ICRA

September 14, 2017

Krishna Institute of Medical Sciences Limited

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long-term Fund-based Limits	283.81 (enhanced from 100.00 earlier)	[ICRA]A-(Stable); Assigned/Outstanding
Long-term/Short-term Non-fund Based Limits	3.60 (enhanced from 0.00 earlier)	[ICRA]A- (Stable)/A2+; Assigned
Long-term/Short-term Unallocated Limits	42.59 (enhanced from 0.00 earlier)	[ICRA]A- (Stable)/A2+; Assigned
Total	**330.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 283.81-crore[1] (revised from Rs 100.00 crore) fund based limits of Krishna Institute of Medical Sciences Limited (KIMS)[2]. ICRA also has assigned long term/short term rating of [ICRA]A-/[ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 3.60 crore non-fund based limits and Rs. 42.59 crore unallocated limits of KIMS. 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, its diversified presence across different specialities with the top three specialties – cardiac sciences (23% of FY2017 revenues), neurosciences (15%) and renal sciences (11%) – accounting for 50% of the total revenues. The company witnessed robust growth in its operating income (OI) 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 an increase in bed capacity to 2,120 beds as on March 31, 2017 from 1,030 beds as on March 31, 2013. The rating draws comfort from the company's good financial profile characterised by healthy operating margins (that remained range bound between 19% and 20% over the 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. Notably, the hospital contributed 73% of the overall revenue and 70% of operating profit in FY2017. The rating is also constrained by the high debt repayments in the near term, resulting in low projected Debt Service Coverage Ratio (DSCR) for FY2018. However, ICRA notes that the expected increase in working capital limits by Rs. 30 crore provides additional liquidity cushion. Also, retention of the doctors remains a key challenge for the company, given the stiff competition in the healthcare industry. Further, the company intends to increase its presence in Rajahmundry, Andhra

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[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*

Pradesh by setting up a new 300-bed hospital over next two-year period. However, KIMS' ability to execute the capex plans as per timelines remains to be seen.

Going forward, the company's ability to improve bed occupancy and Average Revenue per Operating Bed (ARPOB) of existing hospitals, enhance operating margins, and ramp up the Ongole facility will be the key rating sensitivities. Its capex plans, financing mix and the impact of the same on the capital structure will be closely monitored.

Key rating drivers

Credit strengths

- **Healthy growth in OI:** The company witnessed 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. This is 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 on March 31, 2013 to 2,120 beds as on March 31, 2017

- **Brand strength and experienced consultants:** KIMS is a strong brand in Telangana and Andhra Pradesh with more than 15 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%) primarily contributing to the revenue. KIMS also has a good presence in oncology, orthopaedics and gastroenterology, which helps it minimise the concentration risk related to any particular specialty.

- **Stable operating margins and comfortable indicators:** The company has good financial profile, characterised by healthy operating margins (range bound between 19% and 20% during FY2013-FY2017), comfortable capital structure with gearing and TOL/TNW at 0.74 and 1.31 times respectively as on March 31, 2017, healthy coverage metrics with interest coverage of 3.6 times, and 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 contributed to 73% of the overall revenue and 70% of operating profit in FY2017. This increased the concentration risk of revenues and margins.
- **High debt repayments in the near term:** The near-term debt repayments remain high in FY2018, resulting in low projected DSCR for the fiscal year. However, ICRA notes that the expected increase in working capital limits by Rs. 30 crore provides additional liquidity cushion.
- **Retention of doctors likely to remain a key challenge:** Retaining doctors is likely to remain a key challenge for the company given intense 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 be monitored:** 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 the next two-year period. The ability of the company to ramp up the Ongole facility and execute the capex program for the Rajahmundry facility within the 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
Corporate Credit Rating Methodology
Rating Methodology for Hospitals

About the company

Promoted by Dr. Bhaskar Rao Bollineni, a renowned cardiothoracic surgeon, KIMS is one of the leading multi-disciplinary integrated private healthcare service providers in Telangana and Andhra Pradesh under the "KIMS Hospitals" brand. The company operates six multi-specialty 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). The hospital at Kondapur is undergoing the process for NABH accreditation. The hospital at Secunderabad is 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 FY2018	Month – year & Rating in FY2017	Month - year & Rating in FY2016
1	Term Loan	Long Term	265.41	**September 2017**	**September 2017**		
				[ICRA] A- (Stable)	[ICRA] A- (Stable)	-	-
2	Cash Credit	Long Term	18.40	[ICRA] A- (Stable)	-	-	-
3	Bank Guarantee	Long Term/ Short Term	3.60	[ICRA]A- (Stable)/A2+	-	-	-
4	Unallocated	Long Term/ Short Term	42.59	[ICRA]A- (Stable)/A2+	-	-	-

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-2023	265.41	[ICRA]A- (Stable)
Cash Credit	-	10.5%	-	18.40	[ICRA]A- (Stable)
Bank Guarantee	-	-	-	3.60	[ICRA]A- (Stable)/A2+
Unallocated	-	-	-	42.59	[ICRA]A- (Stable)/A2+

Source: KIMS

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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.

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