Krishna Institute of Medical Sciences Limited

March 01, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit	50.00	50.00	[ICRA]A; reaffirmed and outlook revised to Positive from Stable
Fund-based - Term Loan	194.51	192.53	[ICRA]A; reaffirmed and outlook revised to Positive from Stable
Long-term/Short-term Non-fund Based Limits	3.60	3.60	[ICRA]A/[ICRA]A1; reaffirmed and outlook revised to Positive from Stable
Unallocated Limits	81.89	83.87	[ICRA]A/[ICRA]A1; reaffirmed and outlook revised to Positive from Stable
Total	**330.00**	**330.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the rating outlook factors in the improved liquidity position of Krishna Institute of Medical Sciences Limited (KIMS) with unencumbered cash balance of Rs. 36.6 crore, the healthy cushion available in its existing fund-based facilities, and ICRA's expectation of a continued healthy operational performance resulting in further improvement in its financial profile. KIMS is expected to use a part of the surplus cash to prepay a portion of its long-term debt.

The company reported a 32.2% YoY growth in operating income (OI) to Rs. 434.2 crore in H1 FY2019, backed by increase in bed capacity to 2,554 beds as on September 30, 2018 from 1,920 beds as on September 30, 2017, revenue inclusion from two new subsidiaries (KIMS Kondapur and KIMS Visakhapatnam), and improved performance of the existing hospitals. The existing hospitals reported an 11% YoY growth in OI in H1 FY2019 on account of an increase in the occupancy levels to 76% in H1 FY2019 from 72% in H1 FY2018, along with a 7.3% growth in inpatient volumes and a 3.6% growth in average revenue per operating bed (ARPOB). The ratings continue to factor in the company's healthy financial profile with stable operating margins (which remained range-bound between 18% and 21% over the last five years) and net worth augmentation (post the private equity investment by General Atlantic (GA) in June 2018). It had a comfortable capital structure with gearing and TOL/TNW of 0.5 times and 0.9 times respectively, and healthy coverage metrics with interest coverage and TD/OPBDIT of 5.7 times of 1.9 times respectively, in H1 FY2019.

The ratings also take into account the strong brand reputation and the extensive experience of KIMS's promoters in the healthcare industry. Further, the ratings consider the KIMS Group's long operational track record in the tertiary healthcare segment and its presence across different specialities, with the top three specialties - cardiac sciences (21% of the H1 FY2019 revenues), neurosciences (15%) and renal sciences (12%) - accounting for 48% 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 healthcare awareness and under-penetration of healthcare services.

The ratings, however, remain constrained by KIMS's high reliance on its Secunderabad (Telangana) facility, which contributed 56% to the OI and 64% to the operating profit in H1 FY2019 (although reduced from 68.5% and 68% respectively, in FY2018). The company recently acquired a majority stake in a 250-bed operational hospital at Anantapur, Andhra Pradesh in October 2018 and is acquiring a majority stake in another operational 250-bed hospital in Kurnool, Andhra Pradesh. Going forward, it intends to acquire one 250-bed hospital every year involving a total investment of ~Rs. 80 crore. The annual capex outlay, including regular maintenance capex, is estimated to be Rs. 100-110 crore. With improving accruals and scheduled debt repayments, the projected TD/OPBDIT ratio is expected to remain comfortable. The KIMS Visakhapatnam facility, acquired in May 2018, reported an EBITDA loss of Rs. 5.2 crore during May-December 2018. The company's ability to ramp up the newly-acquired Visakhapatnam and Anantapur facilities remains to be seen. Further, retention of doctors remains a key challenge for the company, given intense competition in the healthcare industry.

Outlook: Positive

The revision in outlook factors in KIMS's improved liquidity position, healthy cushion in existing fund-based facilities and ICRA's expectation of a continued healthy operational performance resulting in further improvement of the financial profile. The outlook may be revised to Stable in case the debt indicators deteriorate on account of higher-than-expected debt-funded capex, or if the operational performance is worse than expected.

Key rating drivers

Credit strengths

Healthy growth in OI - The company reported a 32.2% YoY growth in OI to Rs. 434.2 crore in H1 FY2019, backed by increase in bed capacity to 2,554 beds as on September 30, 2018 from 1,920 beds as on September 30, 2017, revenue inclusion from two new subsidiaries, and improved performance of the existing hospitals. The existing hospitals (excluding KIMS Kondapur and KIMS Visakhapatnam) reported an 11% YoY growth in OI in H1 FY2019 on account of an increase in the occupancy levels to 76% in H1 FY2019 from 72% in H1 FY2018, along with a 7.3% growth in inpatient volumes and a 3.6% growth in ARPOB.

Healthy financial profile - The company's financial profile is healthy with stable operating margins (which remained range-bound between 18% and 21% over the last five years) and net worth augmentation (post GA's private equity investment in June 2018). It had a comfortable capital structure with gearing and TOL/TNW of 0.5 times and 0.9 times respectively, and healthy coverage metrics with interest coverage and TD/OPBDIT of 5.7 times and 1.9 times, in H1 FY2019.

Diversified revenue mix - The company has a revenue mix from diverse specialties, with cardiac sciences (21% of the H1 FY2019 revenues), neurosciences (15%) and renal sciences (12%) primarily contributing to the revenues. KIMS also has a good presence in oncology, orthopaedics and gastroenterology, which helps it minimise the concentration risk related to any specialty.

Brand strength and experienced consultants - KIMS, a strong brand in Telangana and Andhra Pradesh, has over 15 years of operational track record. The Group also has renowned doctors and experienced consultants working on a full/part-time basis.

Positive industry outlook - ICRA notes the positive demand outlook for healthcare services in India. This is 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 increased incidences of lifestyle diseases.

Credit challenges

Majority of revenues and profits from KIMS Secunderabad - The company is highly reliant on its Secunderabad facility, which contributed 56% to the OI and 64% to the operating profit in H1 FY2019 (although reduced from 68.5% and 68% respectively, in FY2018).

Ongoing capex program - KIMS is acquiring a majority stake in an operational 250-bed hospital in Kurnool. Going forward, it intends to acquire one 250-bed hospital every year involving a total investment of ~Rs. 80 crore. The annual capex outlay, including regular maintenance capex, is estimated to be Rs. 100-110 crore. The company's ability to ramp up the newly-acquired Visakhapatnam and Ananthapur facilities remains to be seen.

Retention of doctors to remain key challenge - Retaining the doctors is likely to remain a key challenge for the company, given intense competition in the healthcare industry. However, the attrition of key consultants remains low for the Group as some of the key doctors and consultants are also the shareholders.

Liquidity position

The company's liquidity position is strong with unencumbered cash balance of Rs. 36.6 crore as on September 30, 2018 and healthy cushion in the existing fund-based facilities. The fund-flow from operations remained positive over the years on account of low working capital intensity and healthy profitability levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KIMS. As on September 30, 2018, the company had four subsidiaries, which are enlisted in Annexure-2.

About the company

Promoted by Dr. Bhaskar Rao Bollineni, a renowned cardiothoracic surgeon, KIMS is a leading multi-disciplinary integrated private healthcare service provider in Telangana and Andhra Pradesh under the KIMS Hospitals brand. The company operates eight multi-specialty hospitals with focus on tertiary and quaternary healthcare. The oldest hospital in its network was established in 2000 at Nellore. The company's flagship hospital at Secunderabad, its hospital at Kondapur (Telangana) and its hospital at Rajahmundry (Andhra Pradesh) have been accredited by the National Accreditation Board for Hospitals and Healthcare Providers, India (NABH). The Secunderabad hospital is also accredited with ISO 9001:2008. In October 2018, KIMS forayed into the Ananthapur market by acquiring a majority stake in a 250-bed facility, operated under the KIMS Saveera brand. As on September 30, 2018, the promoter and promoter Group held a 46% stake in the company, GA held a 40.6% stake and the minority shareholders held a 13.4% stake.

Key financial indicators* (audited)

	FY2017	FY2018	H1 FY2019
Operating Income (Rs. crore)	567.1	663.7	434.2
PAT (Rs. crore)	-70.8	-47.8	-72.5
OPBDIT/OI (%)	19.8%	20.6%	17.5%
RoCE (%)	-3.7%	1.3%	-10.7%
Total Debt/TNW (times)	-6.6	-6.3	0.5
Total Debt/OPBDIT (times)	6.4	6.3	1.9
Interest Coverage (times)	3.5	4.4	5.7

*Source: KIMS; *: on account of IndAs 109 adjustment*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years			
					Date & Rating		Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	March 2019	July 2018	February 2018	September 2017	-	-
1	Cash Credit	Long Term	50.00	50.00	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-
2	Term Loan	Long Term	192.53	192.53	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-
3	Bank Guarantee	Long Term/ Short Term	3.60	3.60	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	-
4	Unallocated	Long Term/ Short Term	83.87	83.87	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]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	-	9.6%	-	50.00	[ICRA]A(Positive)
NA	Term Loan	January 2018	9.5%	March 2031	192.53	[ICRA]A(Positive)
NA	Bank Guarantee	-	-	-	3.60	[ICRA]A(Positive)/[ICRA]A1
NA	Unallocated	-	-	-	83.87	[ICRA]A(Positive)/[ICRA]A1

Source: KIMS

Annexure-2: List of companies considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Arunodaya Hospitals Private Limited	57.83%	Full Consolidation
KIMS Hospital Enterprises Private Limited	50.27%	Full Consolidation
ICON Krishi Institute of Medical Sciences Private Limited	51.00%	Full Consolidation
KIMS Saveera Hospital Private Limited	80.00%	Full Consolidation

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About ICRA Limited:

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