Krishna Institute of Medical Sciences Limited

July 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	299.80	244.51	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive)
Non-fund Based Limits	3.60	3.60	[ICRA]A (Stable)/A1; upgraded from [ICRA]A- (Positive)/A2+
Unallocated Limits	26.60	81.89	[ICRA]A (Stable)/A1; upgraded from [ICRA]A- (Positive)/A2+
Total	**330.00**	**330.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 244.51-crore[1] (Rs. 299.8 crore earlier) fund-based limits of Krishna Institute of Medical Sciences Limited (KIMS)[2] from [ICRA]A- (pronounced ICRA A minus) to [ICRA]A (pronounced ICRA A). ICRA has also upgraded long term/short term rating assigned to the Rs. 3.60-crore non fund-based limits and Rs. 81.89-crore (Rs. 26.6 crore earlier) unallocated limits from [ICRA]A-/[ICRA]A2+ (pronounced ICRA A two plus) to [ICRA]A/[ICRA]A1 (pronounced ICRA A one). The outlook on the long-term rating is revised to Stable from Positive.

Rationale

The upgrade in ratings take into account the networth augmentation post the recent private equity investment by General Atlantic (GA) of Rs. 929 crore for 40.6% stake in KIMS in June 2018. The primary issuance stood at Rs. 88 crore; of this, Rs. 85 crore has been utilised to prepay the existing term loans. A combination of networth augmentation and debt reduction has strengthened the capital structure and the coverage indicators are expected to further improve. The rating also takes comfort from the KIMS's ability to sustain its growth momentum; company witnessed ~17.3% growth in operating income (OI) in FY2018 to Rs. 665.7 crore in FY2018 from Rs. 567.1 crore in FY2017 on account of ~12.1% growth in inpatient volumes, 3.9% growth in Average Revenue per Operating Bed (ARPOB) along with marginal improvement in inpatient occupancy levels in FY2018. The rating is also supported by KIMS's good financial profile characterised by healthy operating margins which remained range bound between 19% and 21% over the last five years, comfortable capital structure with gearing and TOL/TNW at 0.73 times and 1.15 times respectively as on March 31, 2018 and healthy coverage metrics with interest coverage of 4.42 times, TD/OPBDIT of 2.25 times in FY2018. The ratings continue to factor in the long operational track record of the KIMS Group in the tertiary healthcare segment, more than two decades experience of management and its diversified presence across different specialities with the top three specialties – cardiac sciences (22% of FY2018 revenues), neurosciences (16%) and renal sciences (12%)– accounting for 50% of the total revenues. 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.

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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

The rating, however, remains constrained by the high reliance on its Secunderabad facility for revenues and profits. Notably, the Secunderabad facility contributed to 68.5% of the overall revenue and 68% of operating profit in FY2018. While the capex programme at Rajahmundry and Indore was deferred till end of FY2019, KIMS is in the process of acquiring majority stake in one operational 300-bed hospital in Ananthapur, Andhra Pradesh, the acquisition cost will be debt-funded – raised on KIMS balance sheet. Any large debt-funded capital expenditure could adversely affect the debt coverage indicators and therefore would be a key rating sensitive factor. Further, retention of the doctors remains a key challenge for the company, given the stiff competition in the healthcare industry.

Outlook: Stable

The Stable outlook reflects ICRA's belief that KIMS will continue to benefit from the strong brand reputation and extensive experience of its promoters in the healthcare industry. The outlook may be revised to 'Positive' if there is substantial growth in revenues supported by increase in ARPOB and occupancy levels at existing hospitals, along with sustaining the profitability at current levels. The outlook may be revised to 'Negative' in case of larger than anticipated debt funded capex or if the operational performance is worse than expected.

Key rating drivers

Credit strengths

Networth Augmentation and prepayment of term loans: Recent private equity investment by GA of Rs. 929 crore for 40.6% stake in KIMS in June 2018 has resulted in networth augmentation and debt reduction (Rs. 85 crore utilised to prepay the existing term loans) has strengthened the capital structure and the coverage indicators are expected to further improve.

Healthy growth in OI: The company witnessed sustained growth momentum with ~17.3% growth in OI in FY2018 to Rs. 665.7 crore from Rs. 567.1 crore in FY2017 on account of ~12.1% growth in inpatient volumes, 3.9% growth in Average Revenue per Operating Bed (ARPOB) coupled with marginal improvement in inpatient occupancy levels in FY2018.

Stable operating margins and comfortable indicators: KIMS's good financial profile characterised by healthy operating margins which remained range bound between 19% and 21% over the last five years, comfortable capital structure with gearing and TOL/TNW at 0.73 times and 1.15 times respectively as on March 31, 2018 and healthy coverage metrics with interest coverage of 4.42 times, TD/OPBDIT of 2.25 times in FY2018

Diversified mix of revenues: The company has a diversified revenue mix from different specialties, with Cardiac sciences (22% of FY2018 revenues), neurosciences (16%) 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.

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 profits: The hospital at Secunderabad contributed to 68.5% of the overall revenue and 68% of operating profit in FY2018. This increased the concentration risk of revenues and margins.

Ongoing capex programme: The capex programme at Rajahmundry and Indore was deferred till end of FY2019. Instead, KIMS is in the process of acquiring majority stake in one operational 300-bed hospital in Ananthapur, Andhra Pradesh, the acquisition cost will be debt-funded – raised on KIMS balance sheet. Any large debt-funded capital expenditure could adversely affect the debt coverage indicators and therefore would be a key rating sensitive factor. Also, the acquisition ICON Krishi Institute of Medical Sciences Private Limited in Vishakapatnam is expected to have operational losses in FY2019. The ability of the company to ramp up the Vishakapatnam facility remains to be seen.

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.

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 seven multi-specialty hospitals with focus on tertiary and quaternary healthcare. The oldest hospital in KIMS’ network was established in 2000 at Nellore. KIMS offers a comprehensive bouquet of healthcare services across specialties and super specialties through network of seven hospitals. The company’s flagship hospital at Secunderabad, hospital at Kondapur and hospital at Rajahmundry have been accredited by the National Accreditation Board for Hospitals and Healthcare Providers, India (NABH). The hospital at Secunderabad is also accredited with ISO 9001:2008. KIMS increased its stake in its associate company KIMS Hospital Enterprises Private Limited (KHEPL) from 43.75% to 50.27% in March 2018. In May 2018, KIMS forayed into Vishakapatnam market through O&M model by acquiring majority stake in ICON Krishi Institute of Medical Sciences Private Limited - a 434-bed facility operated under ‘KIMS ICON’ brand. As on June 30, 2018 promoter and promoter group holds 46% stake, GA holds 40.6% and 13.4% stake is held by minority shareholders.

Key financial indicators

	FY2017 Audited	FY2018 Provisional
Operating Income (Rs. crore)	567.14	665.67
PAT (Rs. crore)	30.08	42.82
OPBDIT/OI (%)	19.82%	20.54%
RoCE (%)	14.05%	14.81%
Total Debt/TNW (times)	0.85	0.73
Total Debt/OPBDIT (times)	2.51	2.25
Interest coverage (times)	3.54	4.42

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 February 2018	September 2017	Date & Rating in FY2017 -
1	Cash Credit	Long Term	50.00	**50.00**	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-
2	Term Loan	Long Term	194.51	**194.51**	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	
3	Bank Guarantee	Long Term/Short Term	3.60	**3.60**	[ICRA]A (Stable)/A1	[ICRA]A- (Positive)/A2+	[ICRA]A- (Stable)/ A2+	-
4	Unallocated	Long Term/Short Term	81.89	**81.89**	[ICRA]A (Stable)/A1	[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	-	9.62%	-	50.00	[ICRA]A (Stable)
NA	Term Loan	January 2018	9.52%	December 2025	194.51	[ICRA]A (Stable)
NA	Bank Guarantee	NA	NA	NA	3.60	[ICRA]A (Stable)/A1
NA	Unallocated Limits	NA	NA	NA	81.89	[ICRA]A (Stable)/A1

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.

For more information, visit www.icra.in

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