

RATING REPORT

Shifa International Hospitals Limited (Shifa)

REPORT DATE:

March 5, 2018

RATING ANALYSTS:

Talha Iqbal

talha.iqbal@jcrvis.com.pk

Muhammad Ibad Desmukh

ibad.desbmukh@jcrvis.com.pk

RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	AA-	A-1
Rating Outlook	Stable	
Rating Date	March 1, 2018	

COMPANY INFORMATION

Incorporated in 1987	External auditors: Grant Thornton Anjum Rahman & Co. Chartered Accountants
Listed Public Limited Company	Chairman of the Board: Dr. Habib-Ur-Rahman
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Dr. Manzoor H. Qazi
Mrs. Kalsoom Zaheer Ahmad	
Tameer-e-Millat Foundation	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) <http://www.jcrvis.com.pk/kc-meth.aspx>

Shifa International Hospitals Limited (Shifa)

OVERVIEW OF THE INSTITUTION

In September 1987, Shifa International Hospitals Limited (Shifa) was incorporated as a private limited company. Later, it was converted into public limited company in October 1989. The company is listed on Pakistan Stock Exchange Limited (PSX).

RATING RATIONALE

Shifa International Hospitals Limited (Shifa) is engaged in the business of establishing and running medical centers, hospitals, pharmacies and laboratory services in Pakistan. The organization's hospitals are equipped to diagnose and treat medical, surgical, obstetrics & gynecology, pediatrics and psychiatry patients. Shifa also provides oncology services including medical & surgical management, radiation therapy and chemotherapy. It is one of the few hospitals in the world where four transplants (liver, bone marrow, renal and corneal) are being done under one roof.

Market Position: The assigned ratings to Shifa are underpinned by its eminent clinical reputation as a large private healthcare organization within northern region of the country. Ratings also incorporate Shifa's unique positioning vis-à-vis other large hospitals as an integrated health system providing primary, secondary and tertiary healthcare services with the hospital specializing in high acuity cases. Further, broad service array and scale of operations is a key rating driver. Shifa has developed a strong reputation over the years through which it is able to attract patients from local as well as outstation areas. Joint Commission International Accreditation (JCIA) for Shifa's Hospital Program in May 2017 is also a testament to the hospital's strong focus on patient care and safety as measured by international standards.

Business Risk: JCR-VIS considers healthcare services as a low risk industry in view of limited demand cyclicality and favorable economic and demographic trends of the country. Deficit of health care infrastructure in the country is evident from ~6 beds per 10,000 individuals in Pakistan which is on the lower side vis-à-vis global median of ~30 beds while physicians per 10,000 individuals at ~0.8 are almost half of the global average. Given the importance of affordable healthcare, the sector remains exposed to risk of interventions by state and central governments along with other relevant regulatory authorities as has been witnessed in other South Asian countries. Other business risk factors include deficit of human capital and possibility of emergence of competing hospitals within the vicinity.

Operating Revenue & Performance: Although revenue diversity is satisfactory among product portfolio, the organization is concentrated in northern Punjab area indicating a limited geographic footprint. The largest hospital, Shifa H-8 accounting for over 90% of the top line is situated in Islamabad. On a timeline basis, operating revenue has grown at compound annual growth rate (CAGR) of 13.1% over last three years. However, profitability witnessed a decline in FY17 on account of lower margins.

Capitalization & Liquidity: Assessment of financial risk profile incorporates healthy liquidity profile and adequate capitalization indicators. Over next three years, 500 new beds will be added through acquisition and expansion of existing facilities. In view of aggressive expansion plans, cash flow coverage and leverage metrics of Shifa are expected

to decline from current levels but are projected to remain within benchmarks for the assigned ratings. Achieving projected growth in revenues and trend in EBITDA margins will be important rating drivers. Significant increase in gearing beyond projected levels over the rating horizon will trigger a rating review.

Governance & Management: Shifa has a seasoned management team comprising professionals with adequate and relevant experience. Corporate governance framework is supported by adequate board composition and oversight. Board includes experienced medical practitioners as well as individuals having engineering, finance and business management experience. Scope and functioning of internal audit function is considered satisfactory.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Shifa International Hospitals Limited (Shifa)

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	FY15(A)	FY16(A)	FY17(A)
Fixed Assets	4,486.0	4,606.6	5,457.5
Stock-in-Trade	321.9	337.4	380.1
Trade Debts	334.2	338.7	447.8
Cash & Bank Balances	524.4	486.4	641.7
Total Assets	6,119.3	7,194.7	7,748.5
Trade and Other Payables	1,488.3	1,506.5	1,959.0
Long Term Debt	1,166.7	839.7	504.0
Short Term Debt	-	-	-
Total Liabilities	3,113.2	2,770.2	2,877.0
Total Equity	2,255.0	3,682.3	4,144.7
<u>INCOME STATEMENT</u>	FY15(A)	FY16(A)	FY17(A)
Operating Revenue	7410.0	8,730.8	9,257.0
Operating Costs	6,579.6	7,668.5	8,464.6
Finance Cost	158.9	109.0	66.4
Profit After Tax	533.0	760.1	606.4
<u>RATIO ANALYSIS</u>			
EBITDA Margin (%)	15.8%	14.7%	15.0%
Net Working Capital	(245.2)	687.8	(78.2)
FFO to Total Debt (x)	0.72	1.37	1.97
FFO to Long Term Debt (x)	0.72	1.37	1.97
Gearing (x)	0.52	0.23	0.12
Debt Leverage (x)	1.38	0.75	0.69
Debt Servicing Coverage Ratio (x)	2.02	2.84	2.64
ROAA (%)	8.9%	11.4%	8.1%
ROAE (%)	25.7%	25.6%	15.5%

RATING SCALE & DEFINITION

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

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REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Shifa International Hospitals Limited				
Sector	Healthcare				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	1-Mar-18	AA-	A-1	Stable	Initial
Instrument Structure	n/a				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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