December 24, 2024

KIMS Al Shifa Healthcare Pvt. Ltd.: Ratings upgraded to [ICRA]BB+/[ICRA]A4+ and continue on Rating Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash Credit	10.00	10.00	[ICRA]BB+; upgraded from [ICRA]BB; Continues on Rating Watch with Developing Implications
Long-term – Fund-based/ Term Loan	57.50	9.03	[ICRA]BB+; upgraded from [ICRA]BB; Continues on Rating Watch with Developing Implications
Long-term/ Short-term – Non-fund Based	2.00	2.00	[ICRA]BB+/[ICRA]A4+; upgraded from [ICRA]BB/[ICRA]A4; Continue on Rating Watch with Developing Implications
Long-term/ Short-term – Unallocated	5.50	53.97	[ICRA]BB+/[ICRA]A4+; upgraded from [ICRA]BB/[ICRA]A4; Continue on Rating Watch with Developing Implications
Total	**75.00**	**75.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade considers healthy improvement in KIMS Al Shifa Healthcare Pvt. Ltd.'s (KASHPL) credit profile with a healthy growth in revenue and earnings, leading to improved leverage and coverage metrics, which are expected to sustain, going forward. KASHPL's revenue grew by ~15% to Rs. 140.7 crore in FY2024, despite some moderation in occupancy, on the back of higher average revenue per occupied bed (ARPOB). ICRA expects the company to record a revenue growth of 14-18% in FY2025 with likely improvement in occupancy and ARPOB. Its operating margin improved to 15.2% in FY2024 from 11.4% in FY2023 with increased scale, supporting better absorption of fixed overheads. Margins are expected to remain healthy, going forward as well. While the company is expected to add 50 beds over the next three years, the same is expected to be funded through internal accruals. Its financial profile is expected to remain healthy with comfortable leverage and coverage metrics.

The ratings get comfort as the company gets support from KIMS Healthcare Management Limited (KHML), which holds a 51% stake in KASHPL and has an extensive presence in the healthcare industry with strong brand presence in the Kerala market, and a long operational track record of more than two decades. The ratings also consider the company's diversified presence across different specialties, which minimises the concentration risk.

The ratings continue to be on Watch with Developing Implications, given the proposed merger of KHML's parent, Quality Care India Limited (QCIL), with Aster DM Healthcare Limited (Aster DM) in a share swap transaction. The merger is expected to be completed in the next 12-14 months, subject to regulatory and shareholders' approvals. The merged entity is expected to have 38 hospitals and seven medical centres across nine states and 27 cities, which will also include four brands under its umbrella namely Aster DM, CARE Hospitals, KIMSHEALTH and Evercare. ICRA will monitor the impact of the proposed merger on KHML's operations / financial profile. QCIL has acquired a majority stake in KHML in 2024, providing exit to previous investor, TrueNorth Capital Partners LLC, and partial exit to promoters. Blackstone Inc holds majority stake of 72% in QCIL and TPG Inc. holds 24% stake.

The ratings are constrained by KASHPL's moderate scale of operations and its geographical concentration. The company faces stiff competition from local community hospitals and clinics offering similar services at competitive rates. Moreover, the company's operations remain exposed to regulatory risks wherein any restrictive pricing guidelines would impact the company's margins.

Key rating drivers and their description

Credit strengths

Extensive experience of company – KASHPL benefits from its extensive experience in the healthcare industry and a long operational track record of more than two decades. The company also benefits from the strong brand reputation of its parent hospital at Trivandrum.

Diversified revenue mix – The company has a diversified presence across specialities as its top two specialities — orthopaedics (~23%) and general medicine (~10%) — accounted for ~33% of its total revenues in FY2024, reducing the concentration risk. Its significant presence across multiple specialities helps minimise the concentration risk. The company recorded a healthy growth in revenues and earnings in FY2024 and is expected to clock a 14-18% revenue growth in FY2025 with healthy margins. Improved earnings and scheduled repayment of debt led to improved debt metrics. The company's financial profile is expected to remain comfortable, going forward.

Support from parent company, KHML – The majority shareholder, KHML, is expected to support the company in case of any pressure on the company's cash flows or liquidity. KHML provided a Letter of Comfort (LoC) to KASHPL's lenders to ensure timely servicing of financial obligations.

Credit challenges

Moderate scale of operations and high geographic concentration – KASHPL's scale of operations remains moderate, indicated by revenues of Rs. 140.7 crore in FY2024. The revenues of the company improved by ~15% to Rs. 140.7 crore in FY2024 on the back of higher ARPOB. However, the hospital's occupancy moderated to ~55% in FY2024 from ~57% in FY2023 owing to concentration on few elective surgeries, which have higher margins. The company has high geographical concentration in Kerala and its scale is constrained because of its presence in only one city with revenues from a single hospital.

Regulatory risk and competition inherent to operations – KASHPL is exposed to regulatory risks as any restrictive pricing on treatments and pharma sales would impact the company's margins. The company faces intense competition in the region from several large and reputed hospitals.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by cash and bank balances of Rs. 1.7 crore as on March 31, 2024, and expected retained cash flows of Rs. 18-22 crore in FY2025, against repayment obligations of Rs. 6-7 crore in the next 12 months. It is expected to incur capex of Rs. 6-10 crore in FY2025 and Rs. 24-28 crore in FY2026, which would be funded by internal accruals.

Rating sensitivities

Positive factors – The rating watch could be resolved when further clarity emerges on the proposed merger of KHML's parent, QCIL, with Aster DM Healthcare Limited. ICRA could also upgrade KASHPL's ratings if the company demonstrates a sustained increase in its revenues and earnings, leading to improved debt metrics and its liquidity position. An improvement in the parent's credit profile may also lead to ratings upgrade.

Negative factors – The rating watch could be resolved as better clarity emerges on the proposed merger of KHML's parent**,** QCIL, with Aster DM Healthcare Limited. ICRA could downgrade KASHPL's ratings in case of any weakening of support or credit profile of its parent company, KHML. Any significant decline in revenues or profitability, leading to weakening of debt metrics could also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hospitals
Parent/Group support	KHML: The assigned ratings factor in ICRA's expectations that KHML (rated [ICRA]A+/[ICRA]A1; Rating Watch with Developing Implications) will extend financial support to KASHPL, should there be a need, given the strategic importance that KASHPL holds for KHML for meeting its diversification objectives. Both KASHPL and KHML share a common name, which in ICRA's opinion would persuade KHML to provide financial support to KASHPL to protect its reputation from the consequences of a Group entity's distress. Further, KHML has provided an LoC to support shortfall in debt servicing
Consolidation/Standalone	Standalone

About the company

KIMS Al Shifa, incorporated in 1989, runs a multi-speciality hospital in Perinthalmanna (central Kerala), offering tertiary medical care. The hospital caters primarily to Perinthalmanna and its neighbouring districts. KHML acquired a majority stake (51%) in this hospital in January 2015. KIMS Al Shifa hospital is accredited by the National Accreditation Board for Hospitals & Health care Providers (NABH). The hospital has 350 operational beds and has catered to 19,152 in-patients in FY2024.

Key financial indicators (audited)

KIMS Al Shifa	FY2023	FY2024
Operating income	122.6	140.7
PAT	13.1	8.5
OPBDIT/OI	11.4%	15.2%
PAT/OI	10.4%	6.0%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	2.5	1.1
Interest coverage (times)	4.1	7.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2025) Date & rating in FY2025	Chronology of rating history for the past 3 years FY2024		FY2023	FY2022
			Dec 24, 2024	Nov 06, 2023	Aug 14, 2023	Jul 28, 2022	Jun 02, 2021
1 **Term loans**	Long-term	9.03	[ICRA]BB+; Rating Watch with Developing Implications	[ICRA]BB; Rating Watch with Developing Implications	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB- (Stable)
2 **Cash credit**	Long-term	10.00	[ICRA]BB+; Rating Watch with Developing Implications	[ICRA]BB; Rating Watch with Developing Implications	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB- (Stable)
3 **BG/LC**	Long-term / Short-term	2.00	[ICRA]BB+/[ICRA]A4+; Rating Watch with Developing Implications	[ICRA]BB/[ICRA]A4; Rating Watch with Developing Implications	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4
4 **Unallocated**	Long-term /Short- term	53.97	[ICRA]BB+/[ICRA]A4+; Rating Watch with Developing Implications	[ICRA]BB/[ICRA]A4; Rating Watch with Developing Implications	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based/Cash Credit	Simple
Long Term – Fund Based/Term Loan	Simple
Long Term / Short Term – Non-Fund Based	Very simple
Long Term / Short Term – 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 Loans	FY2016	NA	FY2027	9.03	[ICRA]BB+; Rating Watch with Developing Implications
NA	Cash credit	NA	NA	NA	10.0	[ICRA]BB+; Rating Watch with Developing Implications
NA	Bank guarantee	NA	NA	NA	2.0	[ICRA]BB+/[ICRA]A4+; Rating Watch with Developing Implications
NA	Unallocated limits	NA	NA	NA	53.97	[ICRA]BB+/[ICRA]A4+; Rating Watch with Developing Implications

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

ANALYST CONTACTS

Shamsher Dewan
+91 12 44545300
shamsherd@icraindia.com

Srikumar K
+91 44 45964318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 6939 6416
nithya.debbadi@icraindia.com

Raviteja Etikala
+91 40 6939 6418
etikala.teja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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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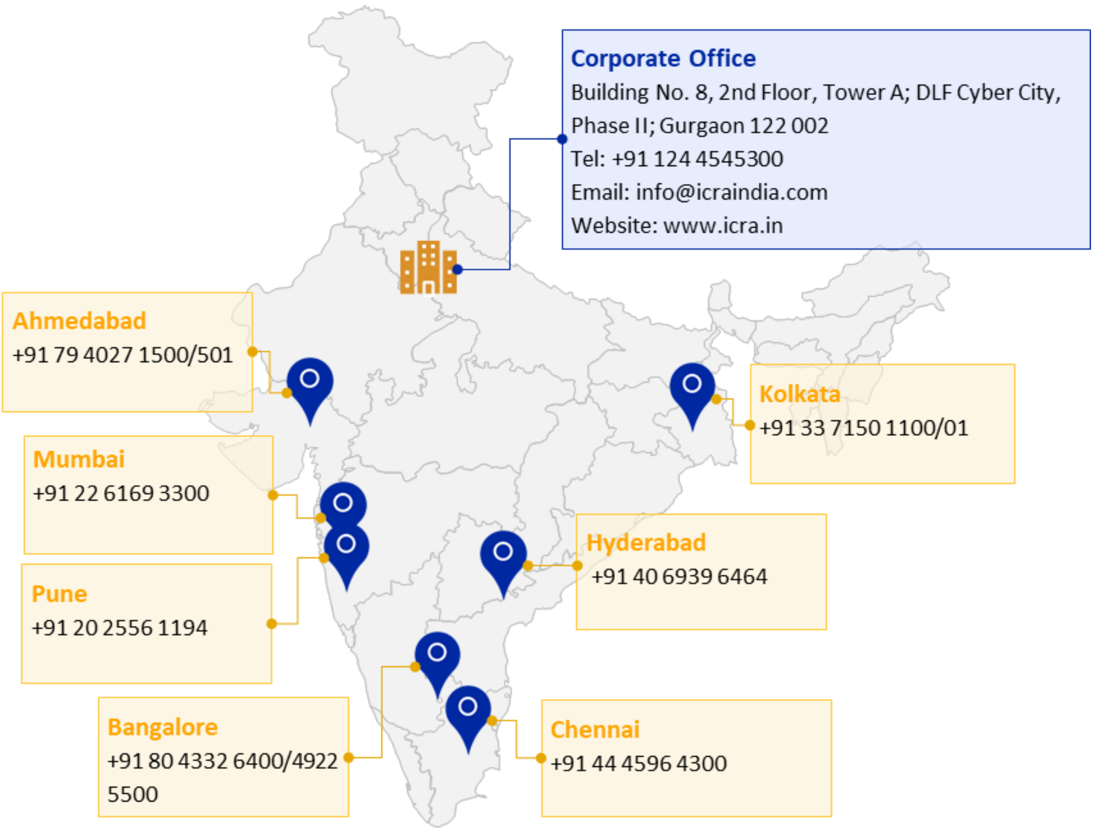
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



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