

## Hospital for Advanced Medicine & Surgery Limited: Issuer rating of [ICRANP-IR] BBB- assigned; bank loan ratings reaffirmed

December 11, 2023

### Summary of rating action

Instrument	Previous Rated Amount (NPR in million)	Current Rated amount (NPR in million)	Rating action
Issuer Rating	-	NA	[ICRANP-IR] BBB-; assigned
Long-term loans	853.74	853.74	[ICRANP] LBBB-; reaffirmed
Short-term loans	20.00	20.00	[ICRANP] A3; reaffirmed
<b>Total</b>	<b>873.74</b>	<b>873.74</b>	

### Rating action

ICRA Nepal has assigned an issuer rating of **[ICRANP-IR] BBB-** (pronounced ICRA NP Issuer Rating triple B minus) to Hospital for Advanced Medicine & Surgery Limited (HAMS or the company). Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any debt instrument.

ICRA Nepal has also reaffirmed the bank loan ratings of HAMS at long-term loan rating of [ICRANP] LBBB- (pronounced ICRA NP L triple B minus) and a short-term loan rating of [ICRANP] A3 (pronounced ICRA NP A three) respectively.

### Rationale

The rating action mainly factors in the company's good operational profile with steadily growing patient flow, which is also reflected in its revenue and margins' trajectory in recent years (notwithstanding the dip in FY2023 as the pandemic induced surge has subsided). HAMS has maintained a comfortable leverage ratio and satisfactory debt coverage metrics in recent years, as a majority of its capex has been funded through profit accruals. The rating action also factors in the positive demand outlook for the healthcare industry in Kathmandu Valley.

Nonetheless, the ratings remain constrained by the liquidity pressure on the company, stemming from the recent capex. The capex was funded through internal accruals and/or creditors which has drained the short-term liquidity cushion and is reflected in weak current ratio of 0.65 times as of mid-July 2023. ICRA Nepal also notes the rising competition in the fragmented healthcare industry as well as regulatory risks associated with the industry. Going forward, the company's ability to timely raised the proposed IPO (at proposed price), will remain essential for its incremental liquidity profile, considering the sizeable capex proposed by the management. The ability of the company to sustain the trajectory of revenue/margins improvement and maintain its capitalisation and coverage indicators will remain among the key rating sensitivities.

### Key rating drivers

#### Credit strengths

**Good operational profile** – HAMS has been operational since 1998, albeit with modest scalability until the current promoter group took over the management in 2016. Thereafter, the added facilities in the hospital (including the shift to its current premises) and its improving brand recall have resulted in sharp revenue growth from FY2019 to FY2021. This was mainly on back of the consistent growth in total patient volume in last four years (CAGR of ~22%), notwithstanding the dip in FY2021 owing to the pandemic impact. While the occupancy has dipped in recent years (~47% for FY2023 as against ~64%

for FY2021), following the corrections from elongated length of stay for Covid patients, IPD patient volume also remains in an improving trend, which remains a positive.

**Satisfactory financial profile** – The company has reported healthy operating profit margin (OPM) of ~25% in FY2023, despite the gradual drop from the highest levels of ~34% in FY2021, which was mainly on account of high margin Covid induced revenues. ICRA Nepal expects the margins to largely stabilise around FY2023 levels. Given the good internal accruals and limited fresh debt addition in recent years, the company has reported satisfactory leverage levels with gearing of 1.1 times as on mid-July FY2023 while the debt service indicators also remained adequate with DSCR of 2.3 times in FY2023. The proposed IPO would lead to further improvements in the leverage and coverage metrics, which remains a positive.

**Positive industry outlook; good location/infrastructure** – Factors such as better affordability through increasing per capita income and growing medical insurance coverage, rising awareness and demand for healthcare, technological improvements in early diagnosis and treatment, and higher incidence of lifestyle diseases support the healthcare industry's prospects. The company's convenient location and its good infrastructure as a multi-speciality hospital amid the high population density in the Kathmandu valley remain positives for the company's incremental revenue prospects.

## Credit challenges

**Liquidity profile** – The company did not opt for term debt additions for its sizeable capex in recent years (~NPR 516 million from FY2021 to FY2023). The resultant funding mismatch has led to high reliance on creditors as reflected in creditor days of ~42 in FY2023 (albeit improved from ~91 days in FY2021) and hence a weak current ratio of 0.65 as of mid-July 2023. Any reduction in creditor support could lead to liquidity pressures, given the nominal cash balances and plans for further capex and investments in proposed associate companies (albeit now proposed to be mostly funded from IPO proceeds).

**Intense competition and regulatory risk** – HAMS faces intense competition from other large and established multi-speciality hospitals in the Kathmandu valley. In recent years, the healthcare services industry has grown highly competitive on account of the entry of large corporate hospitals and capacity enhancement by many established players. Going forward, an improvement in occupancy levels, especially in the newer segments, is highly dependent on the hospital's ability to retain and add reputed consultants in the respective fields, which could also remain a challenge in light of the increased competition in the healthcare sector. ICRA Nepal also takes note of the inherent regulatory risks associated with the healthcare sector, along with the company's relatively modest scale of operations (100-bed capacity) vis-à-vis other large corporate hospitals.

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

### Links to the applicable criteria

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

### Link to the last rating rationale:

[Rationale Hospital for Advanced Medicine & Surgery Limited Fresh BLR September 2023](#)

## About the Company

Incorporated as a private limited company in January 1998, Hospital for Advanced Medicine & Surgery Limited (HAMS) was converted to a public limited company in July 2022. HAMS is a 100-bed licensed multi-specialty hospital located in Dhumbarahi, Kathmandu. The major promoters of HAMS are its chairman Mr. Ram Sharan Bhandari and his family members.

## Key financial indicators

Amounts in NPR million	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
Operating income-OI (Revenues in NPR million)	378	680	1,438	1,553	1,396
OPBDITA/OI (%)	-13.7%	12.5%	34.2%	27.8%	25.3%
Total debt/tangible net worth (TNW; times)	2.6	3.6	1.8	1.4	1.1
Total outside liabilities/TNW (times)	4.4	4.7	2.5	1.9	1.5
Total debt/OPBDITA (times)	-15.2	13.6	2.0	2.2	2.4
Interest coverage (ICR; times)	-	3.7	6.2	5.7	4.8
DSCR (times)	-2.5	1.2	2.7	2.9	2.3
NWC/OI	-104%	-25%	-10%	-12%	-8%
Current ratio	0.3	0.4	0.5	0.5	0.6

Source: Company data

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## About ICRA Nepal Limited

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