

Kathmandu International Hospital Private Limited

Rating

Facilities/Instrument	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	5,562.00	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	88.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	5,650.00 (Five Billion and Six Hundred Fifty Million Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B+ [Single B Plus]' to the long-term bank facilities and 'CARE-NP A4 [A Four]' to the short-term bank facilities of Kathmandu International Hospital Private Limited (KIHPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KIHPL are constrained by implementation risk associated with its under-construction hospital project and operations stabilization risk thereafter considering long gestation period generally associated with hospital industry. Cost escalations amid change in scope of the project coupled with relatively high debt: equity mix proposed for the upcoming project is likely to result in higher financial strain on the company during initial years of operations. The ratings also factor in KIHPL's presence in highly competitive nature of industry along with the exposure to regulatory and reputational risk. The ratings, however, derive strength from experienced promoters of the company in the medical sector, geographical advantage and positive outlook on health care sector over the medium term. The hospital's proposed accreditation by Joint International Commission, which would be first in Nepal, is expected to enhance its market presence and help boost its income profile.

Going forward, the ability of the company to complete the project within the envisaged time and cost and satisfactory operations thereafter will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Implementation risk associated with greenfield hospital project

The company is setting up a 300-bed capacity hospital in Tinkune, Kathmandu. The initial estimated cost of the project was Rs. 5,557 Mn proposed to be financed in debt equity mix of 75: 25. The project cost was later revised to Rs.7,463 Mn proposed to be financed in debt equity mix of 75: 25 (term debt of Rs. 5,562 Mn and equity of Rs. 1,901 Mn). The revision in project cost by ~34% from initial estimated cost was mainly on account of change in scope of the project in order to construct the hospital as per Joint International Commission (JCI) accreditation standards. The higher cost was mainly attributable to additional land acquisition and substantial changes in structural works to meet JCI standards. Debt portion of the funding mix is already tied up and promoters of the company have infused 42% of equity (including advance for share capital) till mid-July, 2023. ~47% financial progress has been achieved till mid-July 2023. Land acquisition works has been completed and structural works of two floors is ongoing. Since the company is still in early stages of construction, it is

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

exposed to the risks associated with the ongoing project implementation and also its completion within the envisaged time and cost.

Operations stabilization risk and long gestation period associated with hospital industry

The company is setting up a proposed 300 bed hospital. Generally, hospitals require longer gestation period to recover the associated fixed costs and become profitable. The long gestation period of hospitals is on account of the time needed for the construction and stabilization of operations thereafter, which may take another two to three years. Once operational, the ability of the company to attract customers, maintain occupancy level, establish its brand and derive benefit from the hospital as envisaged will be crucial from credit perspective. Furthermore, the relatively high debt portion in the funding mix of the project is likely to result in higher gearing profile of the company and elevated debt servicing burden on the company during the initial years of operations. Additionally, the company also has to make regular interest payments for its term loans starting August 2023, which will make timely inflow of equity from promoters critical in order to make payments in a timely manner until cash generation from the project becomes sufficient to service the debt obligations.

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

The company operates in a highly competitive nature of 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. Furthermore, with the increasing competition, the retention of the trained medical staff remains a challenge in the hospital sector. Going forward, the company's business prospects will hinge on its ability to retain and add reputed health consultants to scale up its operations as envisaged.

Reputation risk and Regulatory framework for healthcare sector in Nepal

Despite, the increasing trend of privatization of healthcare sector in Nepal, this sector 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 sector as they are highly susceptible to changes in regulatory framework. 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.

Key Rating Strengths

Experienced promoters of the company in the medical sector

KIHPL has four Board of Directors, chaired by Prof. Dr. Harish Chandra Neupane. Dr. Harishchandra Neupane holds majority stake in the company. Dr. Neupane has around two decades of experience in hospitals sector. He is chairman of Chitwan Medical College Private Limited (CMC) (CARE-NP BBB-/A3) and has been involved since the beginning of the hospital. He was also involved with B.P. Koirala Memorial Cancer Hospital. Dr. Gopendra Prasad Deo, Director, has been also involved with CMC since the beginning. He has experience as a Lecturer, Associate Professor and Head of Department (HoD) professor in various phases since 2008 in CMC. The board is further supported by experienced management team.

CMC runs a multi-specialty hospital and has 750 operational beds with total patient flow of 0.31 Mn outpatient flow during FY23. Experienced promoters to run large sized hospitals enhances KIHPL's ability to execute the greenfield project in a

timely manner and thereafter run the business efficiently while addressing the inherent business risk associated with hospital operations and undertaking judicious expansion activities.

Locational advantage and proposed international accreditation to boost income profile

KIHPL is located at Tinkune, Kathmandu at the threeway intersection between Kathmandu, Patan and Bhaktapur. Location of Kathmandu International Hospital is only 2.5 K.M away from Tribhuvan International Airport and 1 K.M from the B.P Highway Bus Park, which connects eastern part of Nepal. Being in the capital city of the country, KIHPL has gained the advantage of easily accessible location for the patients as well as doctors and medical consultants. Better location can significantly boost the hospital's ability to attract and retain patients, thereby impacting the occupancy and cash flow generation capacity. Additionally, the hotel's proposed accreditation by JCI is also expected to enhance its market presence as it would be first such property in Nepal.

Industry Outlook

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 sound 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

Kathmandu International Hospital Private Limited (KIHPL) is a private limited company incorporated on February 08, 2021. KIHPL is setting up multi-specialty hospital with 300 bed capacity at Tinkune, Kathmandu. The hospital will be housed in a newly constructed 12 floor building (2 basements + Ground floor +8 Storey floor+1 Helipad) with total built up area 27,726 Sq. meter. The hospital is expected to start commercial operation from mid-July 2025.

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	5,562.00	CARE-NP B+
Short Term Bank Facilities	Fund Based Limits	63.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	25.00	CARE-NP A4
Total		5,650.00	

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