

## Chitwan Medical College Private Limited

### Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating <sup>[1]</sup>	Rating Action
Long Term Bank Facilities	745.00	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	55.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>800.00 [Eight Hundred Million Only]</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 Chitwan Medical College Private Limited (CMC).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Chitwan Medical College Private Limited (CMC) is constrained by project implementation risk associated with its ongoing debt funded capex, declining enrolment ratio in education vertical coupled with fluctuating scale of operations in last 3 fiscals (FY18-FY20; FY refers to 12 months ending mid-July). The ratings, also factors the highly competitive nature of the industry, regulatory & reputational risk and volatile interest rates.

However, the company derives strength from experienced promoters and management team, established track record of operations in healthcare & related education and satisfactory infrastructure with diversification across various specialties. The ratings also factor in satisfactory profitability margins, moderate capital structure & debt service coverage indicators. Additionally, the ratings also factor in the positive industry outlook of health care sector.

*The ability of the company to improve the enrolment ratios in different courses, ability to generate the sufficient cash flows to fund the capex plans along with rationalization of its debt levels would be the key rating sensitivities.*

### Key Rating Weakness

#### **Project implementation risk associated with its ongoing debt funded capex**

The company is undertaking expansion project by constructing new buildings for its both segments (healthcare and education). The company plans to carry out the same in phased manner over the next couple of years. CMC is building a new cancer hospital with total envisaged project cost of Rs. 1,040 Mn which is proposed to be funded in Debt equity ratio of 80:20 (Rs 832 Mn term loan and Rs 208 Mn equity). It is expected the commercial operations of new hospital would commence in FY23. As on June 23, 2021, the project is at initial stages and company incurred Rs. 55.38 Mn towards the said project which was financed through term loan. Furthermore, in education segment, the company is constructing new academic block with an estimated cost of Rs. 341 Mn and the same is proposed to be financed in the debt equity ratio of 80:20.

Though the capital expansion will increase the capacity, however company remains susceptible to risk related with implementation. Any delays in the implementation may impact the company's financial risk profile adversely and is also crucial from credit perspective. The debt funded project is expected to increase gearing levels in the medium term. The company is also exposed towards project execution risk, in terms of completion of the project with-in the envisaged time and cost.

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

***Declining enrolment ratio***

CMC offers education in healthcare with various programs under the affiliation of Tribhuvan University and Council for Technical Education and Vocational Training (CTEVT). It offers courses in health care viz. Bachelor in Nursing (BN), B.Sc. (Nursing), Bachelor of Medicine and Bachelor of Surgery (MBBS), several other bachelor-level programs. Furthermore, CMC has added postgraduate programs and fellowship programs in recent years. The college enrolment ratio is showing a declining trend over the last 3 academic years from 79% during FY19 to 76% in FY20 and further to negligible in FY21. The enrolment ratio got impacted significantly in FY21 on account Covid-19 pandemic thereby delaying the entrance examination and the admission. The education segment contributes around ~36% of total operating income of the company and it is critical for the company to maintain its enrolment ratio for growth prospective.

***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.

***Exposure to volatile interest rates***

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate due to which interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be change by change in liquidity position which leads to fluctuation change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

## Key Rating Strength

### ***Established track record and experienced directors in the related field***

CMC was promoted by group of doctors in 2006. Dr. Harish Chandra Neupane, Chairman of CMC has 20 years 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 378 experienced & qualified doctors and also the founder members of the company.

### ***Satisfactory infrastructure with diversified revenue stream***

CMC has been providing wide range of health services to the patients from its units located in Chitwan district. The hospital is multi-specialty hospital offering medical facilities in various medical & surgical fields. The numerous eminent doctors in the city are associated with CMC on account of its high inflow of patients and satisfactory infrastructure. This, in turn, helps the hospital to achieve satisfactory occupancy.

The hospital is a multi-specialty hospital offering medical facilities in various medical & surgical fields with total bed capacity of 750 beds. CMC has been providing the services like Anaesthesiology, Dentistry, Dermatology, Forensic Medicine, Ophthalmology, Oral & Maxillofacial Surgery, Radiology, Pathology, Orthopaedic, Paediatrics, Psychiatry, etc. CMC generates revenues from hospital and education segment where it offers 23 different courses. CMC earned 60.23% of the total operating income from patient receipts/ hospital operations, followed by 36.43% from education segment during FY20.

### ***Moderate Financial risk profile***

CMC's total operating income has been fluctuating over the past three years (FY18 – FY20). TOI has registered a growth on y-o-y basis in FY19 and registers a decline in FY20 and again growth in FY21. Total revenue decreased by 4.78% to 1,518 Mn during FY20 over FY19 due to decrease in revenue from hospital and college, with decreased flow of both inpatients and outpatients and decreased occupancy. The company reported the total income of Rs. 1,366 Mn during 9MFY21 (Provisionals, refers to 9 months period ending mid-April).

Despite fluctuating total operating income, the company reported stable profitability margins with PBILDT and PAT margins of just above 21% and 4% in FY19 & FY20. Apart from profitability, other coverage indicators including term debt to GCA and Interest coverage ratios for the company also stood satisfactory and stood at 4.71x and 3.34x for FY20 respectively (PY: 4.04x and 3.65x respectively).

CMC's capital structure was moderate with overall gearing ratio of 0.96x at the end of FY20 and remained almost stable over previous balance sheet date.

### ***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

Chitwan Medical College Private Limited (CMC) is a private company established by the group of doctors in Chitwan District in 2006. The hospital offers wide range of services with advanced diagnostic facilities in various specialty segments.

## 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	1,471	1,595	1,518
PBILDT margin (%)	20.26	21.03	21.65
Overall gearing (times)	1.01	0.91	0.96
Interest Coverage ratio (times)	3.63	3.65	3.34
Current Ratio	0.24	0.28	0.27
Total Debt/Gross Cash Accruals (times)	4.84	4.04	4.71

### 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	745.00	CARE-NP BB
Short Term Bank Facilities	Working Capital	55.00	CARE-NP A4
<b>Total</b>		<b>800.00</b>	

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