

Lord Buddha Educational Academy Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	70.00	CARE-NP B+ [Single B Plus]	Revised from CARE-NP B
Short Term Bank facilities	904.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	974.00 (Nine Hundred Seventy-Four Million 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 Lord Buddha Educational Academy Limited (LBEA) to 'CARE-NP B+' from 'CARE-NP B'. CRNL has reaffirmed the rating of 'CARE-NP A4' assigned to the short-term bank facilities of LBEA.

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long term bank facilities of LBEA factors in its improved financial performance in FY22 (Audited; FY refers to the twelve-month period ending mid-July) marked by substantial jump in profitability leading to improved cash accruals. However, the company's ability to sustain the improvement for a reasonable period remains to be seen, particularly in light of track record of net losses reported over FY19 to FY21. The rating also continues to be constrained by highly competitive nature of the industry, regulatory & reputational risk and volatile interest rates.

The ratings, however, continues 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.

Going forward, the ability of the company to sustain the income levels while maintaining profitability along with rationalization of its debt levels leading to sustained improvement in coverage indicators would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Improved financial performance in FY22; improvement for a sustained period, however, remains to be seen

LBEA's total operating income remained steady at Rs. 1,526 Mn in FY22 compared to Rs.1,519 in FY21 supported by sustained inflow of patients. Furthermore, LBEA's PBILDT margin improved sharply to 10.45% during FY22 from 2.65% during FY21 majorly on account of rationalization of operational cost, which improved to 80% of TOI in FY22 (FY21: 89%). Profitability was also supported partly by grant income of Rs. 46 Mn in FY22. Consequently, the company reported net profits in FY22 after reporting back-to-back net losses in FY19, FY20 and FY21. Amid suppressed margins the company's coverage indicators and liquidity position had remained stretched in the past. However, in FY22, the company's cash accruals have improved aided by better profitability resulting in much improved debt coverage indicators. LBEA's interest coverage shot up to 2.21x in FY22 from 0.61x in FY21. Similarly, total debt to GCA also improved during FY22 to 9.67x from 150.22 in FY21.

The company's income has moderated slightly in FY23, with TOI of Rs. 1,020 Mn in 9MFY23 (9MFY22: Rs. 1,086 Mn). LBEA's ability to sustain the income levels while maintaining the improved profitability seen in FY22 on a sustained basis going forward as well remains to be seen and will remain a key monitorable.

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

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

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.

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.

Key Rating Strengths

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

LBEA is providing health related and academic services for more than 25 years. It has total number of 8 directors in its Board of Directors, chaired by Mr. Dinesh Shrestha, who has more than three decades of experience in various sectors. Dr. Suresh Kumar Kanodia, Managing Director, has been involved in the medical sector for more than 4 decades. Other directors of the company also have long experience in various sectors. The board is aptly supported by experienced management team across different departments.

Satisfactory infrastructure with diversified revenue stream

LBEA is operates two multi-specialty hospital and has been providing wide range of health services to the patients through its teaching hospitals that are located at Kohalpur and Nepalgunj of Banke district in Nepal with total capacity of 700 operational beds. LBEA generates income from medical College that offers different courses. LBEA earned ~54% of the TOI from patient receipts/ hospital operations, followed by ~23% from medical college and the rest 23% from hostel, pharmacy and other services during FY22. The operations of the hospital are well supported by a team of experienced doctors, nurses and paramedic staff. The company had around 123 doctors, 343 nurses and 590 admin and support staff on board to service its patients.

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

Lord Buddha Educational Academy Limited (LBEA) is a private company established by a group of doctors in Chitwan District in 1996. LBEA is engaged in imparting education in the area of medical sciences and providing health services. The company operates Nepalgunj Medical College and Nepalgunj Nursing Campus. with various programs under the affiliation of Kathmandu University and Council for Technical Education and Vocational Training (CTEVT) and the institute is enlisted in the "World Directory of Medical School" WHO. The college operations started with the commencement of MBBS program in 1997, which was followed by Nursing program in 2000. Furthermore, the college has two teaching hospitals which is located at Kohalpur and

Nepalgunj of Banke district in Nepal. The teaching hospital in Kohalpur has the capacity of 750 beds and teaching hospital in Nepalgunj has the capacity of 250 beds. However, the company has currently 700 operational beds.

Financial Performance

(Rs. Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,381	1,519	1,526
PBILDT Margin (%)	2.73	2.65	10.45
Overall Gearing (times)	1.52	2.66	2.11
Interest coverage (times)	0.47	0.61	2.21
Current Ratio (times)	0.67	0.67	0.56
Total Debt/Gross Cash Accruals (times)	487.64	150.52	9.67

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	70.00	CARE-NP B+ (Single B Plus)
(Short Term Bank Facilities)	Overdraft	904.00	CARE-NP A4 (A Four)
Total Facilities		974.00	

Contact us

Analyst

Ms. Insha Shrestha

Contact No.: 977-01-4012628

Email: insha.shrestha@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012629

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Name: Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

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