Lanka Rating Agency

Rating Report

Nawaloka Medicare (Pvt) Ltd

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
24-Jan-2023	BBB	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Nawaloka Medicare (Pvt) Ltd was established in 2013 as a 100% owned subsidiary of Nawaloka Holding PLC which later-on was spun off from the group on 31st Dec 21, with a separate management team. Nawaloka Medicare is no longer associated with Nawaloka Hospital PLC. Post restructuring, Nawaloka Medicare is a 100% owned subsidiary of Nawaloka Care (Pvt) Ltd. It is a family-owned business. Lack of independent oversight at board level and the governance structure needs consideration. At present the Company has wholly owned subsidiary i.e., Nawaloka Care Laboratories (Pvt) Ltd and two branches Nawaloka Premier Centre and Nawaloka Medicare Hospital Gampaha. Nawaloka Medicare has a noticeable presence in the healthcare sector under the brand name Nawaloka offering a range of facilities which is considered a strong element for the company. The business is fueled by a vision to expand and penetrate regionally. The health care sector is dominated by the public sector which accounts for about 95% of medical beds. Private sector health care sector operates consultant driven model and patients follows the consultant. Almost all these consultant practice in the public sector and they operate their consultancy services in the private sector during early morning hours and afternoon onwards. Private sector has been able to obtain a market share by providing value added services. Nawaloka Medicare has a low number of beds in the hospital compared to other hospitals however revenue per bed per day is within industry norm. Nawaloka Medicare benefit from its presence at regional level. At industry segment level, there is low barriers to entry due to high Capex requirement. To expand the capacity, Nawaloka Medicare has already invested in another wing with 35,000 sqft to accommodate more patient rooms as well as channel consultation rooms. Ratings take comfort from Company's sustainable revenue streams over the years and relatively subdued competition at regional level, however, the bottom-line is expected to shrink as benefit of tax exemption expires.

Key rating drivers are based on sustained revenues, Low gearing and strong demand for private sector health care, however the governance and board structure needs improvement.

Disclosure

Name of Rated Entity	Nawaloka Medicare (Pvt) Ltd
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22)
Related Research	Sector Study | Healthcare Industry(Jan-23)
Rating Analysts	Tharika Prabashwari Kodikara | tharika@lra.com.lk | +94 114 500099

Profile

Legal Structure Nawaloka Medicare (Private) Limited ('NMP' or the "Company") is a Company incorporated as per the Companies Act No 7 of 2007 and domiciled in Sri Lanka on 21st June 2013.

Background Previously, NMP was 100% owned by Nawaloka Hospitals PLC. Nawaloka Hospital PLC, as part of their restructuring process, NMP on Dec'21 was sold to Nawaloka Care (Pvt) Ltd and now it stand as a separate entity from Nawaloka Hospital PLC. NMP is a 100% owned subsidiary of Nawaloka Care (Pvt) Ltd. NMP owns Nawaloka Care Laboratories (Pvt) Ltd (100%) and two branches: Nawaloka Premier Centre and Nawaloka Medicare Hospital - Gampaha.

Operations The hospital is principally involved in providing health care facilities which includes; ETU, OPD, 24/7 Pharmacy, Laboratories, Radiology & imagining services, Ambulance, Physiotherapy centre, Dialysis, Endoscopy/ Colonoscopy, Fertility Centre as well providing the facilities such as Hospital rooms & services, Maternity wards, Accident & Emergency, Day surgery, Intensive care unit and Operating theatres.

Ownership

Ownership Structure Nawaloka Medicare is a family owned business. 50% shares are held by Ms. Tracey Dian Dharmadasa and remaining 50% by Mr. Harshula Dharmadasa, who are close family members of the Chairman Mr. Harshith Dharmadasa.

Stability Mr. Harshith Dharmadasa's long association with Nawaloka Group brings new vision and expertise to the business. However, independent oversight will further strengthen the overall structure.

Business Acumen Mr. Harshith Dharmadasa, has served as the deputy chairman and executive director of Nawaloka Hospital PLC. He has been a director of the hospital since 2000 and has over 25 years of executive management experience. He is also the Chairman of Millennium Housing Developers PLC, East West Marketing (Pvt) Ltd, Koala (Pvt) Ltd, Ceyoka (Pvt) Ltd and he was a former director of Nation Lanka Finance PLC

Financial Strength Nawaloka Care (Pvt) Ltd, the unaudited balance sheet as at 31st Mar'22 has a positive net worth and has maintained a low gearing. NMP investment is LKR 1.4 Bn as per the 31st Mar'22 unaudited balance sheet of Nawaloka Care Pvt Ltd.

Governance

Board Structure The board is headed by the founder and Chairman of NMP along with the other two executive directors, who are closely related to him.

Members' Profile Mr. Harshith Dharmadasa has been a director of the Company since 2000. He has 25 years of experience in Executive Management. He is involved in real estate business as well while having experience in different industries.

Board Effectiveness The decision making rests with the chairman, the board and GCEO Mr. Nalaka Niroshana who has over 20 years industry experiences. He was the former head of Finance of Nawaloka Hospital PLC and CEO Mr. Gayan Wanniarachchi who was there since inception. Both are professionally qualified. Board meetings are held every quarter and as and when required. As of 31st March 2022, there exist no board committees and there was no formal policy of recording board minutes.

Financial Transparency KPMG are the external auditors of the company. They have given an unqualified opinion on the financial statements for the year-end March 31, 2022.

Management

Organizational Structure Nawaloka Medicare has a defined organization structure which is divided into four (4) main departments (Medical, HR, Finance, Operations). The operations are headed by the GCEO.

Management Team The Company has an experienced and qualified management team. The GCEO Mr. Nalaka Niroshana, is a graduate in Mathematics and Statistics. He is holding an international MBA. In addition he is a member of CIMA. Mr. Gayan Wanniarachchi who is the CEO is a member of CA and a Member of CPM, a Member of CMA and a Senior Member of AAT Sri Lanka. The Medical Superintendent is a registered medical doctor (RMD) and the chief nursing officer (CNO) is also registered nurse which as per the medical regulations. The other management team is also well-experienced and qualified to handle the company affairs.

Effectiveness The Management ensures its effectiveness through efficient coordination between its SBUs by conducting meetings at different intervals. The experience nursing staff are head hunted from other hospitals and locum nurses which is the norm in the private sector are used extensively.

MIS Hospitals Information System (HIS) is an in-house developed ERP system that allows seamless integration with all functions of the hospital which is accessible to all staff members. NMP has a capable IT team to manage the system and provide support to the operation.

Control Environment The Chief Internal Auditor reports directly to the board. The hospital has obtained the ISO 18000 Occupational Health & Safety Certification which helps the company to safety standardized.

Business Risk

Industry Dynamics The health care sector is dominated by the public sector which accounts for about 95% of medical beds. Private sector health care sector operates consultant driven model and patients follows the consultant. Almost all these consultant practice in the public sector and they operate their consultancy services in the private sector. Private sector has been able to obtain a market share by providing value added services.

Relative Position Nawaloka Medicare is a relatively smaller hospital compared to other hospitals however revenue per bed per day is within industry norm.

Revenues As at 31st March 2022, the main revenue consist of Laboratory. The second largest revenue generator is the consultation and surgery. Pharmacy and other revenue would be the next largest one. But normally main revenue consists of inhouse patient i.e Consultation and surgery. However, with pandemic settling down, lab income is expected to come to pre COVID level. Company is willing to have LKR 1.8Bn of Revenue by the end of this year

Margins The Company is able to maintain a gross margin above 50% during the period under review (FY20 to 6MFY23): During FY22 gross margins stood at 63% (FY21: 59%) which is an increase if 4%. Taking the benefit of tax exemption and low gearing, the company's net profit margin stood 23% during FY22 (FY21: 17%) and 15% in 6MFY23 . NMP is maintain a 60% gross margin as they planned and they will continue this margin in future.

Sustainability Private sector health care services is expected to increase going forward. The government has allowed the consultants to do private practice during off duty hours as created a thriving private sector health care segment. This practice is not expected to be changed in the near future considering the experience and the private practice fees which is a significant sum for the consultant. NMP provides all medical services to the customers which blocks the entering of another competitor brand. As part of their expansion , the hospital has already invested in another wing with 35,000 sqft to accommodate more patient rooms as well as consultation rooms. New wing will expand the capacity of the hospitals further and ensure revenue growth.

Financial Risk

Working Capital Gross working capitals days are 12 days as at 6MFY23 and it has come down to this number from 20 days as at FY20. Trade payable days are averaging 7 days as at 6MFY23 which was 7 days as at FY20. Net working capital days are averaging 5 days as at 6MFY23 which was 12 days in FY20. The improvement is viewed positively.

Coverages FCFO to finance cost has increased from 12.8 in FY20 to 16.2 as at 6MFY23 and EBITDA to Finance cost has increased from 12.9 as at FY20 to 16.3 as at 6MFY23. The improvement was mainly due to lab testing for COVID which is expected to settle down to pre COVID level going forward.

Capitalization Nawaloka Medical capital structure is mainly consisting of long term borrowings and Equity which has given the strength for low gearing. Total borrowing has increased from 13.4% as at FY20 to 22% as at 6MFY23.

Financial Summary
LKR mln

Lanka Rating Agency Limited

Nawaloka Medicare (Pvt) Ltd	Sep-22	Mar-22	Mar-21	Mar-20
Hospital	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,211	2,055	1,413	1,269
2 Investments	-	-	-	-
3 Related Party Exposure	121	5	298	331
4 Current Assets	386	375	508	384
a Inventories	*151*	*93*	*54*	*56*
b Trade Receivables	*57*	*74*	*48*	*74*
5 Total Assets	2,717	2,436	2,219	1,985
6 Current Liabilities	188	183	108	62
a Trade Payables	*42*	*32*	*17*	*27*
7 Borrowings	500	286	223	230
8 Related Party Exposure	132	222	75	13
9 Non-Current Liabilities	124	121	110	194
10 Net Assets	1,773	1,625	1,703	1,485
11 Shareholders' Equity	1,773	1,625	1,703	1,485
B INCOME STATEMENT				
1 Sales	992	2,264	1,268	1,373
a Cost of Good Sold	*(387)*	*(848)*	*(522)*	*(566)*
2 Gross Profit	605	1,416	746	807
a Operating Expenses	(451)	(871)	(595)	(541)
3 Operating Profit	153	545	151	266
a Non Operating Income or (Expense)	*10*	*33*	*19*	*21*
4 Profit or (Loss) before Interest and Tax	163	578	169	287
a Total Finance Cost	*(15)*	*(42)*	*(36)*	*(31)*
b Taxation	-	*(11)*	*87*	*(17)*
6 Net Income Or (Loss)	148	524	220	238
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*209*	*834*	*348*	*384*
b Net Cash from Operating Activities before Working Capital Changes	*209*	*825*	*346*	*379*
c Changes in Working Capital	*(258)*	*225*	*94*	*(171)*
1 Net Cash provided by Operating Activities	(48)	1,049	441	209
2 Net Cash (Used in) or Available From Investing Activities	(213)	(569)	(264)	(50)
3 Net Cash (Used in) or Available From Financing Activities	214	(641)	(83)	28
4 Net Cash generated or (Used) during the period	(47)	(161)	94	187
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-12.4%	78.6%	-7.6%	--
b Gross Profit Margin	61.0%	62.5%	58.8%	58.8%
c Net Profit Margin	15.0%	23.2%	17.4%	17.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-4.9%	46.8%	34.9%	15.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	17.5%	31.5%	13.8%	16.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	34	22	33	20
b Net Working Capital (Average Days)	28	18	27	12
c Current Ratio (Current Assets / Current Liabilities)	2.1	2.1	4.7	6.2
3 Coverages				
a EBITDA / Finance Cost	15.3	20.0	9.9	12.9
b FCFO / Finance Cost+CMLTB+Excess STB	6.7	12.1	7.2	4.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.3	0.4	0.7	0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	22.0%	15.0%	11.6%	13.4%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	7.2%	16.5%	15.6%	13.0%

Credit Rating

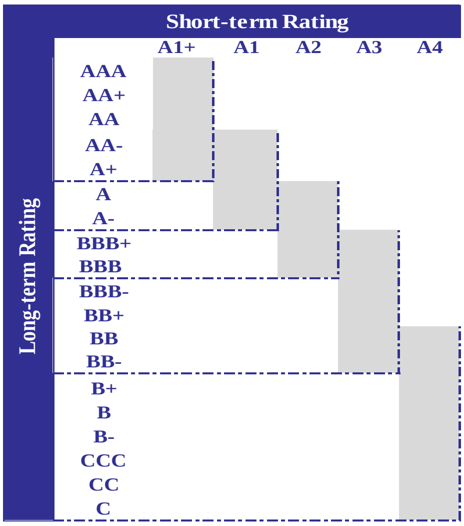
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations, No. 19 of 2021)

Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. (https://www.sec.gov.lk/index.php/credit-rating-agency/)

2) **Conflict of Interest**

i. LRA shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency - 2021)

Restrictions

(3) LRA is not entitled to outsource any part of its work, which has a direct bearing on the act of rating. However, if any other function other than the core function of rating is to be outsourced, such fact shall be brought to the attention of the Client and be included in the Credit Rating Agreement entered into with the Client. (Section 22- Draft Rules Credit Rating Agency - 2021)

(4) LRA cannot appoint any individual as a member of the Rating Committee who has a business development function of the Credit Rating Agency, or who initiates or participates in discussions regarding fees or payments with any Client of Credit Rating Agency. (Section 26- Draft Rules Credit Rating Agency -2021)

Conduct of Business

(5) Prior to the commencement of a rating, LRA does not promise, assure or guarantee to a client that a particular rating will be assigned.

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies shall be made available to the Commission for perusal, upon request. (Section 39- Draft Rules Credit Rating Agency -2021)

Independence & Conflict of interest

(7)LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA´s opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity and independence of its ratings.

(8)LRA does not engage in any other business activity which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency -2021)

(9) LRA structures its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 45 - Draft Rules Credit Rating Agency -2021)

Monitoring and review

(10) For purposes of transparency, LRA publishes sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies are also be disclosed. (Section 42- Draft Rules Credit Rating Agency -2021) LRA monitors below factors specifically, (a) all internal records to support our credit rating opinions; (b) all particulars relating to Clients at our office which shall include the name and registered address and contact numbers of such Client's, names and addresses of their Directors as at the date of rating, its issued share capital and the nature of business; and (c) a comprehensive written record of all complaints received from Clients and action taken thereon by LRA.

(11) LRA ensures confidentiality of all information at all times relating to Clients including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law. (Section 48 - Draft Rules Credit Rating Agency -2021)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the LRA which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination. (Section 51 - Draft Rules Credit Rating Agency - 2021).

Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent