

## Kovai Medical Center and Hospital Limited

February 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	478.30 (Reduced from 520.06)	CARE A+; Stable	Reaffirmed
Short-term bank facilities	39.00 (Reduced from 69.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Kovai Medical Center and Hospital Limited (KMCH) continue to derive strength from the vast experience of the promoters in the medical field, diversified revenue streams, hospital's established brand presence and its long and stable operational track record of over two decades and comfortable financial profile marked by healthy profitability margins and improved capital structure as on March 31, 2022 along with strong liquidity.

The ratings, however, continue to be constrained by the geographically concentrated nature of KMCH's revenues with a large part of it coming from a single hospital, dependence on scarcely available medical professionals and growing competition in the industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- The ability of KMCH to diversify the revenue concentration from single location hospital.
- The ability to increase revenues beyond ₹1,000 cr and PBILDT margin beyond 25% on sustained basis.
- The ability to reduce debt/PBILDT below 1.5x on a sustained basis.

#### Negative factors

- Any other large debt-funded capital expenditure leading to moderation of the capital structure with debt/PBILDT above 3x
- Any significant drop in intake for medical college or fall in occupancy of the hospitals leading to deterioration in its operational & financial performance on sustained basis.

### Analytical approach: Standalone

### Key strengths

#### Vast experience of the promoters in the medical and education sector, aided by experienced & professional team:

The promoters of KMCH, Dr. Nalla G Palaniswami and Dr. Thavamani Devi Palaniswami, have over four decades of experience in the medical profession in USA and India. The promoters have been involved in managing the day-to-day activities of the hospital supported by qualified and experienced management team.

#### Established track record of the main hospital and new smaller hospitals:

KMCH established its main hospital in Coimbatore in 1985 as a tertiary care multi-specialty hospital catering to patients in Coimbatore and surrounding regions. It is one of the largest hospitals in the region and the company follows a hub and spoke model wherein the smaller satellite centers treat patients from the surrounding regions. The revenue from this main hospital contributes to about 77% of the operating revenue of the company in FY22 (refers to the period April 01 to March 31) & 79.70% of the total operating revenue in H1FY23 (refers to the period April 01 to September 30). The revenues from the peripheral hospitals, in view of the increasing patronage from the people have also been able to improve the performance.

#### Diversified revenue stream across specializations:

In the recent years, KMCH, being one of the few hospitals in the region providing organ transplantation, has been getting more referrals from Western Tamil Nadu and Kerala for such surgeries. KMCH operates over 24 operation theaters with state-of-the-art 'Robotoc Surgical System, Advanced PET CT scan and technically advanced laboratories.

The company's total income is spread across various specialities and Neurology and Cardiology continue to remain the major contributors contributing to 23% of the revenue in FY22 and 29% in H1FY23 (refers to period between April 01 to September 30). None of the specialties contribute to more than 20% of the total revenue and top five departments contribute around 53% to the total sales during FY22.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Comfortable operational performance:**

The operational parameters witnessed significant improvement in FY22 resulting in 31% growth in Total operating income (TOI) in FY22 to ₹901 crore as against ₹688 crore in FY21. The occupancy & ARPOB stood at 49% and ₹20,994 respectively for FY22 while for H1FY23 the same stood at 53% and ₹19,481. The marginal dip in ARPOB is due to the relatively lower APRPOB of the medical college.

The PBILDT margin continued to remain at 28% in FY22. The TOI improved to ₹495.38 crore in H1FY23 as against ₹ 461.17 crore in H1FY22 and the PBILDT margin stood at 27.66%.

**Improved capital structure & coverage ratios:**

The overall gearing (including LC acceptances) has improved significantly to 0.92x as on March 31, 2022 as against 1.29x in the previous year. The same is on account of scheduled repayments and accretion of profits to networth. In FY20 & FY21 the company had drawn additional debt for the construction of its medical college. With the completion of the project and no further debt draw down the overall capital structure & coverage ratios witnessed improvement in FY22. The Net debt to PBILDT improved to 1.41x in FY22 as against 2.60x in FY21. The total debt as on December 31, 2022 stood at ₹483.23 crore and liquidity available with the company stood at around ₹230 crore. The financial profile is expected to remain strong with no large debt funded capex envisaged in near to medium term.

**Industry Outlook**

The Indian healthcare delivery industry has been growing at a CAGR of about 12-14% over FY16-20 and is estimated to reach about ₹7.3 lakh crore by FY24E. Post abatement of COVID-19, the industry has witnessed a sharp recovery in top-line, driven by higher occupancy, the release of deferred non-COVID surgeries, higher ARPOBs, and increased bed capacity of hospital chains. Moving forward, prudent expansion plans of the hospitals, better health insurance penetration, increasing investments in the healthcare industry, and increasing public and private healthcare spends are expected to aid the Indian healthcare industry. Looking from the macro perspective, India still lags other developed and emerging economies in healthcare infrastructure, for instance, India only has 12 beds per 10,000 people as against the global median of 29 beds. In addition to the availability of this huge domestic opportunity, India has significant opportunity of growth from medical tourism as well. Treatments mostly sought after in India are high-end treatments pertaining to complex ailments like heart surgery, knee implant, cosmetic surgery and dental care, due to the low costs of treatments in India. To summarise, India is a large and hugely under-penetrated market having attractive dynamics and strong growth prospects, driven by demographic shifts, changing consumption patterns, increasing affordability, favourable regulatory environment, and medical tourism. The private sector players are well positioned to leverage the opportunity, given the low contribution of government spending. Improved cash accruals and cautious pattern of capex funding with adequate support in the form of equity infusion are expected to benefit the credit risk profiles of the entities operating in the healthcare industry, thus keeping the outlook of the industry stable.

**Key weaknesses****Geographical concentration of revenues:**

KMCH has been in operation for around 30 years and continues to enjoy patronage in the Coimbatore region. The revenue profile of KMCH is heavily dependent on the main hospital at Coimbatore which contributes about 77% of total revenue in FY22. Though KMCH, over the past few years has been starting peripheral centers at nearby areas, the flagship hospital is expected to be the key revenue and profitability driver for KMCH in the medium term mainly because, the peripheral centers are much smaller in size. Furthermore, as a means of diversification of revenue and further revamping its brand image, the company has successfully set up a medical college comprising of 750 hospital beds.

**Dependence of KMCH on the experienced team of doctors:**

All the hospitals in KMCH have experienced and well-qualified doctors. Some of these doctors have been associated with the hospital for the past 25 years and have generated good patronage from the patients in Coimbatore. KMCH is highly dependent on these scarcely available qualified medical professionals. Given the increasing competition and high rate of attrition during COVID-19 period leading to scarcity of medical professionals, the ability of the hospital to retain its current pool would be important.

**Liquidity: Strong**

Liquidity is marked by strong accruals against its repayment obligations and liquid investments to the tune of ₹230.92 crore as on September 30, 2022. The company has healthy cash conversion with negative working capital cycle. The payment from patients is done on an immediate basis, while the insurance companies and corporates pay within 15-20 days. The company also enjoys a credit period of around 15 days from its suppliers. On account of comfortable operating cycle, the company has sparingly used its overdraft facilities with average utilization of 16% for the past 12 months ended December 2022.

As against actual reported GCA of ₹191 cr in FY22 and ₹98.99 cr in H1FY23, the company is comfortably placed to meet its repayment obligations of ₹29.43 cr in FY23 (out of which ₹23.22 crore is met as on December 31, 2022). Furthermore, the repayment obligations are at comparable levels of ₹30- 40 cr till FY26.

## Applicable criteria

- [Policy on default recognition](#)
- [Financial Ratios – Non financial Sector](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Credit Watch](#)
- [Short Term Instruments](#)
- [Hospital](#)
- [Policy on Withdrawal of Ratings](#)

## About the company

KMCH is a Coimbatore-based public limited company providing advanced healthcare services. KMCH was promoted in the year 1985 by Dr Nalla G Palaniswami and his wife Dr Thavamani Devi Palaniswami. KMCH, as of September 2022 operates a multispecialty hospital with 868 operating beds at Coimbatore equipped with latest tertiary health care facilities. The company also has its satellite centers at Ramnagar, Coimbatore (51 beds), Erode (103 beds), Sullur (111 beds) and Kovilpalayam (193 beds) including beds for ICUs, dialysis ward, etc. From July 01, 2019, KMCH has also commenced a medical college with 150 students intake each year with a 750-bed medical college hospital. The main hospital at Coimbatore continued to be the major contributor to KMCH's revenues with 77% of FY22's total revenues coming from this centre.

The company also has captive power from a solar power plant with an aggregate capacity of 5.25 MW catering to 80% (PY: 69%) of its power requirement in FY22.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (A)	9MFY23 (UA)
Total operating income	698.02	901.15	495.38	NA
PBILDT	203.11	256.56	137.01	NA
PAT	77.69	104.26	54.07	NA
Overall gearing (times)	1.29	0.92	NA	NA
Interest coverage (times)	5.78	5.56	6.82	NA

A: Audited; NA: Not Available

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	February 2037	478.30	CARE A+; Stable
Fund-based - ST-Bank overdraft		-	-	-	15.00	CARE A1+
Non-fund-based - ST-Bank guarantee		-	-	-	11.00	CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	13.00	CARE A1+

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	478.30	CARE A+; Stable	-	1)CARE A+; Stable (22-Feb-22)	1)CARE A+; Stable (30-Dec-20)	1)CARE A+; Stable (19-Dec-19)
2	Fund-based - ST-Bank overdraft	ST	15.00	CARE A1+	-	1)CARE A1+ (22-Feb-22)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (19-Dec-19)
3	Non-fund-based - ST-Letter of credit	ST	13.00	CARE A1+	-	1)CARE A1+ (22-Feb-22)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (19-Dec-19)
4	Non-fund-based - ST-Bank guarantee	ST	11.00	CARE A1+	-	1)CARE A1+ (22-Feb-22)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (19-Dec-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:**

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
I. Debt Equity ratio	$\leq 2.00$
II. Fixed asset coverage ratio	$= 1.20$
<b>B. Non financial covenants</b>	
I. Submission of financials	Audited financials within 3 months of date of balance sheet and quarterly unaudited performance statement within 1 month
II. Utilization of funds	Only for the purpose for which such funds have been lent

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

**Contact us****Media contact**

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)**Analyst contact**

Name: Ravleen Sethi

Phone: 9818032229

E-mail: [ravleen.sethi@careedge.in](mailto:ravleen.sethi@careedge.in)**Relationship contact**

Name: Pradeep Kumar V

Phone: +91-98407 54521

E-mail: [pradeep.kumar@careedge.in](mailto:pradeep.kumar@careedge.in)**About us:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

**Disclaimer:**

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,  
please visit [www.careedge.in](http://www.careedge.in)**