

May 13, 2022

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	25.0	25.0	[ICRA]AA(Stable); Rating Reaffirmed
Non-Fund Based Limits	30.0	30.0	[ICRA]A1+; Rating reaffirmed
Commercial Paper Programme	40.0	40.0	[ICRA]A1+; Rating reaffirmed
Total	95.0	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 one of the leading healthcare players that owns and operates one of the largest hospital chains in the country. The rating also factors in IMCL's revenue diversification across specialities including oncology, neurology, cardiology and nephrology, among others. The rating is further strengthened by the strong financial risk profile of IMCL supported by minimal gearing, robust debt protection indicators and strong liquidity profile. After being impacted in FY2021 by the onset of Covid-19, IMCL witnessed a healthy revival in its operating metrics in 9M FY2022, led by improving footfalls and surgical procedures with the subsiding of the pandemic.

However, the rating remains constrained by geographical and asset concentration risks, given that IMCL's operations are concentrated across two hospitals in the National Capital Region (NCR). As with other entities in the sector, IMCL remains exposed to regulatory risks, with restrictions imposed by various authorities earlier having already considerably impacted margins of all players in the sector. The rating also factors in competitive pressures and the need to retain medical talent in an ever evolving market.

Further, ICRA notes that as per the agreement with the Delhi government, IMCL is to provide free in-patient and out-patient medical facilities to poor patients. However, there is a 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 Government of National Capital Territory of Delhi (GNCTD or Delhi Government). ICRA's rating does not factor in the likely financial impact of this sub-judice PIL. ICRA also notes that the notification on the wage revision for private nurses was withdrawn, which mitigates the concern of possible increase of staff costs for IMCL. ICRA will continue to monitor the developments in these regards.

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 Hospitals Group. Going forward, ICRA expects the revenues and accruals to be supported by IMCL's established position in its catchment area, improving operating metrics and the recent price revisions effected by the company.

Key rating drivers and their description

Credit strengths

IMCL enjoys strong operational, financial and managerial linkages with AHCL, which holds 22.02% stake in it – IMCL was incorporated as a joint venture (JV) between the Apollo Hospitals and the Delhi government in 1988. Currently, AHCL, along with its promoters, holds 25% stake in IMCL, which enjoys significant operational, financial and managerial linkages with AHCL. AHCL is among the leading healthcare players that owns and operates one of the largest hospital chains in the country, with a strong brand. ICRA expects AHCL to keep maintaining 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 718-bedded facility in Sarita Vihar (operational since 1996) and a 46-bedded facility in Noida (since 2006). 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 three specialities—oncology, cardiology and transplant hepatobiliary—generated 34% of the in-patient revenues (including pharmacy revenues) in 9M FY2022 over 32% in FY2021.

Strong financial risk profile – IMCL's performance was impacted by the onset of the pandemic because of price caps for Covid treatment and lower footfall of non-Covid patients amid lockdowns. However, the company witnessed revival subsequently. Healthy pick-up in consultations and surgical procedures with the subsiding of the pandemic after the second wave in early FY2022 and cost rationalisation measures, resulted in improved operating metrics and profitability. During 9M FY2022, bed occupancy improved to 67% compared to 50% in 9M FY2021 and average revenue per occupied bed also witnessed healthy growth of 21% YoY. As a result, revenues grew by 62% in 9M FY2022 over 9M FY2021, also supported by increase in non-Covid patient footfalls and vaccination revenue. During that period, OPBITDA margins improved significantly to 12.9% from 2.6%. IMCL also continued to be debt-free, which along with better profit margins resulted in healthy coverage metrics. ICRA expects IMCL to continue to demonstrate a healthy financial profile over FY2023 as well, supported by healthy operating metrics and recent price revisions effected.

Credit challenges

Geographical and asset-concentration risks – IMCL is exposed to geographical-concentration risk, since its operations are concentrated in the NCR. Further, revenues are derived only from two properties. About 90-95% of its revenues are derived from the Sarita Vihar facility in New Delhi, which accounts for 718 of its 764 operational beds. Thus, any decline in patient demand in the NCR has a direct impact on the company's revenues, as was witnessed during Covid waves in the region.

High competition; retention of good consultants remains a key challenge – Given the growing demand for healthcare services in India, the sector has been witnessing rising interest from domestic and foreign players. The NCR is home to various private healthcare chains as well as Government hospitals. IMCL enjoys strong brand equity of the Apollo brand and track record, which lends it some competitive advantage. The hospital also face significant competition from other hospitals for the international patients segment. Any shortage of manpower will lead to prohibitive costs and derail the delivery of healthcare services. Hence, for players like IMCL, talent retention becomes a critical factor.

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% indoor and 25% 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 November 2022. In case the Supreme Court decides that private hospitals should provide free medicines, IMCL's profitability will be impacted. Also, the Delhi government withdrew its petition dated June 25, 2018, pertaining to wage revision for private nurses in

November 2021, which mitigates the concern of possible increase in staff costs for IMCL. ICRA will continue to monitor the developments in these regards.

Exposure to regulatory risks – As with other entities in the sector, IMCL remains exposed to regulatory risks, with restrictions imposed by various authorities earlier having already considerably impacted margins of all players in the sector. These restrictions included cap on prices of stents 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 Covid-19 patients.

Liquidity position: Strong

The company has a strong liquidity position owing to its free cash and liquid balances, which stood at Rs. 53 crore as on December 31, 2021, and its unutilised working capital limits. IMCL also enjoys strong financial flexibility owing to its debt-free balance sheet and expected support from its promoter, AHCL, if required.

Rating sensitivities

Positive factors – Significant improvement in the scale of operations and accruals while maintaining the current financial risk profile could lead to a rating upgrade. Improvement in linkage with AHCL or significant improvement in credit profile of AHCL would also be a positive rating trigger.

Negative factors – Significant pressure on revenues and accruals, or debt-funded capex, leading to deterioration in the financial risk profile of the entity could lead to a downward revision in ratings. Specific downgrade trigger 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. Weakening of credit profile of AHCL or IMCL's linkages with it could also put pressure on IMCL's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals Rating Approach-Implicit support from Parent or Group
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 them. 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 AHCL and the State Government of Delhi, IMCL is a 764-bedded, super speciality tertiary care hospital in New Delhi. Having commenced operations from 1996, IMCL currently has 52 speciality departments. The hospital's 15-acre land in Sarita Vihar has been leased for 30 years by the Delhi government at a nominal rate to IMCL. 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 US healthcare services accreditation body, in June 2005.

Key financial indicators (audited)

IMCL	FY2020	FY2021	9m FY2022*
Operating Income (Rs. crore)	830.8	613.4	672.4
PAT (Rs. crore)	43.6	2.3	43.4
OPBDIT/OI (%)	10.4%	6.6%	12.9%
PAT/OI (%)	5.3%	0.4%	6.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6	NA
Total Debt/OPBDIT (times)	0.0	0.0	0.0
Interest Coverage (times)	14.6	12.1	32.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding*	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 13, 2022	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)	-	[ICRA]AA (Stable)
2	Non-Fund Based Limits	Short term	30.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
3	Commercial Paper Programme	Short term	40.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
4	Unallocated Limits	-	-	-	-	-	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)

&= Under watch with developing implications; * as on March 31, 2022

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 categorisation is as per the latest understanding of ICRA and is subject to change once the issuance terms are finalised.

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 – Not applicable

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