

## Kathmandu Medical College Public Limited: Long-term rating upgraded and short-term rating reaffirmed; ratings removed from “Issuer not cooperating” category

June 03, 2024

### Summary of rating action

Instrument (Amounts in NPR Million)	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term loan limits; Term Loans	1,600.0	1,264.9	[ICRANP] LBB; upgraded from [ICRANP] LBB- and removed from ‘Issuer not cooperating’ category
Short-term loan limits; Letter of Credit	500.0	350.0	[ICRANP] A4; reaffirmed and removed from ‘Issuer not cooperating’ category
<b>Total</b>	<b>2,100.0</b>	<b>1,614.9</b>	

### Rating action

ICRA Nepal has upgraded the long-term loan rating of Kathmandu Medical College Public Limited (KMC) to [ICRANP] LBB (pronounced ICRA NP L double B) from [ICRANP] LBB- (pronounced ICRA NP L double B minus), while reaffirming its short-term loan rating at [ICRANP] A4 (pronounced ICRA NP A four). The ratings have also been removed from ‘Issuer Not Cooperating’ category.

### Rationale

The rating action mainly considers the company's established operational track record (since 2009), its experienced promoters and management team, and the consistently healthy enrollment across all major courses at KMC's medical college. Additionally, the rating action also factors in the recent improvements in the company's operating profit margins (OPM) to ~33% in FY2023 from ~14% in FY2021. While this improvement was mainly supported by revenue restructuring, control over operating expenses along with the increasing revenue trend at the group level (amid healthy demand outlook for medical education and healthcare) which remain the long-term rating positives.

Nonetheless, the ratings remain constrained by the company's aggressive expansion strategy (at the standalone as well as group level) which has led to moderation in its capitalisation and coverage indicators (gearing of 3.3 times as of mid-July 2023). KMC and its two fully owned subsidiaries (out of four) have undergone sizeable debt-funded-capex in recent years. This, along with the competition induced pressures on hospital revenue/patient flow have moderated the company's DSCR to 1.7 times for FY2023, as against 2.2 times for FY2021. As the revenue growth has remained low vis-à-vis the investments in capex, the company's debt servicing indicators are expected to remain under pressure over the near to medium term. The company also continues to have a stretched liquidity profile with build-up in debtor as well as payables, while the net-working capital continues to remain negative, given the cash flow mismatches. ICRA Nepal also takes note of the industry's direct exposure to regulatory uncertainties. Going forward, KMC's ability to sustain the improvement in margins, generate adequate revenues and improve its capitalisation and coverage metrics will remain the key rating sensitivities.

### Key rating drivers

#### Credit strengths

**Experienced promoters/management team and established operational track record** – Established in 2009, KMC has a fair track record in operating medical college and hospital. In September 2020, Nobel Medical College Teaching Hospital

Private Limited (NMCTH, rated [ICRANP] [LBB+/A4+](#)) and its promoters acquired ~44% stake in KMC, resulting in a change in the company's ownership in September, 2020. NMCTH has been operating in the same sector since 2003. With the change in ownership, KMC's management team has incorporated representatives from the new promoter group, and the experienced background of these promoters and the management team remains a positive.

**Improved revenue and margins** – The company's consolidates revenues have grown at a CAGR of ~15% in the three years ending FY2023, which was partly aided by rental income derived from third parties in lieu of allowing them to provide different services (medical and non-medical) to the patients and students. While the hospital occupancy has been in declining trend, the rise in college income supported by dual intake of students in FY2023 has partially offset the impact. The company reported improvement in its operating margins to ~33% in FY2023 from ~14% in FY2021, mainly aided by the outsourcing of pathological services, which now results in sizeable spike in rental income along with commensurate reduction in consumable expenses. Further, the company has adopted other cost control mechanisms, which provided further support, in addition to the scale benefits. Nonetheless, the sustainability of the margins amid reducing patient flow remains a key rating monitorable.

**Full enrolment across major courses** – Due to the strong demand for medical education in Nepal, KMC has consistently achieved robust enrolment in all major courses. The MBBS program, in particular, contributes significantly to the college's revenue, accounting for about ~64% of the college segment's revenue. Moreover, KMC's prime location in the capital city, which has the highest population density in the country provides scope for increasing patient flow, despite the recent drop. This increased patient interaction offers students valuable practical experience, positively influencing the enrolment outlook for the medium term.

## Credit challenges

**Moderation in financial profile amid aggressive expansion strategy** – The company has made sizeable investments in establishing wholly-owned subsidiaries, in addition to standalone investment in capex for facility addition/upgradation (capex investment of ~NPR 2,473 million over last three fiscal years at the group level). This has sharply increased the company's leverage at the group level, with gearing ratio of 3.3 times as of mid-July 2023 (1.8 times as of mid-July 2021). While the total debt to OPBITDA stands modest at 4.6 times in FY2023 (7.8 times in FY2021), this was mainly aided by improved OPM, whose sustainability remains to be seen. Nonetheless, the debt coverage indicators have reported major moderations with interest coverage ratio of ~1.9 times and a DSCR of ~1.7 times in FY2023 (~2.6 times and ~2.2 times respectively in FY2021).

**Stretched liquidity profile** – KMC has consistently reported negative working capital intensity (net working capital to operating income ratio) which stood at -25% in FY2022 and -21% in FY2023 due to the piling up of various payables. The company also witnessed build-up in debtor levels (debtor days of 55 for FY2023 compared to 47 days in FY2021) amid the piling up of receivables from the Government of Nepal (COVID related receivables) as well as from Kathmandu University (related to reimbursement of student's tuition and examination fees). Since the cash reserves are generally negligible, the liquidity profile is likely to remain stretched, given the already significant utilisation of working capital loans (~NPR 147 million as of mid-July 2023), despite negative net working capital.

**Intensified competition and cashflow timing mismatch** – The healthcare sector in Nepal, particularly in Kathmandu, is characterized by intense competition among numerous established medical colleges and hospitals, leading to declining patient volumes in both OPD and IPD services for KMC. Factors such as the quality of care, reputation, and accessibility of healthcare services influence patient preferences. Government hospitals' upgraded infrastructure and modern medical equipment have made them more competitive, posing pricing pressure on private medical colleges. Moreover, the company uses the student fee advances for non-revenue expenditures including capital expenditures, leading to cash flow mismatch with fee collected at start of academic year and expenses spread over the year. KMC's ability to implement judicious working capital/cash flow management practices and improve the liquidity cushion would remain a key monitorable.

**Uncertain regulatory environment for medical education in Nepal** – Regulatory challenges pose significant risks for medical education in Nepal, including limited flexibility in fee determination, strict compliance requirements, and uncertainty regarding yearly seat allocation for the MBBS course. While 10% of MBBS seats are allocated for scholarships,

fees for the national seat quota (57%) are set by the Medical Education Commission. However, the company has some flexibility in determining fees for the foreign seat quota (33%), wherein it has spiked fees by ~45% during FY2023, however remaining within the regulatory cap of USD 75,000. KMC's ability to continue ensuring adequate intake of foreign students will affect its medical college revenues and margins, given the higher fees charged to international students (by ~92% for latest academic year). The current MBBS seat allocation stands at 100 and is expected to remain stable in the future. Any further reduction in seat allocation would adversely impact KMC's revenue stream and financial position.

**Link to the previous rating rationale:**

[Rationale – Kathmandu Medical College Public Limited INC-BLR November-2023](#)

**Analytical approach:** For arriving at the ratings, ICRA Nepal has considered the group's consolidated financials and applied its rating methodology as indicated below.

**Link to the applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company

Established in 2009, Kathmandu Medical College Public Limited (KMC) operates a medical college and teaching hospital located in Sinamangal, Kathmandu. The medical college is affiliated to Kathmandu University and offers medical and paramedical courses such as DM/MCH, MD/MS, MBBS, BDS, BSC Nursing etc. As a part of requirement for operating the medical college, the company also runs a 516-bed teaching hospital in Sinamangal and has extended its day care services in Duwakot, Bhaktapur.

## Key financial indicators (Group<sup>1</sup>)

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
Operating income-OI (NPR million)	1,452	1,344	1,134	1,288	1,490
OPBDITA/OI (%)	18%	16%	14%	33%	33%
Total debt/Tangible net-worth-TNW (times)	0.4	0.8	1.8	3.1	3.3
Total outside liabilities/ TNW (times)	1.7	1.9	3.1	4.6	5.0
Total debt/OPBDITA (times)	1.1	2.5	7.8	5.1	4.6
Interest coverage (times)	7.8	5.4	2.6	2.3	1.9
DSCR (times)	6.3	5.1	2.2	2.1	1.7
Current ratio (times)	0.2	0.3	0.4	0.3	0.4

Source: Company data

## Analyst Contacts:

**Mr. Sailesh Subedi** (Tel No. +977-1-4519910/20)

[sailesh@icranepal.com](mailto:sailesh@icranepal.com)

**Mr. Rajib Maharjan** (Tel No. +977-1-4519910/20)

[rajib@icranepal.com](mailto:rajib@icranepal.com)

**Mr. Aslesh Adhikari** (Tel No. +977-1-4519910/20)

[aslesh.adhikari@icranepal.com](mailto:aslesh.adhikari@icranepal.com)

<sup>1</sup> Group includes 100% subsidiaries viz. Advanced Imaging Diagnostic Center, KMC Investment Private Limited and KMC Pharmacy till FY2021, while Kashamandap Diagnostic and Medical Service Private Limited was established and added after FY2021.

## Relationship Contacts:

**Ms. Barsha Shrestha** (Tel No. +977-1-4519910/20)  
[barsha@icranepal.com](mailto:barsha@icranepal.com)

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### **ICRA Nepal Limited,**

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

**Phone:** + 977-1-4519910/20

**Email:** [info@icranepal.com](mailto:info@icranepal.com)

**Web:** [www.icranepal.com](http://www.icranepal.com)

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