

Alka Hospital Private Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	633.31 (Increased from Rs. 543.00)	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short Term Bank Facilities	65.00 (Increased from Rs. 30.00)	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	698.31 (Six Hundred Ninety-Eight Million Three Hundred Ten Thousand Only)		

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 AHPL continue to derive strength from its established track record of operations in healthcare and related education along with experienced promoters, and satisfactory infrastructure with diversification across various medical specialties. 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 stable industry outlook of health care sector.

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

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 Strengths

Established track record and experienced directors in the related field

AHPL is providing health related services for more than 18 years (including through former Alka Polyclinic Private Limited) and operating nursing college for more than 12 years. The company is promoted by Mr. Tilak Bahadur (Pumar) Thapa along with other family members. Mr. Tilak Bahadur (Pumar) 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 two hospitals and offers education in healthcare. AHPL booked 91.57% of its Total Operating Income (TOI) during FY22 (Audited; refers to the twelve-month period ended mid-July 2022) from hospital operations, 4.92% 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 surgery, holmium laser enucleation of the prostate (for the first time in Nepal), laparoscopic surgery, family

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

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 102 doctors and 466 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

The company reported increase in TOI by ~26% to Rs. 814 Mn during FY22 on account of increase in service fees and charges along with increasing flow of patients in hospital which was previously impacted by covid-19. However, the revenue from nursing college decreased to Rs. 40 Mn during FY22 as compared to Rs. 46 Mn in FY21 on account of discontinuance of PCL nursing courses. Furthermore, PBILDT margin increased by 97 bps to 25.51% during FY22. However, PAT margin slightly declined to 9.52% in FY22 from 10.56% in FY21 owing to higher interest outgo.

Furthermore, debt service coverage indicators stood moderate with total debt to GCA and interest coverage ratios at 5.46x and 3.70x respectively in FY22 (FY21: 6.12x and 5.24x, respectively). AHPL's gearing levels have remained fairly steady over the last few years. During FY22, the company has taken an additional debt of Rs. 107 Mn for purchase of property (under lease prior to the purchase). AHPL's gearing ratio stood at 1.59x at the end of FY22, improved from 1.61x at the end of FY21 on account of accretion of profits to net worth of the company coupled with relatively steady debt levels. 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

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.

Key Rating Weaknesses

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.

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.

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. 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.

Industry Outlook

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

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 Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	619	644	814
PBILDT margin (%)	26.91	24.54	25.51
Overall gearing (times)	1.38	1.61	1.59
Interest Coverage ratio (times)	3.65	5.24	3.70
Current Ratio	1.60	1.16	1.14
Total Debt/ Gross Cash Accruals (times)	5.17	6.12	5.46

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	633.31	CARE-NP BBB- [Triple B Minus]
Short Term Bank Facilities	Working Capital Loan	65.00	CARE-NP A3 [A Three]
Total Facilities		698.31	

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