

Alka Hospital Private Limited

Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating ^[1]	Rating Action
Long Term Bank Facilities	562.00 (Increased from 437.28)	CARE-NP BBB- [Triple B Minus]	Reaffirmed with removal of rating from credit watch with negative implications
Short Term Bank Facilities	50.00 (Increased from 47.72)	CARE-NP A3 [A Three]	Reaffirmed with removal of rating from credit watch with negative implications
Total Facilities	612.00 (Six Hundred and Twelve Million Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB-' to the long-term bank facilities and 'CARE-NP A3' to the short-term bank facilities of Alka Hospital Private Limited (AHPL). The ratings have been removed from "credit watch with negative implications" considering the stable financial risk profile and operating performance of the company.

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Alka Hospital Private Limited (AHPL) continue to derive strength from experienced promoters, established track record of operations in healthcare and related education, and satisfactory infrastructure with diversification across various specialties. The ratings also factor in satisfactory profitability, moderate capital structure & debt service coverage indicators, and geographical advantage. Additionally, the ratings also factor in the positive industry outlook of healthcare sector.

The ratings, however, are constrained by presence in highly competitive nature of the industry, regulatory risk, reputational risk and volatile interest rates.

The ability of the company to maintain the enrolment ratios of students in different courses, ability to generate the sufficient capex to fund the regular capex requirements along with rationalization of its debt levels would be the key rating sensitivities. Any debt-funded capital expenditure that might impact the overall solvency position of the company will be a key monitoring aspect.

Detailed description of the key rating drivers

Key Rating Strength

Established track record and experienced directors in the related field

The company was promoted by Mr. Tilak Bahadur (Puwar) Thapa along with other family members. Mr. Tilak Bahadur (Puwar) Thapa, Chairman of AHPL, has around than 3 decades of experience in the field of medicine and education. The day-to-day affairs of company are being managed by him with required support from other experienced and qualified management team. Mrs. Bidhya Shrestha (wife of Mr. Thapa) is also promoter director and has experience of more than 2 decades in healthcare and education through her association with company and individual capacity. Furthermore, the numerous eminent doctors in the city are associated with AHPL on account of its high inflow of patients and satisfactory infrastructure.

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

Satisfactory infrastructure with diversified revenue stream

AHPL operates 2 hospitals and offers education in healthcare. AHPL earned 86.49% of the total operating income from hospital operations, 8.32% from nursing college and balance from rental revenue (pharmacy, canteen & others) during FY20. The hospitals are multi-specialty in nature offering medical facilities in various medical & surgical fields. The hospital also offers diagnostics services and specialized clinics in nephrology, plastic surgery, laparoscopic surgery, orthopedic etc. The operations of the hospital are well supported by a team of experienced doctors, nurses and paramedic staff. The company had around 94 doctors, 382 support staff on board to service its patients.

Furthermore, AHPL is also running a medical college under the name 'Alka Institute of Medical Sciences (AIMS)' at Lalitpur. AIMS provides courses in nursing (since FY09), affiliated from Council for Technical Education and Vocational Training (CTEVT) and registered at Nepal Nursing Council. The college campus, has well equipped laboratories, computer centers, library, cafeteria, hostels, etc.

Moderate financial risk profile

Company reported decline in total income by ~6% to Rs. 619 Mn during FY20 as compared to Rs. 656 Mn in FY19 (FY refer to 12 months ending in Mid-July). Revenue declined primarily due to decrease in revenue from hospital by ~8% to Rs. 535 Mn in FY20 on account of decreased flow of both in-patients and out-patients due to self-imposed restrictions and postpone of non-critical surgeries attributed to pandemic. The company reported increase in total income by 4.69% to Rs. 648 Mn during FY21 (based on provisional results). The total revenue increased despite decline in inpatient and outpatient admission due to the increase in number of the COVID patients. Out of the total revenue from hospital, income from COVID ward constituted around 30%.

Despite decline in revenue, the company reported improvement in profitability margins due to various cost-cutting initiatives and change in revenue mix of the company. AHPL reported PBILDT margin of 26.91% in FY20 as against 23.22% in FY19. PAT margin also improved in line with PBIDLT margin and stood at 10.69% for FY20. Apart from profitability, other coverage indicators including term debt to GCA and Interest coverage ratios for the company also improved and stood at 5.17x and 3.65x for FY20 respectively (PY: 6.29x and 3.07x respectively).

AHPL's capital structure was moderate with overall gearing ratio of 1.38x at the end of FY20 and remained also most stable over previous balance sheet date. During FY20, the company has taken the additional debt for purchase of land for its capex plans. With a capex planned for the future, the company remains exposed to project execution risk, which is expected to be funded through debt and significant deterioration its capital structure and debt coverage indicators from current levels is critical from analytical perspective.

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.

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.

Key Rating Weakness

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 continue 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.

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) in 2002 and later on in 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).

Financial Performance

(Rs. In Mn)

For the year ended Mid July	FY18	FY19	FY20
	(Audited)		
Period of operation	12 months	12 months	12 months
Income from operations	581	656	619
PBILDT margin (%)	24.31	23.22	26.91
Overall gearing (times)	0.15	1.39	1.38
Interest Coverage ratio (times)	18.78	3.07	3.65
Current Ratio	2.05	2.05	2.05
Total Debt/Gross Cash Accruals (times)	0.57	6.29	5.17

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	562.00	CARE-NP BBB-
Short Term Bank Facilities	Working Capital	30.00	CARE-NP A3
Short Term Bank Facilities	Short Term Loan	20.00	CARE-NP A3
Total		612.00	

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