Krishna Institute of Medical Sciences

February 02, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	18.4	51.50	[ICRA]A-; Rating Reaffirmed; and outlook revised to Positive from Stable
Fund based-Term Loan	265.41	248.30	[ICRA]A-; Rating Reaffirmed; and outlook revised to Positive from Stable
Long-term/Short-term Non-Fund based limits	3.60	3.60	[ICRA]A-/A2+; Rating Reaffirmed; and outlook revised to Positive from Stable
Unallocated Limits	42.59	26.60	[ICRA]A-/A2+; Rating Reaffirmed; and outlook revised to Positive from Stable
Total	**330.00**	**330.00**	

Rating action:

ICRA has reaffirmed the long-term rating assigned to the Rs. 299.8-crore[1] (Rs. 283.81-crore earlier) fund-based limitsof Krishna Institute of Medical Sciences (KIMS)[2]at [ICRA]A- (pronounced ICRA A minus).ICRA has also reaffirmed long term/short term rating assigned to the Rs. 3.60-crore non fund-based limits and Rs. 26.6-crore (Rs. 42.59-crore earlier) unallocated limits at [ICRA]A-/[ICRA]A2+ (pronounced ICRA A two plus). The outlook on the long-term rating is revised to Positive from Stable.

Rationale:

The revision inoutlook factors in the refinancing of major portion ofterm loanwith elongated maturity profile, visibility on IPO timelines and ICRA's expectation of continued healthy operational performance.Post refinancing, the weighted average borrowing cost for KIMS has reduced by 70 bps. Further, the elongation in repayment tenure addresses the earlier concern on low projected DSCR owing to high near-term debt repayment. ICRA notes that KIMS has filed DRHP with SEBI on December 11, 2017for an overall issue size of Rs. 550-600-crore. The proceeds from primary issuance net of issue expenses -estimated to be in the range of Rs. 40-45 crore is expected be used to prepay the long-term debt which will further aidin improvement of coverage indicators. The ratingscontinue tofactor 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 (22% of H1FY2018 revenues), neurosciences (15%) and renal sciences (12%)– accounting for 49% of the total revenues. The company witnessed ~15% growth in its operating income (OI) in H1 FY2018to Rs. 328.11 crore from Rs. 285.14 crore in H1 FY2017 on account of improvement in inpatient occupancy levels along with an increase in bed capacity to 1,920 beds as on September 30, 2017 from 1,570 beds as on September 30, 2016. The rating draws comfort from the company's good financial profile characterised by healthy operating margins

[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

which remained range bound between 19% and 20% over the last five years, comfortable capital structure with gearing and TOL/TNW at 0.76 times and 1.29 times respectively as on September 30, 2017 and healthy coverage metrics with interest coverage of 4.16 times, TD/OPBDIT of 2.18 times in H1 FY2018. ICRA also notes thepositive 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 70% of the overall revenue and 70% of operating profit in H1 FY2018. Also, retention of the doctors remains a key challenge for the company, given the stiff competition in the healthcare industry. Further, the company has deferred the new 300-bed hospital capex programmein Rajahmundry, Andhra Pradesh by six months and expected to start in Q2 FY2019. Instead, it is in the process of acquiring one operational 190-bed hospital in Indore, Madhya Pradesh. While the unit will be set up under a different entity, the acquisition cost will be largely debt-funded – raised on KIMS balance sheet. Although, the projected debt levels are expected to be marginally higher than ICRA's base case assumptions, the coverage indicators are in line due to elongated repayment tenure.

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, IPO timelines and the impact of the same on the capital structure will be closely monitored.

Outlook: Positive

The revision in outlook factors in the refinancing of major portion of term loan with elongated maturity profile, visibility on IPO timelines and ICRA's expectation of continued healthy operational performance. The outlook may be revised to Stablein case of deterioration of debt coverage indicators on account of debt funded capex or if the operational performance isworse than expected.

Key rating drivers

Credit strengths

Healthy growth in OI: The company witnessed ~15% growth in its operating income (OI) in H1 FY2018 to Rs. 328.11 crore from Rs. 285.14 crore in H1 FY2017 on account of improvement in inpatient occupancy levels along with an increase in bed capacity to 1,920 beds as on September 30, 2017 from 1,570 beds as on September 30, 2016.

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 (22% of H1 2018 revenues), neurosciences (15%) and renal sciences (12%) 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 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-H1FY2018), comfortable capital structure with gearing and TOL/TNW at 0.76 and 1.29 times respectively as on September 30, 2017, healthy coverage metrics with interest coverage of 4.16 times, and TD/OPBDIT of 2.18 times in H1 FY2018.

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 70% of the overall revenue and 70% of operating profit in H1 FY2018. This increased the concentration risk of revenues and margins.

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 has deferred the new 300-bed hospital capex programme in Rajahmundry, Andhra Pradesh by six months and expected to start in Q2 FY2019. 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. KIMS has files DRHP with SEBI on December 11, 2017 with expected listing by end of FY2018.

Key financial indicators

	FY2016	FY2017	H1 FY2018
Operating Income (Rs. crore)	511.82	567.14	328.11
PAT (Rs. crore)	23.89	33.00	18.66
OPBDIT/ OI (%)	20.61%	20.63%	18.92%
RoCE (%)	13.46%	14.82%	13.89%
Total Debt/ TNW (times)	0.94	0.83	0.67
Total Debt/ OPBDIT (times)	2.42	2.39	2.18
Interest Coverage (times)	2.85	3.60	4.16
NWC/ OI (%)	5%	8%	5%

Source: KIMS and ICRA research: 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: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date &Rating	Date & Rating in FY2018		Date & Rating in FY2017
					February 2018	September 2017	September 2017	-
1	Cash Credit	Long Term	51.50	51.50	[ICRA]A- (Positive)	[ICRA]A- (Stable);	-	-
2	Term Loan	Long Term	248.30	248.30	[ICRA]A- (Positive);	[ICRA]A- (Stable);	[ICRA]A- (Stable);	-
3	Bank Guarantee	Long Term/Short Term	3.60	3.60	[ICRA]A- (Positive)/ A2+	[ICRA]A- (Stable)/A2+	-	-
4	Unallocated	Long Term/Short Term	26.60	26.60	[ICRA]A- (Positive)/ A2+	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	10.50%	-	51.50	[ICRA]A- (Positive)
NA	Term Loan	December 2018	9.35%	December 2029	248.30	[ICRA]A- (Positive)
NA	Bank Guarantee	-	-	-	3.60	[ICRA]A- (Positive)/A2+
NA	Unallocated	-	-	-	26.60	[ICRA]A- (Positive)/A2+

Source: KIMS

ANALYST CONTACTS

Anjan Ghosh

+91 22 6114 3407

aghosh@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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999

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