

**Rating Rationale**  
**Biratnagar Aspatal Private Limited**

**Rating**

Facilities	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	2,990.93	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	9.07	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>3,000.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long-term bank facilities and rating of ‘CARE-NP A4’ to the short-term bank facilities of Biratnagar Aspatal Private Limited (BAPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to bank facilities of BAPL are constrained by project execution risk associated with debt funded capex and leveraged capital structure. The ratings are also constrained by highly competitive nature of industry, regulatory risk, treatment related risk along with reputational risk and volatile interest rates.

The ratings, however, derive strength from experienced promoter, 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 growing scale of operations and satisfactory profitability margins along with diversified revenue profile, growing demand of health care services and geographical advantage.

*The ability of the company to profitably scale-up its operations, timely execution of the project within the cost estimates and implementation of new academic programs would be the key rating sensitivities.*

**Key Rating Weakness**

***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-April, 2021, debt of Rs. 1,550 Mn has been tied up through the consortium of banks. Furthermore, the company is in process of getting various statutory and regulatory approvals and the project is expected to complete by FY23. 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.

***Leveraged capital structure***

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

The total debt of the company increased from Rs. 1,336 Mn in FY20 to Rs.1,563 Mn due to the term loan taken for capex and working capital loan taken to support the growing scale of operations. At the end of last 2 financial years (FY19 & FY20), debt equity ratio and overall gearing of the company stood high at above 3.5x and 4x respectively. The company has leveraged capital structure on account of debt funded capex programs undertaken by the company in the recent past.

***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.

***Key Rating Strength***

***Established track record and experienced promoter in the related field***

BAPL is providing health related and academic services for more than 13 years. BPAL 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.

***Diversified revenue stream and wide range of health services offered, being a multi-speciality 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 under the affiliation of Kathmandu University for providing medical education. The college operations started with Bachelor of Medicine and Bachelor of Surgery (MBBS) course from 2014. BAPL earned 61.22% of the total operating income from patient receipts/ hospital operations, followed by 32.06% from medical college during FY20.

### ***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 hospital 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.

### ***Growing scale of operations and satisfactory profitability margins***

Total revenue of BAPL has increased by a CAGR of 33.11% to Rs. 987 Mn for the last 3 years period ended FY20 (Audited, refers to 12 months period ended mid-July, 2020). Growth in total revenue was mainly supported by increase in revenue from hospital, backed by increased flow of both inpatients and outpatients and increased occupancy. The PBIDLT margin of the company stood comfortable at above 35% in FY20. PBIDLT margin improved from 33.22% in FY19 to 37.10% in FY20 on account of increase in hospital revenue which is having better profitability margins. Increasing profitability margins has led to higher GCA levels. Therefore, the interest coverage ratio of the company remained comfortable and stood at above 2x in FY19 and FY20. Furthermore, the total debt/ GCA remained moderate at 7.64x in FY20. In FY21, BAPL has reported total revenue of Rs. ~1,100 Mn till April 13, 2021 (based on provisional results).

### ***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 increased coverage and strengthening of services provided 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 605 operational beds as on Mid April, 2021.

The hospital offers wide range of services with advanced diagnostic facilities in various specialty segments. BPAL also runs a medical college of MBBS programs with 75 seats under the affiliation of Kathmandu University.

**Brief Financial Performance during last 3 years:**

(Rs in Million)

For the year ended Mid-July	FY18	FY19	FY20
	(Audited)		
Income from Operations	542	764	987
PBILDT Margin (%)	33.28	33.22	37.10
Overall Gearing (times)	3.34	4.11	4.00
Interest Coverage (times)	1.86	2.21	2.66
Current Ratio (times)	0.18	0.14	0.31
Total Debt/Gross Cash Accruals (times)	11.81	10.29	7.64

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**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	2,990.93	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	9.07	CARE-NP A4
<b>Total</b>		<b>3000.00</b>	