Rating Rationale

14 October 2022

KMC SPECIALITY HOSPITALS (INDIA) LIMITED

Brickwork Ratings reaffirms/assigns rating for the Bank Loan Facilities of Rs. 100.25 Crs. of KMC Speciality Hospitals (India) Limited

Particulars:

Facility**	Amount (Rs. Crs.)		Tenure	Rating^@	
	Previous	Present		Previous (03 December 2021)	Present
Fund Based					
Term Loan- Outstanding Term Loan- Proposed	60.00 37.40	**97.40** **-**	Long Term	BWR BBB+/Stable Reaffirmation	**BWR BBB+/Stable Reaffirmation**
Cash Credit Term Loans- Outstanding	- -	**1.00** **1.85**		-	**BWR BBB+/Stable Assignment**
Total	97.40	**100.25**	**Rupees One Hundred Crores and Twenty Five Lakhs Only**		

^Please refer to the BWR website **www.brickworkratings.com/** for the definition of the ratings.
**Details of bank loan facilities are provided in Annexure-I.
@This rating pertains to an existing assignment received prior to 6 October 2022.

Rating Action/Outlook

The reaffirmation of the bank loan rating of KMC Speciality Hospitals (India) Limited (KMC or the company) continues to draw comfort from the established market position of the hospital in the Trichy region, experienced management, adequate infrastructure, steady operational performance, continued moderate financial risk profile, improved FY22 financial performance and positive demand outlook for healthcare services. The rating also takes into account the strengths derived from it being a part of the Kauvery Group of hospitals in the form of a subsidiary of Sri Kauvery Medical Care (India) Limited (SKMC) (BWR A+/Stable). However, the rating continues to be constrained by geographical concentration risk, project execution risk for the upcoming greenfield hospital project, exposure to regulatory risks including pricing restrictions and the ability to attract talented consultants amid competition from various hospitals in the vicinity, as well as from the nearby cities. Brickwork Ratings (BWR) has also factored the corporate guarantee of Rs. 64.56 Crs. (PY: Rs. 32.76 Crs.) as on 31 March 2022 extended by the company to its holding company SKMC for bank loans. BWR has also taken note of the financial closure and extension in the date of commencement of commercial operations (DCCO) by the lender from April 2022 to October 2023 for the ongoing capex project of the 190-bed mother and child care hospital at Trichy.

The Stable outlook indicates a low likelihood of rating change over the medium term. BWR believes that KMC Speciality Hospitals (India) Limited's business risk profile will be maintained over the medium term. The outlook may be revised to Positive if there is a sustained significant increase in the scale of operations and Average Revenue Per Occupied Bed (ARPOB), along with stable margins and improved geographical diversification, resulting in an improved financial risk profile. The outlook may be revised to Negative in the case of time and cost overruns with respect to the present capex plan, a deterioration in the capital structure due to debt-financed capital expenditure and decline in the ARPOB and profitability, thus weakening the company's financial risk profile.

KEY RATING DRIVERS

Credit Strengths-:

- **Experienced management and established track record:** The company is a 75%-owned subsidiary of SKMC, the flagship company of the Kauvery Hospitals' group. The company has been in existence since 1982. SKMC took over the company in 2008. The company's Chairman, Managing Director and two other directors are common with SKMC's key management personnel. The management is well-qualified and experienced in the medical and healthcare services segments.

- **Diversification across various specialities and good infrastructure:** The company runs a 235-bed multi-speciality hospital at Cantonment, Trichy, Tamil Nadu. It offers services in neuroscience, paediatrics, gastro science, obstetrics and gynaecology, plastic surgery, nephrology & urology, orthopaedics, general medicine, vascular surgery, renal transplant and liver transplant.. The multi-specialities help minimise the concentration risk related to any single speciality. The company is in the process of building a new maternal and child care hospital, which will incorporate the obstetrics and gynaecology, and paediatrics and neonatology departments of the existing hospital. The new hospital is expected to commence operations in October 2023.

- **Steady operational performance:** The company has demonstrated steady operational performance over the years. The average bed occupancy in FY22 increased to ~79% compared to ~63% in FY21 due to the easing of restrictions imposed to control the spread of Covid-19. The Average Length of Stay (ALOS) marginally increased in FY22 to ~5.2 days (FY21: ~5 days) primarily due to an increase in the proportion of neurosurgery, gastro surgery, critical care patients, and so on. The ARPOB increased to ~Rs. 19,100 in FY22 (FY21: ~Rs. 17,956).

- **Moderate financial risk profile:** The company's operating income increased from Rs. 102.64 Crs. in FY21 to Rs. 136.07 Crs. in FY22. The operating profit increased from Rs. 23.46 Crs. to Rs. 37.46 Crs., and the net profit from Rs. 12.78 Crs. to Rs. 23.73 Crs. over the same period. The Tangible Net Worth (TNW) increased from Rs. 62.83 Crs. as on 31 March 2021 to Rs. 86.00 Crs. as on 31 March 2022. The gearing declined from 0.43 times as on 31 March 2021 to 0.31 times as on 31 March 2022 due to an increase in the TNW over the period. The ISCR and DSCR were comfortable at 38.19 times (PY 19.93 times) and 14.19 times (PY 6.40 times), respectively, as on 31 March 2022. The company achieved an operating income of Rs. 35.05 Crs. in Q1FY23.

Credit Concerns-:

- **Geographical concentration risk:** The company is exposed to geographic concentration risk as the sole hospital is located at Cantonment, Trichy. The other hospital, under construction, is also at Trichy, at ~300 metres from the existing hospital. The vicinity of the hospitals would make management and administrative control easier. However, geographical concentration risk will remain high due to high dependence on local patients, although the hospital caters to referral cases from the other districts of the region.

- **Project execution risk:** The company is in the process of building a new 190-bed maternal and child care hospital at Trichy at an estimated project cost of ~Rs. 142 Crs. The land purchase has been completed. The company received the building plan approval from the Chennai Metropolitan Development Authority (CMDA) and Directorate of Town and Country Planning, Trichy. The physical work commenced in the last week of May 2022. The hospital was expected to commence operations from April 2022. However, due to delays in obtaining various regulatory approvals as a result of the pandemic and for other reasons, the DCCO has been extended from April 2022 to October 2023 with the lender's approval without any change in the project cost. The financial closure was achieved in July 2022. The project is being funded by Rs. 97.40 Crs. of the project loan, which may impact the gearing and debt coverage metrics in the coming fiscals. Additionally, there is a risk of the project exceeding timeline and cost projections.

- **Exposure to regulatory risk:** The healthcare sector functions under multiple layers of regulations of the government and professional bodies. The onset of Covid-19 has increased regulatory oversight, and state intervention in the normal operations of hospitals. Any directive in terms of pricing restrictions may potentially affect the margins of the industry as a whole.

- **Intense competition:** The ability to attract talent remains critical amid intense competition from larger players. While the company's hospital has created its own brand, it faces competition from larger players in the nearby towns/cities. Thus, the hospital's ability to retain key medical talent to attract patients continues to be a key monitorable.

ANALYTICAL APPROACH- Standalone

To arrive at its ratings, BWR has adopted a standalone approach and has applied its rating methodology as detailed in the rating criteria below (hyperlinks provided at the end of this rationale). The company had no subsidiary or associate as of 31 March 2022.

RATING SENSITIVITIES

The company's ability to further improve revenue, the ARPOB and patient numbers on a sustained basis, execute the ongoing project in a timely manner and without any significant deterioration in the gearing and debt coverage metrics, and diversify geographically, thus strengthening its overall credit profile, would be the key rating sensitivities.

Upward:

- Significant revenue growth and/or diversification of revenue sources on a sustained basis with a sustained improvement in bed occupancy and growth in patient volume, while maintaining and/or improving credit metrics

Downward:

- Significant weakening in operating performance with lower-than-expected profitability
- Delays in project execution resulting in the weakening of the business performance and decline in revenue or profitability, thereby impacting cash accruals
- Deterioration in the financial risk profile, as reflected by the gearing and debt coverage metrics on account of debt-funded capital expenditure

LIQUIDITY POSITION: Adequate

The company's liquidity position is adequate, marked by the EBITDA and net cash accruals comfortably covering the debt servicing obligations, moderate current ratio and adequate cash and cash equivalents compared to the scale of operations. The company's EBITDA has been sufficient to cover the interest and finance charges during the past three fiscals; the trend is expected to continue in FY23 and FY24. Likewise, the company's annual net cash accruals not only cover the debt repayment obligations, but also provide surplus for both working capital and capital expenditure needs. Healthy monthly surplus from operating cash inflows has helped the company accumulate unencumbered cash and cash equivalents of Rs. 33.16 Crs. as on 31 March 2022. Nil short-term borrowings and an increase in the cash and cash equivalents helped the current ratio remain at a moderate level as on 31 March 2022. The company is also maintaining a Debt Service Reserve Account (DSRA) of three months of interest payment with SBI; quarterly principal repayment shall start in October 2023. However, the impact of the ongoing mother and child care hospital project on the liquidity needs to be observed as the company plans to fund the balance equity portion of ~Rs. 31 Crs. through internal accruals.

ABOUT THE COMPANY

KMC Speciality Hospitals (India) Limited (KMC) is a Trichy-based, BSE-listed company. It was originally incorporated as Advanced Medical Care Private Limited on 31 December 1982 under the Companies Act, 1956, and was converted into a public limited company on 15 July 1988. The company was renamed as Seahorse Hospitals Limited on 21 March 1995 and to its current name w.e.f. 24 October 2008. The management of Seahorse Hospitals Ltd was taken over by Sri Kauvery Medical Care (India) Limited (SKMC) (BWR A+/Stable) in February 2008. The company primarily renders medical and healthcare services. It runs a 235-bed multi-speciality hospital at Cantonment, Trichy, Tamil Nadu. The holding company, SKMC, has a 75% equity stake in KMC.

Dr. S Chandrakumar is the Executive Chairman, and Dr. S Manivannan is the Managing Director.

Financial Performance

Key Parameters	Units	FY22	FY21
Result Type		**Audited**	**Audited**
Operating Revenue	Rs. Crs.	136.07	102.64
EBITDA	Rs. Crs.	37.46	23.46
Net Profit	Rs. Crs.	23.73	12.78
Tangible Net Worth (TNW)	Rs. Crs.	86.00	62.83
Total Debt : Tangible Net Worth	Times	0.31	0.43
Current Ratio	Times	2.18	2.08

The company reported a total operating income of ~Rs. 35 Crs. for Q1FY23 period.

KEY COVENANTS OF THE FACILITY RATED: The terms of sanction include standard covenants normally stipulated for such facilities.

STATUS OF NON-COOPERATION WITH PREVIOUS CRA: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating (October 2022)			Rating History			
	Tenure	Amount (Rs. Crs.)	Rating	2022	2021 03 Dec 2021	2020 19 Nov 2020	2019
Fund Based							
Term Loan-Outstanding Term Loan-Proposed	Long Term	60.00 37.40	**BWR BBB+/Stable Reaffirmation**	NA	BWR BBB+/Stable Reaffirmation	BWR BBB+/Stable Assignment	Not Rated
Cash Credit Term Loans-Outstanding		1.00 1.85	**BWR BBB+/Stable Assignment**	-	-	-	-
Total		**100.25**	**Rupees One Hundred Crores and Twenty Five Lakhs Only**				

Note: Initial rating: BWR BBB+/Stable on 19Nov2022 for Rs. 60 Crs. of bank loan facilities.
Rated amount on 03Dec2021: Rs. 97.40 Crs.

COMPLEXITY LEVELS OF THE INSTRUMENT: Simple

For more information, visit
https://www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to Applicable Criteria

• General Criteria	• Services Sector
• Approach to Financial Ratios	

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KMC SPECIALITY HOSPITALS (INDIA) LIMITED

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	SBI	Term Loan - Outstanding	60.00	-	60.00
2		Term Loan - Outstanding	37.40	-	37.40
3		Cash Credit	1.00	-	1.00
4	Yes Bank	Term Loans - Outstanding	1.85	-	1.85
TOTAL - Rupees One Hundred Crores and Twenty Five Lakhs Only					**100.25**

Note: Besides the above mentioned facilities, the company has vehicle loans from HDFC Bank with cumulative o/s at Rs. 0.25 Cr. as on 31Aug2022 not being rated by BWR at the company's request.

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