs with high occupancy

AHPL have been also involved in nursing courses through Alka Institute of Medical Sciences (AIMS) at Lalitpur. AIMS runs Proficiency Certificate Level (PCL) nursing course with approved number of 40 seats since FY09, affiliated from Council for Technical Education and Vocational Training (CTEVT) and registered at Nepal Nursing Council. Later on during FY11, AHPL had added 40 seats for Post Basic Bachelor in Nursing (PBBN), affiliated from Purbanchal University. Further, The college has occupancy ratio of 86% in the current academic year as compared to 97% of previous year due to lower enrolment in PCL Medical Lab Technology. AHPL has started to run nursing courses from its own premises, located at Dhobigaht, Lalitpur.

Diversified revenue profile

AHPL has diversified stream of revenue profile. AHPL generates revenues from hospital operation, which includes two units with a total capacity of 100 beds, nursing college that offers four different nursing courses, rental revenue from the hospital premises and other operating income. AHPL earned 89.85% of the total operating income from patient receipts/ hospital operations, followed by 7.38% from nursing college and 3.78% from rental revenue (pharmacy, canteen & others) during FY19.

Comfortable financial performance however decline in profitability during FY19

Total revenue of AHPL has increased by CAGR of ~16% over 3 years period ending FY19. Company reported increase in revenue by ~13% during FY19, primarily due to increase in revenue from increased flow of both inpatients and outpatients and increased occupancy of 83.61% as compared to 74.32% occupancy during FY18. PBILDT margin declined in FY19 majorly on account of increase in administrative and selling expense by ~14%. AHPL reported PAT margin of 13.49% in FY18 which deteriorated to 6.75% in FY19 primarily due to decrease in PBILDT and increase in the interest cost during the year.

Moderate capital structure and moderate debt service coverage indicators

AHPL's capital structure was moderate with overall gearing ratio of 1.41x at the end of FY19 however increased from 0.15x at the end of FY18 due to addition of term loan during the FY19 for purchase of new land and building to operate nursing college and due to decline in Net worth on the back of dividend during FY19. AHPL has a moderate debt service coverage ratio with company reporting Total Debt to GCA of 0.57x in FY18 which deteriorated during FY19 to 6.85x. Interest coverage ratio of the company was comfortable at 3.07x in FY19 which decreased substantially from 18.78x in FY18 due to increment in the interest expense on the back of increase in term loan.

Growing demand of healthcare services in Nepal

Healthcare has become one of Nepal's largest sectors - both in terms of revenue and employment. Healthcare comprises hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. The Nepalese healthcare sector is growing at a good pace due to its strengthening coverage, services and increasing expenditure by public as well private players. Rising income level, greater health awareness, increased precedence of lifestyle diseases and improved access to insurance would be the key contributors to growth.

Geographical advantage being located at prime locations

AHPL's hospital units has its presence in Jawalakhel and Bhanimandal, and nursing college at Dhobighat (all are in Lalitpur District), thus having geographical advantages in the revenue profile being part of Kathmandu valley. The hospitals and nursing college are well connected through roads, making it strategically located for carrying out the healthcare and nursing college business.

Key Rating Weakness

Exposure to volatile interest rates

Nepalese banking sector fix interest rates on lending, based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Banks and Financial Institutions are exposed to volatile interest rate.

Presence in highly competitive nature of the industry

AHPL is operated in a highly competitive industry. There are various hospitals, private clinics in the market providing similar facilities. The company faces stiff competition from other hospitals and private clinics in the area. The nature of healthcare industry is highly fragmented. The empanelment with private and government institutions certainly helps the company to maintain its operations in the industry. Moreover, the hospital has to follow various regulations imposed by the government.

About the Company

Alka Hospital Private Limited (AHPL) is a private company incorporated under the Companies Act, 2006. AHPL had started its operations through Alka Pharmacy which was established in 1995. The pharmacy expanded its services and the promoters established Alka Polyclinic Private Limited (APPL) on November 25, 2002. APPL continued to serve with limited services in the field of doctor's consultancy, diagnostic facilities. Later, during May 2005, the name of the company was changed to AHPL. AHPL also runs nursing college under the name of Alka Institute of Medical Sciences (AIMS).

Brief Financial Performance during last 3 years is given below:

(Rs in Million)

Particulars	FY17 (A)*	FY18 (A)*	FY19 (A)*
Income from operations	504	581	656
PBILDT	125	141	152
PAT	60	78	44
Interest Coverage ratio (times)	29.80	18.78	3.07
Overall gearing (times)	0.12	0.15	1.41

****Audited***

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Annexure 1: Details of the Facilities rated

Nature of Facility	Type of Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	437.28	CARE-NP BBB- (Credit watch with negative implications)
Short Term Bank Facilities	Working Capital	34.67	CARE-NP A3 (Credit watch with negative implications)
Short Term Bank Facilities	Proposed	13.05	CARE-NP A3 (Credit watch with negative implications)
Total		485.00	