

May 31, 2021

Indraprastha Medical Corporation Limited: Ratings reaffirmed at [ICRA]AA (Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	40.00	25.0	[ICRA]AA(Stable); Rating Reaffirmed
Non-Fund Based Limits	40.50	30.0	[ICRA]A1+; Rating reaffirmed
Commercial Paper Programme	40.0	40.0	[ICRA]A1+; Rating reaffirmed
Unallocated Limits	19.5	-	-
Total	140.0	95.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the strong parentage of Indraprastha Medical Corporation Limited (IMCL), given that Apollo Hospitals Enterprise Limited (AHEL), along with its promoters, holds 25% stake in it and IMCL has significant operational, financial and managerial linkages with AHEL. AHEL is among the leading healthcare players that owns and operates one of the largest hospital chains in the country. Further, the Government of National Capital Territory of Delhi (Delhi Government) holds a 26% stake in IMCL. The rating also factors in the established position of the hospital as a quality healthcare provider in the National Capital Region (NCR) with operations having commenced in 1996 for the 718-bedded Sarita Vihar facility and in 2006–2007 for the 46-bedded Noida facility, with diversification across specialties including respiratory medicines (primarily due to Covid-19), oncology, neurology, cardiology, and nephrology, among others. These key specialties contributed 60% of the revenues in 9M FY2021 compared with 46% in FY2020. The rating is further strengthened by the robust debt protection indicators in 9M FY2021, albeit there has been moderation due to Covid-19. IMCL's NCA/TD¹ stood at 301%, interest cover at 4.3x and TD/OPBDITA² at 0.3x in 9M FY2021 against NCA/TD of 629%, interest cover of 14.7x and TD/OBDITA of 0.1x, respectively in 9M FY2020. Further, with the adverse impact of the pandemic waning since Q3 FY2021 and with the tailwind for the sector in the form of the second wave of Covid-19 cases, the performance is expected to recover sharply. The ratings are further supported by the healthy liquidity buffer available with IMCL with almost negligible utilisation of Rs. 25-crore working capital debt, free cash and liquid balances of Rs. 23.4 crore as of December 31, 2020 and negative net debt.

However, the ratings remained constrained by the impact of Covid-19 on operations in 9M FY2021, with decline in the occupancy to 50% and ARPOB³ to Rs. 38,656 from 67% and Rs. 42,515, respectively in FY2020, which impacted the revenues and accruals for the company in 9M FY2021. However, the operating metrics as well as the accruals have witnessed sharp quarter-on-quarter (QoQ) improvement from Q2 FY2021 onwards. With the tailwind for the sector in the form of second wave of Covid-19 cases, the performance is expected to improve further. Moreover, the rating remains impacted by geographical concentration risks, given that the operations are concentrated in the NCR. Further, 96% revenues are derived from its main hospital at Sarita Vihar in Delhi, which accounts for 718 of the 764 operational beds. As with other entities in the sector, IMCL remains exposed to regulatory risks, in the past, regulatory restrictions imposed by various authorities considerably impacted margins of all players in the sector. The restrictions included cap on prices of stents and knee implants, increase in tax burden due to GST, impact of penalties and restrictions imposed by various state governments, and price caps for the treatment of

1 NCA/TD - Net Cash Accruals / Total Debt

2 TD/OPBDITA- Total Debt / Operating Profitability Before Depreciation, Interest, Tax, and Amortization

3 ARPOB - Average Revenue Per Occupied Bed

Covid-19 patients. Almost half of the total receivables as of December 2020 have been outstanding for over 180 days, these include a large institutional receivable from an institutional client. A longer receivable cycle could increase possibility of a bad debt alongside leading to higher working capital intensity of operations.

Further, ICRA notes that as per the agreement with the Delhi Government, IMCL is to provide free inpatient and outpatient medical facilities to poor patients. However, there is a PIL sub-judice in the Supreme Court against IMCL (and certain other hospitals in NCR), as per which the hospital should also provide free medicines and consumables to the patients sponsored by GNCTD. ICRA's rating does not factor in the likely financial impact of the PIL as the same is sub-judice. ICRA will continue to monitor the developments and take any rating action, as and when required.

The outlook on the rating is Stable, given the established position of the hospital in Delhi and strong operational, financial and managerial linkages with the Apollo Group. ICRA expects the revenues and accruals going forward to be supported by the expected pick up in occupancy and the cost-rationalisation measures undertaken by the hospital in FY2021.

Key rating drivers and their description

Credit strengths

IMCL enjoys strong operational, financial and managerial linkages with AHEL, which holds 22.02% stake in IMCL: IMCL was incorporated as a joint venture (JV) between the Apollo Hospitals and the Delhi Government in 1988. Currently, AHEL, along with its promoters holds 25% stake in IMCL, which enjoys significant operational, financial and managerial linkages with AHEL. AHEL is among the leading healthcare players that owns and operates one of the largest hospital chains in the country, with pan-India presence and a strong brand. ICRA expects AHEL to keep maintaining its current ownership and management control and also provide necessary support to enable IMCL to maintain its operational and financial risk profile. Further, the Delhi Government holds a 26% stake.

Established healthcare provider in National capital region and well-diversified specialty mix – IMCL has a long and established presence in the NCR with two facilities, a 718-bedded facility in Sarita Vihar (operational since 1996) and a 46-bedded facility in Noida (operational since 2006–2007). The long and successful operations of the two clinical establishments reflect positively on the company's track record. Moreover, the revenues are diversified across specialties including respiratory medicines (increased in 9M FY2021 due to Covid-19), oncology, neurology, cardiology, and nephrology, among others. These key specialties contributed 60% of the revenues in 9M FY2021 compared with 46% in FY2020.

Robust debt coverage indicators, although there has been some moderation in 9M FY2021 due to the impact of Covid-19– IMCL has posted robust debt protection indicators in 9M FY2021, although there has been moderation due to Covid-19. Its NCA/TD stood at 301%, interest cover at 4.3x and TD/OPBIDTA at 0.3x in 9M FY2021 against NCA/TD of 629%, interest cover of 14.7x and TD/OBDITA of 0.1x, respectively in 9M FY2020. Further, with the impact of Covid-19 waning since Q3 FY2021 and with the tailwind for the sector in the form of second wave of Covid-19 cases, the performance is expected to recover sharply.

Strong liquidity position – IMCL has a strong liquidity buffer with almost negligible utilisation of Rs. 25-crore working capital debt, free cash and liquid balances of Rs. 23.4 crore as of December 31, 2020 and negative net debt. ICRA expects the cash flows of the company to be comfortable, backed by steady internal accruals, comfortable working capital intensity and modest capex requirement over the medium term.

Credit challenges

Impact of Covid-19 on the operations in 9M FY2021, however, QoQ sequential improvement in operating metrics – The occupancy and AROB remained under pressure in 9M FY2021, especially in Q1 and Q2 FY2021, due to postponement of elective procedures and travel restrictions impacting the influx of international patients, which contributed 22% revenues for IMCL in FY2020. The hospital witnessed decline in occupancy to 50% and ARPOB to Rs. 38,656 from 67% and Rs. 42,515, respectively in FY2020, which impacted the revenues and accruals for the company in 9M FY2021. However, the operating metrics as well

as the accruals have sharply improved on QoQ basis from Q2 FY2021 onwards. Moreover, the tailwind for the sector in the form of second wave of Covid-19 cases is expected to facilitate further improvement of the performance.

Geographical-concentration risk – IMCL is exposed to single property risk and geographical-concentration risk, given that the operations are concentrated in NCR. Further, 96% of the revenues are derived from the Sarita Vihar facility, which accounts for 718 of the 764 operational beds.

Exposure to regulatory risks – As with other entities in the sector, IMCL remains exposed to regulatory risks, in the past, the regulatory restrictions imposed by various authorities considerably impacted margins of all the players in the sector. The restrictions included cap on prices of stents and knee implants, increase in tax burden due to GST, impact of penalties and restrictions imposed by various state Governments and price caps for the treatment of Covid-19 patients.

High debtors outstanding for more than six months – Almost half of the total receivables as of December 2020 have been outstanding for over 180 days, these include a large institutional receivable from an institutional client. A longer receivable cycle could increase possibility of a bad debt, while also leading to higher working capital intensity of operations.

Liquidity position: Strong

IMCL has a strong liquidity buffer with almost negligible utilisation of Rs. 25-crore working capital debt, free cash and liquid balances of Rs. 23.4 crore as of December 31, 2020 and negative net debt.

ICRA expects the cash flows of the company to be comfortable, backed by steady internal accruals, comfortable working capital intensity and modest capex requirement over the medium term.

Rating sensitivities

Positive factors – Though an upgrade seems unlikely over the near term, significant improvement in the scale of operations and accruals while maintaining the current financial risk profile will be a credit positive.

Negative factors – Significant pressure on revenues and accruals, higher-than-expected impact of Covid-19 or debt-funded capex that leads to deterioration in the financial risk profile of the entity could lead to a downward revision in ratings. Further, downward pressure on ratings may arise in case of adverse outcome of the PIL pertaining to the provision of free medicines and consumables to patients from EWS. Any weakening of support from AHCL or deterioration in the credit risk profile of the same will also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent Company: Apollo Hospitals Enterprise Limited (AHCL) The rating assigned to IMCL factors in the very high likelihood of its parent, AHCL Limited, extending financial support to it because of close business linkages between these; we also expect 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
Consolidation/Standalone	Standalone

About the company

Incorporated in 1988 as a JV between Apollo Hospitals Enterprise Ltd. (AHCL) and the Delhi Government, Indraprastha Medical Corporation Ltd. (IMCL) is a 764-bedded, super speciality tertiary care hospital in New Delhi. Having commenced operations in

1996, IMCL currently has 52 speciality departments. The hospital's 15-acre land in Sarita Vihar has been leased for a period of 30 years by the Delhi Government at a nominal lease rent. In turn, IMCL provides free medical facilities to poor patients referred by the Delhi Government. In 2006–2007, IMCL opened its Noida wing with 46 beds, which is positioned as a Mother and Child Care hospital. IMCL was the first hospital in India to be internationally accredited by the Joint Commission International (JCI), a USA-based healthcare services accreditation body, in June 2005.

Key financial indicators (audited)

IMCL	FY2019	FY2020	9M FY2021 (Limited review)
Operating Income (Rs. crore)	788.2	830.8	415.3
PAT (Rs. crore)	28.4	43.6	-12.8
OPBDIT/OI (%)	10.2%	10.4%	2.5%
PAT/OI (%)	3.6%	5.3%	-3.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7	0.7
Total Debt/OPBDIT (times)	0.3	0.0	0.3
Interest Coverage (times)	11.8	14.6	4.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 31, 2021	Apr 6, 2020	-	Mar 22, 2019
1	Fund Based Limits	Long-term	25.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)
2	Non-Fund Based Limits	Short term	30.0	--	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
3	Commercial Paper Programme	Short term	40.0	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
4	Unallocated Limits	-	-	-	-	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Non-Fund Based Limits	Very Simple
Commercial Paper Programme	Very Simple*

() The complexity categorization is as per the latest understanding of ICRA and is subject to change once the issuance terms are finalized.*

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	25.0	[ICRA]AA (Stable)
NA	Non-Fund Based Limits	NA	NA	NA	30.0	[ICRA]A1+
NA*	Commercial Paper Programme	NA	NA	NA	40.0	[ICRA]A1+

Source: Company

(*) Not Placed

Annexure-2: List of entities considered for consolidated analysis: NA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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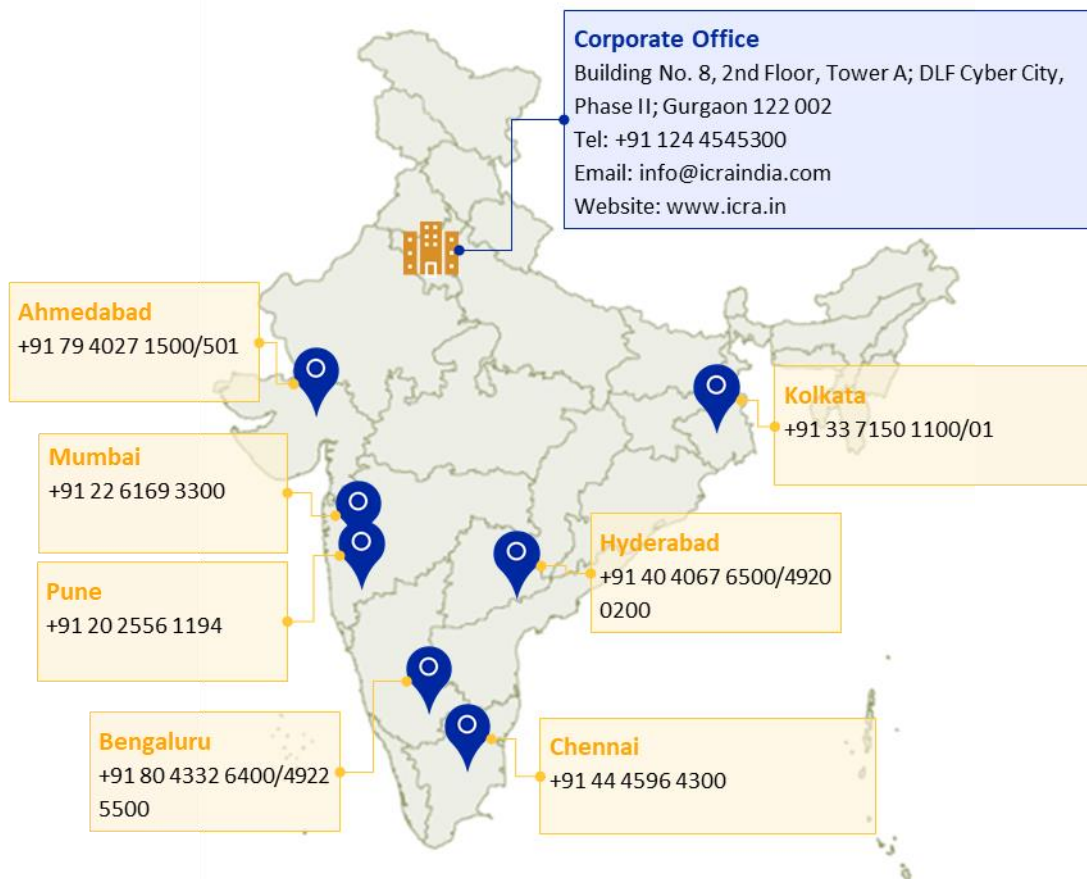


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