

Nobel Medical College Teaching Hospital Private Limited: [ICRANP] LBBB-/A3 reaffirmed/assigned to enhanced limits

June 29, 2020

Summary of rated instruments

Instrument*	Previous Rated Amount (NPR Million)	Current Rated Amount (NPR Million)	Rating Action
Long-term loans; fund based	1,180.00	1,184.59	[ICRANP] LBBB-; reaffirmed/assigned
Short-term loans; fund based	230.00	230.00	[ICRANP] A3; reaffirmed
Short-term loans; non-fund based	70.00	152.30	[ICRANP] A3; reaffirmed/assigned
Total	1,480.00	1,566.89	

* Instrument details are provided in Annexure-1

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBBB- (pronounced ICRA NP L triple B minus) to the enhanced long-term loans of Nobel Medical College Teaching Hospital Private Limited (NMCTH). ICRA Nepal has also assigned a short-term rating of [ICRANP] A3 (pronounced ICRA NP A three) to the company's enhanced short-term loans (including the non-fund-based limits).

Rationale

The rating action draws comfort from the company's healthy revenue growth trend in last three fiscals (CAGR of ~29%), primarily aided by the good growth in the hospital business (~59%), while income from the medical college reported moderate growth (~8%). NMCTH's increased focus on hospital income, along with addition of facilities in recent years resulted in improved patient flow as well as better per patient revenue metrics over the years. This has provided it economies of scale, resulting in significant improvement in margins (operating margins improved to ~46% in FY2019 from ~30% in FY2018). NMCTH's improved capitalisation (gearing of 1.3 times as of mid-April 2020) and coverage indicators (TD/OPBTIDA of 1.1 times for 9M FY2020 and adequate DSCR of 3.67 times) have also been considered, while assigning the ratings. The ratings also factor in the company's experienced promoter/management team along with its established operational track record (since 2007). The rating action is further supported by the healthy intake level across all the major courses in NMCTH's medical college, supported by the favourable demand-supply scenario for medical education in Nepal.

Nonetheless, the ratings are constrained by the operational disturbances caused by the Covid-19 pandemic induced elongated lockdowns of around three months in H2 FY2020. This has impacted the company's cash flows and revenue metrics, with further impact likely, in case of prolongation of the pandemic. The ratings are also tampered by the uncertain operating environment for medical colleges in Nepal with reduced fees as well as gradually lowered seat allocation for the MBBS course, which has historically been the major driver of medical college revenues (~80%). ICRA Nepal also notes NMCTH's non-compliances with various statutory provisions in recent years, as stated in the audit reports¹. Further, NMCTH had financed some of the capex from short-term sources in the past, which has led to the piling up of payables, leading to a weak current ratio (0.44x as of mid-April 2020). Overall regulatory risks are also significant, as inherent in the medical education sector, including stringent compliance requirements and limited flexibility in fee determination. Going forward, NMCTH's ability to retain key consultants/professors, maintain/improve the revenue growth momentum while generating healthy margins and lowering the working capital mismatch will remain key rating sensitivities.

¹ Non-compliance with provisions of Labor Act 2074 in FY2018, and non-compliances with provisions of Bonus Act 2030 and Companies Act 2063 in FY2019, have been highlighted by the auditors.

Key rating drivers

Credit strengths

Experienced promoters/management team and established operational track record – Incorporated in 2003, NMCTH started enrolling students to the MBBS course from August 2007. With increasing track record and an experienced promoters/management team, NMCTH has improved its market position over the years. The key promoters are from medical backgrounds themselves and have been managing the company's operations over the years, which is a source of comfort.

Good income base of hospital operations supported by added facilities and increasing patient flow – NMCTH has been incurring sizeable capex in recent years for hospital facilities upgradation. Aided by the same, the company was able to post healthy revenue growth of ~36% during FY2019. This was primarily supported by sharp growth in hospital income (~62%) while the medical college reported low income growth (~9%) amid regulatory reduction in fees for the MBBS course (in national quota). Within the hospital income, NMCTH garners stable rental income by leasing out the hospital premises to pharmacies and diagnostic centres. This provides additional comfort. The growth in hospital income was backed by better occupancy and improving revenue metrics per patient while the overall patient flow grew at ~10%. The occupancy improved to ~77% in FY2019 as against ~70% in earlier years (moderated to ~75% in 9M FY2020, mainly due to impact of lockdowns). At the same time, the revenue per patient has increased at a healthy pace (~24% for OPD² and ~54% for IPD³ patients, respectively). With higher growth, hospital income made up ~60% of the overall revenues in FY2019 over ~30% in FY2016.

Improved capitalisation and coverage indicators amid decent profitability indicators – The healthy revenue growth in FY2019 improved the scalability of the company, resulting in sharp improvement in operating margins (~46% in FY2019 against ~30% in FY2018). Aided by the same, along with lower depreciation as per the new reporting framework, net margins also improved significantly to ~25% over ~7% for FY2018. NMCTH was also able to largely maintain its margins in 9M FY2020 despite the stagnancy in revenues. With improved internal accruals, the debt mix has lowered with gearing coming down to 1.3 times as of mid-April 2020 against 2.1 times as of mid-July 2017. Hence, coverage indicators have gradually improved with TD/OPBDITA at 1.1 times as of mid-April 2020 against 1.7 times in mid-July 2017. Interest cover has also improved to ~8.1 times in 9M FY2020 (~6.8 times for FY2017). Amid the expectations of slight decline in revenues over the medium term, the margins are expected to witness slight pressure, mainly on account of sizeable employee and administrative expenses (~29% and ~22%, respectively, of operating income in FY2019). However, the overall financial profile is expected to remain comfortable.

Full enrolment across major courses – Given the healthy demand outlook for medical education in Nepal, NMCTH has been able to report full enrolment for all major courses. Some of the courses like BDS, BSC Nursing and Dental Hygiene have reported lower enrolment in recent years. However, the revenue share of these courses remains low at ~7% in relation to the overall fee income of the medical college. The MBBS course is the key revenue driver, accounting for ~80% of the medical college's income. It has consistently reported 100% enrolment. Further, NMCTH's brand positioning has been improving, given the increasing patient flow which implies better practical exposure for its students. This remains a positive for the enrolment outlook over the medium term.

Positive demand outlook for medical education and healthcare services in Nepal – Factors such as better affordability through increasing per capita income and growing medical insurance coverage, growing healthcare awareness, technological improvements in early diagnosis and treatment, and higher incidence of lifestyle diseases support the industry's prospects. This, in turn, will boost demand for medical education as well as health-care services.

Credit challenges

Covid-19 pandemic impacts revenues and accruals – Elongated Covid-19 induced lockdowns from March 24 to mid-June 2020 has impacted the company's patient flow and revenue performance, resulting in largely stagnant revenue growth

² OPD: Outpatient department

³ IPD: Inpatient department

in 9M FY2020. The impact to future revenue streams may depend upon the severity of the pandemic and the Government's stance in seeking support from the private healthcare sector.

Uncertain regulatory/operating environment for medical education in Nepal – Regulatory risks are significant for medical education in Nepal with limited flexibility in determining the fees as well as uncertainty in YoY seat allocation for the MBBS course. While 10% of the seats in the MBBS course are allocated to scholarships, fees for the national seat quota (57%) witnessed ~11% reduction in AY2019-20, as determined by the Kathmandu University. The company has flexibility in determining the fees for the foreign seat quota (33%), which was increased at ~8%, thereby providing some respite. However, the seat allocation for private medical colleges has gradually reduced over the years (to 100 seats for AY2019-20 for NMCTH from 150 for AY2014-15). Any further reduction in seat allocation would impact the company's revenue stream and financial profile.

Weak current ratio and risk of cash flow mismatch – In the past, the company has funded a part of the incremental capex from short-term funds including advance fees from students, leading to liquidity mismatches. While the yearly net cash accruals were inadequate to support the incremental capex, fresh term loans were not raised for the same. This led to the piling up of short-term liabilities, including sizeable salary dues at times. As a result, the company's current ratio was weak at 0.44x as of mid-April 2020. NMCTH's ability to implement judicious working capital/cash flow management practices and reduce the funding mismatch would remain a key monitorable. Any sizeable/aggressive expansion plans, going forward, could further pressurise the cash flows and, hence, have a bearing over the ratings assigned.

Ability to attract and retain high quality consultants – Improvement of the occupancy levels in the hospital is highly dependent on the hospital's ability to retain and add reputed consultants, which will be a challenge in the light of the increased competition in the healthcare sector. Additionally, NMCTH will also have to retain experienced professors for maintaining the attraction of the medical college for prospective students.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Nobel Medical College Teaching Hospital Private Limited (NMCTH) was established in 2003 with the objective of running a private medical college and teaching hospital. The Kanchanbari, Biratnagar-based company is affiliated to Kathmandu University for medical and allied health sciences, and the Council for Technical Education and Vocational Training (CTEVT) for the paramedical courses. NMCTH offers courses such as MBBS, PG, BDS, B.Sc. Nursing, BNS and paramedical courses like staff nurse, dental hygiene, lab technician, radiography and pharmacy. In the last academic year, 349 students had enrolled for various courses.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	9M FY2020 (Provisional)
Operating income (OI; NPR million)	1,341	1,690	2,306	1,679
OPBDITA/OI (%)	27%	30%	46%	46%
Total debt/Tangible net-worth (TNW; times)	2.1	2.1	1.5*	1.3*
Total outside liabilities/ TNW (times)	6.4	5.7	3.9*	3
Total debt/OPBDITA (times)	1.7	1.7	1.1	1.1
Interest coverage (times)	6.8	6.2	5.0	8.1
DSCR (times)	3.3	2.9	3.2	3.7

* TNW excludes the revaluation reserves created by revaluation of land in FY2019.

Source: Company data

Annexure-1: Instrument details

Instrument (Amount in NPR Million)	Previous Rated Limit	Current Rated Limit	Ratings
Non-fund based facilities, short term			
Letter of credit	70.00	150.00	[ICRANP] A3; Assigned/Reaffirmed
Bank guarantee	-	2.30	[ICRANP] A3; Assigned
Total non-fund based (A)	70.00	152.30	
Fund-based short-term working capital loans (B)	230.00	230.00	[ICRANP] A3; Reaffirmed
Long-term loans; fund based (C)	1,180.00	1,184.59	[ICRANP] LBBB-; Assigned/Reaffirmed
Grand total (A+B+C)	1,480.00	1,566.89	

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About ICRA Nepal Limited:

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