RATING REPORT

Shifa International Hospitals Limited

REPORT DATE:
February 1, 2024

RATING ANALYSTS:
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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	*01 Feb '24*		*29 Dec'22*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 1987	**External auditors:** BDO Ebrahim & Co. Chartered Accountants
Public Listed Company	**Chairman:** Dr. Habib-Ur-Rehman **Chief Executive Officer:** Dr. Zeeshan Bin Ishtiaque
Key Shareholders (with stake 5% or more):	
Tameer-e-Millat Foundation – 12.57%	
International Finance Corporation – 12.0%	
Mrs. Kalsoom Zaheer Ahmad – 8.40%	
National Bank of Pakistan --6.34%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Shifa International Hospitals Limited

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. Zeeshan Bin Ishtiaque took the office of CEO in 2023. Before that, he has been associated with the Shifa group for long, the last role being Chief Medical Officer. He is an accomplished health care leader with the rich background in health care management. Quality assurance and corporate leadership. He

RATING RATIONALE

Shifa International Hospitals Limited ("Shifa" or "the Group") comprises Shifa International Hospitals Limited (SIHL / parent company) and its subsidiaries. Established in 1993, Shifa International Hospitals Limited, known as Shifa H-8, stands as the flagship institution within the organization, boasting 550 beds and comprehensive inpatient (IPD) and outpatient (OPD) facilities. Shifa H-8 consistently contributes over 90% of the total revenue for the company. The hospital offers a wide array of services, including OPD consultations, laboratory tests, X-ray and ultrasound imaging, dental care, and an onsite pharmacy.

Shifa H-8 excels in providing an extensive spectrum of medical services, equipped with state-of-the-art technology across 40 specialized departments. These encompass allergy, cardiology, dermatology, dental care, 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, and throat care, orthopedics, obstetrics and gynecology, and psychiatry. Furthermore, Shifa offers a range of oncology services, including both medical and surgical management, radiation therapy, and chemotherapy. Notably, Shifa stands as the sole hospital in the country where four different types of transplants—liver, bone marrow, renal, and corneal—are performed under one roof. The hospital also provides advanced medical procedures such as laparoscopic surgery, interventional radiology, comprehensive critical care, and a GI & Endoscopy suite.

In 2023, the hospital expanded healthcare services through the partial acquisition and integration of eShifa (Shifa Integrated Healthcare Technologies) by Shifa International Hospitals Limited. This is intended to extend care services across the region through telemedicine facilities and expanding diagnostic services. In addition, expansions were completed in chemo daycare, surgical clinics, gastro OPD, medical oncology clinics and Nephrology OPD to accommodate additional patient flow. Operationalization of Dar-ul-Shifa on the basement and ground floors was completed. IPD services with 16 beds was initiated for neuro patients.

With respect to environmental monitoring, Shifa follows the Self-Monitoring and Reporting Tool (SMART) Program by the EPA, to ensure compliance with National Environmental Quality Standards (NEQS) and guidelines. This monitoring covers various aspects, including Indoor Air Quality, Stack Emission Monitoring, Drinking Water Analysis (both Potable and Non-Potable), Wastewater Analysis, Legionella testing, Distilled Water quality assessment, Ash Analysis, and Surface Swab testing.

In the upcoming financial year, the hospital plans to expand its clinical services by introducing new consultants, extending existing services, and offering specialized care such as Genetics and Lung Transplant. The hospital is focusing on improving patient access through eSHIFA and enhancing patient satisfaction. Renovation of OPD areas, the implementation of electronic medical records for in-patient care, and the introduction of Home Healthcare services are on the agenda. However, at the same time cost reduction and process efficiencies have been prioritized. The organization, along with its subsidiaries, is striving to achieve Joint Commission International Enterprise Accreditation within the current year, in addition to its existing JCI Hospital Accreditation.

During FY23, Dr. Zeeshan Bin Ishtiaque took over as the new Chief Executive Officer (CEO). He is an MBBS from Nishtar Medical College, Multan and has been associated with the Shifa group for long, serving as the Chief Medical Officer as his last assignment.

Business Environment

Pakistan's healthcare system, encompassing both the public and private sectors, serves a population exceeding 220 million individuals. However, it grapples with a multitude of obstacles, including inadequate funding, limited infrastructure, the outmigration of healthcare professionals, a dearth of focus on preventative healthcare, and disparities in resource allocation.

The demand for healthcare services in Pakistan is persistently increasing, propelled by several factors. With a burgeoning population, the demand for accessible and high-quality healthcare services has surged. Pakistan confronts substantial health challenges, marked by a high prevalence of communicable diseases, concerns earned his MBBS from Nishtar Medical College, Multan in 2005. He also completed DCPS-healthcare Systems Management degree in 2011.

regarding maternal and child health, and a growing incidence of non-communicable diseases. Disparities in the availability and quality of healthcare infrastructure between urban and rural areas influence the patterns of healthcare demand. Furthermore, economic disparities impact the ability of both individuals and communities to access and afford healthcare services. While the industry's competitive risk remains low due to significant entry barriers, healthcare providers must adeptly navigate the complexities of healthcare regulations and strive to redress disparities in resource allocation. Recruitment and retention of skilled healthcare professionals remains a challenge for the sector.

Key Rating drivers

Continuous topline growth

Shifa continued to record topline growth fueled by the increase in patient flow/volume as well as price increases. Topline revenue registered a 22% growth in FY23 and 25% in Q1FY24 over corresponding period last year. Expansion of in-patient facilities at Dar ul Shifa and other expansions of different OPDs contributed to the uptick.

	FY19	FY20	FY21	FY22	FY23
IPD Visits	143,805	130,329	134,994	149,371	159,112
OPD Visits	397,386	331,299	326,000	378,011	418,096
Revenue (Rs. In Million)	11,754	12,152	14,220	16,198	19,721

The hospital operated at 63% occupancy in FY23, registering an 8% increase from last year. In patient revenues constituted the largest share of revenues at around 59%. About 6% revenue is generated from other services including pharmacy outlets, cafeteria sales, operating leases and other corporate services to subsidiaries. Due to inflationary pressure and devaluation of Pakistani currency, in line with increase in revenue, the operating costs of the hospital also increased. This was further fueled by higher financial charges because of increase in policy rate as well as increase in direct and indirect taxes. Despite the cost pressures, the hospital was able to fairly maintain its profitability at Rs 1.18bn, with net margins declining to 6% (FY22: 7.2%). Going forward, with the continued expansion in clinics, OPDs and in patient services at Dar ul Shifa as well as eShifa services, topline growth is expected to continue, although cost pressure will continue to prevail.

Liquidity profile is supported by sizeable cash holdings.

Due to higher profitability, funds from operations (FFO) were reported higher at Rs 2.2b. This improvement coupled with reduction in debt levels led to improved FFO/Total debt and FFO/Total long-term debt to 90% (FY22: 49.7%). Debt Service Coverage Ratio (DSCR) also depicts an increasing trend with DSCR at 1.7x in FY23. Current ratio as projected was reported lower at 1.0x due to higher trade payables on account of construction-related expenses emanating from ongoing long-term investment project. Ratings draw comfort from sizeable cash and bank balances on the balance sheet (Rs. 1.8b –Sept 30, 2023) which provides additional liquidity buffer. Outstanding receivables are mostly against government related entities (~50%) with low credit risk. Liquidity metrics are expected to improve post sale of Shifa Medical Center Islamabad (Pvt.) Limited (SMCI), proceeds from which are expected to be directed towards investments in Faisalabad hospital, providing cushion in Shifa Hospital's cash flows. Maintenance of liquid holdings will remain important for ratings.

Sound capitalization indicators

Equity base (Excluding surplus on revaluation) strengthened to Rs. 10.2b at the end of Sept 2023 on the back of higher profitability. In FY23, the hospital paid out a Rs 94m dividend. Shifa's outstanding debt profile only consists of long-term borrowings which are inclusive of current portion and lease liabilities, which decreased to Rs. 2.2b (FY22: Rs. 3.5b) by end-1QFY23, on account of regular servicing of debt obligations. No significant fresh borrowing was secured during FY23 or Q1FY24. With augmentation in equity base together with reduced debt levels, the gearing and debt leverage indicators improved on the timeline to 0.22x (FY23:0.25x, FY22: 0.40x, FY21: 0.59x) and 0.70x (FY23:0.77x, FY22: 0.86x; FY21: 1.07x), respectively, at end-1QFY24. Management is mindful of raising debt in a high interest rate environment and therefore plans no additional debt drawdown.

Curtailments in Investment portfolio

About 30% of the asset base (Rs. 18.4B) of Shifa is vested in investment properties and subsidiary/associated companies namely

	Name of Company	Status	% of shares held by Shifa
1	Shifa Development Services (Pvt) Limited (SDS)	Subsidiary	55%
2	Shifa CARE (Pvt) Limited (SCPL)	Associated	50%
3	Shifa Medical Center Islamabad (Pvt.) Limited (SMCI)	Subsidiary	56%
4	Shifa Neurosciences Institute Islamabad (Pvt.) Limited (SNSI)	Wholly owned Subsidiary	100%
5	Shifa National Hospital Faisalabad (Pvt.) Limited (SNHF)	Subsidiary	61%
6	Shifa International DWC-LLC (SIDL)	Wholly owned Subsidiary	100%
7	SIHT(Private) Limited (SIHT)	Associated Company	20.83% *

**Share Purchase executed for 50% shareholding*

Curtailments have been noted in several investment projects on account of macroeconomic pressures, inflationary pressures and resultant financial challenges.

SDS: On account of inflationary pressures, SDS, a company specializing in the design and construction of hospitals, has been facing difficulty in securing new hospital development projects. As a strategic decision, management reductions are being implemented to reduce overhead costs.

SMCI: Due to the impact of inflation and the devaluation of the Rupee on the Project Cost, SMCI's board decided to cease the project and sell it. Consequently, SIHL's board has resolved to divest its investment in SMCI. The proceeds from the sale of SMCI will be reinvested in SNHF, co-owned by both SIHL and Interloop Holdings (Private) Limited (ILH).

SNHF: While the hospital construction activities in Faisalabad continued, the project encountered challenges due to increasing construction and medical equipment costs in the international market, compounded by the devaluation of the Rupee. Management is currently grappling with the challenge of handling the escalated project costs and ensuring project completion. Alternative strategies are being reviewed.

SNSI: SNSI's primary focus revolves around the establishment and operation of neurosciences institute, providing an extensive range of healthcare services. During the previous year, SNSI derived rental income from leasing its facility to the Company for neurosciences services. The Board of Directors is actively engaged in exploring multiple avenues to broaden the company's sources of income.

SIHT: Investment in SIHT represents investments in eShifa, an initiative to provide care and diagnostic services through telemedicine facilities. Till Sept 30, 2023, about Rs. 200m investment has been made in SIHT representing 20% shareholding in the Company.

Shifa International Hospitals Limited — Annexure I

FINANCIAL SUMMARY (PKR Millions)				
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**1 Q FY24**
Property, plant and equipment	6,791.8	7,134.2	7,017.7	6,906.6
Stock-in-trade	658.3	712.0	982.5	952.4
Trade debts	859.2	964.8	1,366.1	1,655.3
Cash & bank balances	2,809.0	2,317.4	2,216.4	1,830.3
Total Assets	16,692.3	17,212.1	18,462.8	18,434.6
Trade and Other Payables	3,251.1	3,587.4	4,644.2	4,444.6
Long-term Debt (incl. current portion and lease liability)	4,550.8	3,555.4	2,468.1	2,239.0
Short-term Debt	0.0	0.0	0.0	0.0
Total Debt	4,550.8	3,555.4	2,468.1	2,239.0
Total Liabilities	8,203.6	7,562.1	7,643.2	7,221.5
Paid up Capital	619.7	632.1	632.1	632.1
Equity (excl. Revaluation Surplus)	7,696.3	8,782.7	9,883.0	10,279.4
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1QFY24**
Net Sales	14,219.7	16,197.6	19,721.4	5,941.4
Gross Profit	14,219.7	16,197.6	19,721.4	5,941.4
Operating Profit	1,320.7	1,405.6	1,848.9	708.1
Finance Costs	360.4	382.4	462.6	114.3
Profit Before Tax	964.3	1,591.5	1,946.2	633.3
Profit After Tax	700.3	1,162.5	1,181.4	393.5
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1QFY24**
Operating Margin (%)	9.3%	8.7%	9.4%	11.9%
Net Margin (%)	4.9%	7.2%	6.0%	6.6%
Funds from Operation (FFO)	1,937.2	1,768.7	2,235.1	816.1
FFO to Total Debt* (%)	42.6%	49.7%	90.6%	145.8%
FFO to Long Term Debt* (%)	42.6%	49.7%	90.6%	145.8%
Gearing (x)	0.59	0.40	0.25	0.22
Leverage (x)	1.07	0.86	0.77	0.70
Debt Servicing Coverage Ratio* (x)	1.2	1.1	1.7	2.4
Current Ratio	1.2	1.1	1.0	1.0
(Stock in trade + trade debts) / STD (x)	0.0	0.0	0.0	0.0
Return on Average Assets* (%)	4.4%	6.9%	6.6%	8.5%
Return on Average Equity* (%)	8.6%	12.8%	11.5%	15.1%

**Annualized, if required*

REGULATORY DISCLOSURES — Annexure II

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		
01-Feb-24	AA-	A-1	Stable	Reaffirmed
29-Dec-22	AA-	A-1	Stable	Reaffirmed
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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Shams ur Rehman Abbasi	CFO	Jan 17, 2024
Mr. Faisal Mehmood	Senior Manager Finance	