

March 26, 2024

## Indraprastha Medical Corporation Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	32.50	32.50	[ICRA]AA (Stable); Reaffirmed
Short Term - Non Fund Based	30.00	30.00	[ICRA]A1+; Reaffirmed
Commercial Paper	40.00	40.00	[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>102.50</b>	<b>102.50</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmed ratings factor in ICRA's expectation that Indraprastha Medical Corporation Limited (IMCL)'s operational profile will remain healthy led by sustained improvement across operating metrics and earnings, resulting in strong credit metrics. IMCL witnessed a healthy improvement in its operating metrics in 9M FY2024, supported by increasing average revenue per operating bed (ARPOB), stable international patient footfalls, elective surgical procedures and price hikes undertaken by the hospital. The financial risk profile remains comfortable as reflected by minimal gearing, robust debt protection indicators and strong liquidity profile. Further, the ratings factor in the strong parentage of Apollo Hospitals Enterprise Limited (AHEL) along with its promoters, holding a 25% stake in IMCL. The entity has significant operational, financial and managerial linkages with AHEL. Apollo Hospitals is one of the leading healthcare players that owns and operates one of the largest hospital chains in the country. The ratings also factor in IMCL's revenue diversification across specialities, including oncology, neurology, cardiology and nephrology, among others.

However, the ratings remain constrained by geographical and asset concentration risks, as IMCL's operations are concentrated across two hospitals in the National Capital Region (NCR). Like other entities in the sector, IMCL remains exposed to regulatory risks, with previous restrictions imposed by various authorities considerably impacting margins of all players in the sector. The ratings also factor in competitive pressures and the necessity to retain medical talent in an ever-evolving market.

Further, ICRA notes that as per the agreement with the Delhi government, IMCL is required to provide free in-patient and out-patient medical facilities to poor patients. However, there is a public interest litigation (PIL) sub-judice in the Supreme Court against IMCL (and certain other hospitals in the NCR), as per which the hospital should also provide free medicines and consumables to the patients sponsored by the Government of National Capital Territory of Delhi (GNCTD or Delhi Government). ICRA's ratings do not factor in the likely financial impact of this sub-judice PIL. ICRA will continue to monitor the developments in this regard and any other regulatory, governance or legal matters.

The outlook on the long-term rating is Stable, reflecting ICRA's expectation that IMCL's revenues and accruals will be supported by its established position as a leading healthcare services provider, growing demand from international clients and good repute of IMCL's medical talent.

## Key rating drivers and their description

### Credit strengths

**IMCL enjoys strong operational, financial and managerial linkages with AHEL** – IMCL was incorporated as a joint venture (JV) between AHEL and the Delhi Government in 1988. At present, AHEL, along with its promoters, holds a 25% stake in IMCL. The entity enjoys significant operational, financial and managerial linkages with AHEL. Apollo Hospitals has a strong brand presence and is among the leading healthcare players that owns and operates one of the largest hospital chains in the country. ICRA expects AHEL to maintain its current ownership and management control while providing necessary support to IMCL to maintain its operational and financial risk profile. The Delhi Government also holds a 26% stake in IMCL.

**Established healthcare provider in the NCR and well-diversified speciality mix** – IMCL enjoys an established presence in the NCR with two facilities, a 703-bedded facility in Sarita Vihar (operational since 1996) and a 46-bedded facility in Noida (since 2006). The Sarita Vihar facility is temporarily reduced by 15 beds due to ongoing renovation. The long and successful operations of the two clinical establishments reflect positively on the company's track record. Moreover, the revenues are well diversified across specialities, including oncology, neurology, cardiology, transplant hepatobiliary, orthopaedics and nephrology, among others. The top four specialities—oncology, cardiology, nephrology and transplant hepatobiliary—generated 40% of the in-patient revenues (including pharmacy revenues) in 9M FY2024 from 42% in FY2023. The balance revenue came from neurology, orthopaedics, general surgeries and others.

**Strong financial risk profile** – Since the pandemic, the hospital industry has witnessed significant demand improvement for elective surgeries, which increased footfall levels that reflected in ~70% bed occupancy in 9M FY2024 for IMCL. Along with this, a healthy YoY improvement in ARPOB to Rs. 62,571 leading to overall ~13% revenue growth in 9M FY2024 augers well for the entity. Recent price hikes and an increase in footfalls from international patients have supported IMCL's margins. Apart from the inherent operational metrics that supported robust financial growth in FY2023 and the current fiscal, the company's specific cost-optimisation measures have also benefitted the margin profile. During 9M FY2024, OPBITDA margins improved significantly to 15.6% from 13.8% in FY2023 due to better operating metrics and company-led cost initiatives. IMCL also continues to be debt-free, which, along with healthy profit margins, has resulted in healthy coverage metrics. ICRA expects IMCL to continue demonstrating a healthy financial profile over the medium term, supported by robust operating metrics and regular price revisions.

### Credit challenges

**Geographical and asset-concentration risks** – IMCL is exposed to geographical concentration risk since its operations are concentrated in the NCR. Further, its revenues are solely derived from two properties. About 90-95% of its revenues come from the Sarita Vihar facility in New Delhi, which comprises 703 of its 749 operational beds. Thus, any decline in patient demand in the NCR has a direct impact on the company's revenues.

**High competition; retention of good consultants remains a key challenge** – Given the growing demand for healthcare services in India, the sector has attracted increasing interest from domestic and foreign players. The NCR hosts various private healthcare chains as well as Government hospitals, leading to significant competition for IMCL, particularly in the international patient segment. Nevertheless, it enjoys strong brand equity of the Apollo brand and has a good track record, providing it some competitive advantage. Any shortage of manpower will lead to higher costs and impact the delivery of healthcare services, making talent retention a critical factor for players like IMCL. There was no major attrition in senior consultants in FY2024 for IMCL and even added two reputed doctors to its roster.

**Any adverse ruling on PIL for treatment of poor patients can impact profitability** – As per IMCL's JV agreement with the Delhi government in 1988, the company is expected to provide free medical facilities for beds and doctor's consultation fees to 33% of in-patients and 40% of its out-patients. In May 2011, however, the High Court directed private hospitals to provide free treatment to 10% of indoor and 25% of outdoor patients, including medicines and consumables. The hospitals have appealed

against the provision of free medicines and got a stay on the issue in 2014, with the next hearing expected in April 2024. As on date, the matter remains sub-judice. In case the Supreme Court decides that private hospitals should provide free medicines, IMCL's profitability will be impacted. ICRA will continue to monitor the developments in this regard and any other legal or regulatory matters.

**Exposure to regulatory risks** – Like other entities in the sector, IMCL remains exposed to regulatory risks, with previous restrictions imposed by various authorities considerably impacting the margins of all players in the sector. These restrictions included a cap on stent prices and knee implants, increase in tax burden from the Goods and Services Tax (GST), impact of penalties and restrictions from various state governments and price caps for the treatment of patients.

### Environment and Social Risks

**Environmental considerations** – The hospital sector does not encounter any major physical climate risk. However, hospitals need to comply with environmental laws and regulations pertaining to the handling and disposal of bio-medical specimens, wastewater, infectious and hazardous waste. For e-waste and old medical equipment, IMCL follows a stringent buy-back policy with vendors. Further, the energy consumption by large medical equipment and the hospital building, along with emissions, could pose environmental risks. To improve energy efficiency, the company upgraded its water pumps, chillers and its HVAC system recently. It also installed energy-efficient lighting and has reduced its paper and film consumption.

**Social considerations** – Exposure to social risks is moderate for IMCL. Social risks include high attrition, litigation exposure and standard compliance requirements, given the importance of the service being provided. Further, regulatory interventions such as price control measures, imposition of restrictions, if any, specifically levied, could impact the earnings of the company.

### Liquidity position: Strong

IMCL's liquidity position remains strong owing to its healthy free cash and liquid balances, which stood at Rs. 207 crore as of September 2023, and its unutilised fund-based working capital limits of Rs. 32.5 crore. IMCL also enjoys strong financial flexibility owing to its debt-free balance sheet and expected support from its promoter, AHEL, if required. There are no major capex and debt-raising plans, as well as no long-term repayment obligations.

### Rating sensitivities

**Positive factors** – Significant improvement in the scale of operations and accruals over a diverse geographical base while maintaining the current financial risk profile on a sustained basis could lead to a rating upgrade. Significant enhancement in AHEL's credit profile on a sustained basis would also be a positive rating trigger.

**Negative factors** – Pressure on revenues and accruals, or large debt-funded capex, leading to deterioration in the financial risk profile of the entity on a sustained basis could lead to a downward revision in ratings. Specific downgrade triggers would be net debt/OPBITDA of more than 1.5 times on a sustained basis. Adverse outcome of the PIL pertaining to the provision of free medicines and consumables to economically weak section (EWS) patients would also be a rating trigger. The weakening of credit profile of AHEL or IMCL's linkages with it could also exert pressure on IMCL's ratings.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Hospitals</a>
Parent/Group support	Parent Company: Apollo Hospitals Enterprise Limited (AHEL) The ratings assigned to IMCL factor in the very high likelihood of its parent, AHEL Limited, extending financial support because of close business linkages between the entities. ICRA

	expects AHCL to be willing to extend financial support to IMCL out of its need to protect its reputation from the consequences of a group entity's distress.
<b>Consolidation/Standalone</b>	Standalone

## About the company

Incorporated in 1988 as a JV between AHCL and the state government of Delhi, IMCL has two hospital facilities - one is a super speciality tertiary care hospital in Sarita Vihar New Delhi and the other is a mother and childcare hospital in Noida. The aggregate capacity is 749 beds across the two facilities. Having commenced operations in 1996, IMCL has 52 speciality departments at present. The hospital's 15-acre land in Sarita Vihar has been leased by the Delhi government at a nominal rate to IMCL. The lease has been recently renewed in FY2024 for both i.e., Sarita Vihar and Noida wings. In turn, IMCL provides free medical facilities to poor patients referred by the Delhi Government. IMCL was the first hospital in India to be internationally accredited by the Joint Commission International (JCI), a US healthcare services accreditation body, in June 2005.

Mr. Pattabhiraman Shivakumar, who is the Managing Director, is from the AHCL group. While there are four seats on the board of directors appointed by Delhi Government, two are currently occupied while the remaining is vacant.

## Key financial indicators (audited)

IMCL Standalone	FY2022	FY2023	9M FY2024*
<b>Operating income</b>	888.2	1,098.7	930.0
<b>PAT</b>	58.6	86.2	92.8
<b>OPBDIT/OI</b>	13.5%	13.8%	15.6%
<b>PAT/OI</b>	6.6%	7.8%	10.0%
<b>Total outside liabilities/Tangible net worth (times)</b>	0.4	0.5	-
<b>Total debt/OPBDIT (times)</b>	0.0	0.0	-
<b>Interest coverage (times)</b>	35.2	35.4	-

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Apr 06, 2020
					Mar 31, 2023	May 13, 2022	May 31, 2021		
1	Cash credit	Long term	32.50	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-fund Based limits	Short term	30.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Commercial paper programme	Short term	40.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

4	<b>Unallocated limits</b>	-	-	-	-	-	-	-	[ICRA]AA (Stable)
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### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Short term Non-Fund based limits	Very simple
Commercial Paper Programme	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	32.5	[ICRA]AA (Stable)
NA	Non- Fund based limits	NA	NA	NA	30.0	[ICRA]A1+
NA	Commercial Paper*	NA	NA	NA	40.0	[ICRA]A1+

Source: Company, \*No CP placed against [ICRA]A1+ rating

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**Annexure II: List of entities considered for consolidated analysis- Not applicable**

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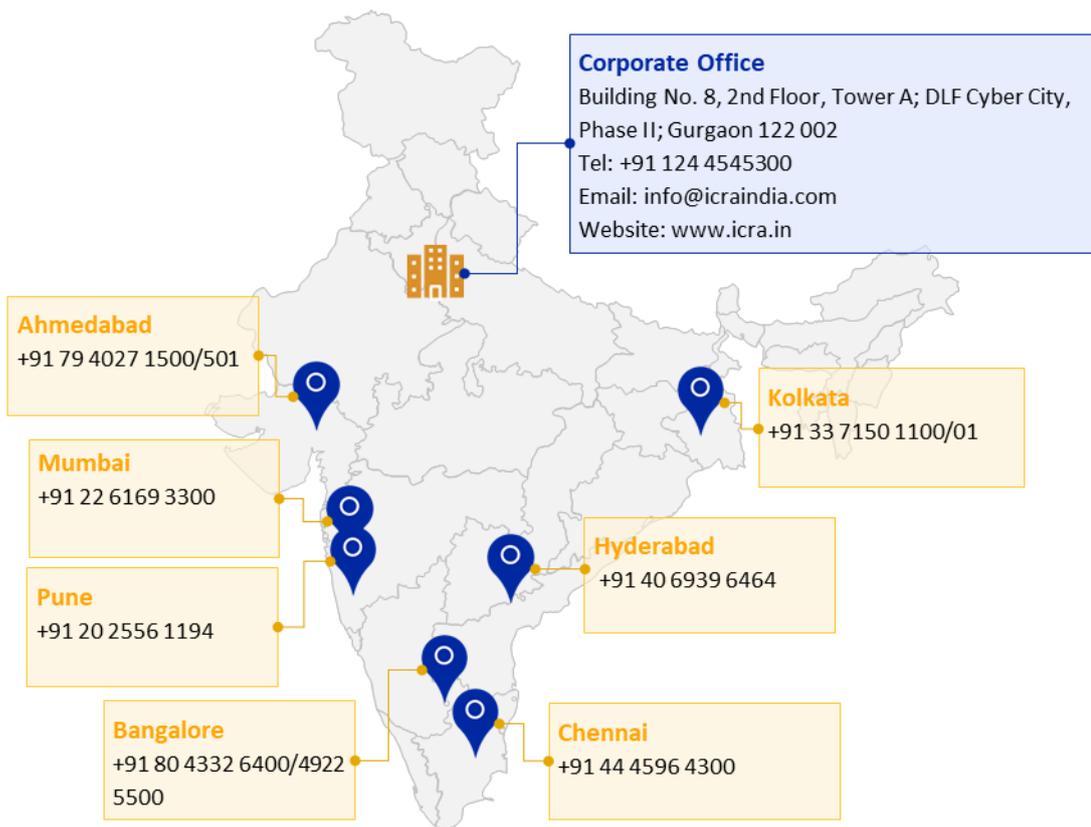
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