

March 21, 2022<sup>(Revised)</sup>

## Kids Clinic India Ltd: Long term rating upgraded to [ICRA]BBB+ (Stable); Short-term rating withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating action
Fund Based-Term Loan	40.00	45.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Positive)
Fund Based – Working Capital Facilities	5.00	-	[ICRA]A3+; withdrawn
<b>Total</b>	<b>45.00</b>	<b>45.00</b>	

\*Instrument details are provided in Annexure-1;

### Rationale

The long term rating upgrade factors in the expected healthy revenue growth of Kids Clinic India Limited (Kids Clinic/the company) in FY2022 on the back of relatively higher deliveries in the company's existing centers and increased contribution of revenue from new centers. The increase in scale of operations from the existing centers is expected to support the healthy expansion of operating margins in FY2022. The company's YoY revenue growth in H1 FY2022 stood at ~42.8%. while its adjusted operating margin (adjusted for INDAS 116) improved to ~8.5% in H1 FY2022 as compared to 4.5% achieved in FY2021. The ratings continue to draw comfort from established track record of the company which operates the Cloudnine chain of hospitals, in the niche mother care and baby care segment. The Cloudnine chain has strong brand equity in key markets that it operates in, such as Bengaluru and Delhi-NCR. The rating also factors in the diversified presence of the company with 23 hospitals spread across cities of Bangalore, Chennai, Mumbai, Pune, Gurgaon, Noida, Delhi and Chandigarh.

The ratings are, however, constrained by the moderate financial risk profile of the company characterised by increased debt levels owing to the debt funded capex incurred by the company in FY2022. The company has incurred a sizeable capex in FY2022 towards opening seven new centers and ~60-65% of the capex is funded from availing term loans leading to high debt levels. ICRA notes that the company has plans to raise funds through IPO for debt repayment and fresh capex for seven additional centres in FY2023 and has filed DRHP for the same. However, the timing and quantum of equity raise remains to be seen. ICRA has taken note of the above development and will continue to monitor the same and take appropriate rating action as may be required.

ICRA has withdrawn the short-term rating outstanding, at the request of the company and in line with its policy on withdrawal of credit ratings.

### Key rating drivers and their description

#### Credit strengths

**Established players in the niche maternity and paediatric healthcare segment 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. The company follows a strategy of setting up smaller format hospitals with a maximum capacity of 50 beds, which helps the company achieve a faster turnaround. The company's new units in established markets are expected to achieve OPBITDA break-even within nine to twelve months.

**Equity infusion from PE investors have resulted in a comfortable capital structure:** The company has received seed and growth funding from investors like Sequoia Capital, Matrix Partners, New Quest and True North. The multiple rounds of funding have

enabled the company to grow multi-fold over the years. The company has received an equity infusion of Rs. 30.0 crore (primary issue) from NewQuest Capital Partners in Q2 FY2022. As the previous expansion was funded with high amounts of equity capital, the capital structure of the company is comfortable as evidenced by Total Debt/Tangible Net Worth of 0.3 times as on September 30, 2021, and 0.2 times as on March 31, 2021.

**Geographic diversification reduces dependence on a single unit** – The Cloudnine chain of hospitals are reasonably diversified across the country with presence in North (Chandigarh, Gurgaon, Noida, Delhi), West (Mumbai, Pune) and South India (Bangalore and Chennai). Going forward, the company plans to set up more units across various tier I cities further supporting the geographic diversification of the company's revenue. Further, the company has introduced initiatives like e-NICU which allows the company to expand its footprint in cities where Cloudnine hospitals are not present.

**Healthy growth in revenue and profitability expected in FY2022:** The company is expected to achieve healthy growth in revenues in FY2022 on the back of increased deliveries in existing centers and increased contribution of revenue from new centers. The increase in scale of operations from the existing centers is expected to support the healthy expansion of operating margins in FY2022.

### Credit challenges

**Moderate debt coverage metrics owing to increase in overall debt levels in FY2022:** The company has incurred a sizeable capex in FY2022, majorly towards opening seven new centers. ~60-65% of the capex is funded from availing term loans leading to increase in overall debt levels. The increase in overall debt levels has resulted in the debt coverage indicators remaining moderate with adjusted TD/OPBITDA (adjusted for INDAS 116) at ~2.4 times in H1 FY2022 as compared to ~2.1 times in FY2021.

**Exposure to project risks in upcoming hospitals** – ICRA notes that the company has plans to raise funds through IPO for debt repayment and fresh capex and has filed DRHP for the same. However, the timing and quantum of equity raise remains to be seen. Part of the funds from fresh equity will be used towards debt repayment and to fund its capex plan for opening seven new centers. The commencement of the planned new units without any cost overruns and timely ramp up post commencement would remain a key rating monitorable for the company. ICRA will continue to monitor the developments in this regard.

**Limited diversification across specialties** – The company operates in a niche segment, focusing primarily on maternity care, obstetrics and gynaecology as well as paediatrics, with limited diversification across specialties. However, the company intends to differentiate itself from other multispecialty providers with its focus on improving the overall experience of the patients and creating a strong brand equity.

### Liquidity position: Adequate

Kids Clinic's liquidity position remains **adequate** with sufficient undrawn working capital limits of ~Rs. 7.0 crore and cash balance of ~Rs. 22.9 crore as on September 30, 2021. The company has repayment obligation of ~Rs. 9.6 crore in FY2022 and ~Rs. 18.2 crore in FY2023, and the company's internal accruals are expected to be sufficient to service the debt repayment.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the company's ratings with ramp up in operations of the hospitals with sustained improvement in profitability. Further, ICRA could upgrade the ratings if there is a sustained decline in overall debt levels through equity infusion. Along with the before mentioned point, specific credit metric leading to a rating upgrade will be adjusted Net debt/OPBITDA less than 2.0 times (as computed without impact of IndAS 116 financial leases).

**Negative factors** – Negative pressure on Kids Clinic's rating could arise if there is a delay in ramp up in operations in newly opened centers or higher than anticipated capital expenditure results in adjusted Net debt/OPBITDA higher than 3.0 times (as computed without impact of IndAS 116 financial leases) on sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Hospitals</a> <a href="#">ICRA Policy on Withdrawal and Suspension of Credit Ratings</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Kids Clinic

## About the company

Kids Clinic operates the Cloudnine Group of hospitals, which is a chain of hospitals providing maternity, fertility and child care. The company was established by founder Dr R. Kishore Kumar in partnership with Scrips N Scrolls India Pvt Ltd, a company engaged in property development. The head office is located 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, in order to provide quality maternity and new-born care. At present, the company operates 23 hospitals in Bangalore, Mumbai, Pune, Gurugram, Noida, Chandigarh, Delhi and Chennai. The specialties of the hospital chain include maternity care, gynaecology, paediatrics, neonatology, fertility and stem cell banking.

## Key financial indicators (audited)

Kids Clinic India Limited (Consolidated)	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	516.3	554.6	371.6
PAT (Rs. crore)	-29.6	-34.7	-9.9
OPBDIT/OI (%)	3.3%	4.0%	8.5%
PAT/OI (%)	-5.7%	-6.3%	-2.7%
RoCE (%)	1.0%	1.4%	5.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	2.2	2.3
Total Debt/OPBDIT (times)	3.1	2.1	2.4
Interest Coverage (times)	1.5	1.6	2.3
DSCR (times)	1.1	1.1	1.4

Source: Company, ICRA research; All calculations are as per ICRA research; Total debt/OPBDIT calculation excludes lease liabilities under total debt and the impact of IndAs-116 on OPBDIT (interest and depreciation arising out of lease liabilities and right of use assets, respectively) 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	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 21, 2022	Jan-11-2021	Oct-25-2019	-
1	Fund Based-Term Loan	Long Term	45.0*	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	-
2	Fund Based – Working Capital	Long Term	5.0	-	[ICRA]A3+; withdrawn	[ICRA]A3+	[ICRA]A3	-

\*not utilized as on March 31, 2021

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Fund Based - TL	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 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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Mar 2021	NA	Sep 2028	45.00	[ICRA]BBB+ (Stable)
NA	Fund Based – Working Capital Facilities	-	-	-	5.00	[ICRA]A3+; Withdrawn

Source: Company;

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

Company Name	Ownership	Consolidation Approach
Acquity Labs Pvt Ltd	51.0%	Full Consolidation

### Corrigendum

Document dated March 21, 2022 has been corrected with revisions as detailed below:

- Key financial indicators (audited) in page 4
- PAT/OI (%) has been included in the Key Financial Indicators table

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### Branches



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