

Kist Medical College Private Limited: Ratings reaffirmed

December 18, 2023

Summary of rating action

Instrument (Amount in NPR Million)	Last rated amount	Current rated amount	Rating Action
Long-term loan limits (Term Loans)	1,112.7	961.5	[ICRANP] LB+; reaffirmed
Short-term loan limits (including proposed limits)	387.3	538.5	[ICRANP] A4; reaffirmed
Total	1,500.0	1,500.0	

Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) assigned to long-term loans of Kist Medical College Private Limited (Kist). ICRA Nepal has also reaffirmed the company's short-term loan rating at [ICRANP] A4 (pronounced ICRA NP A four).

Rationale

The ratings mainly remain constrained by the company's weak financial profile with leveraged capital structure¹ and stretched coverage indicators (total debt to OPBDITA of 4.4 times for FY2023), despite the improvements in recent years. The company's liquidity profile also continues to remain weak amid the sizeable capex in recent years, which has led to free cash flow pressures, despite the gradual build-up in payables. Given the company's incremental debt addition plans for the proposed capex, Kist's debt coverage/service indicators are likely to remain stretched over the medium term (DSCR of 0.6 times for FY2023), mainly factoring in the stabilisation risks for the ongoing capex investments. ICRA Nepal also takes note of the intense competition in the fragmented healthcare industry in Nepal, in light of the hospital revenues now remaining the key area of focus for the company. Furthermore, the company medical education segment revenues are also exposed to inherent regulatory risks.

Nonetheless, the rating action factors in the gradual improvement in the company's revenue scalability and margins in recent years. The company's operational profile has also reported gradual improvements as reflected in the increasing patient volume as well as the per patient revenue metrics (mainly in the IPD segment), which also remains a rating positive. The company's adequate track record, experienced management team/doctors along with full enrolment across major courses also continue to support the ratings. Additionally, positive demand outlook for the healthcare industry along with increasing medical insurance coverage and rising awareness for better healthcare, also remain the positives for Kist. Going forward, Kist's ability to sustain the improvement in revenue/margins and the capitalization/coverage indicators will remain among the key rating sensitivities.

Key rating drivers

Credit strengths

Established track record and improving operational profile – Kist has been running medical college along with hospital having approved capacity of 300 beds since 2006. Kist derived ~47% of revenue from the medical college segment in FY2023 vs. ~52% in FY2022 while the share of hospital revenue increased to 51% in FY2023 from 46% in FY2022. The company's decent scale of operations has aided in gradual growth in total patient flow (~29% growth during FY2023 to ~230K patients). Additionally, the facility additions in recent years has supported the improvements in per patient revenue metrics, mainly in the IPD segment, which remains a core area of focus. These have led to the revenue and margins improvements in recent years as noted in the decent revenue growth at CAGR of ~24% in last two years ending on mid-July 2023 and better operating profit margins of ~32% in FY2023 (~29% in FY2021). After the shift in focus to

¹ gearing of 14 times as of mid-July 2023, excluding revaluation reserve of NPR 669 million

hospital operations, the company has reported higher growth in this segmental income in recent years (~28% growth during FY2023), while the medical college segment's income reported nominal growth of ~3%.

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. ICRA Nepal also takes positive note of the healthy occupancy in Kist's major courses like MBBS, BDS, PG etc.

Credit challenges

Weak financial profile – Despite recent improvements, the company's financial profile still remains stretched as reflected in a high gearing ratio of ~13.8 times and a stretched total debt to OPBDITA of ~4.4 times for FY2023. This was largely on account of the high reliance on debt for the ongoing and proposed capital expenditures (~77% debt funding for the capex incurred in last three years). Hence, the company's capitalisation/coverage are likely to remain muted over the medium term (DSCR of 0.6 times for FY2023), thus necessitating incremental support from the promoters. Timely and adequate financial support by the promoters and the company's ability to gradually improve its capitalisation profile would remain critical for its financial profile. The company's track record in loan repayments would also remain a key rating sensitivity.

Weak liquidity profile – The company continues to face liquidity pressures amid the sizeable ongoing capex and the inadequacy of operational cash flows vis-à-vis the debt servicing obligations in recent years. This has led to increasing reliance on creditors, which along with advance fee receipt from students, leads to negative net-working capital and weak current ratio of 0.2 times as of mid-July 2023. The company is also 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. Any major incremental pressure on the company's liquidity profile and its impact on timeliness of debt servicing would have a bearing over the assigned ratings.

Uncertain regulatory framework for medical education in Nepal – Regulatory risks are significant for the medical education sector in Nepal, mainly with the limited flexibility in determining the fees for the national quota and frequent policy changes. Though the medical colleges have flexibility in determining the fees for the foreign seat quota, Kist has witnessed low to moderate attraction among foreign students so far (14 students admitted during AY2022-23 against the quota of 33 seats). This has impacted its margins compared to competitors which have reported higher foreign student intake, as the fees charged to foreign MBBS students is ~200% of national student fees. Any further regulatory changes impacting the seat allocation and fees ceiling would impact the company's revenue stream and its financial profile.

Intense competition in the healthcare segment – The company also faces competitive pressures from many established hospitals inside the valley for its hospital income segment. This is also evident from the slight drop in the hospital's occupancy in recent years (~53-54% in last two years as against ~58-59% in earlier years). While the drop in occupancy was partly offset by the healthy growth in per patient revenue in the IPD segment (~87% growth in FY2022 and largely steady thereafter in FY2023, mainly on account of facilities additions towards catering critical surgery cases), incremental trajectory in the same will remain a key monitorable.

Link to the previous rating rationale:

[Rationale_Kist-Medical-College_BLR-May-2022](#)

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

Link to the applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Established in 2006, Kist Medical College Private Limited (Kist) offers medical courses such as MBBS, BDS, PG along with paramedical courses like B. Pharma and BSc-MLT, in affiliation with Tribhuvan University. As a part of the medical college's requirements, the company runs a hospital with approved capacity of 300 beds in Lalitpur, Nepal. Mr. Ashish Thapa is the company's chairperson and largest promoter.

Key financial indicators

	FY2019	FY2020	FY2021	FY2022	FY2023
	(Audited)	(Audited)	(Audited)	(Audited)	(Provisional)
Operating income (OI; Revenue NPR million)	506	524	517	688	789
OPBDITA/OI (%)	24%	30%	29%	27%	32%
Total debt/Tangible net worth -TNW (times)	1,925.6	56.7	33.1	18.7	13.8
Total outside liabilities/ TNW (times)	2,499.4	74.7	44.9	25.4	19.2
Total debt/OPBDITA (times)	6.3	5.5	7.0	6.2	4.4
Interest coverage (times)	1.6	1.7	1.4	1.5	1.6
DSCR (times)	1.1	1.1	0.9	0.7	0.6
NWC/OI	17%	-5%	-16%	-27%	-27%
Current ratio	1.2	0.6	0.4	0.2	0.2

* TNW excludes the revaluation reserves, which was NPR 669 million as of mid-July 2023.

Source: Company data

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About ICRA Nepal Limited:

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