

November 29, 2024

Kondapur Healthcare Limited: Rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	125.00	125.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Total	125.00	125.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action on the bank lines of Kondapur Healthcare Limited (KHL) considers the expected improvement in its credit profile on the back of an increase in the leasable area, leading to higher rentals and reduction in execution risk as ~80% of the project cost has been incurred as of September 2024. KHL is constructing a building to be leased out to KIMS Hospital Enterprises Private Limited (KHEPL) at Kondapur, Hyderabad for 20 years. The project scope has been revised, wherein KHL would now be constructing a building with 15 floors, 4 cellars and ground (against 13 floors, 4 cellars and ground earlier), which led to an increase in the leasable area by ~0.84 lakh sq. ft. to ~6.94 lakh sq. ft., resulting in an increase in monthly lease rentals. The project cost has increased by ~Rs. 11.0 crore to ~Rs. 511.0 crore. As on September 30, 2024, ~80% of the project cost (i.e., ~Rs. 405.0 crore) has been incurred, which was funded through Rs. 199.3 crore of equity, ~Rs. 125.0 crore of term debt, Rs. 65.0 crore of unsecured loans from KHEPL and the rest through lease rentals received till July 2023. Increased rentals with minimal increase in debt is expected to result in improved cumulative and 5-year average DSCR. The project construction is on schedule and is expected to be operational by September 2025. Once fully operational, KHEPL will operate a 900-bed (against the initially planned 750 beds) hospital from the property. The rating also draws comfort from the strong counterparty, KHEPL, which is a ~91% subsidiary of Krishna Institute of Medical Sciences (KIMS), and strong business linkages between KHL and KHEPL as the asset being built by KHL is critical for the expansion plans of KHEPL. ICRA also notes that KHEPL acquired a 38.5% stake in KHL in the past 12-18 months with equity infusion of ~Rs. 74.0 crore. The ratings consider KHL's strong financial flexibility, given its association with the KIMS Group.

However, the ratings are constrained by the execution risks, given the construction stage of the project. ICRA notes that timely infusion of unsecured loans from KHEPL remains critical to meet the interest and principal repayment obligations during the construction phase. The earlier rental agreement stipulated rental payments even during the construction phase, but according to the current lease agreement, rentals are expected to commence from October 2025, after the commencement of operations. The rating also considers the company's moderate coverage metrics.

The Stable outlook on the rating reflects ICRA's belief that the company will maintain its credit profile, given the long tenure lease agreement with a strong counterparty.

Key rating drivers and their description

Credit strengths

Long tenure of the lease agreement with lock-in period of 10 years – KHL entered into a lease agreement with KHEPL for 20 years, with a lock-in period of 10 years at the beginning of construction of the property. The loan availed for construction has a tenure of 10 years. Hence, the lease agreement covers the entire tenure of the term loan, mitigating the market risk to a large extent.

Strong counterparty and strategically important asset to the counterparty – KHEPL is currently operating a 250-bed facility in Kondapur, Hyderabad from a leased premise and plans to expand its capacity to ~900 beds. Business linkages between KHL

and KHEPL are strong as KHL's asset is critical for KHEPL's expansion plans. Moreover, KHEPL holds a 38.5% stake in KHL, as of September 30, 2024. Additionally, KHEPL has been infusing unsecured loans to meet the principal and interest obligations during the construction period. Ratings draw comfort from the healthy credit profile of the KIMS Group and KHEPL, as well as the importance of the asset to the expansion plans of KHEPL. Moreover, KHL has a strong financial flexibility, given the long tenure of the loan and the promoters' long association with the KIMS Group.

Credit challenges

Execution risks, given the construction stage of the project – KHL has procured land for the project and construction work is underway. Any delay in construction would defer the handover of the asset to KHEPL and could increase the project cost. Moreover, the company is exposed to increase in other input costs, which would impact the construction cost. However, ICRA notes that as on September 30, 2024, ~80% of the project cost has been incurred and project construction is on schedule with the expected date of commencement in September 2025.

Moderate coverage metrics – The company's coverage metrics are expected to moderate, although its cumulative and 5-year average DSCR have improved with an increase in the leasable area. As KHL's asset is critical for KHEPL's expansion plans, the latter is expected to extend support in case of any shortfall.

Liquidity position: Adequate

KHL's liquidity is adequate. Funding for the building construction has been tied up and additional term loan of Rs. 155.76 crore is expected to be drawn down in the next few months. Further, KHL had ~Rs. 3.0 crore of cash and bank balances as on September 30, 2024. The company received equity infusion of ~Rs. 74.0 crore from KHEPL in FY2024. KHEPL would be infusing equity / unsecured loans to fund the interest and principal repayment obligations during the construction period.

Rating sensitivities

Positive factors – ICRA could upgrade KHL's rating if the company completes the project construction in a timely manner without any time or cost overrun, leading to timely commencement of lease rentals, and if there is an improvement in its coverage metrics.

Negative factors – Any significant cost overrun or unforeseen delay in the completion of the project, impacting the operations of the proposed hospital or delays in commencement of lease rentals impacting the debt metrics, could affect the rating. Any delay in funding from KHEPL would also exert pressure on the ratings of KHL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financials of KHL have been considered for arriving at the rating

About the company

Kondapur Healthcare Limited was incorporated in June 2021 by a group of KIMS employees. It is constructing a building at Kondapur, Hyderabad, on a land parcel of 2.38 acres with a leasable area of 6.94 lakh sq. ft. The company has acquired the land for developing the project. It has also signed a 20-year lease agreement with KIMS Hospital Enterprises Private Limited for the entire leasable area. The project scope has been revised, wherein KHL would now be constructing a building with 15 floors, 4 cellars and ground (against 13 floors, 4 cellars and ground earlier), which led to an increase in the leasable area by ~0.84 lakh sq. ft. to ~6.94 lakh sq. ft., resulting in an increase in monthly lease rentals.

Key financial indicators: Not applicable as it is a project stage company.

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)	Nov 29, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	125.00	[ICRA]BBB+ (Stable)	31-Aug-23	[ICRA]BBB (Stable)	23-May-22	[ICRA]BBB (Stable)	-	-

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2022	NA	FY2032	125.00	[ICRA]BBB+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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