Chitwan Medical College Private Limited

Ratings

Facilities	Amount (Rs. Million)	Rating[1]	Rating Action
Long Term Bank Facilities	1,234.10 (Increased from 745.00)	CARE-NP BB+ [Double B Plus]	Revised from CARE-NP BB
Short Term Bank Facilities	355.30 (Increased from 55.00)	CARE-NP A4+ [A Four Plus]	Revised from CARE-NP A4
Total Facilities	**1,589.40**		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long term bank facilities of Chitwan Medical College Private Limited (CMC) to 'CARE-NP BB+' from 'CARE-NP BB'. CRNL has also revised the rating assigned to CMC's short term bank facilities to 'CARE-NP A4+' from 'CARE-NP A4'.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of CMC takes into account improving financial risk profile of the company marked by steady growth in operating income coupled with healthy profitability margins, moderate capital structure and debt service coverage indicators at the end of FY21 (Audited, refers to the twelve-month period ended mid-July 2021). The ratings continue to derive strength from experienced promoters and management team, established track record of operations in healthcare & related education and satisfactory infrastructure with diversification across various specialties. Additionally, the ratings also factor in the positive industry outlook of health care sector.

However, the ratings continue to remain constrained by the project implementation risk associated with its ongoing debt funded capex and declining enrolment ratio in education resulting into decline in income from the segment. The ratings also factor the highly competitive nature of the industry, regulatory & reputational risk and volatile interest rates.

Going forward, the ability of the company to improve the enrollment 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. Successful execution of the ongoing capex within the time and cost as envisaged and swift stabilization thereafter will remain a key monitorable aspect.

Detailed description of the key rating drivers

Key Rating Weaknesses

Residual project implementation risk associated with its ongoing debt funded capex

CMC is building a new cancer center with total envisaged project cost of Rs. 1,121 Mn which is proposed to be funded in debt equity ratio of 70:30 (Rs. 790 Mn term loan and Rs. 331 Mn equity). Expected commercial operation date of the new cancer center is in July 2023 and it is also expected that the hospital building will be put into operations partially in October 2022. As on June 16, 2022, company had incurred Rs. 610 Mn towards the said project (~54% financial progress).

The company is also undertaking certain expansion projects for both healthcare and education segments with an estimated cost of Rs. 341 Mn, which is proposed to be financed in the debt equity ratio of 80:20. This is likely to be completed by July 2023. Financial progress till June 22, 2022 was around 38%. Hence, the company continues to remain susceptible to residual risk related to the implementation of the ongoing capex. Any substantial delays may impact the company's cash flow generation as envisaged, which will remain crucial from credit perspective.

[1]Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Declining enrolment ratio leading to subdued income from the education segment

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 significantly diverse domains like Bachelor in Nursing (BN), B.Sc. (Nursing), Bachelor of Medicine and Bachelor of Surgery (MBBS), and several other bachelor-level programs. Furthermore, CMC has added postgraduate programs and fellowship programs in recent years. However, the college's new enrolment ratio has been on a declining trend over the last 3 academic years from 79% during FY19 to 76% in FY20 and further to 17.46% in FY21. The enrolment ratio got impacted significantly in FY21 on account Covid-19 pandemic delaying the entrance examination and the subsequent admission. However, the enrollment ratio improved to 58.33% in 9MFY22 (Unaudited; refers to nine-month period ended mid- April 2022), which is still lower mainly due to cancellation of BSc MLT, BSc MIT, B Pharmacy and B Public Health courses by CMC in FY22 due to low admission. Furthermore, competition and preference of students in Kathmandu Valley is also reason for lower intake. The education segment contributes around ~26% 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 sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject 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. He is also the founder of Shekhar Hospital Pvt. Ltd., a 100 beds hospital at Lucknow. The day-to-day affairs of company are being managed by him with required support from other 697 qualified medical staff 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 specialty services like Dentistry, Forensic Medicine, Ophthalmology, Oral & Maxillofacial Surgery, Pathology, Orthodontics, Pedodontics, Radio Diagnosis, Surgery etc. with the help of advanced technologies, such as the CT scan, Automatic Hormone Analyzer, 3D Ultrasound, MRI, digital X-Ray and nuclear medicine etc. CMC is also providing emergency services like a regional trauma center and it has critical care services in terms of ICU (Intensive Care Unit), NICU (Neonatal Intensive Care Unit) and PICU (Pediatric Intensive Care Unit).
CMC generates revenues from hospital and education segment where it offers 23 different courses. CMC earned 71.08% of the total operating income from patient receipts/ hospital operations, followed by 26.26% from education segment during FY21.

Moderate financial risk profile

During FY21, CMC's total operating income increased by 23.69% to 1,878 Mn from Rs. 1,518 Mn majorly due to increase in price realization per inpatient and outpatient admission despite decrease in the flow of the patients during FY21. Amid the lingering impact of the pandemic, the overall occupancy ratio of the hospital decreased to 62% during FY21 as compared to 66% in FY20. Also, college income decreased by 9.54% to Rs. 493 Mn during FY21 from Rs. 545 Mn in FY20 as a result of delayed entrance examination and admissions due to the pandemic. Consequently, the company reported increase in PBILDT margin to 30.03% in FY21 from 21.65% in FY20 on account of increase in revenue coupled with decrease in administrative expenses. PAT margin of the company improved to 13.35% during FY21 from 4.52% in FY20. The company reported total income of Rs. 1,565 Mn during 9MFY22.
Similarly, backed by increased scale and improved profitability, the debt service coverage indicators of CMC including term debt to GCA and interest coverage ratio improved to 2.22x and 6.83x for FY21, respectively (PY: 4.07x and 3.34x, respectively). Furthermore, CMC's capital structure and overall gearing ratio remained almost sable at just below unity in the last 2 financial years (FY20 & FY21) Despite the ongoing capex, the gearing ratio of CMC is expected to be remain moderate.

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.

Brief financial performance of Chitwan Medical College Private Limited (CMC) during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (A)
Income from operations	1,595	1,518	1,878
PBILDT margin (%)	21.03	21.65	30.03
Overall gearing (times)	0.91	0.96	0.95
Interest Coverage ratio (times)	3.65	3.34	6.83
Current Ratio	0.28	0.27	0.41
Total Debt/ Gross Cash Accruals (times)	4.04	4.71	3.18

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**	**1,234.10**	**CARE-NP BB+**
Short Term Bank Facilities	**Working Capital Loan**	**55**	**CARE-NP A4+**
Short Term Bank Facilities	**Letter of Credit/ TR loan**	**300.3**	**CARE-NP A4+**
Total Facilities		**1,589.40**	

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About CARE Ratings Nepal Limited:

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