Chitwan Medical College Private Limited

Ratings

Facilities	Amount (Rs. Million)	Rating[1]	Rating Action
Long Term Bank Facilities	1,385.26 (Increased from 1,234.10)	CARE-NP BBB- [Triple B Minus]	Revised from CARE-NP BB+
Short Term Bank Facilities	200.30 (Decreased from 355.30)	CARE-NP A3 [A Three]	Revised from CARE-NP A4+
Total Facilities	**1,585.56 (One Thousand Five Hundred and Eighty-Five Million and Five Hundred Sixty Thousand Only)**		

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 BBB-' from 'CARE-NP BB+'. CRNL has also revised the rating assigned to CMC's short term bank facilities to 'CARE-NP A3' from 'CARE-NP A4+'.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of CMC takes into account improved financial performance of the company marked by steady growth in Total operating income (TOI) coupled with healthy profitability margins leading to improved cash accruals in FY22 (Audited, refers to the twelve-month period ending mid-July). The ratings continue to factor in moderate capital structure of the company with adequate debt service coverage indicators. Furthermore, the ratings also take cognizance of successful commencement of commercial operations of cancer specialty center from January 2023 coupled with rebound in enrollment ratio of its education segment in academic year 2023 (AY2023) and additional revenue prospects from the cancer specialty center bode well from revenue prospects of the company going forward. The ratings continue to derive strength from experienced promoters and management team, established track record of operations in healthcare & related education, satisfactory infrastructure with diversification across various specialties and positive industry outlook of healthcare sector.

However, the ratings continue to remain constrained by stabilization risk associated with the recently launched cancer specialty center. The company's ability to achieve income at envisaged levels remains to be seen. The ratings also factor in the highly competitive nature of the industry, regulatory & reputational risk and volatile interest rates. The ratings also take note of the decline in income from hospital operations during 9MFY23 (Unaudited; refers to nine-month period ended mid-April 2023) amid discontinuation of the Swatha Beema Program, which accounted for material portion of income from hospital operations.

Going forward, the ability of the company to sustain the enrollment ratios in different courses and maintain hospital occupancy ratio at envisaged levels leading to sustained growth in operations while maintaining profitability will be the key rating sensitivities. The company's ability to generate cash flows as envisaged from the recently concluded capex would also be key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strength

Established track record of operations and experienced directors in the related field

CMC was founded by group of doctors in 2006 and has operational track record of more than one and half decade. Dr. Harish Chandra Neupane, Chairman of CMC has over two decades of experience in the field of medicine and education. He is also the founder of Shekhar Hospital Private Limited, a 100 beds hospital at Lucknow. Dr. Daya Ram Lamsal, Director, has been involved with CMC since its inception. Overall hospital operation is being led by the Director Dr. Lamsal and college operation by Director

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

Dr. Gopendra Prasad Deo. The company has 1,104 medical staff members and 134 faculty staff in education division as on April 13, 2023. Long track record of operations along with experienced board and management team enhances CMC's ability to run the business efficiently while addressing the inherent business risk associated with hospital operations.

Improved financial performance in FY22

The TOI of the company is on increasing trend with a CAGR of 9% over FY20-FY22 despite the impact of the covid19 pandemic. During FY22, TOI of CMC increased by 11% year-on-year (y-o-y) to Rs. 2,079 Mn mainly on account of increase in outpatient footfalls. Patient footfall was impacted during FY20 and FY21 on account of covid19 led restrictions. The college income however moderated to Rs. 472 Mn during FY22 (FY21: Rs. 493 Mn) on account of delay in new enrollment by certain months owing to delayed entrance examinations. PBILDT margin has remained moderate at above 30% during FY21 and FY22, improved significantly from profitability margins of ~21% during previous years. The academic expenses related to medical college programs are on declining trend on y-o-y basis resulting into improvement in gross margins. PAT increased by 22% y-o-y basis to Rs. 306 Mn during FY22 backed by increased scale of operations coupled with improved profitability margins. Consequently, Gross Cash Accruals (GCA) increased to Rs. 444 Mn during (FY21: Rs. 405 Mn).

CMC's TOI moderated to Rs. 1,268 Mn during 9MFY23 (9MFY22: Rs. 1,564 Mn) owing to decrease in income from hospital operations to Rs. 770 Mn (9MFY22: Rs. 1,192 Mn) due to discontinuation of Swastha Beema Program from FY23 onwards owing to delayed in realization. The income from Swastha Beema Program accounted for around 30% of income from hospital operations during previous year. However, successful commencement of cancer specialty center wing of CMC coupled with incremental revenue from medical college marked by admission of two academic batches during FY23 augurs well for revenue profile 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 and 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 12 different courses including MBBS and MD affiliated with Tribhuvan University. Another stream of revenue also includes rental income from hospital premises. CMC earned 74% of the total operating income from hospital operations, followed by 23% from medical college during FY22.

Moderate capital structure with adequate debt coverage indicators

The capital structure of the company is moderate as reflected by overall gearing of 1.31x (FY21: 1.29x) at the end of FY22. The increase in overall gearing ratio was on account of increase in total debt related to its debt funded cancer speciality project and renovation and modification works related to hospital and college buildings, although partially offset by the improvement in tangible net worth of the company due to accretion of profits to the reserves. The tangible net worth increased to Rs. 1,374 Mn at the end of FY22 (FY21: Rs. 999 Mn). The interest coverage ratio is adequate at 6.15x during FY22, although slightly moderated from 7.24x during FY21 on account of increased interest expenses amid addition in debt levels and increased base rates in banking sector during FY22. Additionally, total debt to GCA stood at 3.68x at the end of FY22 (FY21: 3.18x).

Rebound in enrollment ratio during AY2023

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. There were no new enrolments ratio in FY21 on account of postponed entrance examination. The enrollment ratio which was low at 58% during FY22 due to lingering impact of covid-19 on entrance examinations rebounded to 89% during 9MFY23. With education segment contributing around ~23% of total operating income during FY22, it is critical for the company to maintain its enrolment ratio for growth prospective.

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. With most people preferring private health care, private hospitals such as CMC has great opportunity to attract patients and increase the patient base.

Key Rating Weaknesses

Operations stabilization risk associated with cancer specialty center

The cancer specialty center of CMC commenced commercial operation on January 30, 2023, setup with total project cost of Rs. 1,121 Mn funded in debt equity ratio of 70:30 (i.e. Rs. 790 Mn term loan and Rs. 331 Mn equity and internal accruals). Furthermore, the company is also undertaking certain renovation and modification works 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. Financial progress till May 30, 2023 was 83%. The company continues to remain susceptible to residual risk related to the implementation of the ongoing capex related to renovation works. Also going forward, the ability of the company to generate sufficient cash flows from cancer specialty centre by ramping up the operations and achieving the higher occupancy levels would bear significant impact on the credit risk profile of the company.

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

The company's interest rates are based on 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

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	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	1,518	1,878	2,079
PBILDT margin (%)	22.32	31.81	33.29
Overall gearing (times)	1.44	1.29	1.31
Interest Coverage ratio (times)	3.44	7.24	6.15
Total Debt/ Gross Cash Accruals (times)	4.71	3.18	3.68

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**	**1,385.26**	**CARE-NP BBB- [Triple B Minus]**
Short Term Bank Facilities	**Fund Based**	**100.00**	**CARE-NP A3 [A Three]**
Short Term Bank Facilities	**Non Fund Based**	**100.30**	**CARE-NP A3 [A Three]**
Total Facilities		**1,585.56**	

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About CARE Ratings Nepal Limited:

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