

KIMS Hospital Enterprises Pvt. Ltd.

March 01, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit 4.00		4.00	[ICRA]A (SO); reaffirmed and outlook revised to Positive from Stable
Fund-based - Term Loan 36.00		36.00	[ICRA]A (SO); reaffirmed and outlook revised to Positive from Stable
Total	40.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook to Positive is on account of the revision in outlook of the guarantor Krishna Institute of Medical Sciences Limited (KIMS, guarantor; rated [ICRA]A/Positive/[ICRA]A1). The rating is principally based on a corporate guarantee from KIMS and an undertaking provided by the guarantor to ensure that the debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

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 reported a 32.2% YoY growth in OI to Rs. 434.2 crore in H1 FY2019, backed by increase in bed capacity to 2,554 beds as on September 30, 2018 from 1,920 beds as on September 30, 2017, revenue inclusion from two new subsidiaries, and improved performance of the existing hospitals. The existing hospitals (excluding KIMS Kondapur and KIMS Visakhapatnam) reported an 11% YoY growth in OI in H1 FY2019 on account of an increase in the occupancy levels to 76% in H1 FY2019 from 72% in H1 FY2018, along with a 7.3% growth in inpatient volumes and a 3.6% growth in ARPOB.

Healthy financial profile - The company's financial profile is healthy with stable operating margins (which remained range-bound between 18% and 21% over the last five years) and net worth augmentation (post GA's private equity investment in June 2018). It had a comfortable capital structure with gearing and TOL/TNW of 0.5 times and 0.9 times respectively, and healthy coverage metrics with interest coverage and TD/OPBDIT of 5.7 times and 1.9 times, in H1 FY2019.

Diversified revenue mix - The company has a revenue mix from diverse specialties, with cardiac sciences (21% of the H1 FY2019 revenues), neurosciences (15%) and renal sciences (12%) primarily contributing to the revenues. KIMS also has a good presence in oncology, orthopaedics and gastroenterology, which helps it minimise the concentration risk related to any specialty.

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

Positive industry outlook - ICRA notes the positive demand outlook for healthcare services in India. This is 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 increased incidences of lifestyle diseases.

Credit challenges

Majority of revenues and profits from KIMS Secunderabad - The company is highly reliant on its Secunderabad facility, which contributed 56% to the OI and 64% to the operating profit in H1 FY2019 (although reduced from 68.5% and 68% respectively, in FY2018).

Ongoing capex program - KIMS is acquiring a majority stake in an operational 250-bed hospital in Kurnool. Going forward, it intends to acquire one 250-bed hospital every year involving a total investment of ~Rs. 80 crore. The annual capex outlay, including regular maintenance capex, is estimated to be Rs. 100-110 crore. The company's ability to ramp up the newly-acquired Visakhapatnam and Ananthapur facilities remains to be seen.

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

Liquidity position - Guarantor

The company's liquidity position is strong with unencumbered cash balance of Rs. 36.6 crore as on September 30, 2018 and healthy cushion in the existing fund-based facilities. The fund-flow from operations remained positive over the years on account of low working capital intensity and healthy profitability levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent Support – KIMS. The assigned rating draws comfort from guarantee extended by parent company KIMS
Consolidation/Standalone	Standalone

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 March 31, 2018 Krishna Institute of Medical Sciences (KIMS) has 50.27% stake in the subsidiary (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 a leading multi-disciplinary integrated private healthcare service provider in Telangana and Andhra Pradesh under the KIMS Hospitals brand. The company operates eight multi-specialty hospitals with focus on tertiary and quaternary healthcare. The oldest hospital in its network was established in 2000 at Nellore. The company's flagship hospital at Secunderabad, its hospital at Kondapur (Telangana) and its hospital at Rajahmundry (Andhra Pradesh) have been accredited by the National Accreditation Board for Hospitals and Healthcare Providers, India (NABH). The Secunderabad hospital is also accredited with ISO 9001:2008. In October 2018, KIMS forayed into the Ananthapur market by acquiring a majority stake in a 250-bed facility, operated under the KIMS Saveera brand. As on September 30, 2018, the promoter and promoter Group held a 46% stake in the company, GA held a 40.6% stake and the minority shareholders held a 13.4% stake.

Key financial indicators* - Guarantor

	FY2017	FY2018	H1 FY2019
Operating Income (Rs. crore)	567.1	663.7	434.2
PAT (Rs. crore)	-70.8	-47.8	-72.5
OPBDIT/OI (%)	19.8%	20.6%	17.5%
RoCE (%)	-3.7%	1.3%	-10.7%
Total Debt/TNW (times)	-6.6	-6.3	0.5
Total Debt/OPBDIT (times)	6.4	6.3	1.9
Interest Coverage (times)	3.5	4.4	5.7

Source: KIMS; *: on account of IndAs 109 adjustment

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating March		Date & Rating in FY2018 March	Date & Rating in FY2017	Date & Rating in FY2016
				2019	July 2018			
1	Term Loan	36.00	36.00	[ICRA]A (SO) (Positive)	[ICRA]A (SO) (Stable)	[ICRA]A- (SO) (Positive)	-	-
2	Cash Credit	4.00	4.00	[ICRA]A (SO) (Positive)	[ICRA]A (SO) (Stable)	[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	10.0%	December 2023	36.00	[ICRA]A (SO) (Positive)
NA	Cash Credit	NA	9.6%	NA	4.00	[ICRA]A (SO) (Positive)

Source: KHEPL

Annexure-2: List of companies considered for consolidated analysis

Not Applicable

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