Indraprastha Medical Corporation Limited

March 22, 2019

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in the improvement in revenues and profitability in 9M FY2019 which, coupled with the significant reduction in debt, led to better debt protection indicators. In 9M FY2019, Indraprastha Medical Corporation Limited (IMCL) recorded interest coverage of 11.5 times vis-à-vis 8.1 times in FY2018, NCA/TD of 112% vis-à-vis 47% in FY2018, and TD/OPBIDTA of 0.4 times vis-à-vis 0.9 times in FY2018. The ratings continue to draw support from IMCL's association with the Apollo Hospitals Enterprises Limited, which is one of the leading healthcare players, and owns and operates the largest hospital chain in the country. IMCL benefits from its association with the Apollo Group through strong operational, financial and managerial linkages. The ratings also draw comfort from IMCL's established position as a quality healthcare provider in the National Capital Region (NCR), and its diversified revenue base across various specialities. The ratings further factor in the established position of IMCL's facilities in Delhi-NCR, a 718-bedded facility in Sarita Vihar (New Delhi) which became operational in 1996 and a 46-bedded facility in Noida which became operational in 2006-07. These positives are offset to some extent by the rising receivables, primarily due to an increase in the share of non-cash patients and delay in receiving payments from some of the large clients, as witnessed by the high proportion of receivables outstanding for over 180 days, though the same historically has not resulted in bad debts. Further, ICRA notes that IMCL's ability to increase occupancy levels would be linked to its ability to retain good consultants, which continues to be a key challenge considering the increasing competition. The rating factors in the regulatory risks such as the cap on prices of oncology drugs imposed by the National Pharmaceutical Pricing Authority (NPPA), given the increased regulatory scrutiny in this sector. The rating continues to be constrained by the risks associated with a single property and geographical concentration, given that most revenues are derived from the Sarita Vihar facility.

Further, a Public Interest Litigation (PIL) is sub judice in the Supreme Court against IMCL, as per which the hospital should provide free medicines and consumables to the patients sponsored by the Government of National Capital Territory of Delhi (GNCTD). The financial impact of the same on IMCL cannot be ascertained at this stage; therefore, ICRA's ratings do not factor in such future liabilities, if any.

Outlook: Stable

ICRA believes that as a part of the Apollo chain, IMCL will continue to benefit from the synergies in operations and referrals from Group-managed clinics. Further, IMCL has a long and established track record in the NCR, and has a strong financial risk profile due to its low reliance on debt as well as healthy accruals. The outlook may be revised to Positive or the rating may be upgraded in case accruals from operations are significantly better than expected. Conversely, the outlook may be revised to Negative or the rating may be downgraded in case of lower-than-expected accruals or higher-than-projected leverage of the company.

Key rating drivers

Credit strengths

Part of established Apollo Group: IMCL was incorporated as a joint venture (JV) between the Apollo Hospitals and the Delhi Government in 1988. Currently, Apollo has a 25% stake in the hospital while the Delhi Government has a 26% stake. IMCL benefits from its association with the Apollo Group through strong operational, financial and managerial linkages.

Established healthcare provider in NCR: 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 2006-07). The long and successful operations of the two clinical establishments reflect positively on the company's track record.

Strong debt coverage indicators: The total debt of the company declined to Rs. 30.1 crore (limited review) as of December 31, 2018 from Rs. 65.6 crore as on March 31, 2018 on account of a decrease in working capital intensity, given good collections from debtors. The debt protection indicators of the company improved vis-à-vis FY2018. The gearing declined to 0.1x as on December 31, 2018 from 0.3x as on March 31, 2018, Total debt/OPBDITA declined to 0.4x as on December 31, 2018 from 0.9x as on March 31, 2018, and interest coverage improved to 11.5 times in 9M FY2019 from 8.1 times in FY2018.

Diversified revenue stream: The major contributors to IMCL's hospital revenues are the Oncology, Neurology, Cardiology, General Medicine, and Transplant Hapatobiliary departments. The largest contributing specialty is Oncology, which accounted for ~13% of total revenue in 9M FY2019.

Credit challenges

High receivables on account of higher proportion of institutional business: The receivables of the company have increased marginally due to high outstanding dues from international patients, with significant dues outstanding for more than 180 days. However, the portion of receivables due for over 180 days has moderated to some extent in 9M FY2019, following good collections from the debtors.

Geographical-concentration risk: IMCL is exposed to geographical-concentration risk given that majority of revenues are derived from the Sarita Vihar facility as 718 of the 764 operational beds are in it.

PIL relating to free service for poor patients could lead to liabilities in future: As per the agreement with the Government of National Capital Territory of Delhi (GNCTD), IMCL is to provide free inpatient and outpatient medical facilities to poor patients; accordingly, the consultants are not to charge for their services. However, there is a PIL sub judice in the Supreme Court against IMCL, as per which the hospital should also provide free medicines and consumables to the patients sponsored by GNCTD. ICRA's rating, however, does not factor in the likely financial impact of the PIL, as the case is sub judice. In case it is adjudged against IMCL, it will severely impact the hospital's profitability.

Liquidity position

IMCL has term debt of Rs. 22.5 crore as on December 31, 2018, with quarterly repayments of Rs. 1.5 crore. ICRA expects the company's internal accruals to be sufficient to meet all operational, capex and dividend requirements. Further, it has comfortable liquidity cushion with cash and cash equivalents of Rs. 8 crore as on December 31, 2018, and moderate working capital utilisation of 34%, including the Commercial Paper placed over the last nine months ended December 31, 2018.

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 (AHEL) 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 Apollo Hospitals Enterprise Ltd. (AHEL) and the Government of National Capital Territory of Delhi (Delhi Government), Indraprastha Medical Corporation Ltd. (IMCL) is a 764-bedded, super speciality tertiary care hospital located 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 2006-07, IMCL opened its Noida wing with 46 beds, and it 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. In FY2017, the company reported a net profit of Rs. 26.25 crore on an operating income (OI) of Rs. 765.72 crore compared with a net profit of Rs. 24.43 crore on an OI of Rs. 755.45 crore in the previous year.

In 9M FY2019, based on a limited review, the company reported a net profit of Rs. 21.3 crore on an OI of Rs. 587.7 crore compared with a net profit of Rs. 15.5 crore on an OI of Rs. 559.3 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018	9MFY2019 (provisional)
Operating Income (Rs. crore)	765.7	748.4	587.7
PAT (Rs. crore)	26.2	21.1	21.3
OPBDIT/ OI (%)	10.3%	9.6%	10.4%
RoCE (%)	15.3%	13.1%	16.8%
Total Debt/ TNW (times)	0.3	0.3	0.1
Total Debt/ OPBDITA (times)	0.9	0.9	0.4
Interest coverage (times)	10.0	8.1	11.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating March 2019	Date & Rating in FY2018 March 2018	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 March 2016
1	Term Loans	Long Term	-	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund Based Limits	Long Term	40.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-Fund Based	Short Term	40.5	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper Programme	Short Term	40.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated Limits	Long Term	19.5	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	-	-	-	40.0	[ICRA]AA(Stable)
NA	Non-Fund Based	-	-	-	40.5	[ICRA]A1+
NA	Commercial Paper Programme	-	-	-	40.0	[ICRA]A1+
NA	Unallocated Limits	-	-	-	19.5	[ICRA]AA(Stable)

Source: Indraprastha Medical Corporation Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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.

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