March 29, 2023

Kids Clinic India Ltd: Rating upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based - Term Loan	45.00	75.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)/assigned
Total	**45.00**	**75.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade follows the fund infusion of Rs. 328.0 crore in Q4 FY2023 in the form of Compulsorily Convertible Preference Shares (CCPS) from private equity (PE) investors, which is expected to result in sustained improvement in debt metrics of Kids Clinic India Ltd. (Kids Clinic or the company). The company is expected to prepay a portion of its debt through the aforementioned proceeds, thereby strengthening its debt coverage indicators in the near term. In addition, healthy revenue growth is expected over the near term on the back of relatively higher deliveries in the company's existing centres and increased contribution of revenue from new centres. During 9M FY2023, the company witnessed strong YoY revenue growth of 24.7% with an adjusted[1] operating profit margin (OPM) of ~7.3% against 3.9% in FY2022. However, the margins are expected to moderate in FY2024 due to OPBDITA losses from two centres that commenced from March 2023 and six new centres, which are expected to commence operations from FY2024. The margin trajectory of the company amid the ongoing expansion remains a key monitorable. The ratings continue to draw comfort from its established track record in operating the Cloudnine chain of hospitals in the niche mother and baby care segment. The Cloudnine chain has strong brand equity in its key operating markets. The rating also factors in the diversified presence of the company with 26 hospitals spread across Bangalore, Chennai, Mumbai, Hyderabad, Pune, Gurgaon, Noida, Delhi and Chandigarh.

The ratings are, however, constrained by the company's sizeable capex plans of over Rs. 150 crore towards opening seven new centres during FY2024. While the capex is expected to be met through recent and expected fund infusion, the commencement of the planned new units without any cost overruns and timely ramp up would remain a key rating monitorable. Further, RoCE remains constrained largely by lower profitability/losses in new centres during a nascent phase of operations coupled with continuous investment in expansion. 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 its focus on improving the overall experience of the patients and creating a strong brand equity. Any significant debt-funded capex or acquisition which could impact the credit profile will be considered material event and be evaluated on a case-to-case basis.

ICRA also notes that there have been few audit observations as per the auditors' report for FY2022. However, it is noted that the company has taken appropriate measures to resolve them.

ICRA notes that the company has plans to raise further equity in the near term. However, the timing and quantum of equity raise remains to be seen. ICRA will continue to monitor the developments in this regard and take appropriate rating action as may be required.

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.

[1] *Adjusted refers to excluding INDAS 116 impact*

Key rating drivers and their description

Credit strengths

Established player in the 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. Kids Clinic follows a strategy of setting up smaller format hospitals with a maximum capacity of 50 beds, which helps the company achieve a fast turnaround. Healthy revenue growth is expected over the near term on the back of relatively higher deliveries in the company's existing centres and increased revenue share from new centres. The new hospitals in established markets are expected to achieve OPBITDA break-even within 9-12 months aided by strong brand equity.

Recent equity infusion expected to result in sustained improvement in debt metrics – The company's debt indicators moderated to Net Debt / OPBDITA (adjusted w/o INDAS 116 impact) of 4.0x as of March 31, 2022, from 1.6x as of March 31, 2021, due to higher debt-funded expansion undertaken in FY2022. However, the company raised Rs. 328 crore from its PE investors in March 2023. These funds shall be utilised for expansion capex and part-prepayment of the company's term debt, leading to substantial improvement in its debt metrics. Going forward, the company is expected to maintain its improved debt metrics supported by minimal debt levels and healthy 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), West (Mumbai, Pune) and South India (Bangalore, Hyderabad and Chennai). Going forward, the company plans to set up more units across various tier I cities. Further, Kids Clinic has introduced initiatives like e-NICU, which allows the company to expand its footprint in cities where Cloundnine hospitals are not present.

Credit challenges

Sizeable capex expansion plans in FY2024; exposure to project risks in upcoming hospitals – The company has sizeable expansion plans of over Rs. 150 crore towards opening seven new centres during FY2024. Part of the funds received from the latest fund raiser will be used to fund the company's capex in FY2024. 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. ICRA will continue to monitor the developments in this regard.

Low RoCE levels due to continuous expansion and losses from new centres – The company had undertaken continuous expansion and incurred capex of ~Rs. 230 crore during the period FY2019-FY2022. Further expansion towards addition of new centres is also planned over the near term. Coupled with lower profitability/losses from new centres (hospitals opened in FY2022), this has led to low RoCE levels of 1.4% and 1.2% in FY2021 and FY2022, respectively. 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 intends to differentiate itself from other multi-speciality providers with its focus on improving the overall experience of the patients and creating strong brand equity.

Liquidity position: Adequate

The company had cash and liquid investments of Rs. 28.4 crore and undrawn working capital limits of Rs. 1.6 crore as of January 31, 2023. Further, Kids Clinic received funds of Rs. 328 crore in March 2023 from PE investors. The company expects to utilise these funds for partial debt prepayment and capital expenditure requirements. The company has capex plans of over Rs. 150 crore in FY2024 and ~Rs. 60-70 crore in FY2025, which is expected to be funded through existing cash and liquid investments (including recent PE infusion) and internal accruals. While the company has repayment obligations of Rs. 25.7 crore and Rs. 30.3 crore in FY2024 and FY2025, respectively, on its existing debt, the obligations shall reduce substantially post expected debt prepayment. 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 profitability indicators and debt metrics.

Negative factors – Negative pressure on Kids Clinic's rating could arise if there is a delay in ramp up in operations in the newly opened centres or if higher than anticipated capex results in adjusted Net debt/OPBITDA higher than 2.3 times (as computed without impact of IndAS 116 financial leases) on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Rating methodology for Hospitals Rating Approach - Consolidation
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 operates the Cloudnine Group of hospitals, which is a chain of hospitals providing maternity, fertility and childcare. The hospital chain was founded by neonatologist, Dr. R Kishore Kumar with his team of co-founders—Mr. Rohit MA, Mr. M Ramachandra and Mrs. Vidya Kumar—to provide quality maternity and new-born care. As at March 28, 2023, the company operated 26 hospitals across Bangalore, Hyderabad, Mumbai, Pune, Gurugram, Noida, Chandigarh, Delhi and Chennai. The specialities of the hospital chain include maternity care, gynaecology, paediatrics, neonatology, fertility and stem cell banking.

Key financial indicators

Kids Clinic Consolidated	FY2021	FY2022
Operating income (Rs. crore)	554.6	749.8
PAT (Rs. crore)	-34.7	-47.2
OPBDITA/OI (%)	12.4%	12.5%
PAT/OI (%)	-6.3%	-6.3%
Total outside liabilities/Tangible net worth (times)	2.2	3.1
Total debt/OPBDITA (times)	6.1	5.5
Adjusted Net debt/Adjusted OPBDITA (times)	1.6	4.0
Interest coverage (times)	1.6	1.7

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All Amounts as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 29, 2023	Mar 21, 2022	Jan 11, 2021	Oct 25, 2019
1	**Fund based - Term Loan**	Long-term	75.00	67.00	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Positive)**	**[ICRA]BBB- (Stable)**
2	**Fund Based – Working Capital**	Short-term	--	--	**--**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3**

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Term Loan	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 No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term – Fund based - Term Loan**	FY2021	~8.00%	FY2030	75.00	[ICRA]A- (Stable)

Source: Company; Note: Amounts in Rs. crore

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	51.0%	Full Consolidation
Birthplace Healthcare Private Limited	100.0%	Full Consolidation

Source: Company

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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.

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