

ICRA Lanka Assigns [SL]A- ratings with stable outlook to Nawaloka Hospitals PLC

February 29, 2016

Instrument	Amount (in LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]A-(Stable) Assigned
Senior Unsecured Redeemable Debenture	1,500	[SL]A-(Stable) Assigned

ICRA Lanka Limited, subsidiary of ICRA Limited, A Moody's Investors Service Company has assigned an Issuer rating of [SL]A- (pronounced S L A Minus¹) for Nawaloka Hospitals PLC ("NHL"/ "the Company"). ICRA Lanka has also assigned a rating of [SL]A- for the Company's LKR 1,500 Mn Senior Unsecured Redeemable Debenture Programme, currently listed on the Colombo Stock Exchange . The outlooks on both ratings are stable.

The rating action takes into account the strong brand name and operational track record of the Company, evidenced by the healthy market share enjoyed by NHL in Sri Lanka's private sector healthcare industry. Over the years, the Company has been able to leverage its location advantage to attract leading healthcare consultants which has aided in consistent expansion of service offerings, leading to a healthy consolidated revenue CAGR of ~11% in the last five years. NHL is also one of the few private sector groups to expand its services into the lab diagnostics business and also expand its bed capacities to locations outside of Colombo. These have enabled the Group to partially offset the increasing pricing pressures on account of rising competitive intensity in the market. The Group's financial profile is also relatively comfortable characterized by moderate capital structure, stable operating cash flows and liquid investments of ~LKR 400-500 Million which provide comfort on the liquidity front. ICRA Lanka also positively factors the favorable demand outlook for the healthcare industry, which is expected to witness a sharp increase in demand driven by increasing lifestyle related disorders; given the lack of sufficient hospital penetration, incumbent private players (especially those who are expanding operations) are expected to benefit immensely from the same.

These positives are partially offset by the rising competitive intensity in the industry, which has exerted margin pressure on incumbents – NHL has been recording consistent decline in operating margins (barring the current fiscal). Infrastructure constraints and lack of quality manpower / OPD consultants during day time has also impeded occupancy rates which are relatively lower in comparison to industry levels. Specifically, ICRA Lanka notes NHL's heavy reliance on government sector consultants to drive operations (an issue faced by the private sector in general). Any adverse regulations restricting employment of such consultants or inability to add more consultants owing to competitive pressures could adversely impact operations. Inability to match pricing actions in line with rising wages for employee and consultants could also exert pressure on margins.

To address some of these concerns, NHL has been expanding operations to diversify revenue streams – the recently setup hospital in Negombo, expansion of lab services and focus on higher margin specialties, are efforts in this direction. NHL is also incurring a large -LKR 2.5billion capex for erecting a multi-purpose building, which is aimed at de-bottlenecking operations and addressing the infrastructural constraints. The project is expected to be commercialized before the end of FY2017. These investments have been largely funded by debt, which has led to a sharp increase in financial leverage. Any delays in project execution or lower than expected revenue inflows from these projects could adversely impact profitability and cash flows and thus, impede timely servicing of debt obligations. To support a portion of the debt repayments and the growth plans, the Company is in the process of monetizing some of its non-core assets as well.

Therefore, ability of the Company to execute the projects in a timely manner, bring to closure the proposed monetization plans, attract and retain quality manpower while realizing the targeted revenue growth from the

¹For complete rating scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications

new ventures, would be critical to augment overall cash flows. The same would be key sensitivities to our rating.

Company Profile

Incorporated in the year 1982 by the late Mr. Deshamanya H K Dharmadasa, Nawaloka Hospitals PLC (“Nawaloka” / “the Company”) is a leading private sector hospital chain in Sri Lanka. The business commenced operations in September 1985 and currently has 449 operational beds, being operated under four separate entities. Nawaloka is listed in the Colombo stock Exchange with the next generation of the promoter holding a majority share (~65%). All of the hospitals are operated by wholly owned subsidiaries of the Company. Nawaloka also operates a standalone fully functional referral based laboratory (besides 15 labs) through a joint venture.

On a consolidated basis, for the six month ended September 30, 2015, NHL reported a net profit of LKR 123.4 Million on an operating income of LKR 2,811.0 Million, as against a net profit of LKR 73.5 Million on an operating income of LKR 2,166.1 Million for the similar period ended September 30, 2014. For the year ended March 31, 2015, NHL reported a net profit of LKR 84.3 Million on an operating income of LKR 4,602.4 Million.

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