

July 27, 2020

Krishna Institute of Medical Sciences Limited: Ratings reaffirmed; Outlook retained

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	50.00	50.00	[ICRA]A (Positive); reaffirmed
Term Loan	192.53	160.88	[ICRA]A (Positive); reaffirmed
Bank Guarantee	3.60	3.60	[ICRA]A (Positive)/[ICRA]A1; reaffirmed
Unallocated Limits	83.87	115.52	[ICRA]A (Positive)/[ICRA]A1; reaffirmed
Total	330.00	330.00	

*Instrument details are provided in Annexure-1

Rationale

The spread of Covid-19 and the subsequent measures taken by the Government to contain the pandemic impacted both the revenues and the occupancy of Krishna Institute of Medical Sciences Limited (KIMS) in April and May 2020 as elective procedures were deferred and outpatient footfalls reduced significantly. However, with easing of restrictions and starting of the Covid-19 treatment from June 1, 2020, at its flagship hospital in Secunderabad (around 300 beds earmarked), the performance has improved subsequently. Overall, in Q1FY2021, the company witnessed y-o-y revenue decline by 22.8% and OPBDIT by 58.1%. ICRA is given to understand that the company has undertaken certain cost saving measures that would result in a monthly saving of around Rs. 2 crore (~3% of overall monthly costs). The rating continues to remain on positive outlook as ICRA expects sustained improvement in coverage and leverage metrics of KIMS, despite the weak performance in Q1 FY2021. Further, the ramp-up in occupancy has been steep so far and the liquidity position is healthy—the unencumbered cash balance was Rs. 32.5 crore as on March 31, 2020 and adequate cushion was available in the existing fund-based facilities. ICRA notes that KIMS prepaid around Rs. 19.86 crore of term loans in Q1FY2021 using existing cash balances.

The rating reaffirmation takes into account the robust operational performance of KIMS and the consequent improvement in its financial profile. The operating income (OI) of the company grew at a CAGR of 22% during FY2015-FY2020 as the bed capacity was increased to 3,004 in FY2020 from 1,184 in FY2015 and the occupancy rate improved to 74% from 65% during the same period. The company reported a 32% Y-o-Y growth in OI to Rs. 1122.6 crore in FY2020, backed by an increase in the occupancy level to 74% in FY2020 from 72% in FY2019, a 25.7% growth in inpatient (IP) volumes, a 6.8% growth in average revenue per operating bed (ARPOB) along with addition of a new hospital (KIMS Kurnool). The ratings continue to factor in the company's healthy financial profile, with stable operating margins (which remained range-bound between 18% to 22% over the last six years) and net worth augmentation (post the private equity investment by General Atlantic (GA) in June 2018). The company has a conservative capital structure (the gearing was 0.5 times as on March 31, 2020) and comfortable coverage metrics (interest coverage and TD/OPBDIT of 7.0 times of 1.3 times respectively in FY2020).

The ratings favourably factor in the strong brand reputation and the extensive experience of KIMS's promoters in the healthcare industry. The Group has renowned doctors and experienced consultants working on full/part-time basis. Further, the ratings also positively consider the long operational track record of the KIMS group in the tertiary and

quaternary healthcare segment, and its diversified presence across various specialities, with the top three specialties - cardiac sciences (22% of the FY2020 revenues), neurosciences (15%) and renal sciences (11%) - accounting for 48% of the total revenues.

The ratings, however, remain constrained by facility and geographical concentration risks because of its high reliance on a single facility viz. KIMS Secunderabad (Telangana), which contributed 50.6% to the operating income in FY2020 (reduced from 55.5% in FY2019) and 65% to OPBDIT in FY2020. In FY2020, the company acquired a majority stake in the operational 250-bed hospital in Kurnool, Andhra Pradesh. While there are no acquisition plans in FY2021 because of the prevailing uncertainty, the company intends to acquire one 300-350 bedded hospital in FY2022. The acquisition involves a total investment of ~Rs. 200 crore-Rs. 225 crore, which is expected to be funded by debt (80%) and internal accruals (20%). Any higher-than-expected debt-funded capex in FY2022 will adversely impact coverage and leverage metrics. Further, the retention of doctors remains a key challenge for the company, given the intense competition in the healthcare industry.

Key rating drivers and their description

Credit strengths

Healthy growth in OI: The OI of the company grew at a CAGR of 22% during FY2015-FY2020 as the bed capacity was increased to 3,004 in FY2020 from 1,184 in FY2015 and the occupancy rate improved to 74% from 65% during the same period. The company reported a 32% Y-o-Y growth in OI to Rs. 1122.6 crore in FY2020, backed by an increase in the occupancy level to 74% in FY2020 from 72% in FY2019, a 25.7% growth in inpatient (IP) volumes, a 6.8% growth in ARPOB along with addition of a new hospital (KIMS Kurnool).

Conservative capital structure and comfortable coverage indicators: The company's financial profile is healthy with stable operating margins (which remained range-bound between 18% to 22% over the last six years) and net worth augmentation (post the private equity investment by General Atlantic (GA) in June 2018). The company has a conservative capital structure (the gearing was 0.5 times as on March 31, 2020) and comfortable coverage metrics (interest coverage and TD/OPBDIT of 7.0 times of 1.3 times respectively in FY2020).

Strong brand reputation and experienced consultants: KIMS group has a long operational track record in the tertiary and the quaternary healthcare segments. It benefits from the strong brand reputation and the extensive experience of the group's promoters in the healthcare industry. The Group also has renowned doctors and experienced consultants working on full/part-time basis.

Diversified revenue mix: The company has diversified presence across various specialties; the top-three specialties—cardiac sciences, neuro sciences and renal sciences—accounted for 48% of the total revenues in FY2020. Because of its diversified presence across major specialities, the risk arising from revenue concentration is minimised.

Credit challenges

Impact of Covid-19 pandemic - The spread of Covid-19 and the subsequent measures taken by the Government to contain the pandemic impacted both the revenues and the occupancy of Krishna Institute of Medical Sciences Limited (KIMS) in April and May 2020 as elective procedures were deferred and outpatient footfalls reduced significantly. However, with easing of restrictions and starting of the Covid-19 treatment from June 1, 2020, at its flagship hospital in

Secunderabad (around 300 beds earmarked), the performance has improved subsequently. Overall, in Q1FY2021, the company witnessed y-o-y revenue decline by 22.8% and OPBDIT by 58.1%.

High reliance on single facility - The company is exposed to facility and geographical concentration risks because of its high reliance on a single facility viz. KIMS Secunderabad (Telangana), which contributed 50.6% to the operating income in FY2020 (reduced from 55.5% in FY2019) and 65% to OPBDIT in FY2020

Debt-funded capex – There are no acquisition plans in FY2021 because of the prevailing uncertainty, the company intends to acquire one 300-350 bedded hospital in FY2022. The acquisition involves a total investment of ~Rs. 200 crore-Rs. 225 crore, which is expected to be funded by debt (80%) and internal accruals (20%). Any higher-than-expected debt-funded capex in FY2022 will adversely impact coverage and leverage metrics

Retention of doctors - Retaining the doctors is likely to remain a key challenge for the company, given the 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: Adequate

KIMS's liquidity position is adequate, with unencumbered cash balance of Rs. 32.5 crore as on March 31, 2020 and healthy cushion in the existing fund-based facilities. The fund-flow from operations has remained positive over the years because of low working capital intensity and healthy profitability levels. The company has debt repayment obligation of Rs. 37.24 crore in FY2021, which can be comfortably serviced from the estimated cash flow from operations. The capex for FY2021 is expected to be around Rs. 50 crore for routine maintenance and new equipment, which is expected to be funded through internal accruals.

Rating sensitivities

Positive triggers – Better-than-anticipated improvement in the operational performance of the hospitals will be a positive trigger. Specific credit metrics include decline in TD/OPBDITA to below 1.3 times on a sustained basis.

Negative triggers – Negative pressure on the rating could arise if there is any sharp deterioration in the operational performance of the hospital portfolio or any higher-than-expected debt funded acquisitions. Specific credit metrics include TD/OPBDIT of greater than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KIMS. As on March 31, 2020, the company had nine subsidiaries, which are enlisted in Annexure-2.

About the company

Promoted by Dr. Bhaskar Rao Bollineni, a renowned cardiothoracic surgeon, KIMS is one of the leading multi-disciplinary integrated private healthcare service providers in the southern part of India. KIMS operates a chain of multispecialty hospitals, with a focus on tertiary and quaternary healthcare. The group offers comprehensive healthcare services across specialties and super specialties through a network of nine hospitals under the “KIMS Hospital” brand. The flagship hospital of the Group in Secunderabad has a capacity of 1,000 beds. Spread across eight cities in the states of Andhra Pradesh and Telangana, KIMS has a total bed capacity of 3,004 beds. As on March 31, 2020, the promoter and promoter Group held 44.59% stake in KIMS, private equity investor General Atlantic Investments held 42.6% stake and other minority shareholders held 12.8% stake in the company.

Key financial indicators

	FY2019 Audited	FY2020 Provisional
Operating Income (Rs. Crore)	918.0	1122.6
PAT (Rs. Crore)	-46.3*	115.1
OPBDIT/OI (%)	17.7%	21.3%
PAT/OI (%)	-5.0%*	10.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.0
Total Debt/OPBDIT (times)	1.8	1.3
Interest coverage (times)	5.6	7.0

Source: KIMS, ICRA research; *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

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020	FY2019		FY2018		
					27-Jul-2020		1-Mar-2019	13-Jul-2018	2-Feb-2018	14-Sep-2017	6-Sep-2017
1	Cash Credit	Long Term	50.00	50.00	[ICRA]A (Positive)	-	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-
2	Term Loan	Long Term	160.88	160.88	[ICRA]A (Positive)	-	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Bank Guarantee	Long Term/ Short Term	3.60	3.60	[ICRA]A (Positive)/ [ICRA]A1	-	[ICRA]A (Positive)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Positive)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	-
4	Unallocated	Long Term/ Short Term	115.52	115.52	[ICRA]A (Positive)/ [ICRA]A1	-	[ICRA]A (Positive)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Positive)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	-

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	Cash Credit	-	9.5%	-	50.00	[ICRA]A(Positive)
NA	Term Loan	January 2018	9.5%	March 2031	160.88	[ICRA]A(Positive)
NA	Bank Guarantee	-	-	-	3.60	[ICRA]A(Positive)/[ICRA]A1
NA	Unallocated	-	-	-	115.52	[ICRA]A(Positive)/[ICRA]A1

Source: KIMS

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Arunodaya Hospitals Private Limited	57.83%	Full Consolidation
KIMS Hospital Enterprises Private Limited	78.28%	Full Consolidation
ICON Krishi Institute of Medical Sciences Private Limited	51.00%	Full Consolidation
KIMS Saveera Hospital Private Limited	80.00%	Full Consolidation
Kurnool Rainbow Hospitals Private Limited	55.00%	Full Consolidation
KIMS Hospital (Bhubaneswar) Private Limited	100.00%	Full Consolidation
KIMS Cuddles Private Limited	100.00%	Full Consolidation
KIMS Swastha Private Limited	100.00%	Full Consolidation
KIMS Hospitals Private Limited	100.00%	Full Consolidation

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