December 24, 2024

KIMS Healthcare Management Limited: Ratings upgraded to [ICRA]A+/[ICRA]A1 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	25.00	25.00	[ICRA]A+; upgraded from [ICRA]A; continues on Rating Watch with Developing Implications
Long-term – Fund-based/ Term Loan	128.00	110.00	[ICRA]A+; upgraded from [ICRA]A; continues on Rating Watch with Developing Implications
Long-term/ Short-term – Non-fund Based	12.00	12.00	[ICRA]A+/[ICRA]A1; upgraded from [ICRA]A/[ICRA]A2+; continues on Rating Watch with Developing Implications
Long-term/ Short-term – Unallocated	45.00	63.00	[ICRA]A+/[ICRA]A1; upgraded from [ICRA]A/[ICRA]A2+; continues on Rating Watch with Developing Implications
Total	**210.00**	**210.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings on the bank lines of KIMS Healthcare Management Limited (KHML) considers the improvement in its credit profile in FY2025 and expectation of sustained growth in revenues and earnings, leading to improved debt metrics over the medium term. At the consolidated level[1], KHML clocked a revenue growth of ~15% in FY2024 and 15.1% (annualised) in H1 FY2025 on the back of increased occupancy across most of the hospitals and a healthy growth in the average revenue per occupied bed day (ARPOB) with improved case mix. KHML also started a new hospital in Nagercoil, Tamil Nadu in October 2024 with a capacity of 80-85 beds (out of total bed capacity of 160) and is expected to add 250-300 beds (at the consolidated level) over the next two to three years in the existing hospitals. Ramp-up of new capacity and a steady improvement in occupancy at the existing capacity are expected to result in a healthy double digit revenue growth for the company in the near-to-medium term. While KHML's operating margin (OPM) moderated marginally in FY2024 owing to one-time expense of around Rs. 40 crore, it is expected to record a healthy OPM of 24-27%, going forward. A robust growth in revenues and earnings is expected to aid the company in maintaining a healthy debt metrics with total debt / OPBITDA of less than 1 times and DSCR of over 4.5 times.

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, rated [ICRA]A/[ICRA]A1; on Rating Watch with Positive Implications) 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 likely 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 the previous investor, TrueNorth Capital Partners LLC (TrueNorth), and partial exit to promoters. Blackstone Inc holds a majority stake of 72% in QCIL and 24% is held by TPG Inc.

[1] Includes KIMS Healthcare Management Limited, KIMS Al Shifa Healthcare Pvt Ltd, KIMS Bellerose Institute of Medical Sciences Pvt Ltd, KIMS Kollam Multi Speciality Hospital India Pvt Ltd, KIMS Nagercoil Institute of Medical Sciences Pvt Ltd, Spiceretreat Hospitality Services Pvt Ltd and and KIMSHEALTH Executive Leisure Private Limited.

The ratings consider strong brand reputation of KHML’s flagship hospital at Trivandrum, as evident from the improved occupancy rate and ARPOB in the last two years. Further, the ratings continue to consider the long operational track record of KHML in the tertiary healthcare segment and its diversified presence across different specialities as the top two specialities accounted for 24-26% of the total revenues in the last two years. KHML’s significant presence across multiple specialities helps it minimise the concentration risk. The ratings, however, consider high reliance on its Trivandrum facility, which contributed ~76% to the operating income (OI) and almost ~83% to OPBITDA in FY2024, exposing KHML to geographical concentration risk. One of KHML’s subsidiaries (KIMS Bellerose) has been reporting OPBITDA losses since it was acquired in 2013 because of its low occupancy and low-yielding speciality mix. Its other subsidiaries are also relatively smaller compared to the Trivandrum hospital, and hence account for a smaller share of earnings. The ratings also consider intense competition in the Kerala market, where retention of doctors would remain a key challenge. 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

Strong brand reputation in Trivandrum – KHML’s flagship hospital at Trivandrum has a strong brand reputation in Kerala and the nearby districts of south Tamil Nadu. Further, the company benefits from the long operational track record and more than two decades of experience of the promoters in the healthcare industry.

Diversified speciality mix – The company has a revenue mix from diverse specialities. The top two specialities — general medicine (15%) and orthopaedics (10%) — accounted for 25% of its total revenues in FY2024. KHML’s sizeable presence across multiple specialities helps minimise the concentration risk.

Healthy financial profile – The company’s operating income grew by ~15% in FY2024 on the back of healthy demand for healthcare and increase in occupancy and ARPOB. KHML’s operating margins moderated by 190 bps in FY2024 on account of one-time cost of ~Rs. 40.0 crore towards consultation fees, employee payments, doctor payments (one-time incentives) in the backdrop of change in shareholding. The company is expected to maintain healthy operating margins of 24-27% in the near term. As of March 31, 2024, the Group had 1,395 beds on a consolidated basis. The company is expected to add 800 beds in the next three to five years and is likely to incur a capex of Rs. 600-700 crore, which would be largely funded through internal accruals and minimal debt. Bed additions and improved occupancy of the existing capacity are expected to support its revenue growth in the medium term. The company’s capital structure remained comfortable with a gearing of 0.1 times as on March 31, 2024. The company’s debt coverage metrics also remained comfortable in FY2024, as reflected in an interest coverage of 16.7 times (14.0 times in FY2023) and total debt/OPBIDTA of 0.5 times (0.7 times in FY2023). Despite the capex over the near-to-medium term, its debt coverage metrics are expected to remain comfortable.

Credit challenges

High dependence on Trivandrum facility – KHML is highly reliant on its Trivandrum facility, which contributed ~76.0% to its OI and ~83% to its operating profit in FY2024, leading to geographical concentration risk. Despite the bed addition plans across the existing hospitals over the next 3-5 years, reliance on Trivandrum hospital is expected to continue. The company started a new hospital in Nagercoil in October 2024 with a capacity of 80-85 beds and is expected to add 110-120 beds by the end of March 2025. The company's ability to ramp up occupancy and consequently improve OPBITDA levels at hospitals other than Trivandrum remains crucial to reduce its concentration risk.

Regulatory risk and competition inherent to operations – KHML is exposed to regulatory risks as any restrictive pricing on treatments and pharma sales would impact the company’s margins. The company has high geographical concentration in Kerala and faces intense competition in the region from several large, reputed hospitals.

Retention of doctors to remain a key challenge – Despite the competitive incentive mechanism currently offered by KHML to its doctors, their retention would remain a key challenge.

Liquidity position: Adequate

KHML's liquidity remained adequate with unencumbered cash and liquid investments of Rs. 175.7 crore as on March 31, 2024, and a cushion of Rs. 30.2 crore in working capital facilities as on March 31, 2024, against debt repayment obligation of Rs. 26-28 crore for the next 12 months. Further, KHML is expected to generate retained cash flow of more than Rs. 300 crore in FY2025. The company is expected to incur a capex of Rs. 190-210 crore in FY2025 and Rs. 220-240 crore in FY2026, which would be funded through Rs. 90.0 crore of term loan and the rest through internal accruals.

Rating sensitivities

Positive factors – The rating watch could be resolved as better clarity emerges on the proposed merger of its parent, QCIL, with Aster DM Healthcare Limited. ICRA could upgrade KHML's ratings if there is a substantial scale-up of operations while sustaining healthy operating margins, liquidity, and debt metrics.

Negative factors – The rating watch could be resolved as better clarity emerges on the proposed merger of its parent, QCIL, with Aster DM Healthcare Limited. Pressure on the ratings could arise if a large debt-funded capex or a material decline in operational performance results in a steep moderation in profitability or debt metrics on a sustained basis or adversely impact its liquidity profile. Specific credit metrics for ratings downgrade include DSCR below 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hospitals
Parent/Group support	QCIL, holds a 23.7% in KHML and a 90.3% in CIHPL, which in turn holds a 61.5% in KHML. ICRA notes that QCIL is proposed to be merged with Aster DM, subject to regulatory and statutory approvals.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KHML. As on March 31, 2024, the company had six subsidiaries, which are enlisted in Annexure-II

About the company

KHML was set up in 2002 by a group of professionals in Trivandrum. It is a tertiary-care hospital, with 40 speciality departments. The hospital has been accredited by the National Accreditation Board for Hospitals (NABH), the Australian Council on Healthcare Standard International (ACHSI), the National Accreditation Board for Laboratories (NABL), and the NABH Accredited Blood Bank. As on November 30, 2024, the company had five operational hospitals, spread across Trivandrum, Kottayam, Kollam, Perinthalmanna in Kerala and Nagercoil hospital in Tamil Nadu with a total capacity of ~1,475 beds. The company also operates five medical centres and a nursing college in Trivandrum. The company has investments from a private equity investor, Blackstone Inc., through Condis India Healthcare Private Limited (CIHPL) and QCIL. As on September 30, 2024, CIHPL (QCIL holds a 90.3% stake in CIHPL) held a 61.5% stake in KHML, and QCIL held a 23.7% stake in KHML, while the remaining 14.8% stake was held by individual shareholders.

Key financial indicators (audited)

KHML Consolidated	FY2023	FY2024
Operating income	959.7	1,103.0
PAT	141.9	152.7
OPBDIT/OI	25.1%	23.0%
PAT/OI	14.8%	13.8%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.7	0.5
Interest coverage (times)	14.0	16.7

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	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	FY2024		FY2023	FY2022
				Dec 24, 2024	Nov 06, 2023	Aug 14, 2023	Jul 28, 2022	May 31, 2021
1	**Term loans**	Long term	110.00	[ICRA]A+; Rating Watch with Developing Implications	[ICRA]A; Rating watch with Developing Implications	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A-(Stable)
2	**Cash credit**	Long term	25.00	[ICRA]A+; Rating Watch with Developing Implications	[ICRA]A; Rating watch with Developing Implications	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A-(Stable)
3	**BG/LC**	Long term / Short term	12.00	[ICRA]A+/[ICRA]A1; Rating Watch with Developing Implications	[ICRA]A/[ICRA]A2+; Rating watch with Developing Implications	[ICRA]A(Stable)/ [ICRA]A2+	[ICRA]A(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+
4	**Unallocated**	Long term / Short term	63.00	[ICRA]A+/[ICRA]A1; Rating Watch with Developing Implications	[ICRA]A/[ICRA]A2+; Rating watch with Developing Implications	[ICRA]A(Stable)/ [ICRA]A2+	[ICRA]A(Stable)/ [ICRA]A2+	-

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 Loan	FY2020	NA	FY2030	110.00	[ICRA]A+; Rating Watch with Developing Implications
NA	Cash credit	NA	NA	NA	25.0	[ICRA]A+; Rating Watch with Developing Implications
NA	Bank guarantee	NA	NA	NA	6.0	[ICRA]A+/[ICRA]A1; Rating Watch with Developing Implications
NA	Letter of credit	NA	NA	NA	6.0	[ICRA]A+/[ICRA]A1; Rating Watch with Developing Implications
NA	Unallocated limits	NA	NA	NA	63.00	[ICRA]A+/[ICRA]A1; 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:

Company Name	KHML Ownership#	Consolidation Approach
KIMS Healthcare Management Limited	100.0% (rated entity)	Full Consolidation
KIMS Al Shifa Healthcare Private Limited	51.0%	Full Consolidation
KIMS Bellerose Institute of Medical Sciences Private Limited	93.6%	Full Consolidation
KIMS Kollam Multi Specialty Hospital India Private Limited	100.0%	Full Consolidation
KIMS Nagercoil Institute of Medical Sciences Private Limited**	100.0%	Full Consolidation
Spiceretreat Hospitality Services Private Limited	100.0%	Full Consolidation
KIMS HEALTH Executive Leisure Private Limited	100.0%	Full Consolidation

Source: *KHML; Stake as on September 30, 2024*
Note: ICRA has considered consolidated financials of the parent KHML and its subsidiaries while assigning the ratings.
***KIMS Nagercoil Institute of Medical Sciences Private Limited is a non-operational entity as on September 30, 2024*

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

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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