

October 25, 2019

Kids Clinic India Pvt Ltd: [ICRA]BBB-(Stable)/A3 Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Term Loan	40.00	[ICRA]BBB- (Stable); Assigned
Fund-based- Working Capital Facilities	5.00	[ICRA]A3; Assigned
Total	45.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in the established track record of Kids Clinic India Pvt Ltd (Kids Clinic, the company), which operates the Cloudnine chain of hospitals, in the niche maternity and paediatric healthcare segment. The Cloudnine chain has strong brand equity in key markets that it operates in, such as Bengaluru and Delhi NCR. The ratings take into account the steady ramp up in operations along with maturing profile of various hospitals of the company, which has enabled reduction in losses. The company follows a strategy of setting up smaller format hospitals with a maximum capacity of 50 beds, which helps the company achieve a faster turnaround. ICRA expects the company's profitability to show further improvement as more hospital units become profitable. Moreover, the company's capital structure is supported by the significant equity funds raised from various private equity investors, which has reduced the dependence on debt financing for the past expansions. The rating also factors in the diversified presence of the company with 14 hospitals and 3 clinics spread across cities of Bangalore, Chennai, Mumbai, Pune, Gurgaon, Noida and Chandigarh.

The ratings are, however, constrained by the modest financial risk profile of the company characterised by operating losses reported till FY2019 and moderate debt coverage metrics. The company's profitability has been adversely impacted by the losses from newer units set up during 2017 and 2018, as well as slow ramp up in operations in some hospitals in Chennai, Mumbai and Pune. Moreover, the relatively high overheads in relation to the current scale of operations impacts the profitability. Nonetheless, the newer hospitals have reported a healthy improvement with the improving maturity profile resulting in expansion of revenues and reduction of losses. ICRA also notes that the company operates in a niche segment, focusing primarily on maternity care, obstetrics and gynaecology as well as paediatrics, thus depicting limited diversification across specialties. The rating is also constrained by the funding requirements associated with the growth plans of the company, including two new hospitals in Delhi-NCR region and expansion of the company's fertility business. The timely commencement of the proposed hospitals within the budgeted costs and ramp up of operations post commissioning would be critical for achieving the expected improvement in profitability of the company.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that Kids Clinic will continue to benefit from its established brand equity in maternity and paediatric care; and improvement in business and financial risk profile with ramp up in operations of the newer units and reduction in losses.

Key rating drivers and their description

Credit strengths

Established player in the niche 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. The promoter Dr R Kishore Kumar is an acclaimed neonatologist and has an experience of over 25 years in the healthcare industry.

Expansion funded with equity infusions from PE investors thus resulting in a comfortable capital structure– The company has received seed and growth funding from investors like Sequoia Capital, Matrix Partners and True North. The multiple rounds of funding have enabled the company to grow multi-fold over the years. As the expansion was funded almost entirely with equity infusions, the capital structure of the company is comfortable as evidenced by Total Debt/Tangible Net Worth of 0.18 times as on March 31, 2019.

Geographic diversification reduces dependence on a single unit – The Cloudnine chain of hospitals are reasonably diversified across the country with presence in North (Chandigarh, Gurgaon, Noida), West (Mumbai, Pune) and South India (Bangalore and Chennai). Going forward, the company plans to set up more units across various tier I cities, including two new hospitals in Delhi-NCR in the current financial year.

Credit challenges

Financial profile characterised by weak profitability metrics on account of operating losses in several hospitals; however, healthy ramp up has been seen in FY19 and Q1FY20- The aggressive expansion of the company in the past and the corresponding losses reported by hospitals in growth and early growth phases have resulted in the company incurring operating losses over the years. However, the operating losses have been reducing from Rs 54 crore in FY2017 to Rs 33 crore in FY2018 and Rs 24 crore in FY2019; and finally, an operating profit of Rs 0.5 crore in first five months of FY2020. ICRA expects the company's profitability to show further improvement as more hospital units become profitable, thereby improving the overall financial risk profile.

Exposure to project risks in upcoming hospitals- The timely commencement of the new units to be added, including two hospitals in Delhi and Gurgaon, within budgeted costs and ramp up post commencement would be a key monitorable. The initial losses incurred during the ramp up stage are expected to negate the improvement in profitability reported in the other hospitals to some extent.

Limited diversification across specialties- The company operates in a niche segment, focusing primarily on maternity care, obstetrics and gynaecology as well as paediatrics, with limited diversification across specialties. However, the company wants to differentiate itself from other multispecialty providers with its focus on improving the overall experience of the patients and creating a strong brand equity.

Liquidity position: Adequate

The company's liquidity is adequate with unutilised working capital limits of Rs 12 crore, cash balances of Rs 21 crore as on March 31, 2019 and a capex commitment of Rs 50 crore for FY2020 and FY2021 (for which a term loan of Rs 40 has already been tied up). The company's debt repayments are moderate at Rs 12 crore in FY2020, Rs 13 crore in FY2021 and

Rs 16 crore in FY2022. Aided by improving profitability in FY2020, ICRA expects Kids Clinic to be able to meet its operational expenses and debt servicing obligations through its internal accruals.

Rating sensitivities

Positive triggers – ICRA could upgrade the company’s rating if the company demonstrates a sustained ramp up in operations of the hospitals resulting in Total Debt/OPBITDA of 3 times and below on a sustained basis.

Negative triggers – Negative pressure on the company’s rating could arise in case of lower than anticipated ramp up in operations resulting in DSCR of less than 1.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Parent/Group Company: Not Applicable
Consolidation/Standalone	Rating is based on the standalone financial statements of the company

About the company

Kids Clinic operates the Cloudnine Group of hospitals, which is a chain of hospitals providing maternity, fertility and child care. The company was established by promoter Dr R. Kishore Kumar in partnership with Scrips N Scrolls India Pvt Ltd, a company engaged in property development. The head office is located in Bangalore. The hospital chain was founded by neonatologist Dr R. Kishore Kumar with his team of co-founders- Mr Rohit M.A, Mr M. Ramachandra and Mrs Vidya Kumar, in order to provide quality maternity and new-born care. At present, the company operates 17 hospitals and clinics in Bangalore, Mumbai, Pune, Gurugram, Noida, Chandigarh and Chennai, of which 6 hospitals and 3 clinics are located in Bangalore. The specialties of the hospital chain include maternity care, gynaecology, paediatrics, neonatology, fertility and stem cell banking.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	348.2	419.3
PAT (Rs. crore)	-49.9	-44.6
OPBDIT/OI (%)	-9.5%	-5.7%
RoCE (%)	-16.4%	-14.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3
Total Debt/OPBDIT (times)	-1.7	-2.0
Interest Coverage (times)	-4.1	-2.6
DSCR	-1.0	-0.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
	Type	Amount Rated	Amount Outstanding	Rating 25-Oct-19	FY2019	FY2018	FY2017
1 Fund Based- Term Loan	Long Term	40.00	0.00	[ICRA]BBB- (Stable)			
2 Fund Based- Working Capital	Long Term	5.00	-	[ICRA]A3			

Amount in Rs. crore

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	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-Based Term Loan	Jul-19	-		40.00	[ICRA]BBB- (Stable)
NA	Fund-Based Working Capital	Jul-19	-	Sep-26	5.00	[ICRA]A3

Source: Kids Clinic India Pvt Ltd

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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