

PRESS RELEASE

NATIONAL MEDICAL COLLEGE PRIVATE LIMITED

April 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities- Fund Based Loan	600.00	IRN BB-	Assigned
Short Term Bank Facilities- Fund Based Loan	270.00	IRN A4	Assigned
Long Term/Short Term Facilities- Non-Fund based Loan	80.00	IRN BB-/A4	Assigned
Total	950.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 600.00 Mn, the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 270.00 Mn and IRN BB- (Double B Minus) /A4 (A Four) to the long term/short term bank facilities of NPR 80.00 Mn.

Detailed Rationale

The rating assigned to bank facilities of National Medical College Private Limited (NMC) derive strength from the company's established operational track record (since 2001), its adequate scale of operations (750-installed bed capacity but as per requirement 300 bed operational) and its experienced promoters. The rating also takes note of NMC's steady revenue growth in the recent years (CAGR of ~6% in the last three years beginning in FY2020), supported by the growth in hospital revenues (CAGR ~8% over the same period), despite relatively stagnant growth in medical college revenues. Moreover, rating factors in strong student enrollment in MBBS course, that provides comfort on the sustainability of the medical college revenues over the medium term. NMC benefits from a positive demand outlook for medical education, leveraging its advantageous location to admit a higher number of foreign students, serving as a key revenue driver for the institution.

These rating strengths, however, are partially offset by a moderately leveraged capital structure coupled with deteriorating debt service coverage indicators. Moreover, NMC faces a lengthy average collection period within its business operations, potentially impacting liquidity and cash flow management. Going forward, NMC's capacity to sustain operational scale and revenue, while improving its debt service coverage indicators and the successful operation of new courses with healthy enrollment rate will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established track record with steady revenue growth

Established in 2001, NMC has been running a medical college along with a 750-bed hospital (operational 300 beds currently) in the Parsa district. The company has an improving operational performance with steady revenue growth over the years. In FY22, NMC experienced a revenue growth of ~9%, followed by a continued upward trend with a growth rate of ~7% in FY23. Notably, while income from the medical college segment remained relatively stagnant in previous years, FY23 saw a significant uptick with a growth of ~16%. This surge can be attributed to NMC's strategic geographical location near the Indian border positions it favorably to attract foreign students, whose tuition fees are nearly double that of domestic students (~NPR 4.5 Mn vis-a-vis ~NPR 8.7 Mn). In FY22, NMC enrolled 14 foreign students, with expectations for a continued increase in the admission of international students in the near future, aligning with the institution's strategic objectives of enhancing revenue streams.

Full enrolment across major courses

Despite declining enrolment in certain paramedical courses in recent years, NMC has achieved almost full enrolment across all major programs including MBBS and postgraduate (PG) courses. This robust demand outlook for medical education has ensured that MBBS, the primary revenue generator, consistently maintains full enrolment, thereby accounting for a significant portion of the medical college's income. However, despite their lower enrolment rates, the contribution of other paramedical courses to overall revenue remains marginal.

Positive demand outlook for the medical education and healthcare services in Nepal

The demand outlook for both medical education and healthcare services looks promising. Firstly, the increasing per capita income coupled with expanding medical insurance coverage enhances the affordability of healthcare services, fostering higher demand. Additionally, rising healthcare awareness among the population encourages proactive healthcare-seeking behavior, further driving demand. Moreover, continuous technological advancements in early diagnosis and treatment methods amplify the accessibility and effectiveness of healthcare services, attracting more patients. Furthermore, the higher incidence of lifestyle diseases underscores the critical need for comprehensive healthcare services, thereby fueling demand for both medical education and healthcare facilities in the region.

Key Rating Weaknesses

Moderately leveraged capital structure along with deteriorating debt service coverage indicators of the company

Overall gearing ratio of NMC stood at 2.03x as on end of FY23, which deteriorated from 1.83x in FY22 and 1.50x in FY21, mainly due to significant dividend payments during FY21-FY23. Similarly, the interest coverage ratio maintained a moderate stance at 1.48x in FY23, slightly higher than FY22's 1.46x. However, the total debt to gross cash accruals (GCA) ratio deteriorated to 6.46x in FY23 from 5.94x in FY22 (4.45x in FY21), signaling an increased reliance on debt relative to earnings. Moreover, the debt service coverage ratio (DSCR) remained low at 1.26x in FY23, declining from 1.47x in FY22 and 1.78x in FY21. This degradation primarily stems from decreased profit after tax (PAT) attributable to diminished EBITDA margins and an increase in borrowings. EBITDA margin has deteriorated on account of increased administration cost and borrowings has increased to sustain improved scale of operation of NMC.

Lengthy average collection period and investment commitments in under construction projects

Assessing NMC's financial landscape, it's notable that the transition to NFRS in FY22 has significantly impacted its operating cycle, primarily through altered revenue recognition practices under NFRS 15. This shift led to an extension in the Average Collection Period (ACP) from 125 days in FY21 to 182 days in FY22 and 237 days in FY23, mainly due to the booking of receivables over three years as per contract terms. However, the reported increase in ACP onwards FY22 is primarily attributed to the adoption of NFRS 15 standards, representing a notional adjustment that does not translate to an actual increase in the working capital requirement, as the underlying operational needs remains same as before implementation of NFRS which is still lengthy (~120 days in FY20 & FY21) and poses challenges in managing working capital. Additionally, the company has investments in Kathmandu National Medical College (KNMC)¹ project which is in yet to receive the operational license from the concerned regulator. Timely receipt of the license and realization of envisaged benefits from the project will remain key monitor able.

Uncertain regulatory environment for medical education in Nepal

Nepal's medical education sector presents considerable regulatory risks, characterized by limited fee-setting flexibility, stringent compliance requirements, and uncertainty surrounding annual seat allocations for the MBBS course. Notably, while 10% of MBBS seats are reserved for scholarships and fees for the national seat quota (57%) are determined by the Medical Education Commission (MEC), NMC benefits from autonomy in setting fees for foreign students. This flexibility affords NMC a competitive edge, enabling it to attract a relatively higher number of foreign students, which

¹ KNMC is a project situated in Kathmandu at current investment cost of NPR 219 Mn to operate teaching hospital and medical facilities under its wing.

accounted for approximately 14% in FY22 with a significant increase expected in future periods. This strategic approach helps mitigate some of the aforementioned regulatory risks, offering a degree of stability and revenue diversification for NMC amidst the sector's regulatory complexities.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Established in 2001, based in Birgunj, National Medical College Private Limited (NMC) is affiliated to Tribhuvan University – Institute of Medicine (IOM) for medical and allied health science courses. NMC offers courses such as MBBS, BDS, B.Sc. Nursing program and postgraduate programs as well. At present, the company's stake is held by promoters Dr. Jainuddin Ansari (90%) and Basruddin Ansari (10%)

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	1,095	1,194	1,272
EBITDA Margin (%)	18.22	17.18	15.49
Interest Coverage Ratio (x)	2.05	1.46	1.48
Current Ratio (x)	0.73	1.15	1.03
Overall Gearing Ratio (x)	1.50	1.83	2.03
Total Debt/GCA (Years)	4.45	5.94	6.46
DSCR (x)	1.78	1.47	1.26

* Classification as per Infomerics Nepal Standards

Annexure 1: Details of Facilities

Instrument/Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term Bank Facilities- Term Loan	Long-Term	333.32	IRN BB-
Long Term Bank Facilities- Term Loan(Proposed)	Long-Term	266.68	IRN BB-
Short Term Bank Facilities- Overdraft Loan/Demand Loan	Short-Term	270.00	IRN A4
Long Term/ Short Term – Bank Guarantee/Letter of Credit	Long-Term/Short- Term	80.00	IRN BB-/A4
Total		950.00	

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About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

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