

## Biratnagar Aspatal Private Limited

### Ratings

Facilities	Amount (Rs. Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	<b>2,900.00</b> (Decreased from 2,990.93)	<b>CARE-NP BB</b> [Double B]	<b>Revised from CARE-NP BB- &amp; Removal from Issuer Not Cooperating</b>
Short Term Bank Facilities	<b>100.00</b> (Increased from 9.07)	<b>CARE-NP A4</b> [A Four]	<b>Reaffirmed and Removal from Issuer Not Cooperating</b>
<b>Total Facilities</b>	<b>3,000.00</b> (Three thousand Million Only)		

*Details of instruments/facilities in Annexure-1*

In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the rating of Biratnagar Aspatal Private Limited (BAPL) and in line with the extant SEBON guidelines, CARE revised the rating of bank facilities of the company to 'CARE BB-/A4; ISSUER NOT COOPERATING\*'. However, the company has now submitted the requisite information to CARE. CARE has carried out a full review of the ratings and the rating stand at 'CARE BB; /CARE A4'.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BAPL continue to remain constrained by its leveraged capital structure and project execution and stabilization risk associated with its ongoing debt funded capex. The ratings also factor the highly competitive nature of the industry, regulatory & reputational risk and volatile interest rates.

The ratings, however, derive strengths from experienced promoters, established track record of operations with wide range of health services being offered and multi-specialty nature of hospital with an established medical college. The ratings also factor in satisfactory profitability margins along with diversified revenue profile, growing demand of health care services and geographical advantage.

*Going forward, the ability of the company to profitably scale-up its operations and generate the sufficient cash flows to fund the capex plans along with rationalization of its debt levels would be the key rating sensitivities. Successful execution of the ongoing capex within the time and cost as envisaged and swift stabilization thereafter will remain a key monitorable aspect.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Project execution risk associated with planned debt funded capex

To expand its presence and strengthen its market position, the company is setting up a new cancer specialty hospital adjacent to the existing hospital premises. The total project cost is estimated at Rs. 2,087 Mn which will be funded through debt equity mix of 74:26. As on mid-November 2022, the company has incurred capital expenditure towards project amounting to Rs. 1,500 Mn. The estimated cost of the project is likely to rise by ~ Rs. 100 Mn on account of increase in forex rates and other price escalations. The building structure for the same has been completed and installation process is ongoing. The unit is expected to come in operation by mid-Jan 2023. Although the company has a successful track record of executing and running a project for hospital, nevertheless, the successful implementation of project within the envisaged cost and timelines coupled with its stabilization and streamlining of operations remains to be seen. Furthermore, the ability of the company to generate sufficient cash flows to meet the required cash flow for capital expenditures by ramping up the existing operations would remain crucial for credit risk profile of the company.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

**Leveraged capital structure**

The company has bank borrowings mainly in the form of long term debt. The solvency ratios of the company continue to remain on the higher side with gearing ratio of over 3.5x at the end of FY22 (Provisional). At the end of FY21, the debt equity ratio and overall gearing ratio stood at 3.23x and 3.32x, respectively. Furthermore, debt service coverage indicators are also moderated to below 3x in FY22 from around 4x in FY21 (Audited, refers to 12 months' period ended mid-July 2022) on account of increased interest expense amid higher debt levels coupled with rising interest rates. With fresh draws of term loans associated with the ongoing capex, the company's capital structure is likely to remain leveraged over the near-term, with steady improvement likely after profit accretion from the new unit starts from FY24 onwards.

**Regulatory framework for both healthcare & educational sector in Nepal**

Despite, the increasing trend of privatization of education and healthcare sector in Nepal, both the sectors continues to operate under stringent regulatory control. Accordingly, the players, at times, find difficult to realize their plans or cope with the regulatory framework. Hence, regulatory challenges continue to pose a significant risk to private healthcare & educational institutions as they are highly susceptible to changes in regulatory framework.

**Reputation risk**

Healthcare is a highly sensitive sector where any mishandling of a case or negligence on the part of any doctor and/or staff of the unit can lead to distrust among the masses. Thus, all the healthcare providers need to monitor each case diligently and maintain high operating standard to avoid the occurrence of any unforeseen incident which can damage the reputation of the hospital to a large extent.

**Highly competitive nature of the industry coupled with challenges of attracting and retaining quality doctors and medical professionals**

The company operates in a highly competitive industry. There are various organized and unorganized players in the market. It faces stiff competition from other hospitals and private clinics in the area. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in the treatment of complex cases, word of mouth etc. are crucial in order to attract patients and increase occupancy levels. Moreover, the hospital has to remain very careful with its operations and has to follow various regulations imposed by the government. Furthermore, with the increasing competition due to mushrooming of private clinics / small hospital in the region, the retention of the trained medical staff seems to be an area of concern for the company. Going forward retention of trained medical staff would be critical for the company to profitably scale up its operations.

**Exposure to volatile interest rates**

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

## Key Rating Strengths

### Established track record and experienced promoters in the related field

BAPL has been providing health related and academic services for more than a decade. BAPL is chaired by Dr. Gyanendra Man Singh Karki since the beginning of the establishment of the hospital and is the sole promoter of the hospital. He has about three decades of experience in the medical sector. The day-to-day affairs of company are being managed by him with required support from other qualified medical staff.

### Diversified revenue stream and wide range of health services offered, being a multi-specialty hospital

BAPL operates a hospital and also offers education in healthcare. The hospital is a multi-specialty hospital offering medical facilities in various medical & surgical fields. It also offers diagnostics services and specialized clinics in Dermatology, Forensic Medicine, Orthodontics, Pedodontics, Periodontics, etc. BAPL also runs a medical college with MBBS program along with under the affiliation of Kathmandu University for providing medical education. Furthermore, BAPL has recently added Bachelor of Science in Nursing (B.Sc Nursing) programs and Bachelor of Physiotherapy (BPT) program in FY22 under the same university. During FY22, BAPL earned 76.15% of the total operating income from patient receipts/ hospital operations, followed by 22.70% from medical college, compared to 77.31% and 19.58% respectively PY.

### Geographical advantage

BAPL is located in Province 1 which is located in Eastern Nepal and is a major destination for higher education, health care from nearby cities like Itahari, Dharan, Jhapa etc. Furthermore, BAPL is one of the few multi-specialty hospitals located outside Kathmandu valley and provides facilities to patients from other cities located nearby. Furthermore, BAPL is an established hospital and is known for successful handling of a number of complex cases and is equipped with a team of qualified & experienced doctors and staff members which makes it a preferred destination for medical treatment.

### Satisfactory profitability margins, albeit volatile income levels amid the pandemic

During FY22, BAPL's total operating income declined by around 9% over FY21 to Rs. 1,417 Mn after a 58% year-on-year growth in FY21 over FY20. The substantial growth in income in FY21 was on account of higher revenue per patient, particularly for inpatient admissions amid the pandemic. However, despite a growth in patient flow in FY22 over FY21, the company's income was lower in FY22 as revenue per patient had normalized from FY21 levels. Although, TOI of the company has been somewhat volatile over the last three years (FY20-FY22), the company's profitability margins have remained relatively healthy. PBILDT margins have historically (last 3 FYs) remained around 30% with net profit margin in excess of 10%.

### 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.

### About the company

Biratnagar Aspatal Private Limited (BAPL) is a private company established by Dr. Gyanendra Man Singh Karki in 2008. BAPL runs a multi-specialty hospital and has 634 operational beds as on Mid- November 22, 2022. The hospital offers wide range of services with advanced diagnostic facilities in various specialty segments. BAPL also runs a medical college of MBBS, B.Sc. Nursing and BPT programs under the affiliation of Kathmandu University.

Brief financial performance of BAPL during last 3 years is given below:

(Rs. in Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (A)
Income from operations	764	987	1,556
PBILDT margin (%)	33.22	37.10	29.99
Overall gearing (times)	4.11	4.00	3.32
Interest Coverage ratio (times)	2.21	2.66	4.02
Current Ratio	0.14	0.31	0.36
Total Debt/ Gross Cash Accruals (times)	10.29	7.64	5.97

A: Audited

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. in Million)	Ratings
Long Term Bank Facilities	Term Loan	2,900.00	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	100.00	CARE-NP A4
<b>Total</b>		<b>3,000.00</b>	

#### Contact us

##### Analyst Contact

Ms. Sarina Khakurel

Contact No.: +977-01-4012629

Email: [sarina.khakurel@careratingsnepal.com](mailto:sarina.khakurel@careratingsnepal.com)

Mr. Santosh Pudasaini

Contact No.: +977-01-4012629

Email: [pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

##### Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: [achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

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