August 14, 2023

KIMS Healthcare Management Limited: Ratings reaffirmed

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(Stable); reaffirmed
Long-term – Fund-based/ Term Loan	153.00	128.00	[ICRA]A(Stable); reaffirmed
Long-term/ Short-term – Non-fund Based	12.00	12.00	[ICRA]A(Stable)/[ICRA]A2+; reaffirmed
Long-term/ Short-term – Unallocated	20.00	45.00	[ICRA]A(Stable)/[ICRA]A2+; reaffirmed
Total	**210.00**	**210.00**	

Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings, ICRA has considered the consolidated financials of KIMS Healthcare Management Limited (KHML) and its six subsidiaries—KIMS Bellerose Institute of Medical Sciences Private Limited (KIMS Bellerose), KIMS Kollam Multi Specialty Hospital India Private Limited (KIMS Kollam), KIMS Al Shifa Hospital Private Limited (KIMS Al Shifa), KIMS Nagercoil Institute of Medical Sciences Private Limited (KIMS Nagercoil), KIMSHEALTH Executive Leisure Private Limited (KELPL), and Spiceretreat Hospitality Services Private Limited (Spice Retreat).

The ratings factor in ICRA's expectation that KHML's credit profile would be supported by a healthy scale-up of operations with improving occupancy on the back of healthy demand for healthcare services, along with sustained healthy margins. KHML witnessed a healthy revenue growth of 16% in FY2023 on the back of improved occupancy across its hospitals and 6.4% growth in average revenue per occupied bed (ARPOB) at its main hospital in Trivandrum, which accounts for most (~75.6% in FY2023) of the company's revenues. ICRA notes that KHML's revenues are expected to grow by 10-15% in FY2024 with expected improvement in occupancy levels and ARPOB. The company's operating margins are also expected to remain healthy at 22-24% in FY2024 on a consolidated level. The ratings consider the strong brand reputation of KHML's flagship hospital at Trivandrum as evident from the improved occupancy rate and ARPOB in the last two years, despite an increase in bed capacity by 223 beds over the past 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 account for ~24-26% 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 characterised by a healthy capital structure and comfortable coverage indicators.

The ratings, however, consider high reliance on its Trivandrum facility, which contributed 75.6% to the operating income (OI) and almost 86.9% OPBITDA in FY2023, 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 small compared to the Trivandrum hospital, hence, accounting for a smaller share of earnings. The rating also considers high 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.

The Stable outlook on the ratings indicate that KHML will be able to sustain its scale of operations and witness likely improvement in occupancy levels with healthy footfalls owing to its established presence in the markets served. An improved scale is expected to support the company's earnings, cash flows and debt metrics.

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-decade-long 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 (14%) and orthopedics (10%)—accounted for 24% of its total revenues in FY2023. KHML's sizeable presence across multiple specialities helps it minimise the concentration risk.

Healthy consolidated financial profile – KHML's operating margins improved by ~200 bps in FY2023 owing to the increased scale of operations. As of March 31, 2023, the group had 1,376 beds on a consolidated basis. The company will add a new 200-bed hospital over the next two years, which would scale up its operations over the medium term. The revenues are expected to improve by 10-15% in FY2024. However, the company's margins are expected to moderate (from FY2025) during the ramp-up phase of the new hospital. KHML has a comfortable capital structure, with low gearing of 0.2 time and TOL/TNW of 0.4 time as on March 31, 2023, owing to a healthy net worth position with steady yearly accretion to net worth. Furthermore, KHML's coverage metrics improved further in FY2023 owing to healthy OPBITDA, as reflected in interest coverage of 14.0 times (11.0 times in FY2022) and TD/OPBDIT of 0.7 time (1.1 times in FY2022). Despite the planned debt-funded capex over the next two years, its debt 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 87.0% to its operating profit in FY2023, leading to geographical concentration risk. Moreover, with capacity expansion in Trivandrum, the concentration of revenue is expected to remain high in the near term. One of the subsidiaries (KIMS Bellerose) reported OPBITDA losses since it was acquired, because of its low occupancy and low-yielding speciality mix. However, KIMS Kollam turned profitable in FY2023 on the back of improved footfalls. Nevertheless, the sustenance of improved profitability of the subsidiaries remains to be seen. The company's ability to ramp up the occupancies and consequently improve OPBITDA levels at hospitals other than Trivandrum remains crucial to reduce its concentration risk. The concentration is expected to reduce to an extent over the medium term once the new hospital commences its operations.

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 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 position is adequate as indicated by unencumbered cash and liquid investments of Rs. 141.7 crore as on March 31, 2023, and a healthy cushion in working capital facilities with an undrawn limit of Rs. 31.8 crore as on June 30, 2023, against debt repayment obligation of ~Rs. 31-33 crore for FY2024. Further, KHML is expected to generate retained cash flows of more than Rs. 100 crore per annum. The company is setting up a new 200-bed hospital at an estimated cost of Rs. 150.0 crore, which would be funded by Rs. 90.0-crore term loans and Rs. 60.0-crore internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade KHML's ratings if it diversifies its geographic presence and witnesses sustained growth in revenues while maintaining healthy profitability, leading to improvement in coverage metrics.

Negative factors – Pressure on KHML's rating may arise in case of material weakening of operational performance of KHML's flagship facility at Trivandrum, or if losses for KHML's subsidiaries adversely impact its debt metrics or liquidity profile. Specific credit metrics include DSCR below 2.1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology - 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, 2023, 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 March 31, 2023, the company had four operational hospitals, spread across Trivandrum, Kottayam, Kollam, and Perinthalmanna in Kerala with a total capacity of 1,376 beds. The company also operates five medical centres and a nursing college in Trivandrum. The company has investments from a private equity investor, True North, through Condis India Healthcare Private Limited (CIHPL). As on March 31, 2023, CIHPL held 61.1% stake in KHML, with the remaining 38.9% stakes held by individual shareholders.

Key financial indicators

KHML Consolidated	FY2022	FY2023*
Operating income	826.2	959.7
PAT	102.0	141.9
OPBDIT/OI	23.2%	25.1%
PAT/OI	12.3%	14.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	1.1	0.7
Interest coverage (times)	11.0	14.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Provisionals for FY2023**
Note: Amount in Rs. crore; All calculations are as per ICRA Research; Source: Company data, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount o/s as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	FY2023	FY2022	FY2021
					Aug 14, 2023	Jul 28, 2022	May 31, 2021	-
1	**Term loans**	Long term	128.0	102.8	**[ICRA]A(Stable)**	[ICRA]A(Stable)	[ICRA]A-(Stable)	-
2	**Cash credit**	Long term	25.0	3.2	**[ICRA]A(Stable)**	[ICRA]A(Stable)	[ICRA]A-(Stable)	-
3	**BG/LC**	Long term / Short term	12.0	--	**[ICRA]A(Stable)/ [ICRA]A2+**	[ICRA]A(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	-
4	**Unallocated**	Long term / Short term	45.0	--	**[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	128.0	[ICRA]A(Stable)
NA	Cash credit	NA	NA	NA	25.0	[ICRA]A(Stable)
NA	Bank guarantee	NA	NA	NA	6.0	[ICRA]A(Stable)/[ICRA]A2+
NA	Letter of credit	NA	NA	NA	6.0	[ICRA]A(Stable)/[ICRA]A2+
NA	Unallocated limits	NA	NA	NA	45.0	[ICRA]A(Stable)/[ICRA]A2+

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
KIMSHEALTH Executive Leisure Private Limited	100.0%	Full Consolidation

***Source:** KHML; Stake as on July 31, 2023*
Note: ICRA has considered consolidated financials of the parent KHML and its subsidiaries while assigning the ratings.
**KHML increased the stake in KIMS Kollam Multi Specialty Hospital India Private Limited in FY2024 from 87.8% to 100.0%.*
***KIMS Nagercoil Institute of Medical Sciences Private Limited is a non-operational entity as on March 31, 2023*

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