RATING REPORT

Shifa International Hospitals Limited (Shifa)

REPORT DATE:
November 18, 2021

RATING ANALYSTS:
Asfia Aziz
asfia.aziz@vis.com.pk

Muhammad Taha
m.taha@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	AA-	A-1
Rating Date	*18 Nov'21*		*24 Nov '20*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 1987	**External auditors:** Grant Thornton Anjum Rahman & Co. Chartered Accountants
Public Listed Company	**Chairman:** Dr. Habib-Ur-Rehman **Chief Executive Officer:** Dr. Manzoor H. Qazi
Key Shareholders (with stake 5% or more):	
Tameer-e-Millat Foundation – 12.57%	
International Finance Corporation – 12.0%	
Mrs. Kalsoom Zaheer Ahmad – 8.40%	
Jubliee Life Insurance Company Limited – 9.26%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Shifa International Hospitals Limited (Shifa)

RATING RATIONALE

The assigned ratings take into consideration the clinical reputation of Shifa as a large private healthcare organization within northern region of the country and ample experience of senior management team. The ratings draw comfort from Shifa's unique positioning, vis-à-vis other large hospitals, as an integrated health system providing primary, secondary, tertiary and quaternary healthcare services with the hospital specializing in high acuity cases. The ratings also factor in broad services array and scale of operations, as well as significant expansion plans over the next four years, involving establishment of large-scale hospitals in Faisalabad and Islamabad.

Business risk profile is considered to be medium to low given limited demand cyclicality in healthcare services sector and growing demographic trends of Pakistan. However, deficit of human capital in the industry is considered a business risk factor. Underpinned by growing demand for healthcare services, the company has generated sustainable revenue growth on a timeline basis. Growth momentum in operating revenue improved in FY21 due to resumption in OPD services along with launch of E-Shifa encompassing in-home treatment of patients through teleconsultation. Given improvement in the same, profitability and cash flow coverages of outstanding obligations showcased improvement in FY21 and the ongoing year. The ratings also incorporate adequate debt coverage, sound cash position, and manageable leverage despite increasing debt levels.

Scale of Operations

Shifa currently has three hospitals in operation. Established in 1993, Shifa H-8 Hospital Islamabad (Shifa H-8) is the flagship hospital of the company with 550 beds and IPD/OPD facility. Shifa G-10 Hospital Islamabad (Shifa G-10) was setup in 2014 to reduce workload at H-8. The hospital initially provided IPD/OPD services including neurology, nephrology and urology & rehabilitation centre During FY19, this facility was converted into complete dialysis unit due to the ever-growing demand for such services. An additional medical center (Shifa F-11) was established to facilitate the residents of sectors F-10, F-11 and E-9, and other nearby areas. Services on offer include OPD, laboratory tests, x-ray, ultrasound, dentistry and onsite pharmacy. In 2011, a 55 bed hospital was established in Faisalabad to provide IPD/OPD, diagnostic and critical care services.

Shifa H-8 continues to account for more than 90% of total revenue. The hospital provides an extensive range of services with state of the art equipment in 36 departments, which include allergy, cardiology, dermatology, dental, emergency medicine, endocrinology, gastroenterology, general and vascular surgery, minimally invasive neurosurgery, plastic and reconstructive surgery, infectious diseases, nephrology, ophthalmology, pediatrics, pulmonology, rheumatology, urology, ear nose & throat, orthopedic, obstetrics & gynecology, and psychiatry. In addition to that, there are oncology services on offer as well, including medical & surgical management, radiation therapy, and chemotherapy. Not only that, Shifa is the only hospital in the country where four transplants i.e. liver, bone marrow, renal and corneal are being performed under one roof. Laparoscopic surgery, interventional radiology, comprehensive critical care and GI & Endoscopy suite are also few of the notable services provided by Shifa.

OVERVIEW OF THE INSTITUTION

Shifa International Hospitals Limited (Shifa) was incorporated in 1987 as a private limited company. Later, it was converted into a public limited company in October 1989. Shifa was listed on the Pakistan Stock Exchange Limited (PSX) in 1994. The hospital is Gold accredited by Joint Commission International (JCI) that certifies Shifa meeting international health care quality standards for patient care and organization management.

Profile of Chairman

Dr. Habib-Ur-Rahman graduated from King Edward Medical College. He received his internal medicine training at D. C. General Hospital, Howard University, Washington D.C. and Wayne State University, Detroit, Michigan and Wright State University, Dayton Ohio. He completed his fellowship of Cardiovascular Disease from Mount Sinai Hospital, University of Connecticut, Hartford, Connecticut.

Profile of CEO

Dr. Manzoor H. Qazi is a founding member of Shifa and has been a board member since its inception. He was appointed as CEO of the company on 10th October 2011. He received his medical degree from King

Edward Medical College Lahore.

Revenue base of the company increased by 17% due to resumption of OPD/IPD services, elective surgeries and offering of tele-consultation services. Going forward, higher projected profitability shall be a function of gradual expected recovery in the overall macroeconomic environment of the country.

Revenue stream of Shifa comprises four segments namely Inpatient (IPD), Outpatient (OPD) Pharmacies and Others. Revenue concentration risk is considered manageable as the overall mix has remained largely stable over the past three years, with IPD accounting for 38% of gross revenue in FY21 (FY20: 39%; FY19: 41%), followed by OPD 23% (FY20: 23%; FY19: 22%), Pharmacy 37% (FY20: 35%; FY119: 34%) and Others 2% (FY20: 3%; FY19: 3%) during FY21. Within IPD/OPD segments, the service portfolio comprises clinical procedures, radiology, laboratory, surgical procedures, consultation and other services. Nearly 60% of patients come from Islamabad/Rawalpindi and the remaining patients from northern areas.

During FY21, net revenue of Shifa grew at a rate of 17% to Rs. 14.2b (FY20: Rs. 12.2b; FY19: Rs. 11.74b) due to resumption of OPD/IPD services, elective surgeries and offering of tele-consultation services. IPD segment revenue increased by 12% to Rs. 5.4b (FY20: Rs. 4.82b; FY19: Rs. 4.83b), despite a decrease in occupancy ratio of Shifa H-8 to 55.8% (FY20: 58.7%; FY19: 67.6%) and Shifa Faisalabad occupancy ratio to 23.1% (FY20: 28.3%; FY19: 42.4%) during FY21. OPD segment revenue increased by 18% to Rs. 3.4b (FY20: Rs. 2.8b; FY19: Rs. 2.6b), as normal service resumed and the hospital continued to provide home-based service via E-Shifa. Pharmacy segment reported a significant 23% growth in revenue and was reported at Rs. 5.3b (FY20: Rs. 4.3b; FY19: Rs. 4.0b) for FY21. In first quarter of FY22, the company reported revenue to the tune of Rs. 3.9b.

Operating costs increased by 12% to Rs. 12.9b (FY20: Rs. 11.5b; FY19: Rs. 10.6b), driven largely by inflationary adjustment in salaries, wages & other benefits, utilities, supplies, and medicines consumed. Entity reported other income amounting to Rs.107m (FY20: Rs. 637m; FY19: Rs. 44m) in FY21, significant decrease in other income in comparison to FY20 is owing to the fact that the entity reported an abnormal gain of approximately Rs. 452 million on disposal of land to one of its subsidiaries. However, there was no such gain in FY21 Given the gradual utilization of amount for investments in subsidiaries leading to conversion of foreign currency into local currency would mitigate the associated risk in short to medium term. The company reported a profit after tax of Rs. 700m (FY20: Rs. 505m, FY19: Rs. 777m) and a profit margin 4.9% (FY20: 4.2%, FY19: 6.6) during the outgoing year. Net margins improved further in 1QFY22 to 10.1%, mainly due to a considerable rise in gain on foreign currency. Going forward, higher projected profitability shall be a function of gradual expected recovery in the overall macroeconomic environment of the country.

Investment base expected to consistently increase over the next three years

Long term investments (Rs. In m)	Ownership	FY20	FY21
Shifa Development Sciences (Pvt) Limited (SDSPL)	55%	10	10
Shifa Neuro Sciences Institute Islamabad (Private) Limited (SNS)	100%	1,697	1,697
Shifa National Hospital Faisalabad (Private) Limited (SNHF)	60%	225	456
Shifa Medical Centre Islamabad (Private) Limited (SMCI)	56%	947	947
Shifa International DWC-LLC (SIDL)	100%	23	23
Shifa Care (Private) Limited (SCPL)	50%	30	45
		2,933	**3,178**

Asset base of the company augmented to Rs. 16.6b (FY21: Rs. 16.7b; FY20: Rs. 15.3b) by end-1QFY22. At end-1QFY22, Shifa's long-term investments had gone up to Rs. 3.2b (FY21: Rs. 3.2b; FY20: Rs. 2.9b; FY19: Rs. 80m). As per management, OPD services of SNS is expected to commence by end-FY22 and

IPD services are expected in the following financial year. With the expansion plans still in progress, the company plans to consistently invest in its subsidiaries over the course of next three years through available cash balances in the following projects with are under development:

- Shifa Medical Center Islamabad (Private) Limited (SMCI): The plan is to establish it as a full fledge hospital in F-11. The funds will be utilized for the construction of building and purchases of required equipment. Construction work on the project has started and the management expects to commence operations in the next 2.5 years. SMCI's focus will be on the provision of diagnostic services, day care surgeries, specialty OPD clinics, 24/7 emergency room and urgent care services. Shifa holds 56% stake in SMCI while Interloop Holdings (Private) Limited owns 40% and the remaining 4% is held by consultants.

- Shifa National Hospital Faisalabad (Private) Limited (SNHF): A project to expand its footprint in Faisalabad. Till date, Shifa has acquired land spread over an area of 49.5 kanals for this purpose, which has already been commercialized. Currently, the plan for the overall structure and design of the hospital is being developed. Around 200 beds will be added in Phase 1, which is expected to be finalized by the end of FY22. In the next phase around 200 more beds will be added. Shifa owns 60% of the shares in SNHF with 30% shares held by Interloop Holdings (Private) Limited and 10% shares held by Interloop Welfare Trust.

- Shifa Care (Private) Limited (SCPL) (an associated concern): Investment will be utilized for the purchase and implementation of software. SCPL has been established in collaboration with a strategic investor with the aim to develop HIMSS compliant healthcare management information solution for enterprise healthcare organizations.

Given improving profitability profile, liquidity indicators of the company increased in the review period. Sizeable cash and bank balances on the balance sheet provides additional liquidity buffer. Liquidity profile is expected to strengthen further with higher projected profitability, going forward.

In line with higher profits, Shifa's funds from operations (FFO) were reported higher at Rs. 1.9b in FY21 (FY20: Rs. 933m; FY19: Rs. 1.3b). There was an improvement in FFO noted for 1QFY22 to the tune of Rs. 465m (1QFY21: Rs. 375m). Sizeable cash and bank balances on the balance sheet provides additional liquidity buffer.; however the same is expected to come down over time, with the utilization of funds for investment. FFO-to-total debt ratio has improved substantially to 0.44x at the end of Q1FY22 (FY21: 0.43x; FY20: 0.22x; FY19: 0.53x). Debt servicing coverage ratio (DSCR) is considered adequate at 1.15x (FY21: 2.88x; FY20: 2.34x) at end-1QFY22 due to high quantum of repayments of long-term debt. Going forward, the DSCR is projected to improve from FY23 onwards due to lower loan repayments and increasing profit.

Current ratio at end-1QFY22 was reported higher at 1.27x (FY21: 1.23x; FY20: 1.32x) due to elevated levels of trade debts. A significant increase in the provision for doubtful debts in FY21 was noted due to the implementation of IFRS-9. Most of the trade debts belong to large corporate clients. Hence, recovery risk from them is considered limited. Liquidity profile is expected to strengthen further with higher projected profitability, going forward.

Strong capitalization profile.

Equity base, excluding revaluation surplus of Rs. 779m, augmented to Rs. 8.1b (FY21: Rs. 7.7b; FY19: Rs. 7.0b) by end-1QFY22 on account of retention of profits. In the Board meeting held on September 25, 2021, proposed appropriation of bonus shares @2% (1.2m bonus shares with face value of Rs. 10/share) was made for approval in the AGM. The same has been approved and will be incorporated in FY22 financials as appropriation from share premium.

Shifa's outstanding debt profile consists of long-term borrowings only. Total long-term borrowings, inclusive of current portion and lease liabilities, decreased to Rs. 4.2b (FY21: Rs. 4.5b; FY20: Rs. 4.0b) by end-1QFY22, as some the principal was repaid. The company availed additional long-term loans under State Bank of Pakistan's Islamic Refinance Facility and temporary refinance scheme in the outgoing year. The funds from these are to be utilized for capital expenditures.

Due to the repayment of loan principal and augmentation in equity base, the gearing and debt leverage indicators were recorded lower at 0.52x (FY21: 0.59x; FY20: 0.57x) and 0.95x (FY21: 1.07x; FY20: 1.07x), respectively, at end-1QFY22. With gradual repayments and no additional debt drawdown planned, leverage indicators of the company are projected to further strengthen.

Shifa International Hospitals Limited (Shifa) Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**1QFY22**
Property, Plant & Equipment	6,846	6,992	6,792	6,691
Investment Property	1,642	0	0	0
Long-term Investment	80	2,934	3,179	3,179
Non-Current Assets Held for Sale	307	495	598	545
Stores, Spare, and Loose Tools	132	151	165	154
Stock-in-Trade	497	646	658	634
Trade Debts	581	512	859	1,114
Loans and Advances	413	390	338	371
Tax Refund Due from Government	413	478	471	458
Cash & Bank Balance	792	2,395	2,809	2,611
Other Assets	235	266	823	837
Total Assets	11,938	15,259	16,692	16,593
Trade and Other Payables	3,328	2,984	3,251	3,061
Short-Term Borrowings	0	0	0	0
Long-Term Borrowings *(Inc. current matur)*	2,499	3,997	4,551	4,248
Total Borrowings	2,499	3,997	4,551	4,248
Deferred Tax	384	439	350	340
Other Liabilities	79	71	51	61
Total Liabilities	6,291	7,492	8,204	7,710
Tier-1 Equity	4,875	7,007	7,696	8,105
Total Equity	5,647	7,768	8,489	8,884
Paid Up Capital	545	620	620	620
INCOME STATEMENT				
Operating Revenue	11,754	12,152	14,220	3,926
Operating Costs	10,642	11,481	12,899	3,530
Finance Cost	95	479	360	89
Profit Before Tax	1,073	797	964	487
Profit After Tax	777	505	700	395
FFO	1,318	933	1,937	465
RATIO ANALYSIS				
EBITDA Margin (%)	15%	17%	16%	20%
Net Working Capital	-682	1,141	1,110	1,294
FFO to Long-Term Debt	53%	23%	43%	44%
FFO to Total Debt	53%	23%	43%	44%
Debt Servicing Coverage Ratio (x)	5.52	2.34	2.88	1.15
ROAA (%)	7%	4%	4%	9%
ROAE (%)	17%	9%	10%	20%
Gearing (x)	0.51	0.57	0.59	0.52
Debt Leverage (x)	1.29	1.07	1.07	0.95
Current Ratio	0.81	1.32	1.23	1.27

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

REGULATORY DISCLOSURES — Annexure III

Name of Rated Entity	Shifa International Hospitals Limited
Sector	Healthcare
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
18-Nov-21	AA-	A-1	Stable	Reaffirmed
24-Nov-20	AA-	A-1	Stable	Reaffirmed
6-Nov-19	AA-	A-1	Stable	Reaffirmed
1-Mar-18	AA-	A-1	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Ahmed Sana	CFO	November 08, 2021
Mr. Salman Shafiq	General Manager Finance	November 08, 2021
Mr. Arshad	Financial Analyst	November 08, 2021