

## Alka Hospital Private Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	543 (Decreased from Rs. 562)	CARE-NP BBB- [Triple B Minus]	<b>Reaffirmed</b>
Short Term Bank Facilities	30 (Decreased from Rs. 50)	CARE-NP A3 [A Three]	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>573</b>		

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB-' assigned to the long-term bank facilities and 'CARE-NP A3' assigned to the short-term bank facilities of Alka Hospital Private Limited (AHPL).

### Detailed Rationale & Key Rating Drivers

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

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

*Going forward, the ability of the company to scale up its operations in healthcare, maintain the enrollment ratios of students in different courses, ability to generate the sufficient cash flows 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

AHPL is providing health related services for more than 17 years (including through former Alka Polyclinic Private Limited) and operating nursing college for more than 11 years. The company is 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.

#### Satisfactory infrastructure with diversified revenue stream

AHPL operates 2 hospitals and offers education in healthcare. AHPL earned 88.57% of its total operating income during FY21 (Audited; refers to the twelve-month period ended mid-July 2021) from hospital operations, 7.08% from nursing college and balance from rental revenue (pharmacy, canteen & others). The hospitals are multi-specialty hospital offering medical facilities in various medical & surgical fields. The hospitals also offer diagnostics services and specialized clinics in nephrology, plastic

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

surgery, holmium laser enucleation of the prostate (for the first time in Nepal), laparoscopic surgery, family health care services, orthopedic surgery including hip, knee, joint replacement surgery etc and thus not dependent on any single specialty. The operations of the hospital are well supported by a team of experienced doctors, nurses and paramedic staff. The company had around 110 doctors and 445 support staff on board to service its patients

Furthermore, AHPL has also been involved in providing medical education through Alka Institute of Medical Sciences (AIMS) at Lalitpur. The college campus, has well equipped laboratories, computer centers, well stocked library, cafeteria, well-furnished hostels, etc.

### **Moderate financial risk profile**

Company reported increase in total income by ~4% to Rs. 644 Mn during FY21 from Rs. 619 Mn in FY20 on account of increased cost of service but mainly due to higher service charges in COVID related services. However, the revenue from nursing college decreased to Rs. 46 Mn during FY21 as compared to Rs. 52 Mn in FY20 on account of the delay in the entrance examination of PBBN nursing due to COVID-19 and cancellation of PCL nursing courses. AHPL reported PBILDT margin of 24.54% in FY21 which declined from PBILDT margin of 26.91% in FY20 amid increase in employee expenses and administrative expenses. However, PAT margin remained stable at 11% during FY20 & FY21.

Apart from profitability, other coverage indicators including total debt to GCA and interest coverage ratios for the company also remain moderate at 5.81x and 5.24x for FY21, respectively, improving from 5.17x and 3.65x, respectively in FY20.

AHPL's gearing levels have remained fairly steady over the last few years, albeit with slight moderation on account of increased debt levels. During FY21, the company has taken an additional debt of Rs. 107 Mn for purchase of certain property (under lease prior to the purchase). AHPL's gearing ratio was 1.53x at the end of FY21, increased from 1.38x at the end of FY20. Any major debt funded capex in future that could lead to a significant deterioration of its capital structure and debt coverage indicators from current levels will remain 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).

Brief financial performance of Alka Hospital Pvt. Ltd. during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (A)
Income from operations	656	619	644
PBILDT margin (%)	23.22	26.91	24.54
Overall gearing (times)	1.39	1.38	1.53
Interest Coverage ratio (times)	3.07	3.65	5.24
Current Ratio	1.66	1.60	1.16
Total Debt/ Gross Cash Accruals (times)	6.29	5.17	5.81

A: Audited

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	543	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Loan	30	CARE-NP A3
<b>Total Facilities</b>		<b>573</b>	

**Contact us****Analyst Contact**

Ms. Monika Rawal

Contact No.: +977-01-4012628

Email: monika.rawal@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012629

Email: santosh.pudasaini@careratingsnepal.com

**Relationship Contact**

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

**About CARE Ratings Nepal Limited:**

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

**Disclaimer**

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.