



## B.L. Kapur Memorial Hospital

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### Rating

ICRA has downgraded the long-term rating outstanding on the Rs. 92.09 crores<sup>1</sup> term loans of B.L. Kapur Memorial Hospital to LB (pronounced L B) from LBB (pronounced L double B)<sup>2</sup>.

### Key Financial Indicators

		2008-09	2007-08
OI		24.79	0.01
OPBDITA		-18.93	-0.25
PAT		-31.00	-0.17
NCA		-31.00	-0.12
Tangible Net Worth		-17.29	13.93
OPBDITA/OI	%	-76.37%	-
PAT/OI	%	-125.05%	-
OPBDITA/Interest and Finance Charges	Times	-1.57	-63.63
NCA/Total Debt	%	-12%	0%
Total Debt/TNW	Times	-15.43	15.45

Note: Amount in Rs. Crores

OI: Operating Income; OPBDITA: Operating Profit before Depreciation, Interest, Tax and Amortisation; PAT: Profit after Tax; PBIT: Profit before Interest and Tax; NCA: Net Cash Accruals; TNW: Tangible Net Worth

**Website:**  
[www.icra.in](http://www.icra.in)

<sup>1</sup> 100 lakh=1 crore= 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Credit Strengths

- Revenue diversification across specialities to add to revenue growth and mitigate concentration risk
- Steady growth in inpatient admissions along with rising occupancy levels supported by increased outpatient registrations
- Financial support extended by Integrated Health and Healthcare Services India Private Limited

## Credit Concerns

- Intense competition in healthcare market in National Capital Region (NCR) with the presence of established players like Apollo, Max Healthcare, Fortis Healthcare etc.
- Ability to attract and retain reputed consultants given the intense competition in NCR
- Weak financial profile as reflected by losses at operating levels and stretched capital structure owing to relatively high debt levels contracted for setting up the hospital
- Delays in servicing debt obligations owing to pressure on cash flows

## Rating Rationale

The rating takes into account BLKMH's limited track record of operations which coupled with intense competition in the healthcare industry in the National Capital Region (NCR) has resulted in moderate occupancy levels. The rating is also constrained by weak financial profile as the hospital is still in stabilisation phase; this has resulted in losses at operating levels which in turn has led to erosion of net worth. This coupled with relatively high debt contracted for setting up the hospital has led to high debt repayment obligations. The rating also factors in the planned additions to hospital room supply in NCR in the short to medium term which are expected to keep the competitive pressures high going forward. Nevertheless the rating draws comfort from BLKMH's steady improvement in occupancy levels and outpatient revenues' its state of the art medical facilities and its diversification across various specialties which mitigate the concentration risk to an extent. Going forward, ICRA expects BLKMH's revenue to grow at a faster rate with its plans to increase the share of institutional business; however the hospital's ability to ensure timely payments from such customers would be critical to company's future funding requirements. Moreover the company's ability to attract and retain reputed consultants in the face of heightened competition in NCR would be a key rating sensitivity.

BLKMH was set up in 1950s by Dr. B.L. Kapur. The hospital started as a maternity hospital and had a capacity of 200 beds. In 2000, the hospital was shut down due to poor condition of building and outdated equipment. The trustees of the hospital decided to reconstruct the hospital as a multi-specialty hospital. The hospital commenced operations in April 2009. The trustees also roped in Integrated Health and Healthcare Services (India) Private Limited, the subsidiary of a Mauritius based hospital Consultancy company named Integrated Health and Healthcare Services Ltd. Apart from providing management services, IHHS also financed a part of the cost for reconstructing the hospital.

BLKMH is a 480 bedded multi-specialty hospital specializing in neurology, cardiology, obstetrics, gastroenterology etc. The total cost of constructing the Hospital was Rs. 256 crores which was funded through term loans of Rs. 107 crores and the rest through funds contributed by IHHS in the form of security deposits and subordinate loans. The actual cost of constructing the hospital was higher than the estimated cost Rs. 214 crores owing to addition of new facilities like radio therapy bunkers, increase in OPD rooms, nuclear medicine unit etc. as well as higher expenditure on utilities i.e. electrical, air-conditioning, medical infrastructure etc.

BLKMH derives bulk of its revenues from inpatient department. While the hospital has an infrastructure for 480 beds, it started its operations with only 49 beds. The number of beds has been increased in a phased manner to 168 beds in July 2010 and the management expects it to rise to 250 beds by the end of FY11. Despite the increase in bed capacity, the occupancy levels have improved from 16% in Apr 2009 to 88% in June 2010. Higher occupancies in IPD department coupled with rising OPD consultations have led to healthy growth in BLKMH's revenues from Rs. 3.95 crores in Q1 FY10 to 13.62 crores in Q4 FY10. Going forward, increasing competition and significant additional supply in NCR region may put pressure on the occupancy levels of the hospital. Thus the hospital's ability to maintain its growth would depend on its ability to retain good consultants, enhance the share of institutional business and maintain competitive tariff levels.

BLKMH has been able to rope in reputed doctors and specialists for its key specialties such as neurology, cardiology and orthology. While the hospital has been able to attract talented consultants, retaining them in the face of stiff competition would be a key challenge. Moreover with the increase in operational bed capacity, the hospital will have to increase its staff of consultants, nurses, technicians etc. Given the shortage of nurses and stiff

competition among hospitals to attract good consultants, BLKMH's ability to attract and retain its medical staff would be critical for its future growth and profitability.

BLKMH has tied up with Third Party Assurances (TPAs), corporate clients and Public Sector Undertakings to improve the inflow of patients. The hospital is also seeking to tie-up with Ex-servicemen Contributory Health Scheme (ECHS) to further improve its occupancy levels. While increased share of institutional business is likely to add to revenue growth of the hospital, it may also lead to built-up of debtors as the payment cycle is higher for these customers. The company's ability to ensure timely payments from institutional customers would be critical for its future funding requirements.

The hospital reported an operating income of Rs. 24.79 crores in FY10. However high fixed costs like employee expenses, consumables etc. led to an operating loss of Rs. 18.93 crores. This coupled with high interest costs on account of debt funded capex resulted in a net loss of Rs. 31 crores in FY10.

The total debt on BLKMH's books stood at Rs. 266.75 crores as on March 31, 2010 which included term loans for Rs. 93.69 crores, subordinate loans from IHHS of Rs. 166.67 crores and working capital borrowings for Rs. 5.89 crores. Apart from funding the project cost, IHHS has extended financial support to the hospital in the stabilization phase to fund the losses as well as debt repayment obligations. The gearing of the company stood at -15.43 times as on March 31, 2009 owing to erosion of net worth due to losses.

## **Company Profile**

BLKMH is a 480-bed multi-specialty hospital with super-specialization in cancer treatment, cardiology, dental, bone marrow transplant, pediatrics etc. The Hospital started its operations 1950s and was shut down in late 1990s due to poor condition and outdated equipment. The Hospital has been reconstructed and has commenced its operations in April 2009. BLKMH has tied up with Integrated Health and Healthcare Services (IHHS) for running the Hospital. The total cost of reconstructing the Hospital was Rs. 256 crores which was funded through bank loans of Rs. 107 crores and the rest through funds contributed by IHHS.

*JULY 2010*

**Annexure I: Rating History**

Instrument	Amount	Amount	Rating	
	In	Outstanding	As on	As on
	Crore	Crore	May 10	March 09
Term loans	107	92.09	LB	LBB



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*An Associate of Moody's Investors Service*

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