

October 18, 2023

KIMS Hospital Bengaluru Private Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	295.00	[ICRA]A- (Stable); assigned
Total	295.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating factors in KIMS Hospital Bengaluru Private Limited's (KHBPL) strong parentage with 99.99% of its stake held by Krishna Institute of Medical Sciences Limited (KIMS), which has a strong credit profile and an established track record in the healthcare sector. KHBPL is setting up a 400-bed hospital in Mahadevapura, Bengaluru, by converting an existing mall, with a built-up area of 4.82 lakh sft at an estimated cost of Rs. 425 crore, which would be funded through debt of Rs. 295 crore (already tied-up) and the rest through fund infusion from KIMS. While 50% of the property (land and building) is owned by KHBPL, the other 50% has been taken on a long-term lease. As on August 31, 2023, KHBPL incurred Rs. 178.1 crore towards the project, of which Rs. 123 crore was funded through bank debt and the rest through funds from KIMS.

The hospital is expected to become operational from Q3 FY2025. KIMS has extended a letter of comfort (LoC) for the company's entire debt and is expected to support KHBPL whenever required, including infusing funds to meet its rental and interest obligations during the construction and ramp-up period. The rating also factors in the strategic importance of this hospital to the parent as it provides geographic diversification. The rating, however, remains constrained by the construction stage of the project resulting in execution risk. ICRA, however, notes that KIMS has a track record of setting up new hospitals and ramping up operations successfully. The rating also considers the intense competition in the healthcare industry, while timely stabilisation of operations remains critical given the debt-funded capex towards the project.

The Stable outlook on the rating reflects ICRA's opinion that the company would be able to complete the project construction in a timely manner and would continue to receive support from its parent.

Key rating drivers and their description

Credit strengths

Strong parentage and support from parent company – KHBPL is a 99.99% subsidiary of Krishna Institute of Medical Sciences Limited, which has a strong track record in the healthcare sector and currently operates 12 hospitals in Telangana, Andhra Pradesh, and Maharashtra with a total bed capacity of 3,975. KHBPL would benefit from KIMS' expertise in setting up and ramping up operations of new hospitals successfully. Moreover, KHBPL benefits from the financial support from its parent. KIMS has extended LoC to KHBPL's entire debt. Moreover, it is expected to support KHBPL in a timely manner, as and when required, including supporting it to meet its rental and interest obligations during the construction phase.

Importance of the project to parent company offering diversification in geographic base – KHBPL provides geographic diversification to its parent as Bengaluru is a key market.

Credit challenges

Nascent stage of project leading to execution risks – KHBPL is setting up a 400-bed hospital in Mahadevapura, Bengaluru, by converting an existing mall with a built-up area of 4.82 lakh sft, at an estimated cost of Rs. 425 crore. The project would be funded through Rs. 295-crore debt (already tied-up) and through fund infusion from KIMS. As on August 31, 2023, KHBPL

incurred Rs. 178.1 crore towards the project, of which Rs. 123 crore was funded through bank debt and the rest through funds from KIMS. The hospital expected to become operational from Q3 FY2025. The company faces execution risks as the construction is still in progress. Timely completion of the project without any material time or cost overruns would be a key monitorable.

Debt-funded capex and intense competition in the industry – The company is likely to face competition from other hospitals in the vicinity. Further, it remains exposed to regulatory risks and challenges, as prevalent in the healthcare sector. The company is funding ~70% of the project through debt. While repayments would commence after 15 months from the scheduled commercial date of operations, timely commencement and successful ramp-up of operations remain critical.

Liquidity position: Adequate

The company's liquidity is **adequate**. KHBPL is expected to incur ~Rs. 246 crore over the next 12-15 months, which would be funded by Rs. 172 crore term loan (already tied-up) and over Rs. 65 crore funds from its parent. The company needs to pay lease rentals (Rs. 0.8–1.0 crore per month starting July 2023) and interest during the construction period as well, which will be funded by its parent. The company does not have any repayment obligations till January 2026.

Rating sensitivities

Positive factors – ICRA could upgrade KHBPL's rating if the company completes the project construction in a timely manner without any material time or cost overruns, and if there is a healthy ramp-up of operations. Improvement in the parent's credit profile could also trigger a rating upgrade.

Negative factors – Negative pressure on KHBPL's rating could arise if any material delays in project completion or any major cost overruns impact the company's liquidity position or its debt metrics. Any moderation in the parent's credit profile or weakening of linkages with the parent could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Hospitals
Parent/Group support	Implicit support from its parent, Krishna Institute of Medical Sciences Limited.
Consolidation/Standalone	Standalone

About the company

KIMS Hospital Bengaluru Pvt. Ltd. is a subsidiary of Krishna Institute of Medical Sciences Limited. At present, KIMS owns 99.99% stake in KHBPL. The company is constructing a 400-bed hospital in Mahadevapura, Bengaluru, on a land parcel of 2 acres and 14 guntas with a built-up area of 4.82 lakh sft. The company is converting an existing mall into a hospital at an estimated cost of Rs.425 crore. The company has bought the builder's share (50%) of the property (land and building) at Rs. 130 crore, while the remaining (50%) has been leased from the owner for a period of 30 years. The project will be funded by term loans of Rs. 295 crore and funds of Rs. 130 crore from KIMS. The hospital is expected to start operations from Q3 FY2025.

Key financial indicators (audited): Not Applicable as it is a project stage entity

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 August 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 18, 2023	-	-	-
1	Term loans	295.0	123.0	[ICRA]A-(Stable)	-	-	-

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 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-I	December 21, 2022	NA	FY2034	295.0	[ICRA]A-(Stable)

Source: Company

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

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

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Branches



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