

Rating Rationale
Purbanchal Cancer Hospital Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,550.00	CARE-NP BB [Double B]	Assigned
Total Facilities	1,550.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long-term bank facilities of Purbanchal Cancer Hospital Private Limited (PCH).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PCH is constrained by project implementation and stabilization risk, financial closure yet to be achieved for the partial project cost, availability and attrition of medical professionals and high vulnerability to treatment-related risks. The rating is also constrained by PCH’s exposure to volatile interest rates and foreign exchange fluctuation risk. The rating, however, derives strength from promoter having experience in health sector, experienced and specialized medical staff, expected synergies from existing hospital of the promoter group. The rating also factors in growing demand in the healthcare sector, geographical advantage and modern equipment and services. The ability of PCH to timely execute the project avoiding any time or cost overrun and to achieve projected patient inflow and revenue are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Project implementation risk and stabilisation risk

PCH’s total project cost is estimated at Rs. 2,642 Mn out of which company has incurred Rs. 2,124 Mn till March 13, 2020. Based on the cost incurred, PCH has achieved financial progress of ~80%. PCH is planning to start the commercial operation from Mid-April 2021. Land required for the hospital building has been procured and construction of building structure is completed. Company has entered into agreement for purchase of the equipment from various vendors from USA and Europe and majority of the medical equipment has arrived and has been installed. However, shipments of few equipment is expected to be impacted due to ongoing COVID-19 pandemic.

Though the project is progressing well and is expected to complete the project as per the Commercial Operation Date (COD) of Mid-April 2020, PCH is exposed to implementation risk coupled with stabilisation risk during its initial stage of operations.

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

Financial closure yet to be achieved for the partial project cost

The estimated cost of the project is Rs. 2,642 Mn which is proposed to be funded in Debt equity ratio of 70:30 (i.e. Rs 1,849 Mn term loan and Rs 793 Mn equity). PCH has entered into consortium loan agreement for Rs 1,270 Mn term loan on April 8, 2019. For the balance Rs. 579 Mn, financial closure is not yet achieved. Out of Rs 793 Mn equity, till March 13, 2020, Rs. 680 Mn has been infused by the promoter. Further, Rs. 37 Mn has been infused by the promoter as unsecured loan.

Availability and attrition of medical professionals

Availability of qualified medical professionals such as doctors, nurses and other support staff is important for a hospital to continuously provide quality health care facility to the patients. Furthermore, PCH being cancer specialty hospital would require qualified doctors and surgeons in the related field. Increasing competition of hospitals and scarcely available medical professional could post a challenge to PCH on retaining its pool of medical professionals. The key challenge for the healthcare industry is the acute shortage of trained personnel, ranging from doctors, nurses, technicians and even healthcare administrators. However, the company plans to retain its qualified and trained staffs by entering into employment bond for a fixed period of time.

High vulnerability to treatment-related risks

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. Further, Healthcare is one of Nepal's major sector both in terms of revenue and employment. The growth drivers include rise in per capita spending on healthcare, change in demographic profile, ageing population, increase in health insurance penetration, growing health awareness and changing attitude towards preventive healthcare and growing medical tourism market is expected to boost healthcare services demand in future. The healthcare sector is highly fragmented with few large players in the organised sector and numerous small players in the unorganized sector leading to high level of competition in the business. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in treatment of complex cases etc. will be crucial in order to attract patients and increase occupancy.

Foreign exchange fluctuation risk

PCH has contracted with different vendors from USA and Europe for procurement of medical equipment and has deferred the payments from 6 months to 3 years. Company's foreign currency exposure towards these vendors is Euros 2.66 Million and USD 1.64 Million as on May 20, 2020 which will be payable based on spot rate in next 6 months to 3 years and company has not taken any measures to hedge itself from foreign currency payment such as forward exchange contract. This exposes the company to foreign exchange fluctuation risk.

Exposure to volatile interest rate

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.

Key Rating Strengths***Promoter with experience in health sector***

PCH is promoted by Mr. Durga Prasad Prasai who owns 100% stake of the company and is also Chairman of the company. Mr. Prasai is involved in different businesses like trading, hotel and is also promoter and Executive Director of B&C Medical College Teaching Hospital & Research Centre Pvt. Ltd. (B&C Hospital) which is a well-established hospital in province 1 of Nepal. Company is constructing a cancer specialty hospital adjacent to B&C Hospital which is expected to provide synergy to the new hospital in terms of existing flow of patient and the equipment and facilities provided as a multi-specialty hospital.

Experienced and Specialized medical staff

PCH has recruited a group of experienced and specialized medical staffs led by Dr. Birendra Kumar Yadav, Medical Director who has over 10 years of experience. They are supported by other experienced medical staffs.

Expected synergies from existing Hospital of the promoter group

Mr. Durga Prasad Prasai is also a promoter and executive director of another hospital B&C Hospital which is situated adjacent to the PCH. B&C Hospital is a multi-specialty 300 bed hospital operating since 2015. B&C Hospital has over 80 doctors and employs over 600 staffs across various departments and is established hospital serving population of Eastern Nepal and North East India. PCH is expected to receive synergies from B&C Hospital due to its current flow of patients, availability of other medical equipment, medical professionals and management.

Growing demand in the health sector

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. 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.

While the healthcare sector has witnessed the growth in the number of private hospitals, diagnostic centers and domestic pharmaceutical manufacturing companies, there remains a demand-supply gap. Most hospital and diagnostic infrastructure has been concentrated in larger cities including Kathmandu,

Biratnagar and Pokhara. In contrast, there has been little or no increased access in rural areas which will help the new hospitals like PCH.

Modern equipment and services

PCH has procured modern equipment to provide better facilities to patients within Nepal. All the major equipment which are required for cancer treatments like True Beam Linear Accelerator, Brachytherapy, Mammogram, Chemo Infusion Equipment, PET/CT scanners etc. has been procured by PCH. Further, few machines purchased by PCH are equipped with latest technology with such equipment either not available or available in few hospitals in Nepal providing advantage to PCH over other hospitals in Nepal.

Geographical advantage

PCH will provide health services in Province-1 (Eastern Nepal) which currently doesn't have any cancer specialty hospital. With majority of cancer patients currently visiting either Kathmandu or Indian cities for advanced cancer treatments and with no cancer specialty hospital in province 1, PCH expects to take advantage of its presence in geographical location. Further, PCH expects to take advantage of it being located near Indian border (Sikkim, West Bengal and Bihar) for inflow of patients and having Indian airport within 50 kms for urgent medical supplies required for cancer treatment.

About the Company

Purbanchal Cancer Hospital Pvt. Limited (PCH) is a private limited company, incorporated as on September 15, 2017. It is promoted by individual promoter, Mr. Durga Prasad Prasai for setting up a 300 bed Cancer Specialty Hospital (PCH) in Jhapa district of Province 1. PCH will be one of the few cancer specialty hospitals in Nepal and only hospital of its kind in Province 1 of Nepal.

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,550.00	CARE-NP BB
Total		1,550.00	