

Gandaki Medical College Teaching Hospital and Research Centre Private Limited: Ratings reaffirmed

May 30, 2022

Summary of rating action:

Instrument (Amount in NPR Million)*	Last rated amount	Current rated amount	Rating Action
Long-term loan limits	886	845	[ICRANP] LBB-; reaffirmed
Short-term loan limits	135	135	[ICRANP] A4; reaffirmed
Total	1,021	980	

* Instrument details are provided in Annexure-1.

Rating action

ICRA Nepal has reaffirmed a long-term rating of [ICRANP] LBB- (pronounced ICRA NP L double B minus) to the long-term loans of Gandaki Medical College Teaching Hospital and Research Centre Private Limited (GMC). ICRA Nepal has also reaffirmed a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term loan limits.

Rationale

The rating action factors in the company's ability to attain satisfactory revenue growth of ~11% in FY2021, despite the industry wide challenges in patient flow due to Covid-19 as well as rising competition. Given GMC's increasing focus on the hospital segment, recent improvements in hospital's operational profile as reflected in patient-volume growth and increasing per patient revenue metrics remain the rating positives. This has led to a largely sustained operating profit margins (OPM) of ~24% in FY2021 and hence adequate debt coverage/service indicators (total debt to OPBDITA of 3.9 times and DSCR of 1.8 times). The company's adequate track record, experienced management team along with full occupancy across major course also support the rating action. Additionally, positive demand outlook for the healthcare industry along with increasing medical insurance coverage and rising awareness for better healthcare, also remain positives for GMC.

Nonetheless, the ratings mainly remain constrained by the company's weak capitalisation profile (negative net worth of ~NPR 341 million as of mid-July 2021, excluding the revaluation reserves). Furthermore, lack of stringent treasury management practices has led to asset-liability/cash flow mismatches and piling of payables leading to a weak current ratio and hence a stretched liquidity profile. ICRA Nepal also notes the intense competition in the fragmented healthcare industry in Nepal. The medical education sector is also exposed to regulatory risks in areas such as fee determination and seat allocation. Going forward, GMC's ability to attain adequate revenue growth while generating healthy margins, improving the capitalization and lowering the working capital mismatch will remain key rating sensitivities.

Key rating drivers

Credit strengths

Adequate track record and steady revenue growth – The company has been running medical college along with ~550-bed-hospital in Kaski district since 2010. Despite the pandemic induced challenges, GMC's revenue grew by ~11% in FY2021, which was mainly supported by ~26% growth in the hospital income segment while the medical college segment reported ~7% decline amid loss in a batch's revenue owing to delayed admission of AY2020-21 batch. The growth in hospital segment was mainly on back of increased per patient revenue metrics amid treatment of Covid patients, while the overall patient volume declined in FY2021. While the sustainability of the improved metrics remains to be seen, increased OPD patient flow in 9MFY2022 (~23%) provides comfort. Moreover, the gradual addition of advanced/new medical services/facilities over the years, also augur well for the average per patient revenues.

Satisfactory coverage indicators – GMC was able to report fairly stable OPM of ~24% in FY2021 (~25% in FY2020) despite high growth along relatively low margin hospital income segment. Aided by the same as well as low interest rates during the year, the debt service indicators remained adequate with interest cover of 3.5 times and DSCR of 1.8 times in FY2021, while the total debt to OPBDITA was also largely steady at 3.9 times. Given the likely debt additions for proposed capex and the recent increase in interest rates, debt service indicators are expected to witness some moderations, however, are still likely to remain adequate amid increasing scalabilities. The company's ability in maintaining/improving the revenue trajectory and hence the coverage indicators would remain a key monitorable.

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

Weak capitalization due to negative net worth – In FY2019, the company rectified the major prior period accounting errors (booking of entire course fee income on cash basis) through retained earnings. This resulted in a negative net worth of ~NPR 436 million as of mid-July 2019 after the unearned revenue of NPR 731 million was removed from the retained earnings. Despite YoY profits, the net worth (excluding revaluation reserve of NPR 793 million) continues to remain negative (negative NPR 341 million as of mid-July 2021) and is expected to remain so over the medium term as the internal accruals remain moderate. The company's ability to gradually recover the accumulated losses and hence improve the capitalisation would remain critical for its financial profile.

Weak current ratio and risk of asset-liability and cash flow mismatches – The company is exposed to the risks of cash flow mismatch as the course fees are collected in advance and restricted funds are not created for the same. The company's current ratio (excluding student advances) was weak at 0.28 time as of mid-July 2021. GMC's ability to reduce the funding mismatch would remain a key monitorable. Any sizeable/aggressive expansion plans, going forward, could further put pressure on the cash flows and hence have a bearing over the assigned ratings.

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 for the national quota as well as uncertainty over the YoY seat allocation for the MBBS course. Though the medical colleges have flexibility in determining the fees for the foreign seat quota, GMC has not enrolled any foreign student till date. This has impacted its margins compared to its competitors. Moreover, the seat allocation for the company for MBBS course has fluctuated around 95-100 seats in last few years as compared to 115 seats in AY2016-17. Any further regulatory changes impacting the seat allocation and fees ceiling would impact the company's revenue stream and financial profile.

Link to previous detailed rating rationale:

[Rationale GMC Fresh BLR April-2021](#)

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

Established in 2007 and based in Pokhara, Gandaki Medical College Teaching Hospital and Research Centre Private Limited (GMC) is affiliated to Tribhuvan University – Institute of Medicine (IOM) for medical and allied health science courses. GMC offers courses such as MBBS, BDS, B.Sc. Nursing, BNS, BSc. MIT, BSc. MLT, BPH, B-Pharma Program and postgraduate programs as well.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)
Operating income (OI; NPR million)	892	888	970	1,076
OPBDITA/OI (%)	28%	20%	25%	24%
Total debt/Tangible net worth (TNW*; times)	1.7	(2.1)	(2.5)	(3.0)
Total outside liabilities/ TNW* (times)	2.3	(4.2)	(4.7)	(5.3)
Total debt/OPBDITA (times)	3.9	5.1	4.0	3.9
Interest coverage (times)	2.8	2.2	2.9	3.5
DSCR (times)	1.8	1.3	1.3	1.8
Current ratio (excluding student advances)	1.2	0.2	0.3	0.3

* 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 limits	Current Rated limits	Rating action
Long-term loan limits (A)	886	845	[ICRANP] LBB-; reaffirmed
Fund-based limits (Term loans - TL)	886	845	
Short-term loan limits (B)	135	135	[ICRANP] A4; reaffirmed
Fund-based (Working capital)	135	135	
Fund-based (Bridge gap loan- within TL)	(98)	(80)	
Non-fund-based (Import Letter of Credit/Acceptance Liability - within TL)	(60)	(60)	
Grand total (A+B)	1,021	980	

Analyst Contacts:

Mr. Rajib Maharjan (Tel No. +977-1-4419910/20)

rajib@icranepal.com

Ms. Lumanti Maharjan (Tel No. +977-1-4419910/20)

lumanti@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha (Tel No. +977-1-4419910/20)

barsha@icranepal.com

About ICRA Nepal Limited:

ICRA Nepal Limited, the first credit rating agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licenced by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.



For more information, visit www.icranepal.com

ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal

Phone: +977 1 4419910/20

Email: info@icranepal.com

Web: www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents