

April 28, 2023

Christian Medical College Vellore Association: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loans	870.00	820.00	[ICRA]AA (Stable); reaffirmed
Short-term fund-based facilities	45.00	45.00	[ICRA]A1+; reaffirmed
Long term/Short-term fund based – unallocated	-	50.00	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Total	915.00	915.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings outstanding on the bank lines of Christian Medical College Vellore Association (CMC/the trust) consider ICRA's expectation of a sustained financial performance in the near to medium term, supported by its strong business profile and liquidity position. CMC has strong brand equity, with presence for over 100 years, and is a reputed hospital in Vellore (Tamil Nadu), attracting patients from across the country. It provides over 120 specialties including Hematology, Oncology, Gastroenterology and Neurology. Further, its medical college offers over 110 courses and has been consistently ranked among the top three medical colleges in India by the National Institutional Ranking Framework (NIRF) of Ministry of Human Resource Development, for the last several years. The ratings favourably consider CMC's healthy financial profile, characterised by stable revenues, healthy net cash accruals, and comfortable capital structure and coverage metrics. CMC's liquidity position is expected to remain strong, supported by its healthy cash accruals, sizeable cash and bank balance (~Rs. 520.0 crore as on January 31, 2023) and periodic donations, in the absence of debt-funded capex plans over the medium term.

The demand outlook for the healthcare sector remains favourable supported by several structural factors including rising lifestyle diseases, technological advancements supporting early diagnosis and treatment, increasing medical tourism and health awareness, under-penetration of healthcare services amid population increase, widening medical insurance coverage and better affordability by virtue of increasing per capita income. These augur well for CMC and provide revenue visibility over the medium term, despite the competition in the healthcare industry. ICRA expects CMC's debt metrics and liquidity position to remain strong over the medium term, in the absence of debt-funded capex plans. However, CMC's moderately high geographic concentration is expected to continue, although patients from multiple states across India mitigates the risk to an extent. Further, offering education services at subsidised fees and concessional/free medical services in the hospital could restrict margin expansion.

Key rating drivers and their description

Credit strengths

Established brand presence of over 100 years; consistently ranked among the top medical institutions in India – CMC has been in existence for over 100 years and is a reputed hospital, attracting patients from across the country. It has a capacity of 3,370 beds (as on December 31, 2022). It also provides concessional/free services, as part of its initiative to provide quality healthcare to the underprivileged. The medical college offers over 110 courses and has been consistently ranked among the top three medical colleges in India by the National Institutional Ranking Framework (NIRF) of Ministry of Human Resource Development, for the last several years.

Diversified revenue streams – CMC derives its revenue from over 120 specialties including Hematology, Oncology, Gastroenterology and Neurology. Further, the revenues are well diversified with the top 10 specialties contributing to less than 30% of the total hospital revenues in 9M FY2023. The diversification mitigates risks arising from any change in disease patterns that would require the hospital to realign its specialty mix over a period to ensure sustainability in revenues.

Healthy financial profile – The trust has a healthy scale of operations with revenues of Rs. 1,686.3 crore (including concessional/free work) in 10M FY2023. The revenues have witnessed a compounded annual growth rate of 8.7% in the last five years, aided by enhanced bed capacity, increasing complexity of treatments and inflation. The trust has had healthy annual accruals of close to Rs. 200 crore per year, in the last five years (barring FY2021, which was impacted by the Covid-19 pandemic), and this, along with periodic donation receipts has resulted in healthy capital structure and coverage metrics, despite the recent debt-funded capex undertaken. The net gearing stood at 0.2 time as on January 31, 2023, while the net debt/OPBDITA was ~1.5 times as on January 31, 2023. CMC's liquidity position also remains strong, supported by its healthy cash accruals and sizable cash and bank balance of ~Rs. 520.0 crore as on January 31, 2023 (excluding the cash parked under endowment funds, which is for restricted use). Overall, CMC's financial profile is healthy and is expected to remain so going forward as well.

Favourable demand outlook – The demand outlook for the healthcare sector remains favourable supported by several structural factors including rising lifestyle diseases, technological advancements supporting early diagnosis and treatment, increasing medical tourism and health awareness, under-penetration of healthcare services amid population increase, widening medical insurance coverage and better affordability by virtue of increasing per capita income. These augur well for CMC and provide revenue visibility over the medium term, despite the competition in the healthcare industry.

Credit challenges

Moderately high geographic concentration – The trust derives a major part of its revenue from the campuses located in Vellore/Kannigapuram and satellite centres around these facilities, although it also has presence in Chittoor (Andhra Pradesh). This exposes its earnings and cash flows to concentration risks arising from regional-specific issues. However, CMC's moderately high geographic concentration is expected to continue, although patients from multiple states across India mitigates the risk to an extent. Also, CMC's strong brand equity, its reputation and established presence for several decades augur well for the trust.

Reduction in YTD FY2023 occupancy with capacity addition; subsidised fares restrict margin expansion – CMC's occupancy moderated to 63% in 9M FY2023 compared to 68% in FY2022 impacted primarily by the increase in capacity, with commencement of the new facility in Kannigapuram. However, occupancy is expected to gradually increase going forward supported by ramp-up in operations in the new hospital and favourable demand outlook. CMC provides education services at subsidised fees compared to other private players. Further, it provides concessional/free services, as part of its initiative to provide quality healthcare to the underprivileged; free services constituted 14.8% of revenues in 9M FY2023. All these have restricted margin expansion, and CMC's operating margin stood at 10.2% in 10M FY2023 (8.3% in FY2022). Margins are expected to remain at similar levels going forward as well, given the focus on free work and the subsidised fees for the medical college.

Competition in the healthcare industry – CMC is exposed to competition from other hospitals pan-India, which could restrict revenue growth and margin improvement. However, its strong brand equity, reputation, established presence for several decades, and favourable demand outlook mitigate the risk to a large extent.

Liquidity position: Strong

CMC's liquidity position is expected to remain strong, supported by its healthy cash accruals, sizeable cash and bank balance of ~Rs. 520.0 crore (excluding the cash parked under endowment funds, which is for restricted use) and undrawn working capital lines of Rs. 40.0 crore as on January 31, 2023. Further, the trust also receives periodic donations. As against these sources of cash, the trust has annual capex commitments of ~Rs. 120.0-150.0 crore during FY2024 and FY2025 (including ~Rs.

75.0 crore for the upcoming pediatric ward), which is expected to be funded through a mix of internal accruals and donations. CMC has repayment obligations of Rs. 36.0 crore in FY2024 and Rs. 58.5 crore in FY2025 on its existing loans, and no incremental debt is envisaged going forward. Overall, ICRA expects CMC to be able to meet its near-term commitments through internal sources of cash and yet be left with sufficient cash surplus.

Rating sensitivities

Positive factors – An upgrade is unlikely in the near term given CMC’s scale of operations and concentrated presence in the Vellore market. However, ICRA may upgrade CMC’s long-term rating if there is significant increase in scale and improvement in profitability, apart from geographical diversification.

Negative factors – Negative pressure on CMC’s ratings could emerge with sharp deterioration in the earnings, or significant rise in net debt, leading to deterioration in the credit profile. Specific credit metrics that could lead to downgrade include Net Debt / OPBITDA greater than 1.5 times on a sustained basis.

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 CMC’s consolidated financials. Details are provided in Annexure 2

About the company

Christian Medical College Vellore Association operates a tertiary care hospital (CMC hospital) and an educational and research institute in Vellore, Tamil Nadu. It was founded in 1900 by an American missionary Dr. Ida S. Scudder as a single bed hospital and is now one of the most prominent medical establishments in India. The trust derives a major part of its revenue from the campuses located in Vellore/Kannigapuram and satellite centres around these facilities, although it also has presence in Chittoor (Andhra Pradesh). However, CMC attracts patients from multiple states across India. The hospital had over 120 specialised departments and 3,370 beds as on December 31, 2022. The medical college offers over 110 courses and has been consistently ranked among the top three medical colleges in India by the National Institutional Ranking Framework (NIRF) of Ministry of Human Resource Development, for the last several years. The hospital network served ~1.3 lakhs in-patients and ~25.0 lakh out-patients in FY2022.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	1,288.2	1,803.0
PAT	-52.3	130.2
OPBDIT/OI	-3.1%	8.3%
PAT/OI	-4.1%	7.2%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	-13.6	5.3
Interest coverage (times)	-18.8	35.6

Amount in Rs crore; Source: Trust, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the CMC in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore) as on March 31, 2023	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Apr 28, 2023	-	Feb 09, 2022	Jan 11, 2021	Aug 31, 2020
1 Term Loans	Long-term	820.00	820.00	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable) ISSUER NOT COOPERATING*
2 Fund based bank facilities	Short term	45.00	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ ISSUER NOT COOPERATING*
5 Unallocated	Long term and short term	50.00	-	[ICRA]AA (Stable) / [ICRA]A1+	-	-	-	-

*Issuer did not co-operate; based on best available information.

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Short-term fund-based facilities	Simple
Long term/Short-term fund based – unallocated	Not applicable

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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY 2019	8.00%	FY2033	820.00	[ICRA]AA (Stable)
NA	Working capital demand loan	FY2022	-	-	45.00	[ICRA]A1+
NA	Unallocated Limits	-	-	-	50.00	[ICRA]AA (Stable)/[ICRA]A1+

Source: CMC

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

Annexure II: List of entities considered for consolidated analysis

Name	Ownership	Consolidation approach
CMC Vellore Campus	100.00%	Full consolidation
CMC Chittoor Campus	100.00%	Full consolidation
CMC Kannigapuram Campus	100.00%	Full consolidation

Source: CMC

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Branches



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