

Biratnagar Aspatal Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	2,900.00	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	100.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	3,000.00 (Three thousand Million Only)		

Details of instruments/facilities in Annexure-1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BAPL continue to remain constrained by its leveraged capital structure and stabilization risk associated with its recently concluded capex to add a new cancer specialty center. The ratings also factor in highly competitive nature of the industry coupled with challenges of attracting and retaining quality doctors and medical professionals, the regulatory & reputational risk and exposure to volatile interest rates. The ratings, however, derive strength from established track record and experienced promoters in the related field with BAPL's diversified revenue stream. The ratings also take cognizance of the moderate financial performance of BAPL, however, likely moderation in FY23 (FY refers to the twelve-months period ending mid-July) amid segregation of business and stable industry outlook for health care sector.

Going forward, the ability of the company to profitably scale-up its operations would be the key rating sensitivities. Also, swift stabilization of the ongoing capex will remain a key monitorable aspect.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure

The capital structure of the company stood leveraged on account of debt funded capex undertaken by the company in the recent past. During FY22, there has been slight improvement in the solvency ratios compared to past three financial years (FY20-FY22), however overall gearing continues to remain on the higher side. At the end of FY22, the debt equity ratio and overall gearing ratio marginally improved to 2.61x (FY21: 3.23x) and 3.07x (FY21: 3.32x) respectively. The ratio improved on account of increase in net worth of the company due to accretion of profit. However, BAPL reported moderation in interest coverage ratio to 3.77x as compared to 4.02x in FY21 on account of decrease in revenue of the company. Additionally, total debt to GCA stood at 5.50x at the end of FY22 (FY21: 5.97x). With fresh draws of term loans in FY23 associated with the capex, the company's capital structure is likely to remain leveraged over the near-term, with steady improvement likely after profit accretion from the new unit.

Operations stabilization risk regarding expansion of operations

BAPL is expanding its operation with construction of a new building in the same premise with cancer specialty center followed by renovation/ addition of various other super-specialty departments. The physical infrastructure for the same has been completed in June 2023 and the commercial operations from the new building is expected to pick up gradually in FY24. Going forward, the ability of the company to generate sufficient cash flows after capital expenditures by ramping up the operations and achieving the higher occupancy levels would bear significant impact on the credit risk profile of the company.

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

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 with various organized and unorganized players in the market. BAPL 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. Going forward, retention of trained medical staff would be critical for the company to profitably scale up its operations.

Reputation risk and Regulatory framework for healthcare sector in Nepal

Healthcare is a highly sensitive sector where any mishandling of a case or negligence on the part of any doctor and/or staff 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.

Despite the increasing trend of privatization of healthcare sector in Nepal, the healthcare sector continues to operate under stringent regulatory control. Accordingly, the healthcare service providers, at times, find it 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.

Key Rating Strengths**Established track record and experienced promoters in the related field**

BAPL has been providing health related and academic services for more than a decade. BAPL 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. The day-to-day affairs of company are being managed by him with required support from other qualified medical staff.

Diversified revenue stream and wide range of health services offered, being a multi-specialty 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. During FY22, BAPL earned 74.05% of the total operating income from patient receipts/ hospital operations, followed by 22.16% from medical college, compared to 76.98% and 18.87% respectively during FY21.

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 hospitals 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.

Moderate financial performance

During FY22, BAPL's total operating income (TOI) declined by around 6% over FY21 to Rs. 1,457 Mn after a 58% year-on-year growth in FY21 over FY20. The substantial growth in income in FY21 was on account of higher revenue per patient, particularly for inpatient admissions amid the pandemic. However, despite a growth in patient flow in FY22 over FY21, the company's income was lower in FY22 as revenue per patient had normalized from FY21 levels. Although, TOI of the company has been somewhat volatile over the last three years (FY20-FY22), the company's profitability margins have remained relatively healthy. PBILDT margins have historically (last 3 FYs) remained around 30% with net profit margin in excess of 10%. During 8MFY23, BAPL has reported total income of Rs. 801 Mn.

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

Biratnagar Aspatal Private Limited (BAPL) is a private company established by Dr. Gyanendra Man Singh Karki in 2008. BAPL runs a multi-specialty hospital. The hospital offers wide range of services with advanced diagnostic facilities in various specialty segments. BAPL also runs a medical college which offers MBBS, B.Sc. Nursing, BPT and B.Sc. MLT programs under the affiliation of Kathmandu University.

Brief financial performance of BAPL during last 3 years is given below:

(Rs. in Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	987	1,556	1,457
PBILDT margin (%)	37.10	29.99	30.43
Overall Gearing (times)	4.00	3.32	3.07
Interest Coverage (times)	2.66	4.02	3.77
Current Ratio	0.31	0.36	0.38
Total Debt/Gross Cash Accruals (times)	7.64	5.97	5.50

A: Audited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. in Million)	Ratings
Long Term Bank Facilities	Term Loan	2,900.00	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	100.00	CARE-NP A4
Total		3,000.00	

Contact us

Analyst Contact

Ms. Insha Shrestha

Contact No.: +977-01-4012628

Email: insha.shrestha@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012630

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

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