

Norvic International Hospital and Medical College Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	2,837.89	CARE-NP BBB [Triple B]	Assigned
Short Term Bank Facilities	105.82	CARE-NP A3+ [A Three Plus]	Assigned
Total Facilities	2,943.71 [Two Thousand and Nine Hundred Forty-Three Million and Seven Hundred Ten Thousand Only]		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BBB' to the long-term bank facilities and 'CARE-NP A3+' to short term bank facilities of of Norvic International Hospital and Medical College Limited (NIHL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NIHL derive strength from its established track record of operations, strong parentage and experienced management team, strong brand image and locational advantage of the hospital, diversified revenue streams, improving financial risk profile marked by growing scale of operations, improving profitability and gross cash accruals coupled with moderate capital structure with adequate debt service coverage indicators of the company during FY22 (Audited, refers to the twelve-month period ended mid-July 2022). The ratings also take cognizance of the growing demand of health care services in Nepal, which bodes well for the future prospects of an established market player like NIHL.

The ratings, however, is primarily constrained due to inherent implementation and stabilization risk associated with the significantly large size on-going majorly debt-funded expansion project, the total cost of the project being higher than NIHL's tangible net worth as on mid-July 2022. Consequently, the gearing levels and debt coverage indicators of the company are expected to moderate in the near term due to drawl of fresh term debt for the expansion project. The ratings also factor in single properly concentration risk, competition in healthcare industry from other large sized hospitals in the same vicinity, exposure to regulatory & reputational risk and volatile interest rates.

Going forward, timely completion of the ongoing capex within envisaged time and cost estimations and early stabilization thereafter are key rating sensitivities. Furthermore, the company's ability to achieve growth in its scale of operations, maintaining the profitability margins while rationalizing the debt levels are also the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strength

Established track record, strong parentage and experienced management team

NIHL is providing health related services since 1993 and has an operational track record of three decades. The hospital is part of Chaudhary Group, which has wide presence in banking, manufacturing, trading industries among others in Nepal. BLC Holdings Private Limited, which holds 51% shares of NIHL, has diversified business in the field of agriculture, education, FMCG, packaging, healthcare and education across Nepal. Mr. Basanta Kumar Chaudhary, chairman of BLC Holdings Private Limited holds around 42% shares in NIHL. NIHL's board is represented by Mr. Manish Kumar Khemka, who is also currently serving as Executive Director of BLC Holdings Pvt. Ltd.

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

NIHL has seven-member in its Board, chaired by Mr. Rajendra Bahadur Singh, who has more than 39 years of experience in management under Nepal Police Force and has been associated with NIHL for 9 years. Dr. Pankaj Jalan, Medical Director has been associated with NIHL for more than a decade and looks after day-to-day hospital related operations of NIHL. NIHL has total of 150 doctors and 850 medical staffs as on mid-April 2023. Long track record of operations along with strong parentage, experienced board and management team enhances NIHL's ability to run the business efficiently while addressing the inherent business risk associated with hospital operations and undertaking judicious expansion activities.

Strong brand image and locational advantage

NIHL has strong brand image marked by its long track record of operations and quality of doctors. NIHL is multi-specialty tertiary care hospital providing healthcare services to both the domestic and international patients. NIHL is the first Hospital in Nepal with National Accreditation Board for Testing Laboratories (NABL) accreditation with high-tech laboratory services and a certified pathology lab, that provides a wide range of full-fledged Pathological and Diagnostic facilities. It has been a pioneer in various medical milestones in the country over the years. NIHL collaborated with Escorts Heart Institute to bring in state-of-the-art Non-Invasive Cardiac Care and Invasive Cardiac Procedure in 1997 and is the first private sector hospital to introduce a Catheterization Lab in the country in 1999. The hospital has renowned and experienced medical specialists who have been associated with NIHL for a long period of time. This is further accentuated by sustained growth in customer base and a relatively higher retained customers of the hospital, reflective also in the sequentially growing operating income of the company over the last decade, barring disruption during the covid19 pandemic.

Centrally located at Thapathali, Kathmandu, NIHL has better locational advantage for accessibility to the patients as well as doctors and medical consultants. Better location can significantly boost the hospital's ability to attract and retain patients, thereby impacting the occupancy and cash flow generation capacity.

Diversified revenue stream

The hospital is a multi-specialty hospital offering medical facilities in various medical & surgical fields with total bed capacity of 140 beds. NIHL's revenue stream is well diversified on account of integrated facilities, with specialization in various segments including cardiology, in vitro fertilization (IVF), neurology, gastroenterology, orthopaedics, critical care, nephrology and oncology and various other specialties. The majority of revenue is contributed by pathology services which accounts for around 24% of the total income from health care services during FY22 followed by bed and room charges and ultrasound services contributing around 14% and 12%, respectively, during FY22. Cardiology, IVF and obstetrics and gynecology are among highest contributors of revenue during FY22. Other streams of revenue for NIHL includes commission on medicine from pharmacy, rental income, interest income and dividend income from associate companies.

Average financial risk profile

During FY22, NIHL's Total Operating Income (TOI) grew 33% year-on-year to Rs 1,813 Mn (FY21: Rs. 1,360 Mn) led by increase in no. of patient footfalls, both inpatient and outpatient. Patient footfall was impacted during FY20 and FY21 on account of the restriction amid the covid19 pandemic. PBILDT Margin of NIHL, however, decreased to around 18.5% during FY22 from 21% during FY21 on account of increase in doctor's shares on consultancy fees and salary and allowances of payroll doctors. PAT Margin has remained steady at 6% during FY21 and FY22. The liquidity position of the company is supported by gross cash accruals of 237 Mn during FY22 (FY21: Rs. 213 Mn), low cash conversion cycle in hospital industry and cash and bank balance of Rs. 114 Mn at the end of FY22 (FY21: Rs. 118 Mn).

The capital structure of the company is moderate as reflected by overall gearing of 1.20x (FY21: 1.22x) at the end of FY22. Hospital business works on asset heavy module and capital intensive with frequent need to add and update its infrastructures and technology with long gestation period. Thus, with debt funded fixed assets addition, the long-term debt of NIHL slightly

increased to Rs. 1,027 Mn in FY22 (FY21: 932 Mn). However, the same has been set off by increase in the net worth base by way of accretion of profits, thus resulting in slight improvement in overall gearing ratio. As a result of improved profitability, debt coverage indicators improved as reflected by the interest coverage ratio of 5.18x (FY21: 4.84x) and total debt/GCA of 4.53x (FY21: 4.70x) during FY22. Though, overall gearing and debt coverage indicators are expected to be impacted on account of envisaged capex which will be funded by way of debt equity mix and thus shall remain a key monitorable aspect.

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 NIHL has a great opportunity to attract patients and increase the patient base.

Key Rating Weaknesses

Project implementation risk associated with its ongoing majorly debt funded capex

NIHL is undergoing expansion plans setting up a new building for the purpose of expansion of its bed capacity (addition of 30 Normal Beds and 30 Critical Beds and upgradation of around 40 existing normal beds) coupled with modification and upgradation of existing OPD and IPD facilities. After the expansion, the total bed capacity of the hospital will be 200 beds. The estimated cost of the expansion is Rs 2,380 Mn, which is proposed to be financed through debt equity mix of 80:20 (Rs 1,900 Mn term loan and Rs 480 Mn equity). Financial closure for debt amount of Rs. 1,500 Mn has already been achieved. As on mid-July 2023, company has achieved 12% financial progress towards the said project and the project is expected to be completed by FY25. The total cost of the project was higher than NIHL's tangible net worth as on mid-July 2022. Such large size projects are susceptible to inherent implementation risks and consequently any delay in execution of the project may result in cost overrun and impact the currently envisaged timelines for cash flow generation. Furthermore, the gearing levels and debt coverage indicators of the company are expected to moderate in the near term due to drawl of fresh term debt for the expansion project. Timely completion of the project within envisaged cost parameters and realization of envisaged benefit therefrom would remain crucial from credit perspective.

Single property concentration risk

The hospital derives its revenues from single location in Thapathali. This exposes NIHL to significant amount of concentration risk as its fortunes are linked to the operational and financial performance of the property as well as general economic trends in the geographical area where the hospital is located.

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.

Competition in healthcare industry

NIHL is operating in a highly competitive industry. There are various players in the market providing similar facilities. The company faces stiff competition from other hospitals and private clinics in the area. Due to the existence of the numerous large private and hospitals there is an intense competition in the hospital industry. The hospital faces intense competition from other large multi-

specialty hospitals in the Kathmandu Valley. With the fierce competition with such hospitals, the challenge could be seen in generating revenue from the patients as well as retaining and adding reputed health consultants.

Exposure to volatile interest rates and regulatory risk

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.

Hospitals are regulated by Department of Health Service under the Ministry of Health and Population, who is directly involved in the formulation of nationwide health policy. These frequent changes in the health regulations affect the operation of the hospital services and its formation of long-term policies and investments due to the operational challenges and financial implications caused by the uncertainties on health-related regulations.

About the company

Incorporated in 1993, Norvic International Hospital and Medical College Limited (NIHL) is engaged in healthcare business for 30 years. NIHL was converted into public limited company in July 07, 2021. NIHL owns and operates a 140-bedded multi-specialty tertiary care hospital in Kathmandu.

Brief financial performance of Norvic International Hospital and Medical College Limited (NIHL) during last 3 years is given below:

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	1,251	1,360	1,813
PBILD margin (%)	9.52	21.29	18.56
Overall gearing (times)	1.58	1.22	1.20
Interest Coverage ratio (times)	1.53	4.84	5.18
Current Ratio	0.40	0.61	0.68
Total Debt/ Gross Cash Accruals (times)	22.61	4.70	4.53

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	2,837.89	CARE-NP BBB
Short Term Bank Facilities	Working Capital Loan	70	CARE-NP A3+
Short Term Bank Facilities	Letter of Credit/ Bank Guarantee	35.82	CARE-NP A3+
Total Facilities		2,943.71	

Contact us**Analyst Contact**

Ms. Monika Rawal

Contact No.: +977-01-4012630

Email: monika.rawal@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012628

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.