Kovai Medical Center and Hospital Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	285.46 (Reduced from 478.30)	CARE A+; Stable	Reaffirmed
Short-term bank facilities	39.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings for the bank facilities of Kovai Medical Center and Hospital Limited (KMCH) at 'CARE A+' with a Stable outlook and 'CARE A1+'.

The reaffirmation of the ratings continues 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. The ratings also factor comfortable financial profile marked by healthy profitability margins and improved capital structure as on March 31, 2023, along with a strong liquidity profile.

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 in Coimbatore. The ratings are further constrained by the 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 enhance its scale of operations and increasing its operating profitability further coupled with its ability to diversify the revenue concentration from single location hospital.
- Total debt/PBILDT below 1x on a sustained basis.

Negative factors

- Any other large debt-funded capital expenditure leading to moderation of the capital structure with total debt/PBILDT above 2.5x.
- 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

Outlook: Stable

The stable outlook represents CARE Rating's belief that KMCH will continue to maintain its credit risk profile supported by its business profile, steady occupancies and improvement in ARPOBs which will benefit revenue and also ensure healthy operating profitability. The company is also expected to sustain its debt metrics at comfortable levels in the medium term.

Detailed description of the key rating drivers:

Key strengths

Comfortable operational performance

The operational parameters stood comfortably in FY23, wherein the occupancy rate improved to 55% as on March 31, 2023, from 49% in the previous year and was sustained at the same level in H1FY24. In FY21, there was a drop in occupancy levels due to COVID-19 and since then it has been reviving. The bed capacity increased from 1715 beds to 1925 beds in FY23. The overall average revenue per operating bed (ARPOB) of KMCH reduced in FY23, however, stood comfortably at ₹17,442 in FY23 from ₹21,144 in FY22. This reduction is on account of the increased contribution from medical college hospital where ARPOB is lower than main hospital. In H1FY24, the ARPOB of the main centre stood at ₹28,479 similarly, ARPOB for the other centres was between around ₹11,000 to ₹19,000, however, for the medical college hospital which added 238 beds in FY23 itself, stood at

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

₹3,388 which has impacted the overall average ARPOB level from the previous year. During FY23, the inpatient revenue from the main centre improved by 12% as the number of inpatients increased from 49,385 in FY22 to 57,690 in FY23. The occupancy too increased to 78% and the ARPOB stood at ₹23,957 in FY23 which improved by 19% in H1FY24 to ₹28,479. On the back of satisfactory operational metrics, the PBILDT margin remained healthy in FY23 at 26.77% and 27.92% in H1FY24.

Improved capital structure and coverage ratios
The overall gearing has improved to 0.71x as on March 31, 2023, as against 0.91x in the previous year. The same is on account of scheduled repayments and accretion of profits to net worth. In FY20 and 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 and coverage ratios witnessed improvement in FY22 and FY23. The total debt to PBILDT has also improved to 1.87x in FY23 as against 2.12x in FY22 (3.22x in FY21). The total debt as on November 30, 2023, stood at ₹285.45 crore, while liquidity available as on September 30, 2023, was ₹181.16 crore. Furthermore, KMCH is planning to undertake capex in the range of ₹250 – 300 crore in the medium term funded through a combination of term debt and internal accruals against which sufficient accruals are expected to be maintained on the back of improving operational parameters. Hence, CARE Ratings anticipate that debt coverage matrix will not moderate and will remain comfortable in the medium term.

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 are actively involved in overseeing the daily operations of the hospital, supported by a proficient and seasoned management team. The operational aspects of KMCH are efficiently handled by a capable team of executives.

Established track record of the main hospital and new hospitals albeit smaller
KMCH established its main hospital in Coimbatore in 1985 and commenced its hospital operation in the year 1990 with the flagship of Multi-Speciality Hospital at Coimbatore and has thereafter set up the satellite centers at Coimbatore (in the name of City center, Sulur Hospital and Kovilpalayam Hospital) and Erode (in the name of Erode Speciality Hospital). It started MBBS Educational activities with the commencement of Medical College in the year 2019-20 with the title of KMCH Institute of Health Sciences & Research. As per the norms prescribed by Government of India, a medical college can be established only with the establishment of a Medical College Hospital. The 854-bed NABH accredited hospital at Coimbatore has about 40 specialities such as Urology, Cardio – Thoracic Surgery, Cardiology, Gynaecology, Orthopaedics, Neurology etc and contributes to about 79% (PY: 78%) of the operating revenue of the company and continues to be the major contributor to the total income. In FY23, the hospital witnessed a revenue growth of 15% over the previous year at ₹803.43 crore (PY: ₹700.64 crore), while the total revenue of KMCH grew by 13% Y-o-Y at ₹1,018.56 crore. Furthermore, in H1FY24, revenue stood at ₹587.77 crore witnessing a growth of 19% over H1FY23. It is one of the largest hospitals in the region and the company follows a hub and spoke model wherein the smaller satellite centres treat patients from the surrounding regions. 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 from the hospital across specialisations and the education sector
The revenue stream of KMCH is diversified across two sectors since the inception of the Medical College – Hospital Sector contributing around 93% in FY23 to the total revenue and income from the Education Sector contribution around ~7% to the total revenue in FY23. Over its more than three-decade journey, the hospital has serviced urban and rural patients from Western Tamil Nadu and parts of Kerala. In recent years, KMCH has emerged as one of the most successful 'Multi Organ Transplant Center' in the rest of Tamil Nadu, leading to an increasing number of referrals from Western Tamil Nadu and Kerala. It is recognized as a forerunner in transplant surgeries as well. During FY23, KMCH inaugurated a new treatment option for cancer – IceCure, which is the third system in India and the first in South India to be installed. The company's overall revenue is diversified across various specialties, with Neurology and Cardiology maintaining their status as primary contributors, contributing 23% of the revenue in FY23. None of the specialties contributed to more than 20% of the total revenue while the top five departments collectively contributed around 42% in FY23. Furthermore, the Medical College, boasting a total of 750 seats, operates at full capacity, with an average annual fee of ₹14 lakh. CARE Ratings expects that the revenue contribution from the medical college will improve as the operations progress.

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 contributed around 79% of total revenue in FY23, ~78% in FY22 and around 74% in FY21. 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 750 hospital beds. The growth in revenue driven by this medical college and hospital will be a key monitorable in the medium term.

Dependence of KMCH on the experienced team of doctors
All the KMCH hospitals are staffed with experienced and highly qualified doctors, some of whom have served the institution for over 25 years, building a strong patronage in Coimbatore. The hospital exclusively hires seasoned medical professionals and heavily relies on these scarce and skilled medical professionals. Given the intensified competition and elevated attrition rates experienced in the COVID-19 period, resulting in a shortage of medical professionals, it is difficult for hospitals to attract and retain well-qualified staff.

Liquidity: Strong
The liquidity profile of KMCH is marked by strong accruals against its repayment obligations with cash and bank balance to the tune of ₹181.16 crore as on September 30, 2023. As a policy, KMCH maintains fixed deposit balance of minimum ₹100 crore, however, it has always maintained surplus liquidity. 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 negligibly used its overdraft facilities with average utilisation of only 1% for the past 12 months ended October 31, 2022. As against the actual reported GCA of ₹206.23 crore in FY23 and ₹98.36 crore in H1FY24, the company is comfortably placed to meet its remaining repayment obligations for FY24, i.e. ₹25.95 crore in Q3FY34 and Q4FY24.
The estimated GCA over the next two years is expected to be in the range of ₹220-275 crore against which the repayment obligation of around ₹24-29 crore per year for the next two years is expected to be met comfortably along with some capex requirement.

Assumptions/Covenants: Not applicable

Environment, social, and governance risks:
CARE Ratings believes that KMCH's environment, social, and governance (ESG) profile supports its strong credit risk profile. The hospital sector has a low impact on the environment owing to its comparatively lesser water consumption and lower emission due to low energy intensive nature of operations of hospitals. Social impact is large because of its large workforce across hospitals and value chain partners. KMCH has continuously focused on mitigating its environmental and social risks as below.
Environmental risk: KMCH adopts the concept of zero discharge technology, under which an effluent treatment plant had been set up and the sewage water is treated for toxic effluents. The treated water is used for horticulture within the premises. A comprehensive waste management system has been implemented and through this, bio-degradable food wastes are decomposed, and biogas is produced for captive consumption in the hospital canteen which in turn results in reduced LPG cost. All the vehicles that are operated for the company adhere to pollution control regulations.
Social risk: KMCH undertakes continuous learning and reskilling programs classified as the Foundation Training program, designed to enable Employees and Workers to know about the organization. All employees in the Company (including Contract Employees) are provided with safety training as part of their induction programme. Aspects such as Safety Management, Patient Care Fundamentals, and Incident Investigations are considered in Training Programme for all employees and contract workers. The Company has institutionalised continuous learning model for skill upgradation and development. The learning modules are also tailor made for management of employees. The hospital covers 100% of its permanent employees under Health Insurance and Accident Insurance.
Governance risk: The governance profile is marked by 53% of the board comprising independent directors. The Board confirms that all the Independent Directors of the company fulfils the requirements of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015 and are independent of the management.

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

About the company and industry
Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare services	Hospital

KMCH, established in 1985 by Dr Nalla G Palaniswami and Dr. Thavamani Devi Palaniswami, is a Coimbatore-based public limited company specialising in advanced healthcare services. With a total operating capacity of 1,925 beds, KMCH operates a 854-bed

multi-specialty hospital in Coimbatore, a 91-bed facility in Sulur, a 33-bed hospital in Erode, and a 95-bed hospital in Kovilpalayam, all equipped with state-of-the-art medical facilities. Additionally, KMCH oversees a medical college and hospital, inaugurated in phases from October 2018 to April 2021, with a total of 750 beds.
Furthermore, KMCH also has captive power from a solar power plant with an aggregate capacity of 5.25 MW Solar Power Generation Plant and Wind Mills which caters to 75% of electricity requirement per annum.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	904.40	1,018.56	587.77
PBILDT	259.81	272.64	164.12
PAT	104.26	115.77	74.46
Overall gearing (times)	0.91	0.71	-
Interest coverage (times)	5.63	6.30	8.77

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of 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	285.46	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 2023-2024	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
1	Fund-based - LT-Term loan	LT	285.46	CARE A+; Stable	-	1)CARE A+; Stable (13-Feb-23)	1)CARE A+; Stable (22-Feb-22)	1)CARE A+; Stable (30-Dec-20)
2	Fund-based - ST-Bank overdraft	ST	15.00	CARE A1+	-	1)CARE A1+ (13-Feb-23)	1)CARE A1+ (22-Feb-22)	1)CARE A1+ (30-Dec-20)
3	Non-fund-based - ST-Letter of credit	ST	13.00	CARE A1+	-	1)CARE A1+ (13-Feb-23)	1)CARE A1+ (22-Feb-22)	1)CARE A1+ (30-Dec-20)
4	Non-fund-based - ST-Bank guarantee	ST	11.00	CARE A1+	-	1)CARE A1+ (13-Feb-23)	1)CARE A1+ (22-Feb-22)	1)CARE A1+ (30-Dec-20)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Debt Equity ratio	<=2.00
II. Fixed asset coverage ratio	=1.20
B. Non-financial covenants	
I. Submission of financials	Audited financials within three months of date of balance sheet and quarterly unaudited performance statement within one 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	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: 912267543505 E-mail: pulkit.agarwal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: ankur.sachdeva@careedge.in	Ravleen Sethi Associate Director **CARE Ratings Limited** Phone: 91-120-4452016 E-mail: ravleen.sethi@careedge.in Bhoomika Sharma Rating Analyst **CARE Ratings Limited** E-mail: bhoomika.Sharma@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.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**