Rating Rationale

03 December 2021

KMC Speciality Hospitals (India) Limited

Brickwork Ratings reaffirms/assigns rating for the Bank Loan Facilities of Rs. 97.40 Crs. of KMC Speciality Hospitals (India) Limited

Particulars:

Facility**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (19 November 2020)	Present
Fund Based					
Term Loan	60.00	**60.00**	**Long Term**	BWR BBB+/Stable	**BWR BBB+/Stable Reaffirmed**
Proposed Term Loan	-	**37.40**		-	**BWR BBB+/Stable Assigned**
Total	60.00	**97.40**	**Rupees Ninety Seven Crores and Forty 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. The rating advisory was issued on 19 November 2021.

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 year to date (H1FY22 on provisional basis) 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 Hospitals group in the form of a subsidiary of Sri Kauvery Medical Care (India) Limited (SKMC) (BWR A/Positive). 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. 32.76 Crs. as on 31 March 2021 extended by the company to its holding company SKMC for bank loans. BWR notes the possibility of the impact of the spread of the new Omicron variant of the coronavirus on the company's operations and finances.

BWR has also taken note of the proposed enlargement of the scope of the new hospital project (present capex plan), i.e., from 150 beds to 190 beds with an increase in the total outlay from Rs. 85 Crs. to Rs. 141.80 Crs. The company is in the advanced stages of achieving financial closure and obtaining necessary statutory approvals.

BWR further notes that KMC had availed relief under the Covid moratorium package for April-May 2020 for interest and principal of term loans (TLs) with Yes Bank (not being rated by BWR) and deferred scheduled payments for the period in line with RBI guidelines. The company has been regular in debt obligation payments in the post-moratorium period, as confirmed by its banker. The company did not avail the moratorium package for its facilities with HDFC Bank (not being rated by BWR) and SBI. The company has not opted for loan restructuring under the RBI Resolution Framework for Covid-19-related stress.
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 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 three other directors are common with SKMC. 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 227 bed multi-speciality hospital at Cantonment, Trichy, Tamil Nadu. It offers services in neurology, nephrology, obstetrics and gynecology, pediatrics and neonatology, cardiology, ENT, dental, orthopaedics and joint replacement, liver transplant surgery, neurosurgery and plastic surgery, among others. 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 gynecology, and pediatrics and neonatology departments of the existing hospital. The new hospital is expected to commence operations in April 2023.

- **Steady operational performance:** The company has demonstrated steady operational performance over the years. The average bed occupancy in FY21 declined to 63% compared to 76% in FY20 due to the restrictions imposed to control the spread of Covid-19. However, it recovered to ~73% in H1FY22 as there were no widespread lockdown-like restrictions in place during the second wave of the pandemic. The Average Length of Stay (ALOS) marginally increased in FY21 primarily due to an increase in the proportion of more serious patients with a higher ALOS and deferment of treatment plans by patients with less serious needs for medical attention. The ALOS further increased in H1FY22 as the company started treating Covid-19 patients during April-July 2021. Average revenue per occupied bed (ARPOB) improved in FY21 and H1FY22.

- **Moderate financial risk profile:** The company's operating income increased from Rs. 96.18 Crs. in FY20 to Rs. 102.64 Crs. in FY21. The operating profit increased from Rs. 21.36 Crs. to Rs. 23.46 Crs. and the net profit from Rs. 11.74 Crs. to Rs. 12.78 Crs. over the same period. The tangible net worth (TNW) increased from Rs. 50.04 Crs. as on 31 March 2020 to Rs. 62.83 Crs. as on 31 March 2021 due to the accretion of net profit. The gearing increased from 0.17 times as on 31 March 2020 to 0.46 times as on 31 March 2021 due to an increase in the total debt over the period. The ISCR and DSCR were comfortable at 19.93 times and 6.40 times, respectively, as on 31 March 2021. The company achieved an operating income of Rs. 65.11 Crs. in H1FY22.

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 a high dependence on local patients, even though 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, and approvals are being obtained from various regulatory agencies. The hospital is expected to commence operations in April 2023. The project is already one year behind schedule due to the Covid pandemic. The project is being funded with 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. BWR notes the upward revision in the scope from 150 beds to 190 beds with additional services. Resultantly, there is a cost revision from ~Rs. 85 Crs. to ~Rs. 142 Crs., an increase in the proposed debt level and the proposed change in the date for commencement of commercial operations (DCCO) from April 2022 to April 2023. The company is in the advanced stages of achieving financial closures and necessary statutory approvals.

- **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.

- **Impact of Covid-19 pandemic:** In Q1FY21, during the nation-wide lockdown, the hospital's OPD and elective surgeries were affected. Only emergency surgeries were performed during the period. The situation improved in Q2FY21 as the lockdown restrictions were gradually eased. There was no major impact on the company's operations and finances in H2FY21. The company remained largely unaffected during the second wave of the pandemic in H1FY22 as there was no local-level restriction on transportation. However, the company's operations and finances remain vulnerable to the intensity and magnitude of another wave of the pandemic, if any.

Analytical Approach And Applicable Rating Criteria

To arrive at its ratings, BWR has adopted a standalone approach and applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). The company has no subsidiary or associate as of 31 March 2021.

Rating Sensitivities

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

Positive:

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

Negative:

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

Liquidity Position: Adequate

The company's liquidity position is adequate, marked by EBITDA and net cash accruals adequately covering debt servicing obligations, moderate cash and cash equivalents, and current ratio. 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 FY22 and FY23. 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 have helped the company accumulate unencumbered cash and cash equivalents of Rs. 17.70 Crs. as on 31 March 2021, which increased to Rs. 23.43 Crs. as on 30 September 2021 (Prov.). Nil short-term borrowings and increase in the cash and cash equivalents have helped the current ratio remain at an adequate level as on 31 March 2021. 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 June 2022. However, the impact of the ongoing Mother & Child Care hospital project on the liquidity needs to be observed as the company plans to fund the balance equity portion of ~Rs. 34 Crs. through internal accruals.

About the Company
KMC Speciality Hospitals (India) Limited (KMC) 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/Positive) in February 2008. The company primarily renders medical and healthcare services. It runs a 227-bed multi-speciality hospital at Cantonment, Trichy, Tamil Nadu. The holding company, SKMC, has a 75% equity stake in KMC.
The company was in the process of launching a 150 bed Mother & Child Care Hospital in Trichy region at a cost of Rs. 85 Crs. partly funded by a term loan (TL) of Rs. 60 Crs. from SBI. Now, the company has proposed to increase the scope and launch a hospital with 190 beds with an estimated project cost of Rs. 141.80 Crs. The project shall be funded with a debt of Rs. 97.40 Crs. and promoter contribution of Rs. 44.40 Crs. The company is in the process of obtaining an approval for the building plan and availing additional finance (Rs. 37.40 Crs.) from SBI. Presently, land acquisition is complete at a cost of ~Rs. 33 Crs. The earlier DCCO of April 2022 is proposed to be changed to April 2023.

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

Financial Performance

Key Parameters	Units	FY21	FY20
Result Type		**Audited**	**Audited**
Operating Revenue	Rs. Crs.	102.64	96.18
EBITDA	Rs. Crs.	23.46	21.36
Net Profit	Rs. Crs.	12.78	11.74
Tangible Net Worth (TNW)	Rs. Crs.	62.83	50.04

Total Debt : Tangible Net Worth	Times	0.46	0.17
Current Ratio	Times	2.08	1.43

During H1FY22, the company reported a total operating income of ~Rs. 65 Crs.

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 (December 2021)			Rating History		
	Tenure	Amount (Rs. Crs.)	Rating	2020 19 Nov 2020	2019	2018
Fund Based						
Term Loan	Long Term	60.00	**BWR BBB+/Stable Reaffirmed**	BWR BBB+/Stable Assigned	Not Rated	
Proposed Term Loan		37.40	**BWR BBB+/Stable Assigned**	Not Rated		
Total		**97.40**	**Rupees Ninety Seven Crores and Forty Lakhs Only**			

Rating advisory was issued on 19 Nov 2021

Complexity Levels of the Instrument: Simple
For more information, visit 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	60.00	-	60.00
2		Proposed Term Loan	37.40	-	37.40
TOTAL - Rupees Ninety Seven Crores and Forty Lakhs Only					**97.40**

Note: Besides the above mentioned facilities, the company has Rs. 3.81 Crs. of fund-based loan facilities outstanding as on 31Mar2021 with various banks and NBFCs not rated by BWR at the request of the company.

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