

## Kovai Medical Center and Hospital Limited

February 22, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	520.06 (Reduced from 663.66)	CARE A+; Stable (Single A Plus; Outlook: Stable )	Reaffirmed
Short Term Bank Facilities	69.00 (Enhanced from 39.00)	CARE A1+ (A One Plus )	Reaffirmed
<b>Total Bank Facilities</b>	<b>589.06</b> <b>(Rs. Five Hundred Eighty-Nine Crore and Six Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key rating drivers

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 in FY21 (refers to period from April 01 to March 31) and 9MFY22 (refers to period from April 01 to December 31). The ratings also takes into cognizance the successful completion of its medical college hospital on April 01, 2021, which has nearly doubled its bed capacity.

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, moderate capital structure which is expected to be leveraged in the near term on account of recently completed debt-funded capex.

However, given the long tenure of the funding and moderate sized repayment obligations in near to medium term, it is expected that liquidity position will remain comfortable aided by the cash generation from the existing hospital and gradual scaling up of operations of the recently completed medical college hospital.

### Key Rating Sensitivities

*Positive Factors - Factors that could lead to positive rating action/upgrade:*

- The ability to diversify the revenue concentration from Single location hospital.
- The ability to increase revenues beyond Rs.1000 cr and PBILDT margin beyond 25% on sustained basis
- The ability to reduce debt/PBILDT below 2x.

*Negative Factors- Factors that could lead to negative rating action/downgrade:*

- 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.

### Detailed description of key rating drivers

#### Key Rating 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 87% of the operating revenue of the company in FY21 (refers to the period April 1 to March 31). The revenues from the peripheral hospitals, in view of the increasing patronage from the people have also been able to improve their performance.

#### Diversified revenue stream across specializations, with covid being major contributor from FY21 onwards

Total income is spread across various specialties and Neurology and Cardiology continue to remain the major contributors contributing to 26% of the revenue in FY21 and 15% in H1FY22 (refers to period between April 01 to September 30). None of

<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

the specialties contribute to more than 15% of the total revenue and top five departments contribute less than 50% to the total sales during FY21.

The revenue mix underwent major change in FY21 with onset of covid. In FY21 and 9MFY22, covid related income became the major contributor with 12% contribution in FY21 and 16% in H1FY22 out of total revenues. Prior to covid times, neurology was the major contributor to the growth of income of KMCH in FY20 followed by Cardiology and Nephrology.

#### **Growth in revenue and improved profitability margins in FY21 & 9MFY22, mainly aided by covid revenue:**

Total income of KMCH dipped marginally by 3% from Rs.719 crore in FY20 to Rs.698 crore in FY21. This was mainly due to impact of covid wherein number of beds were reserved for treatment of covid patients. Even post the unlocking of economy, majority of population deferred elective surgeries and the operations returned to normalcy only by Q3FY21. The revenue lost on account of surgeries and complex procedures was majorly compensated by covid revenue, leading to total income almost in-line with FY20 levels.

The PBILDT margin of the company has improved from 24.88% in FY20 to 29.10% in FY21 due to higher ARPOBs (Average revenue per occupied bed) on account of covid. On a sustainable basis, these are expected to be in the range of 20-23%. Gross cash accruals also improved to Rs.150 cr as against Rs.133 cr in FY20.

The financial performance in 9MFY22 continued to remain healthy with total revenue of Rs.694 cr being reported with PBILDT margins of 30.55%. GCA of Rs.149 cr was reported during the nine months period, which was almost equivalent to full year generation of FY21.

On operational front, ARPOB improved to Rs.21,574 in FY21 (PY: Rs.16,267) and further to Rs.22,716 in 9MFY22. The occupancy saw dip from 64% in FY20 to 41% in FY21 due to onset of covid in Q1FY21. The same, though improved in 9MFY22, stood at 42% due to bed addition of 400 beds with completion of medical college block at the start of the fiscal year.

#### **Completion of medical college and hospital project**

KMCH has setup up a 750-bed medical college and hospital adjacent to the existing hospital at a total cost of Rs.600 crore, funded by a term debt of Rs.480 crore and equity of Rs.120 crore. Phase I had been completed earlier with commencement of operations of 350 beds from October 2018 and the 1st batch of medical college (with blocks for 1st to 3rd year students) with 150 students started from July 2019 with 100% enrollment.

The medical college block for 4th and 5th year students has also been completed by April 1, 2021. The entire project has been completed at total cost of Rs.670 cr with cost over-run funded by internal accruals. Post completion of the same, the total bed capacity is almost doubled to nearly 2,000 beds. Going forward, apart from gradual improvement in return indicators with stabilization of operations and pick up of occupancy in the college hospital, the company is also expected to benefit from steady revenue stream in form of students fees. Further, there is no major debt funded capex planned ahead.

#### **Key Rating 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 85% of total revenue 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.

##### **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 period leading to scarcity of medical professionals, the ability of the hospital to retain its current pool would be important.

##### **Moderate capital structure and coverage ratios:**

The Overall Gearing of the company stood at 1.29x as on March 31, 2021 as against 1.27x as on March 31, 2020 (including operating lease of KMCH considered as debt). The same has been high due to additional debt availed for medical college block. The indebtedness is expected to reduce from FY22 onwards, with gradual repayment of debt and accretion of profits to net worth. Further, on account of subsequent tranches of sanctioned loans being availed in FY21, the interest coverage ratio of the company deteriorated from 10.15x in FY20 to 6.07x in FY21.

##### **Liquidity: Strong**

Liquidity is marked by strong accruals against its repayment obligations and liquid investments to the tune of Rs.178 crore as on Dec 31, 2021. 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 8% for the past 12 months ended November 2021.

As against actual reported GCA of Rs.150 cr in FY21 (Covid year) and Rs.149 cr in 9MFY22, the company is comfortable placed to meet its repayment obligations of Rs.37.53 cr in FY22. Further, the repayment obligations are at comparable levels of Rs.30-40 cr till FY26.

### Industry outlook and the impact of Covid-19:

The healthcare industry is highly competitive with a large number of established organized players and their growing network of hospitals. Healthcare has become one of India's largest sector, both in terms of revenue and employment. The industry recently has witnessed twin challenges of investing additional manpower, equipment, consumables and other resources to ensure safety of hospital, staff and patients and sharp decline in international patients.

**Analytical approach:** Standalone

### Applicable Criteria

[Rating Methodology- Hospital Industry](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios- Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short term Instruments](#)

### 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 2020 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 (75 beds), Erode (142 beds), Sullur (105 beds) and Kovilpalayam (121 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.

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

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	719	698	694
PBILD	179	203	212
PAT	95	78	85
Overall gearing (times)	1.27	1.29	NA
Interest coverage (times)	10.15	6.07	6.42

A: Audited; Prov.: Provisional; NA: Not available

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

**Any other information:** NA

**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 for this company:** Annexure 4

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	February 2037	520.06	CARE A+; Stable
Fund-based - ST-Bank Overdraft		-	-	-	15.00	CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	43.00	CARE A1+
Non-fund-based - ST-Bank Guarantee		-	-	-	11.00	CARE A1+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	520.06	CARE A+; Stable	-	1)CARE A+; Stable (30-Dec-20)	1)CARE A+; Stable (19-Dec-19)	1)CARE A+; Stable (05-Dec-18)
2	Fund-based - ST-Bank Overdraft	ST	15.00	CARE A1+	-	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (19-Dec-19)	1)CARE A1+ (05-Dec-18)
3	Non-fund-based - ST-Letter of credit	ST	43.00	CARE A1+	-	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (19-Dec-19)	1)CARE A1+ (05-Dec-18)
4	Non-fund-based - ST-Bank Guarantee	ST	11.00	CARE A1+	-	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (19-Dec-19)	1)CARE A1+ (05-Dec-18)

\* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
I. Debt Equity ratio	<=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 various instruments rated for this company**

Sr. No	Name of 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: Bank Lender Details for this Company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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.

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