May 31, 2021

KIMS Healthcare Management Limited: Ratings reaffirmed at [ICRA]A-(Stable)/[ICRA]A2+

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	173.00	173.00	[ICRA]A-(Stable); reaffirmed
Fund-based Cash Credit	25.00	25.00	[ICRA]A-(Stable); reaffirmed
Long-term/Short-term Non-fund Based Limits	12.00	12.00	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
Total	**210.00**	**210.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation takes into account the strong brand reputation of KIMS Healthcare Management Limited (KHML) pertaining to its flagship hospital at Trivandrum in Kerala as evident from high occupancy rate and healthy average revenue per occupied bed (ARPOB). Further, the ratings continue to consider the long operational track record of KHML in the tertiary healthcare segment and its diversified presence across different specialties as the top three specialties account for ~30-35% of the total revenues. KHML's sizeable presence across multiple specialities helps it minimise the concentration risk. The ratings consider the company's healthy financial risk profile with operating margins of 15.0%-20.0% in the last three years, and comfortable capital structure and coverage indicators with augmentation of net-worth post the private equity investment by True North in March 2017.

The ratings, however, consider high reliance on its Trivandrum facility, which contributed 72.5% to the OI and almost 89.0% operating profit in FY2021, exposing KHML to geographical concentration risk. Two of KHML's subsidiaries (KIMS Bellerose and KIMS Kollam) have been reporting EBITDA losses since they were acquired in 2013 because of their low occupancy and low-yielding specialty mix. These subsidiaries remain dependent on KHML for financial support and the company's ability to ramp up the occupancies and consequently achieve EBITDA break-even remains a rating sensitivity. ICRA notes that KHML's revenues are expected to decline by ~22% in FY2021 as deferral of elective procedures due to Covid-19 pandemic and lockdowns impacted occupancy across the hospitals While the second wave and localised lockdowns are also expected to impact the regular procedures to an extent in the current year, the impact of the same is mitigated to an extent from increased demand for Covid-19 care as 50% of the bed capacity is dedicated towards the same in the Trivandrum hospital. Moreover, demand for non-Covid-19 procedures is also better in the current year, despite lockdowns. Moreover, increased bed capacity post the completion of the on-going capex would augur well for the company's growth. ICRA considers high competition in the Kerala market, wherein, notwithstanding the competitive incentive mechanism offered by KHML to its doctors, retention of doctors would also remain a key challenge.

Key rating drivers and their description

Credit strengths

Strong brand reputation in Trivandrum – KHML has strong brand reputation pertaining to its flagship hospital at Trivandrum, Kerala. Further, the company benefits from the long operational track record and the two-decade long experience of the promoters in the heathcare industry.

Diversified speciality mix - The company has a revenue mix from diverse specialties. The top three specialties—general medicine (14.5% of consolidated FY2021 revenues), orthopaedics (9.7%) and gynaecology (8.2%)—account for ~30-35% of the total revenues. KHML's sizeable presence across multiple specialities helps it to minimise the concentration risk.

Healthy consolidated financial profile - Following the net worth augmentation post the private equity investment by True North in March 2017, KHML has a comfortable capital structure, with low (estimated) gearing and TOL/TNW of 0.4 times and 0.6 times, respectively, as on March 31, 2021. Furthermore, KHML's coverage metrics are healthy, with interest coverage of 4.2 times and TD/OPBDIT of 3.0 times as on March 31, 2021. KHML's operating margins have been healthy and improved during FY2017 – FY2020. Although lower scale reduced the margins to 15% in FY2021, going forward, the operating margins are expected to improve to ~17-20%.

Credit challenges

High dependence on Trivandrum facility given weak performance of subsidiaries- KHML is highly reliant on its Trivandrum facility, which contributed 72.5% to the OI and 89.0% of the operating profit in FY2021, leading to geographical concentration risk. Two of the subsidiaries (KIMS Bellerose and KIMS Kollam (except in FY2020)) were reporting EBITDA losses since they were acquired in 2013 because of their low occupancy and low-yielding specialty mix. Hence, these subsidiaries are dependent on KHML for financial support. Moreover, given the stretched liquidity position and high repayments of another subsidiary, KIMS Al Shifa, it would also rely on KHML for the financial support. Further, EBITDA losses from subsidiaries has resulted in supressed RoCE at consolidated level in FY2021. The company's ability to ramp up the occupancies and consequently achieve EBITDA break-even remains a rating sensitivity.

Performance impacted Covid-19 in FY2021; however, improved demand is expected to support revenue and margin rebound – KHML's revenues declined by ~22% in FY2021 on account of dip in occupancy, despite improvement in ARPOB and ALOS, as Covid-19 pandemic and lockdowns resulted in deferral of elective procedures and surgeries by the patients. Decline in revenues has also resulted in correction in operating margins. While the second wave is expected to curtail the recovery in the current year, revenues are expected to rebound as significant bed capacity (50% in the Trivandrum hospital) is dedicated to Covid-19 care which is witnessing high demand. Moreover, demand for non-Covid-19 treatments has also improved over the previous year. The company is also increasing the bed capacity by 280 in Trivandrum hospital; while debt-funded capex would moderate debt metrics to an extent in the near term, increased capacity augurs well for the growth in revenues and margins. ICRA notes that the company has curtailed its capex outlay as it deferred the capex plans of its subsidiaries.

Retention of doctors to remain key challenge - Notwithstanding the competitive incentive mechanism currently offered by KHML to its doctors, retention of doctors would also remain a key challenge.

Liquidity position: Adequate

The company's liquidity position is adequate with unencumbered cash of ~Rs. 30.0-32.0 crore as on March 31, 2021 and healthy cushion of around Rs 16.0-18.0 crore in working capital facilities against the debt repayment obligation is ~Rs. 25.0-30.0 crore for FY2022. The company has capex plans of Rs. 70.0-80.0 crore in FY2022, against which it has an undrawn term loan of Rs. 75.0 crore. The projected cash flow operations and available cash balances are estimated to be adequate to meet the margin for capex and the debt obligations.

Rating sensitivities

Positive factors – ICRA could upgrade KHML's ratings if it witnesses substantial growth in revenues and profitability and achieves break-even for loss-making subsidiaries. Specific credit metrics include DSCR above 2.5 times on a sustained basis.

Negative factors – Pressure on KHML's rating may arise if larger-than-anticipated debt-funded capex or significant weakening of operational performance of KHML's flagship facility at Trivandrum and/or widening of losses for KHML's subsidiaries adversely impacts its debt metrics or liquidity profile. Specific credit metrics include DSCR below 1.8 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 the consolidated financials of KHML. As on March 31, 2021, the company had five subsidiaries, which are enlisted in Annexure-2.

About the company

KHML was set up in 2002 by a group of professionals in Trivandrum, Kerala. It is a tertiary-care hospital, with 40 specialty 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 March 31, 2021, the company had four operational hospitals, which are spread across Trivandrum, Kottayam, Kollam and Perinthalmanna in Kerala with a total capacity of 1,153 beds. The company also operates two medical center and one nursing college in Trivandrum. The company has investments from a private equity investor, True North through the company Condis India Healthcare Private Limited. As on March 31, 2021, Condis India Healthcare Private Limited holds 61.06% stake in KHML and the remaining 38.94% stake is held by individual shareholders.

Key financial indicators (audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	644.6	662.7
PAT (Rs. crore)	34.5	-8.3
OPBDIT/OI (%)	19.0%	22.5%
PAT/OI (%)	5.4%	-1.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	1.4	1.1
Interest Coverage (times)	6.4	9.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; net loss in FY2020 is due to impairment of goodwill in the subsidiaries

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 31, 2021	**-**	**Feb 20, 2020**	**May 07, 2019**
1	Term Loan	Long-term	173.00	101.1	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Cash Credit	Long-term	25.00	-	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Bank Guarantee/Letter of Credit	Long-term/Short Term	12.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
4	Unallocated	Long-term/Short Term	-	-	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple
Long Term - Fund Based TL	Simple
Long Term / Short Term – Non-Fund Based	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	September 2019	8.1%	August 2029	150.00	[ICRA]A- (Stable)
NA	Term Loan-II	July 2018	7.5%	July 2023	23.00	[ICRA]A- (Stable)
NA	Cash Credit	-	-	-	25.00	[ICRA]A- (Stable)
NA	Bank uarantee/Letter of Credit	-	-	-	12.00	[ICRA]A- (Stable)/[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	KHML Ownership	Consolidation Approach
KIMS Bellerose Institute of Medical Sciences Private Limited	93.59%	Full Consolidation
KIMS Kollam Multi Specialty Hospital India Private Limited	87.78%	Full Consolidation
KIMS Al Shifa Healthcare Pvt. Ltd.	51.00%	Full Consolidation
KIMS BIBI Healthcare Private Limited**	60.70%	Full Consolidation
KIMS Nagercoil Institute of Medical Sciences Private Limited***	53.30%	Full Consolidation
Spiceretreat Hospitality Services Private Limited	100.00%	Full Consolidation

** considered up to H1 FY2020; *** KIMS Nagercoil Institute of Medical Sciences Private Limited is an non-operational entity as on May 28, 2021

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About ICRA Limited:

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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.

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