

Indraprastha Medical Corporation Limited

March 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	8.75	0.00	-
Fund Based Limits	40.0	40.00	[ICRA]AA(Stable); Reaffirmed
Non-Fund Based Limits	45.0	40.50	[ICRA]A1+ ; Reaffirmed
Commercial Paper Programme	40.0	40.0	[ICRA]A1+ ; Reaffirmed
Unallocated Limits	6.25	19.5	[ICRA]AA(Stable); Reaffirmed
Total	140.0	140.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) to the Rs. 40.0-crore (earlier Rs. 40.0 crore) fund-based limits and Rs. 19.5-crore (earlier Rs. 6.25 crore) unallocated limits of Indraprastha Medical Corporation Limited (IMCL)¹. The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 40.5-crore (earlier Rs. 45 crore) non-fund based bank facilities and Rs. 40.0-crore (earlier Rs. 40.0 crore) Commercial Paper Programme of IMCL.

Rationale

The rating reaffirmation factors in the company's association with the Apollo Group as it benefits from synergies in operations and referrals from Group-managed clinics, IMCL's established position as a quality healthcare provider in the National Capital Region (NCR), , and its diversified revenue base across various specialities. The rating further factors in IMCL's favourable maturity profile with two facilities in Delhi-NCR, a 718-bedded facility in Sarita Vihar that became operational in 1996 and a 46-bedded facility in Noida that became operational in 2006-2007. These positives are offset to some extent by de-growth in revenues and OPBIDTA in 9M FY2018 owing to decline in occupancy due to departure of a key consultant and on account of cap on prices of coronary stents and knee implants imposed by National Pharmaceutical Pricing Authority (NPPA). The fall in accruals has led to drop in debt-protection indicators of the company but the same continue to remain comfortable. The ratings also factor in the rising receivables, primarily due to increase in the share of non-cash patients and delay in receiving payments from some of the large clients. Further, ICRA notes that IMCL's ability to increase occupancy levels would be linked to its ability to retain good consultants, which remains a key challenge considering the increasing competition.

A public interest litigation (PIL) is subjudice in the Supreme Court against IMCL as per which the hospital should provide free medicines and consumables to 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 as the case is subjudice. ICRA's ratings, therefore, do not factor in such future liabilities, if any.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

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. The outlook may be revised to Positive in case accruals from operations are better than expected or the leverage is lower than estimated. Conversely, the outlook may be revised to Negative in case of lower-than-expected accruals or higher-than-projected leverage of the company.

Key rating drivers

Credit strengths

Part of the established Apollo Group: As a part of the Apollo chain, IMCL benefits from synergies in operations and referrals from Group-managed clinics.

Established healthcare provider in the NCR: IMCL has a long and established presence in the NCR region with two facilities, a 718-bedded facility in Sarita Vihar and a 46-bedded facility in Noida. The long and successful operations of two clinical establishments have impacted the company positively.

Diversified revenue stream: Major contributors to IMCL's hospital revenues are Oncology, Neurology, Cardiology, General medicine, and Transplant Hapatobiliary departments. The largest contributing specialty is Oncology, which contributes 12% of total revenue.

Comfortable debt-coverage indicators: The total debt of the company increased from Rs. 67.31 crore as on March 31, 2017 to Rs. 79.33 crore as on December 31, 2017 on account of debt-funded capex. Despite the increase in debt, the debt-protection indicators of the company remain comfortable with a gearing of 0.38 times, Debt/OPBDITA of 1.12 times and interest coverage of 7.76 times as on December 31, 2017.

Credit challenges

Decline in revenue and occupancy levels in FY2017 and 9M FY2018: IMCL's operating income (OI) declined by 3% in 9M FY2018 on a year-on-year (YoY) basis. Occupancy has also declined from 80% in 9M FY2017 to 67% in 9M FY2018 on the back of changes in consultant profile as well as intense competition.

Decline in operating and net profit margins due to regulatory changes: The NPPA capped the prices of coronary stents in February 2017 and the prices of knee implants in August 2017. Due to these adverse regulatory changes, the operating profit margins of the company have been declining since FY2017. The operating margin declined to 9.5% in 9M FY2018 from 10.1% in FY2017, while the net profit margin moderated to 2.78% in 9M FY2018 from 3.43% in FY2017. The NPPA capped the prices of coronary stents in February 2017 and the prices of knee implants in August 2017.

Increase in receivables on account of higher proportion of institutional business: The receivables days of the company have been increasing YoY, mainly due to an increase in receivables from international patients. However, the receivables due are expected to moderate with receipt of a portion of dues outstanding in February 2018.

Pending PIL relating to free service for poor patients could result in liabilities in future: As per the agreement with the GNCTD, IMCL is to provide free inpatient and outpatient medical facilities to poor patients. Accordingly, consultants do not charge for their services. However, there is a PIL subjudice in the Supreme Court against IMCL as per which the hospital should also provide free medicines and consumables to the patients sponsored by the 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.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Hospitals](#)

About the company

Incorporated in 1988 as a joint venture between Apollo Hospitals Enterprise Ltd. (AHEL) and the GNCTD, Indraprastha Medical Corporation Ltd. is a 718-bedded, super specialty tertiary care hospital in New Delhi. Having commenced operations in 1996, IMCL now has 52 specialty departments. The hospital's 15-acre land in Sarita Vihar (New Delhi) has been leased for a period of 30 years by the GNCTD at a nominal lease rent. In turn, IMCL provides free medical facilities to poor patients referred by the GNCTD. In 2006-2007, IMCL opened its Noida wing with 46 beds as a "Mother and Child Care" hospital. IMCL was the first hospital in India to be internationally accredited by the US-based healthcare services accreditation body, Joint Commission International (JCI), in June 2005.

In FY2017, the company reported a net profit of Rs. 26.25 crore on an 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.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	755.45	765.72
PAT (Rs. crore)	24.43	26.25
OPBDIT/OI (%)	10.51%	10.14%
RoCE (%)	16.42%	16.35%
Total Debt/TNW (times)	0.26	0.32
Total Debt/OPBDIT (times)	0.66	0.87
Interest Coverage (times)	10.69	9.82
NWC/OI (%)	1%	4%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				March 2018	March 2017	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)	-
3 Non-Fund Based	Short Term	40.5		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4 Commercial Paper Programme	Short Term	40.0		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
5 Unallocated Limits	Long Term	19.5		[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 Commercial Paper Programme	-	-	7-365 Days	40.5	[ICRA]A1+
NA	Unallocated Limits	-	-	-	19.5	[ICRA]AA(Stable)

Source: IMCL

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