

Kovai Medical Center and Hospital Limited

February 03, 2025

Facilities/Instruments	Amount (₹ crore)	Rating1	Rating Action
Long-term bank facilities	-	-	Reaffirmed at CARE A+; Stable and withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A1+ and withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the outstanding ratings of CARE A+; Stable/CARE A1+ assigned to bank facilities of Kovai Medical Center and Hospital Limited (KMCH) and simultaneously withdrawn with immediate effect. The above rating action has been taken at KMCH's request and 'No Objection Certificate' received from banks that extended the facilities rated by CARE Ratings.

Reaffirmation of ratings continue to derive strength from the vast experience of 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. Ratings also considered the comfortable financial profile marked by healthy profitability margins and improved capital structure in FY24 (refers to April 01 to March 31) and a strong liquidity profile. However, rating strengths remained constrained by the geographically concentrated KMCH's revenues with a large part of it coming from a single hospital in Coimbatore and further by dependence on scarcely available medical professionals and growing competition in the industry.

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 key rating drivers:

Key strengths

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

KMCH's promoters, 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 hospital's daily operations, supported by a proficient and seasoned management team. KMCH's operational aspects are efficiently handled by a capable team of executives.

Established track record of operations

KMCH established its main hospital in Coimbatore in 1985 and commenced its hospital's operation in 1990 with the flagship of multi-speciality hospital at Coimbatore and has thereafter set up satellite centers at Coimbatore (in the name of City center, Sular 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 2019-20 with the title of KMCH Institute of Health Sciences & Research. Per the norms prescribed by Government of India, a medical college can be established only with the establishment of a Medical College Hospital.

The hospital boasts ~40 specialities such as Urology, Cardio – Thoracic Surgery, Cardiology, Gynaecology, Orthopaedics, and Neurology among others, being one of the largest hospitals in the region and the company follows a hub and spoke model, where the smaller satellite centres treat patients from the surrounding regions. Revenues from the peripheral hospitals, considering 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

KMCH's revenue stream is diversified across two sectors since the inception of the medical college – hospital sector contributing over 90% to the total revenue and balance income from the education. Over its 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 recognised as a forerunner in transplant surgeries as well. In 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 specialties, with neurology and cardiology maintaining their status as primary contributors.

¹Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications

The medical college, boasting a total of 750 seats, operates at full capacity, with an average annual fee of ₹14 lakh. CARE Ratings expects the revenue contribution from the medical college will improve as the operations progress.

Comfortable financial risk profile

In FY24, KMCH's total operating income (TOI) improved by 20% to ₹1218 crore from ₹1018 crore with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 28.28% (PY: 26.77%). The operating bed capacity as at the end of the year stood at 1,787 beds against 1925 beds in the previous year. The average revenue per operating bed (ARPOB) rose by 16% year-over-year (y-o-y) while occupancy improved from 55% to 61% in FY24. The inpatient revenues grew by 18.55% from ₹676.18 crore in FY23 to ₹801.61 crore in FY24 and outpatient revenue grew by 17.34% from ₹275.26 crore in FY23 to ₹322.99 crore in FY24. This is primarily attributable to increase in surgeries, inpatient and outpatient volumes. In H1FY25, the company's TOI improved by 14% y-o-y to ₹669 crore and PBILDT margin stood at 28.55% (H1FY24: 27.92%).

The entity's capital structure improved in FY24 as the company repaid its long term debt of ~₹200 crore, marked by an improvement in the overall gearing to 0.35x as on March 31, 2024, against 0.71x as on March 31, 2023.

The total debt as on March 31, 2024, stood at ₹310 crore from ₹511 crore as on March 31, 2023. Hence, the total debt to PBILDT stood improved at 0.90x in FY24 from 1.87x in FY23.

The total debt as on September 30, 2024, stood at ₹419.37 crore, increased from fiscal end level only because of the short-term working capital debt.

Key weaknesses

Exposure to geographical concentration risk

KMCH has been in operation for ~30 years and continues to enjoy patronage in the Coimbatore region. KMCH's revenue profile heavily depends on the main hospital at Coimbatore. Though KMCH, in the last 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. 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.

KMCH's dependence of KMCH on the experienced team of doctors

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

KMCH's liquidity profile is marked by strong accruals against its repayment obligations with cash and bank balance of ₹254 crore as on September 30, 2024. 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 working capital cycle within one to four days. The payment from patients is done immediately, while the insurance companies and corporates pay within 15- 20 days. The company also enjoys a credit period of ~15 days from its suppliers.

Environment, social, and governance (ESG) risks

CARE Ratings believes 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 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 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 organisation. 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 the company's independent directors fulfil the requirements of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015 and are independent of the management.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Hospital](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Healthcare services	Hospital

KMCH was established in 1985 by Dr Nalla G Palaniswami and Dr Thavamani Devi Palaniswami and is a Coimbatore-based public limited company specialising in advanced healthcare services, operates a multi-specialty hospital 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. 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 75% of electricity requirement per annum.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	1,018.56	1,218.27	668.78
PBILDT	272.64	344.50	191.44
PAT	115.77	179.73	96.44
Overall gearing (times)	0.71	0.35	0.43
Interest coverage (times)	6.30	9.40	12.73

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	February 2037	0.00	Withdrawn
Fund-based - ST-Bank Overdraft		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE A+; Stable (03-Feb-25)	1)CARE A+; Stable (05-Jan-24)	1)CARE A+; Stable (13-Feb-23)	1)CARE A+; Stable (22-Feb-22)
2	Fund-based - ST-Bank Overdraft	ST	-	-	1)CARE A1+ (03-Feb-25)	1)CARE A1+ (05-Jan-24)	1)CARE A1+ (13-Feb-23)	1)CARE A1+ (22-Feb-22)
3	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A1+ (03-Feb-25)	1)CARE A1+ (05-Jan-24)	1)CARE A1+ (13-Feb-23)	1)CARE A1+ (22-Feb-22)
4	Non-fund-based - ST-Bank Guarantee	ST	-	-	1)CARE A1+ (03-Feb-25)	1)CARE A1+ (05-Jan-24)	1)CARE A1+ (13-Feb-23)	1)CARE A1+ (22-Feb-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

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

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About us:

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