

KIMS Hospital Enterprises Pvt. Ltd.

March 27, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	36.00	[ICRA]A- (SO)(Positive); Assigned
Fund based- Working Capital Facilities	4.00	[ICRA]A- (SO)(Positive); Assigned
Total	40.00	

Rating action

ICRA has assigned a long -term rating of [ICRA]A- (SO) (pronounced ICRA A minus structured obligation) to the Rs. 40.00 - crore¹ fund-based facilities of KIMS Hospital Enterprises Pvt. Ltd. (KHEPL or the company)². The outlook on the long-term rating is 'Positive'. The letters SO in parenthesis suffixed to the rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

Rationale

The [ICRA]A- (SO) rating is principally based on a corporate guarantee from the Krishna Institute of Medical Sciences Limited (KIMS, guarantor; rated [ICRA]A-/Positive/A2+) and an undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date.

Outlook: Positive

The outlook may be revised if there is a change in the outlook of the guarantor, KIMS.

Key rating drivers – Guarantor

Credit strengths

Healthy growth in OI: The company witnessed ~15% growth in its operating income (OI) in H1 FY2018 to Rs. 328.11 crore from Rs. 285.14 crore in H1 FY2017 on account of improvement in inpatient occupancy levels along with an increase in bed capacity to 1,920 beds as on September 30, 2017 from 1,570 beds as on September 30, 2016.

Brand strength and experienced consultants: KIMS is a strong brand in Telangana and Andhra Pradesh with more than 15 years of operational track record. The Group also has renowned doctors and experienced consultants working on full/part-time basis.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Diversified mix of revenues: The company has a diversified revenue mix from different specialties, with Cardiac sciences (22% of H1 2018 revenues), neurosciences (15%) and renal sciences (12%) primarily contributing to the revenue. KIMS also has a good presence in oncology, orthopaedics and gastroenterology, which helps it minimise the concentration risk related to any specialty.

Stable operating margins and comfortable indicators: The company has good financial profile, characterised by healthy operating margins (range bound between 19% and 20% during FY2013-H1FY2018), comfortable capital structure with gearing and TOL/TNW at 0.76 and 1.29 times respectively as on September 30, 2017, healthy coverage metrics with interest coverage of 4.16 times, and TD/OPBDIT of 2.18 times in H1 FY2018.

Positive industry outlook: Positive demand outlook for healthcare services in the country due to factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare, under-penetration of healthcare services, technological improvements in early diagnosis and treatment, and higher incidence of lifestyle diseases.

Credit challenges

Heavily reliant on KIMS Secunderabad hospital for revenues and margins: The hospital at Secunderabad contributed to 70% of the overall revenue and 70% of operating profit in H1 FY2018. This increased the concentration risk of revenues and margins.

Retention of doctors likely to remain a key challenge: Retaining doctors is likely to remain a key challenge for the company given intense competition in the healthcare industry. However, the attrition of key consultants has remained low for the Group as some of the key doctors and consultants are also the shareholders.

Ongoing capex program to be monitored: The company has deferred the new 300-bed hospital capex programme in Rajahmundry, Andhra Pradesh by six months and expected to start in Q2 FY2019. The ability of the company to ramp up the Ongole facility and execute the capex program for the Rajahmundry facility within the budgeted costs and timelines remains critical.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Hospitals](#)

[Approach for rating debt instruments backed by third-party explicit support](#)

About the company:

KIMS Hospitals Enterprises Private Limited (KHEPL) became operational in 2014 with a capacity of 200 beds of which 150 are operational across 15 specialties, as on December 31, 2017. Krishna Institute of Medical Sciences (KIMS) has 43.75% stake in the associate (KHEPL). This hospital largely caters to the IT hub of Hyderabad namely Kondapur, Hitech City, Gachibowli and Madhapur areas. It has also set up KIMS Cuddles, woman and child care division as part of KIMS Kondapur, with 25 beds.

Guarantor's profile:

Promoted by Dr. Bhaskar Rao Bollineni, a renowned cardiothoracic surgeon, KIMS is one of the leading multi-disciplinary integrated private healthcare service providers in Telangana and Andhra Pradesh under the "KIMS Hospitals" brand. The company operates six multi-specialty hospitals with focus on tertiary and quaternary healthcare.

The oldest hospital in KIMS' network was established in 2000 at Nellore. It offers a comprehensive bouquet of healthcare services across specialties and super specialties through network of six hospitals. The company's flagship hospital at Secunderabad, hospitals at Rajahmundry and Kondapur have been accredited by the National Accreditation Board for Hospitals and Healthcare Providers, India (NABH). The hospital at Secunderabad is accredited with ISO 9001:2008.

Key financial indicators - KHEPL

	FY2016	FY2017	9M FY2018*
Operating Income (Rs. crore)	50.4	62.7	64.9
PAT (Rs. crore)	-0.3	-0.8	1.8
OPBDIT/ OI (%)	13.6%	9.1%	11.9%
RoCE (%)	9.3%	4.1%	9.0%
Total Debt/ TNW (times)	1.8	1.6	1.4
Total Debt/ OPBDIT (times)	3.5	7.0	3.7
Interest Coverage (times)	2.1	1.6	2.1
NWC/ OI (%)	2%	-2%	5%

Source: KHEPL and ICRA research: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

*Unaudited financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				March 2018	-	-	-
1	Term Loan	36.00	36.00	[ICRA]A- (SO) (Positive)	-	-	-
2	Cash Credit	4.00	4.00	[ICRA]A- (SO) (Positive)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	August 2017	10.5%	December 2023	36.00	[ICRA]A- (SO) (Positive)
NA	Cash Credit	NA	10.5%	NA	4.00	[ICRA]A- (SO) (Positive)

Source: KHEPL

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