

April 26, 2024

Kids Clinic India Ltd: Long term rating reaffirmed; Short term rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	75.00	35.00	[ICRA]A- (Stable); reaffirmed
Short-term – Fund-based – Overdraft	-	10.00	[ICRA]A2+; assigned
Total	75.00	45.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action continues to consider Kids Clinic India Ltd.'s (Kids Clinic/the company) established position and strong brand equity in the mother and baby care segment under the brand name, "Cloudnine", in addition to its improving geographical presence with 34 centres across multiple cities in India. The ratings also favourably factor in the incremental equity infusion of ~Rs. 359 crore from Temasek Holdings and NewQuest Capital in Q4 FY2024. ICRA also notes that the company had earlier repaid a large portion of its outstanding term loans in FY2024 through equity proceeds received in FY2023, thereby strengthening its debt coverage indicators.

On a consolidated basis, during FY2023, the company witnessed strong YoY revenue growth of 26.3% at Rs. 946.7 crore. On a standalone basis, the company's revenues stood at Rs. 837.2 crore during 9M FY2024. The company's operating margins stood at 13.8% in 9M FY2024 against 14.3% in FY2023 on account of losses from new centres opened in Q4 FY2023 and 9M FY2024. Going forward, the margins are expected to moderate in FY2025 due to OPBDITA losses from new centres that commenced in FY2024 and new centres that are expected to commence operations from FY2025. The margin trajectory of the company amid the ongoing expansion remains a key monitorable.

The rating strengths are, however, partially offset by the company's sizeable capex plans of ~Rs. 280-300 crore towards setting up new centres in FY2025. While the capex is expected to be funded through recent equity infusion and internal accruals, sizeable lease liabilities are expected to be added to the company's overall debt, going forward. Timely commencement of the planned new units without any cost overruns and impact of losses from new centres on the company's operating margins would remain a key rating monitorable. Further, ICRA notes that the company's RoCE remains constrained largely by lower profitability/losses in new centres given the ongoing continuous expansion. The company operates in a niche segment, focusing primarily on maternity care, obstetrics, fertility and gynaecology as well as paediatrics, with limited diversification across specialities. However, the company differentiates itself from other multi-speciality providers with its focus on improving the overall experience of the patients. Any significant debt-funded capex or acquisition, which could impact the credit profile, will be considered as a material event and be evaluated on a case-to-case basis.

The Stable outlook on the long-term rating reflects ICRA's expectations that Kids Clinic will continue to benefit from its strong brand equity in the maternity and paediatric segment, supporting its healthy revenue growth over the near term.

Key rating drivers and their description

Credit strengths

Established player in maternity and paediatric healthcare with strong brand equity – The company is an established player in the field of maternity care with strong brand equity, particularly in Bangalore and Delhi NCR. Kids Clinic follows a strategy

of setting up smaller format hospitals, which helps the company achieve a fast turnaround. Healthy revenue growth is expected over the near term on the back of steady ramp up at the existing centres and improving revenue share from new centres.

Sizeable equity infusion in FY2023 and FY2024 – The company has received sizeable equity infusion of ~Rs. 328 crore in FY2023 and ~Rs. 359 crore in FY2024. The company repaid a major portion of its outstanding term loan liabilities resulting in a sharp decline in its term loans in FY2024. ICRA does not expect material increase in the company's long-term debt, going forward, given that majority of its capex will be funded through the equity proceeds received in FY2024, in addition to its cash accruals.

Geographic diversification reduces dependence on a single unit – The Cloudnine chain of hospitals is reasonably diversified across the country with presence in North (Chandigarh, Gurgaon, Noida, Delhi, Panchkula, Faridabad, Ludhiana), West (Mumbai, Pune) and South India (Bangalore, Hyderabad and Chennai). Going forward, the company plans to set up more units across various metros and tier I cities.

Credit challenges

Sizeable capex expansion plans in FY2025 and FY2026; exposure to project risks in upcoming hospitals – The company has sizeable expansion plans in FY2025. Part of the funds received from the latest fund raiser will be used to fund the company's capex in FY2025. That said, the commencement of the planned new units without any cost overruns and timely ramp up would remain a key rating monitorable for the company. With continuous increase in number of centres over the last few years, the lease liabilities have increased considerably. Consequently, despite sizeable repayment of term loans, the company's TD/OPBDITA stood at 4.9x as on March 31, 2023. Going forward, the company's debt metrics are expected to remain range-bound, given the sizeable lease liabilities that would be added to its overall debt on account of its plans to add new centres in FY2025.

Low RoCE levels due to continuous expansion and losses from new centres – The company had undertaken continuous expansion and incurred capex of ~Rs. 78 crore in FY2023 and is expected to incur capex of ~Rs. 200 crore during FY2024. Further expansion towards addition of new centres is also planned over the near term. Continuous expansion resulting in sizeable losses from new centres has led to low RoCE levels of ~2.7% and ~4% in FY2023 and 9M FY2024, respectively, despite healthy performance of mature centres. The RoCE is expected to remain low over the next two fiscals, given the company's sizeable capex plans. ICRA notes that the healthy growth in scale of operations, gradual improvement in profitability margins of the new centres and stable margins of existing centres are expected to support the improvement in RoCE over the medium term. However, the same remains a key monitorable.

Limited diversification across specialities – The company operates in a niche segment, focusing primarily on maternity care, obstetrics and gynaecology as well as paediatrics, with limited diversification across specialities. However, the company differentiates itself from other multi-speciality providers with focus on improving the overall experience of its patients and creating strong brand equity.

Liquidity position: Adequate

The company had cash and liquid investments of Rs. 75.6 crore and undrawn working capital limits of Rs. 10.0 crore as of 9M FY2024. Further, Kids Clinic received equity proceeds of Rs. 359 crore in March 2024 from Temasek Holdings and NewQuest Capital. The company has capex plans to incur capex of ~Rs. 280-300 crore in FY2025, which is expected to be funded through existing cash and liquid investments (including recent PE infusion) and internal accruals. The company has repayment obligations of ~Rs. 10 crore and Rs. 5 crore in FY2025 and FY2026, respectively. ICRA notes that the debt repayment obligations are expected to be serviced comfortably through existing liquidity and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the company’s ratings if there is ramp up and turnaround in operations of new centres resulting in sustained, notable improvement in OPBITDA margins.

Negative factors – Negative pressure on Kids Clinic rating could arise if higher-than-expected capex or losses in new centres result in Total debt (including lease liabilities)/OPBITDA higher than 6.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology ICRA's Rating methodology for Hospitals
Parent/Group support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has taken consolidated financial statement of Kids Clinic.

About the company

Kids Clinic India Ltd. operates the Cloudnine Group of hospitals, a leading chain of super-specialty hospitals providing all services for mother and baby care, including maternity, fertility, childcare, etc. At present, the company has 34 centers across India in locations including Bangalore, Delhi, Mumbai, Pune, Chennai, Gurgaon, Ludhiana, Chandigarh, etc, of which 12 centres are in Bangalore. The hospital chain was founded by neonatologist, Dr. R Kishore Kumar with his team of co-founders—Mr. Rohit M A, Mr. M Ramachandra and Mrs. Vidya Kumar. The specialities of the hospital chain include maternity care, gynaecology, paediatrics, neonatology, fertility and stem cell banking. The entity’s head office is in Bangalore.

Key financial indicators

Kids Clinic Consolidated	FY2022	FY2023	9M FY2024*
Operating income	749.8	946.7	837.2
PAT	-47.2	-42.6	-19.2
OPBDIT/OI	12.5%	14.3%	13.8%
PAT/OI	-6.3%	-4.5%	-2.3%
Total outside liabilities/Tangible net worth (times)	3.1	1.7	1.7
Total debt/OPBDIT (times)	5.5	4.9	4.1
Interest coverage (times)	1.7	2.0	2.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *indicates provisional financials on a standalone basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Apr 26, 2024	Mar 29, 2023	Mar 21, 2022	Jan 11, 2021
1 Fund based - Term Loan	Long term	35.00	56.9	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)
2 Fund-based – Overdraft	Short term	10.00	-	[ICRA]A2+	--	--	--
3 Fund Based – Working Capital	Short term	-	--	--	--	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Short-term – Fund-based – Overdraft	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	Long term – Fund based - Term Loan	FY2021	~8.00%	FY2032	35.00	[ICRA]A- (Stable)
NA	Short-term – Fund-based – Overdraft				10.00	[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Kids Clinic equity Ownership	Consolidation Approach
Acquity Labs Private Limited	100.0%	Full Consolidation
Birthplace Healthcare Private Limited	100.0%	Full Consolidation

Source: Company

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