April 06, 2020

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	40.00	[ICRA]AA(Stable); Rating Reaffirmed
Non-Fund Based Limits	40.50	40.50	[ICRA]A1+ ; Rating Reaffirmed
Commercial Paper Programme	40.0	40.0	[ICRA]A1+ ; Rating Reaffirmed
Unallocated Limits	19.5	19.5	[ICRA]AA(Stable); Rating Reaffirmed
Total	**140.0**	**140.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in the improvement in revenues and the marginal increase in profitability in 9M FY2020 which, coupled with the significant reduction in debt, led to an improvement in debt protection indicators. IMCL recorded interest coverage of 14.7 times vis-à-vis 11.5 times in 9M FY2019, NCA/TD of 629% vis-à-vis 121% in 9M FY2019, and TD/OPBIDTA of 0.1 times vis-à-vis 0.3 times in 9M FY2019. Further, the company had a negative net debt position of Rs. 6.4 crore as of December 2019 against debt of Rs. 21.3 crore in December 2018. The ratings continue to draw support from IMCL's close association with one of its largest shareholders — Apollo Hospitals Enterprises Limited — one of the leading healthcare players that owns and operates one of the largest hospital chains 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 the hospital'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) that became operational in 1996, and a 46-bedded facility in Noida that became operational in 2006-07.

The ratings are, however, constrained by the exposure of the sector to regulatory risks — NPPA (National Pharmaceutical Pricing Authority) — placed a cap on prices of stents and knee implants, which adversely impacted the performance and debt protection metrics of IMCL as well. Further, various state governments have in the recent past levied penalty and operational restrictions on certain hospitals. Any such policy change that may impact the credit risk profile of IMCL will be a rating sensitivity. The rating continues to be constrained by the hospital's high exposure to a single property and geographical-concentration risks, given that most revenues are derived from the Sarita Vihar facility. Further, ICRA notes that IMCL's ability to maintain and increase occupancy levels would be linked to its ability to retain good consultants, which continues to be a key challenge for the sector.

Moreover, the ratings are constrained by the spread of COVID-19. ICRA has noted that the occupancy has remained under pressure in the wake of the COVID-19 pandemic, due to cancellations of visas and travel restrictions impacting influx of international patients (23% of IMCL's revenues comes from international patients). Further, elective procedures will get postponed and OPD revenues will remain curtailed, which will impact the revenues. Also, there is uncertainty pertaining to the extent of the impact on the revenues, even after the lockdown period is over. ICRA will continue to closely monitor the developments and the consequent impact on IMCL's risk profile, if any.

Further, a public interest litigation (PIL) is sub-judice in the Supreme Court against IMCL (and certain other private sector hospitals in NCR), pertaining to the free medicines and consumables to be provided to the patients from the economically weaker sections (EWS). The financial impact of the PIL on IMCL cannot be ascertained at this stage and hence, ICRA's ratings do not factor in such future liabilities. ICRA will continue to monitor the developments and take the appropriate rating action, as and when required.

Key rating drivers and their description

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 Hospitals has a 25% stake in IMCL, while the Delhi Government has a 26% stake. The hospital 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. 8.2 crore (provisional) as of December 31, 2019 from Rs. 21.3 crore as on March 31, 2019 on account of healthy accruals which have enabled IMCL to prepay the term debt in year-to-date (YTD) F2020, coupled with a marginal decrease in working capital intensity. The debt protection indicators of the company improved vis-à-vis FY2019. The gearing declined to 0.03x as on December 31, 2019 (provisional) from 0.09x as on March 31, 2019, total debt/OPBDITA[1] declined to 0.1x as on December 31, 2019 from 0.3x as on March 31, 2019, and interest coverage improved to 14.7 times in 9M FY2020 from 11.8 times in FY2019.

Credit challenges

Adverse impact of COVID-19: The occupancy has come under pressure in the wake of the COVID-19 pandemic, due to cancellations of visas and travel restrictions impacting the influx of international patients (23% of IMCL's revenues comes from international patients). Further, elective procedures are being postponed and the visits to hospital are getting curtailed, which will impact the revenues. Further, there remains uncertainty pertaining to the extent of the impact on the revenues, even after the lockdown period is over. ICRA will continue to closely monitor the developments, and take rating action, as and when required.

Geographical-concentration risk: IMCL is exposed to single property risk and geographical-concentration risk given that most revenues are derived from the Sarita Vihar facility as 718 of the 764 operational beds are operated there.

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 (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.

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[1] *OPBDITA- Operating Profitability Before Depreciation, Interest, Tax, and Amortization*

Liquidity position: Strong

The liquidity position is **strong**. The internal accruals will be sufficient to meet the entire debt obligations, working capital requirement and capex outflows. Further, on an average only 14% of the sanctioned limits of Rs. 40 crore has been utilised, leaving a buffer of 86% (Rs 33.5 crore) and the company has unencumbered cash and equivalent of balance of Rs 14.7 crore as of December 2019.

Rating sensitivities

Positive triggers: 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 triggers: 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.

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 these; 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 9M FY2020, based on a limited review, the company reported a net profit of Rs. 37.1 crore on an OI of Rs. 630.3 crore compared with a net profit of Rs. 21.3 crore on an OI of Rs. 587.7 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019	9MFY2020 (Provisional)
Operating Income (Rs. crore)	752.7	788.2	630.3
PAT (Rs. crore)	21.1	28.4	37.1
OPBDIT/OI (%)	9.7%	10.2%	10.9%
RoCE (%)	13.1%	16.7%	20.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.7	0.7
Total Debt/OPBDIT (times)	0.9	0.3	0.1
Interest Coverage (times)	8.2	11.8	14.7
DSCR	5.2	4.9	6.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018		FY2017
					6-Apr-2020	22-Mar-2019	12-Mar-2018	16-Aug-2017	21-Mar-2017
1	Fund Based Limits	Long Term	40.00	`-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
2	Non-Fund Based Limits	Short Term	40.50	-	[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+
4	Unallocated Limits	Long Term	19.5	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)

Amount in Rs. crore

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	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: IMCL

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.

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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