

September 06, 2017

Krishna Institute of Medical Sciences Limited (KIMS)

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based Limits	100.00	[ICRA]A- (Stable); Assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 100.00-crore¹ fund based facilities of Krishna Institute of Medical Sciences Limited (KIMS)². The outlook on the long-term rating is 'stable'.

Rationale

The assigned rating favourably factors in the long operational track record of the KIMS' group in the tertiary healthcare segment; diversified presence across different specialities with top three specialties namely Cardiac sciences (23% of FY2017 revenues), neurosciences (15%) and renal sciences (11%) accounting for 50% of total revenues. The company witnessed robust growth in its operating income at a CAGR of ~18% to Rs. 567.14 crore in FY2017 from Rs. 293.76 crore in FY2013 on account of improvement in inpatient occupancy levels along with increase in bed capacity to 2,120 beds as on March 31, 2017 from 1,030 beds as of March 31, 2013. The rating draws comfort from good financial profile characterized by healthy operating margins which remained range bound between 19-20% over last five years, comfortable capital structure with gearing and TOL/TNW at 0.74 times and 1.31 times respectively as on March 31, 2017 and healthy coverage metrics with interest coverage of 3.6 times, TD/OPBDIT of 2.39 times in FY2017. ICRA also notes the positive demand outlook for healthcare services in the country, due to factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services.

The rating, however, remains constrained by the high reliance on the company on its Secunderabad hospital for revenues and margins which has contributed 73% of the overall revenue and 70% of operating profit during FY2017. The rating is also constrained by the high debt repayments in the near term resulting in low projected DSCR for FY2018; however, ICRA notes that the expected increase in working capital limits by around Rs. 30 crore provides additional liquidity cushion. Also, retention of the doctors to remain a key challenge for the company given high competition in the healthcare industry. Further, the company also intends to increase its presence in Rajahmundry by setting up a new 300 bed hospital over next two year period, ability of the company to execute the capex plans as per timelines remains to be seen.

Going forward, the company's ability to improve bed occupancy and ARPOB of existing hospitals and consequently the operating margins, ramp up of Ongole facility will be the key rating sensitivities. The company's capex plans, financing mix and its impact on capital structure will be key monitoring parameters.

Key rating drivers

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Credit strengths

- **Healthy growth in operating income:** The Company witnessed operating income (OI) growth of 22% in FY2016 and 11% in FY2017 with overall growth in OI at a CAGR of 18% from Rs. 293.76 crore in FY2013 to 567.14 crore in FY2017 primarily driven by improvement in inpatient bed occupancy levels from 65% in FY2015 to 71% in FY2017 coupled with increased bed capacity from 1,030 beds as of March 31, 2013 to 2,120 beds as on March 31, 2017
- **Brand strength and experienced consultants:** 'KIMS' is a strong brand in the states of Telangana and Andhra Pradesh with more than fifteen years of operational track record. The group also has renowned doctors and experienced consultants working on full/part time basis.
- **Diversified mix of revenues:** The Company has a diversified revenue mix from different specialties with Cardiac sciences (23% of FY2017 revenues), neurosciences (15%) and renal sciences (11%) being top three specialties contributing to revenue. KIMS also has good presence in oncology, orthopedics and gastroenterology which helps the company minimise the concentration risk related to any particular specialty
- **Stable operating margins and comfortable indicators:** The company has good financial profile characterized by healthy operating margins (remained range bound between 19-20% from FY2013-FY2017), comfortable capital structure with gearing and TOL/TNW at 0.74 and 1.31 respectively as on March 31, 2017 and healthy coverage metrics with interest coverage of 3.6 times, TD/OPBDIT of 2.39 times in FY2017
- **Positive industry outlook:** Positive demand outlook for healthcare services in the country, due to factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare, under-penetration of healthcare services, technological improvements in early diagnosis and treatment and higher incidence of lifestyle diseases

Credit challenges

- **Heavily reliant on KIMS Secunderabad hospital for revenues and margins:** The hospital at Secunderabad location contributed to 73% of the overall revenue of FY2017 and 70% of operating profit during FY2017; thereby increasing the concentration risk of revenues and margins coming from single location
- **High debt repayments in the near term:** The near term debt repayments are high in FY2018 resulting in low projected DSCR for FY2018. However, ICRA notes that the expected increase in working capital limits by around Rs. 30 crore, provides additional liquidity cushion
- **Retention of doctors to remain a key challenge:** Retaining doctors to remain a key challenge for the company given high competition in the healthcare industry; however the attrition of key consultants has remained low for the group as some of the key doctors and consultants are also the shareholders
- **Ongoing capex program to remain a monitorable:** The Company intends to increase its presence in Rajahmundry by setting up a new 300 bed hospital at an estimated cost of Rs 90 crore over next two year period. Ability of the company to ramp up the Ongole and execute the capex program for Rajahmundry facility within budgeted costs and timelines remains critical

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable Criteria

About the company

Promoted by Dr. Bhaskar Rao Bollineni, a renowned cardiothoracic surgeon, Krishna Institute of Medical Sciences Limited (KIMS) is one of the leading multi-disciplinary integrated private healthcare services providers in Telangana and Andhra Pradesh under the “KIMS Hospital” brand. The company operates six multispecialty hospitals with focus on tertiary and quaternary healthcare.

The oldest hospital in KIMS’ network was established in 2000 at Nellore. It offers a comprehensive bouquet of healthcare services across specialties and super specialties through network of six hospitals. The company’s flagship hospital at Secunderabad and hospital at Rajahmundry have been accredited by the National Accreditation Board for Hospitals and Healthcare Providers, India (“NABH”) and NABH accreditation is in process for the hospital at Kondapur; hospital at Secunderabad is also accredited with ISO 9001:2008.

Key Financial Indicators (Audited)

Particulars	FY2016	FY2017
Operating Income (Rs. crore)	511.82	567.14
Net Profit (Rs. crore)	23.89	33
OPBITDA/OI (%)	20.61%	20.63%
RoCE (%)	13.46%	14.82%
Total Debt / Tangible Net worth (times)	0.94	0.83
Total Debt / OPBITDA (times)	2.42	2.39
Interest coverage (times)	2.85	3.6
NWC/OI (%)	5%	8%

Source: KIMS; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years
Table

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type (Long term/ Short term)	Rated amount (Rs. Crore)	Month - year & rating	Month – year & Rating in FY2017	Month – year & Rating in FY2016	Month - year & Rating in FY2015
1	Term Loan	Long term	100.00	September 2017			
				[ICRA] A- (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1**Details of Instruments**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loans	-	10.5%	Apr-2022	100.00	[ICRA]A- (Stable)

Source: KIMS

Contact Details

Analyst Contacts

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Abhishek Lahoti

+91 40 4067 6534

abhishek.lahoti@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500