March 21, 2017

Indraprastha Medical Corporation Limited

Instrument	Amount Rated	Outstanding Rating
	In Rs. Crore	
Term Loans	8.75	[ICRA]AA(Stable)(Reaffirmed)
Fund Based Limits	40.0	[ICRA]AA(Stable)(Reaffirmed)
Non Fund Based	45.0	[ICRA]A1+ (Reaffirmed)
Commercial Paper programme	40.0	[ICRA]A1+ (Reaffirmed)
Unallocated Limits	6.25	[ICRA]AA(stable) (Reaffirmed)

Rating Action

ICRA has reaffirmed the [ICRA]AA (pronounced ICRA double A)[1] rating for Rs. 8.75 crore[2] term loans, Rs. 40 crore fund based bank limits and Rs 6.25 crore unallocated limits of Indraprastha Medical Corporation Limited (IMCL). The outlook of the long-term rating is stable. ICRA has also reaffirmed [ICRA]A1+ rating (pronounced ICRA A one plus) for Rs. 45 crore Non-Fund based limits of IMCL and Rs.40 crore Commercial Paper programme of IMCL.

Detailed Rationale

The rating reaffirmation factors in IMCL's established position as a quality healthcare provider in the National Capital Region (NCR), which has enabled it to maintain healthy occupancy levels over the years. Further, the ratings draw comfort from IMCL's association with the Apollo group, its diversified revenue base across various specialities and its strong debt coverage indicators. The positives are offset to some extent by weak growth in inpatient revenues in recent years owing to limited tariff hikes and heightened competition in NCR. The ratings also continue to remain constrained on account of declining profitability amid rising employee and administration costs. Amendments to Payment of Bonus Act, 1965 further increased the employee cost and would continue to impact profitability going forward. The ratings also factor in rising receivables primarily due to international and institutional business; however the presence of adequate working capital limits lends financial flexibility. Further, ICRA notes that IMCL's ability to maintain high occupancy level would be linked to its ability to retain good consultants which continues to remains a key challenge considering the increasing competition. Nevertheless, IMCL's established market position, association with the Apollo group, and revenue diversification across various specialties and customers are some of the factors which are expected to mitigate the risk of pressure on occupancy levels going forward.

Going forward the ability of the company to maintain healthy occupancy, manage its working capital requirements, improve profitability while retaining key consultants and extent of capital expenditure would be amongst the key rating sensitivities.

There is a Public Interest Litigation (PIL) subjudice in Supreme Court against IMCL. As per the PIL the hospital should provide free medicines and consumables to the patients sponsored by the Government of

[1] For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications

[2] *100 lakh = 1 crore = 10 million*

Delhi. The financial impact of the same on IMCL cannot be ascertained at this stage since the case is subjudice and the ICRA ratings therefore does not factor in such future liabilities, if any.

Key Rating Drivers

Credit Strength

- Established healthcare provider in National Capital Region(NCR)
- Part of established Apollo group
- Mature facilities with healthy occupancy levels
- Revenue diversification across various specialties mitigates concentration risk
- Strong debt coverage indicators

Credit Weakness

- Moderation in growth of inpatient revenues in last three years
- Decline in operating profitability in recent years amid rising employee costs and administration expenses
- High receivable days due to institutional and international business
- Exit of good consultants in light of heightened competition in NCR can impact occupancy levels and hence profitability going forward
- Pending Public Interest Litigation for treatment of poor patients which if adjudged against the hospitals can severely impact their profitability

Detailed Description of Key Rating Drivers Highlighted Above

Decline in growth in inpatient revenues in last three years
The growth in inpatient revenue has been moderating YoY since last three years. The inpatient revenue increased by 11% in FY2014 but only by 5% in FY2015 & FY2016; the same declined by 0.7% in 9MFY2017. Since the hospital is already operating at more than 80% occupancy, increase in inpatient revenues is dependent on price hikes, lower ALOS and change in case mix; last price hike was done by the company in September 2015. In 9MFY2017, inpatient revenues have also been impacted by demonetization and media coverage of alleged organ sale happening at the Sarita Vihar (New Delhi) facility. Inpatient revenues account for a significant portion (83%) of IMCL’s hospital revenues, with the balance coming from outpatient department. Revenue mix in terms of outpatients and inpatients has remained stable over the past few years. The growth in outpatient revenues by 8% in 9MFY2017 led to total revenue growth 0.9%.

Consistently healthy occupancy in both the facilities
IMCL’s aggregate occupancy level has remained in 80-84% range between FY2014 and 9MFY2017. The occupancy declined to 81% in 9MFY2017 from 84% in 9MFY2016 owing to the impact of demonetization and media articles on alleged organ sale at the Sarita Vihar facility. Going forward, ICRA expects the occupancy levels to remain in the same range, 80-85%; however any significant addition of beds could result in a decline as the absorption of incremental capacity could take some time.

Diversified revenue stream

Major contributors to IMCL's hospital revenues are Transplant Hapatobiliary, Cardiology, Neurology, Oncology, Orthopaedics and Nephrology departments, which together accounted for 62% of its total revenues in 9mFY17. Transplant Hapatobiliary department continues to be the highest contributor to IMCL's revenues and constitutes around 15% of the overall revenues in 9mFY17. Revenues from Cardiology, which is another major vertical has been witnessing a decline in recent years. The same could be attributed to changes in consultant profile over the years as it has been a challenge for the industry to retain consultants given high competitive intensity. The other departments such as Neurology and oncology have witnessed high growth over the last few years.

Geographical profile of inpatients remains similar with some increase in international patients

IMCL's catchment area continues to be primarily Delhi and neighbouring states of Haryana and Uttar Pradesh with over 80% of patients coming from these regions. In line with the past trends, the revenue contribution from international patients remains limited with international patients accounting for 12% of total hospital revenue.

Pending Public Interest Litigation (PIL) relating to free service for poor patients could lead to liabilities in future

As per the agreement with Government of National Capital Territory of Delhi (GNCTD), IMCL is to provide free inpatient and outpatient medical facilities to poor patients. Currently, in case of poor IPD patients, consultants do not charge for their services but the cost of medicines and consumables are borne by the patients. This has been the basis of a Public Interest Litigation (PIL) which is subjudice in Supreme Court against IMCL. As per the PIL, the hospital should 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 subjudice. In case it is adjudged against IMCL, it will severely impact the hospital's profitability.

Muted growth in operating income; margins have declined in last three years

IMCL's operating income increased by only 6% in FY16 and by 0.9% in 9MFY2017 as the growth in inpatient revenues has moderated in recent years owing to lack of any incremental capacity and tariff hikes. The hospital is operating at a stable occupancy of more than 80% for last three years and ICRA expects a similar occupancy going forward in the absence of any incremental capacity. The operating margin which improved slightly in FY14 to 13.5% has been on a declining trend since then, falling to 11.3% in 9mFY17. The profitability is impacted partially due to amendments to Payment of Bonus Act, 1965 owing to which the company was required to make an incremental provision towards bonus to employees. The higher bonus outgo would continue to impact the profitability going forward. The net margin of the company has also moderated from 5.2% in FY2014 to 4.2% in 9MFY2017.

Debt protection indicators remain strong

The total debt of the company remains low on account of lack of major capex and significant incremental working capital requirement. As on September 30, 2016 total debt of the company stands at Rs. 56 crore which results in a gearing of 0.24 times. Going forward the gearing would largely remain a function of any debt funded capex; in the absence of any incremental long term debt the gearing would continue to improve. The other debt protection indicators also continue to remain comfortable with Debt/OPBDITA and interest coverage of 0.64 times and 12.18 times as on September 30, 2016. ICRA notes that the company could undertake a debt funded capex in near to medium term in order to expand its bed capacity. As the plan remains at initial stage of implementation, the budget and timelines of the capex are yet to be finalized by the company and would be factored in the rating as and when clarity emerges. Nevertheless, such debt funded capex would impact the overall financial risk profile of the company while resulting into deterioration in capital structure and debt service coverage indicators, and hence remains a key rating sensitivity.

Increase in receivables on account of higher proportion of institutional business
With increasing institutional and international business, the receivable days for the company has been in rising trend; however the presence of adequate working capital limits lends financial flexibility.

Analytical Approach
Not Applicable

Link to the Applicable Criteria
http://www.icra.in/Files/Articles/Hospitals-%20May%202016.pdf

About the Company
Incorporated in 1988 as a joint venture between Apollo Hospitals Enterprise Ltd. (AHEL) and the Government of National Capital Territory of Delhi (Delhi Govt.), Indraprastha Medical Corporation Ltd. is a 703 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 (New Delhi) has been leased for a period of 30 years by the Delhi Govt., at a nominal lease rent. In lieu of the above, IMCL provides free medical facilities to poor patients referred by the Delhi Govt. In 2006-07, IMCL opened its Noida wing with 46 beds, and it is positioned as "Mother and Child Care" hospital.

Being a part of the Apollo chain, IMCL benefits from synergies in operations and referrals from group managed clinics. With inpatient revenues forming the majority of overall hospital revenues, the catchment area for the hospital is predominantly Delhi and the states of Uttar Pradesh and Haryana. Speciality-wise, IMCL's heart-related, neuro-related; oncology, nephrology and orthopaedic segments are the major contributing departments, accounting for half of the hospital's revenues. IMCL was the first hospital in India to be internationally accredited by the Joint Commission International (JCI), the USA based healthcare services accreditation body, in June 2005.

Status of non-cooperation with previous CRA (if applicable):
Not Applicable

Table: Rating History for last three years:

S. No	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	**Amount (Rs. Cr.)**	**Rating**	**Date(s) & Rating(s) (FY2016)**	**Date(s) & Rating(s) (FY2015)**	**Date(s) & Rating(s) (FY2014)**
1	Term Loans	Long Term	8.75	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
2	Fund Based Limits	Long Term	40.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
3	Non Fund Based	Short Term	45.0	[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	6.25	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-

Note on complexity levels 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

Table: Details of Instrument

Instrument	Date of Issue	Interest/ Discount Rate	Date of Maturity	Size of Issue	Current Rating & Outlook
Term Loan	30.09.2013	10.25%	25.09.2017	3.75*	[ICRA]AA (stable)
Commercial Paper	30.12.2016	7.90%	15.03.2017	10	[ICRA]A1+
Commercial Paper	20.01.2017	7.85%	19.04.2017	10	[ICRA]A1+
Commercial Paper	23.01.2017	7.25%	21.04.2017	10	[ICRA]A1+
Commercial Paper	24.01.2017	7.95%	24.04.2017	0.6	[ICRA]A1+
Commercial Paper	24.01.2017	7.95%	24.04.2017	9.4	[ICRA]A1+
Fund-based Limits				40	[ICRA]AA (stable)
Non-fund-based Limits				45	[ICRA]A1+
Unallocated Limits				6.25	[ICRA]AA (stable)

*Outstanding Amount

Name and Contact Details of the Rating Analyst(s):

Mr. K. Ravichandran,
(Tel No. +91-44-45964301)
ravichandran@icraindia.com

Mr. Shubham Jain
(Tel. No: +91-124-4545306)
shubhamj@icraindia.com

Mr. Kapil Banga,
(Tel No. +91-124-4545391)
Kapil.banga@icraindia.com

Name and Contact Details of Relationship Contacts:
Jayanta Chatterjee
(+91-80-4332 6401)
jayantac@icraindia.com

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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Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	