

May 23, 2022

RVM Healthcare Private Limited: [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	125.00	[ICRA]BBB (Stable) assigned
Total	125.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating draws comfort from the long tenor of the lease agreement entered into by RVM Healthcare Private Limited (RVM) with KIMS Hospital Enterprises Private Limited (KHEPL), which is an ~86% subsidiary of Krishna Institute of Medical Sciences Limited (KIMS). The lease agreement is valid for 20 years with a lock-in period of 10 years, which covers the entire tenor of the term loan availed by the company, mitigating the market risk to a large extent. The ratings also draw comfort from the strong business linkages with its counterpart, KHEPL and the KIMS Group, which have a strong credit profile. The asset being built by RVM is critical for the expansion plans of KHEPL. Moreover, KHEPL has given Rs. 45 crore rental deposit to RVM, which is being used to fund this real estate project and cannot be repaid during the tenor of the loan. Ratings also consider RVM's strong financial flexibility given its association with the KIMS Group.

However, the ratings are constrained by the high execution risks as construction is at a nascent stage. Moreover, approval for the project's building construction is still awaited; any major delay in receipt of approval would delay the handover of the asset to KHEPL and could also increase the project cost. Moreover, the company is exposed to increase in steel and other input costs, which would impact the construction cost. The rating is also constrained by the company's modest coverage metrics as indicated by cumulative DSCR of 1.01 times. However, the five-year average DSCR is comfortable at 1.2 times and given the long tenor of the lease agreement, it would have the flexibility to refinance its debt.

The Stable outlook on the rating reflects ICRA's belief that the company will maintain its credit profile given the long tenor lease agreement with a strong counterparty.

Key rating drivers and their description

Credit strengths

Long tenor of the lease agreement with lock-in period of 10 years – RVM has entered into a lease agreement with KHEPL for 20 years with a lock-in period of 10 years. The loan availed for construction has a tenor of 10 years. Long tenor of the lease agreement and lock-in period during the entire tenor of the loan mitigates the market risk to a large extent.

Strong counterparty and strategically important asset to the counterparty – KHEPL is currently operating a 250-bed facility in Kondapur, Hyderabad, from a leased premise and plans to expand its capacity to ~700 beds. Business linkages between RVM and KHEPL are strong given that RVM's asset is critical for KHEPL's expansion plans. Moreover, KHEPL is already invested in the project with a rental deposit of Rs. 45 crore, which has been used to part fund the project. Additionally, KHEPL has been paying rentals to RVM since October 2021. Ratings draw comfort from the healthy credit profile of the KIMS Group and KHEPL, and criticality of the asset to the expansion plans of KHEPL. Moreover, RVM has a strong financial flexibility given the long tenor of the loan and since the promoters have a longstanding association with the KIMS Group.

Credit challenges

Execution risks as construction is in nascent stages – RVM procured the land for the project and excavation work is underway. A few approvals required for the construction have been received; however, approval from for construction is yet to be received. The project faces execution risks given the nascent stage of construction; any delays in approvals or construction would delay the handover of the asset to KHEPL and could also increase the project cost. Moreover, the company is exposed to increase in steel and other input costs, which would impact the construction cost.

Modest coverage metrics – The company's coverage metrics are modest as indicated by cumulative DSCR of 1.01 times. However, the five-year average DSCR is comfortable at 1.2 times and given the long tenor of the lease agreement, it would have the flexibility to refinance its debt.

Liquidity position: Adequate

Liquidity is adequate as funding for the building construction is tied-up. Expected rental receipts of Rs. 8.4 crore in FY2023 will be adequate to meet interest obligations of Rs. 6.66 crore during the year.

Rating sensitivities

Positive factors – ICRA could upgrade RVM's ratings if the company completes the project without any time and cost overruns while improving its debt coverage metrics.

Negative factors – Negative pressure on the ratings may arise if there is significant time overrun impacting the operations of the proposed hospital or any material cost overrun without commensurate increase in rentals impacting the debt metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Rating Methodology Rating Methodology - Lease Rental Discounting (LRD)
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone financials have been considered for arriving at the rating

About the company

RVM Healthcare Private Limited was incorporated in June 2021 by a group of KIMS employees. It will be constructing a building at Kondapur, Hyderabad, on a land parcel of 2.06 acres with a leasable area of 6.45 lakh square feet. The company has acquired the land for developing the project. It has also entered into a 20-year lease agreement with KIMS Hospital Management Private Limited for the entire leasable area.

Key financial indicators: Not applicable as it is a project company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 22, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 23, 2022			
1	Term Loans	Long-term	125.00	44.7	[ICRA]BBB (Stable)	NA	NA	NA

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	August 26, 2021	NA	FY2032	125.00	[ICRA]BBB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Srikumar K

+91 044 45964318

ksrikumar@icraindia.com

Nithya Debbadi

+91 040 40676515

nithya.debbadi@icraindia.com

Akshay Dangi

+91 040 40676528

akshay.dangi@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

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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