March 31, 2023(Revised)

# Indraprastha Medical Corporation Limited: Ratings reaffirmed, rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long term Fund based– Cash Credit | 25.00 | 32.50 | [ICRA]AA (Stable); reaffirmed/assigned |
| Short term Non-Fund based limits | 30.00 | 30.00 | [ICRA]A1+; reaffirmed |
| Commercial paper | 40.00 | 40.00 | [ICRA]A1+; reaffirmed |
| **Total** | **95.00** | **102.50** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating reaffirmation factors in ICRA's expectation that Indraprastha Medical Corporation Limited (IMCL)'s operational profile will remain healthy led by improving operating metrics and earnings along with strong credit metrics. IMCL witnessed a healthy improvement in its operating metrics in 9M FY2023, led by growing international patient footfalls and elective surgical procedures. 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, 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 specialties including oncology, neurology, cardiology and nephrology, among others.

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 will continue to monitor the developments in this regard and any other regulatory or legal matters.

The outlook on the rating is Stable reflecting ICRA expectation the 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 the AHEL and the Delhi government in 1988. Currently, AHEL, along with its promoters, holds 25% stake in IMCL. IMCL 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 a strong brand. ICRA expects AHEL 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 four specialities—oncology, cardiology, nephrology and transplant hepatobiliary—generated 41% of the in-patient revenues (including pharmacy revenues) in 9M FY2023 over 38% in FY2022. The balance revenues came from neurology, orthopedics, general surgeries etc.

**Strong financial risk profile –** Post the second pandemic wave, the hospital witnessed significant improvement in demand for elective surgeries resulting in 64% bed occupancy and 30% YoY improvement in average revenue per operating bed(ARPOB) to Rs. 48,031 leading to overall 45% revenue growth in FY2022. In 9M FY2023, the bed occupancy and ARPOB continued to witness improvement to 69% and Rs. 56,122 respectively supported by significant jump in international patients with the resumption of international travel resulting in 23% YoY growth in 9M FY2023 revenues. During 9M FY2023, OPBITDA margins improved significantly to 14.3% from 13.5% in FY2022 on better operating metrics. IMCL also continues to be debt-free, which along with healthy profit margins resulted in healthy coverage metrics. ICRA expects IMCL to continue to demonstrate a healthy financial profile over the medium term, 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. The hospital also face significant competition from other hospitals for the international patients segment. Nevertheless, it enjoys strong brand equity of the Apollo brand and has a good track record, which lends it some competitive advantage. There was no major attrition in senior consultants in FY2023 for IMCL. Any shortage of manpower will lead to higher costs and impact 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. ICRA will continue to monitor the developments in this regard and any other legal or regulatory matters.

**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 patients.

## Liquidity position- Strong

IMCL's liquidity position remains strong owing to its free cash and liquid balances, which stood at Rs. 204 crore as on February 2023 end, 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.

## 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 could lead to a rating upgrade. Improvement in linkage with AHEL or significant improvement in credit profile of AHEL would also be a positive rating trigger.

**Negative factors** - Significant pressure on revenues and accruals, or large 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 AHEL 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<br>Rating Methodology for Hospitals<br>Rating Approach-Implicit support from Parent or Group |
| **Parent/Group support** | Parent Company: Apollo Hospitals Enterprise Limited (AHEL)<br>The rating assigned to IMCL factors in the very high likelihood of its parent, AHEL Limited, extending financial support to it because of close business linkages between them. We also expect AHEL 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 AHEL 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 Mother and Child Care hospital in Noida. The aggregate capacity is 764 beds across these two facilities. 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. The lease is due for renewal in FY2024, process for which has been initiated. 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.

## Key financial indicators

| IMCL | FY2021 | FY2022 | 9M FY2023* |
|---|---|---|---|
| Operating income | 613.4 | 888.2 | 825.4 |
| PAT | 3.0 | 58.6 | 66.3 |
| OPBDIT/OI | 6.7% | 13.5% | 14.3% |
| PAT/OI | 0.5% | 6.6% | 8.0% |
| Total outside liabilities/Tangible net worth (times) | 0.6 | 0.4 | |
| Total debt/OPBDIT (times) | 0.2 | 0.0 | |
| Interest coverage (times) | 12.3 | 35.2 | 34.7 |

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

## 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 as of Dec 31, 2022 (Rs. crore) | Date & rating in FY2023 | | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 | Date & Rating in FY2019 |
| | | | | Mar 31, 2023 | May 13, 2022 | May 31, 2021 | Apr 6, 2020 | - | Mar 22, 2019 |
| 1 Cash Credit | Long Term | 32.5 | - | **[ICRA]AA (Stable)** | [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+ | - | [ICRA]A1+ |
| 3 Commercial Paper Programme | Short Term | 40.0 | - | **[ICRA]A1+** | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | - | [ICRA]A1+ |
| 5 Unallocated Limits | - | - | - | - | - | - | [ICRA]AA (Stable) | - | [ICRA]AA (Stable) |

## 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 Programme | NA | NA | NA | 40.0 | [ICRA]A1+ |

*Source: Company; (*) Not Placed*

*Please click here to view details of lender-wise facilities rated by ICRA*

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

### Corrigendum

**Rationale dated March 31, 2023 has been revised with following changes as below:**

On page 3 in the analytical approach section, corporate credit rating methodology has been inserted.

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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.

For more information, visit www.icra.in

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