

Kovai Medical Center and Hospital Limited

September 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	110.63 (reduced from 139.49)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	13.00	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total	123.63 (Rupees One Hundred Twenty Three Crore and Sixty Three Lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the short-term bank facilities of Kovai Medical Centre and Hospital Limited (KMCH) factor in the comfortable liquidity position of the company arising from consistent growth in total operating income, cash generation, comfortable working capital utilisation levels and healthy cash reserves. The ratings continue to derive strength from high occupancy levels maintained at the main hospital and increase in occupancies at the peripheral hospitals during FY17 (refers to the period from April 1 to March 31), comfortable capital structure & coverage indicators. The ratings also factor in the vast experience of the promoters in the medical field, presence of qualified and experienced team of doctors and paramedical staff supported by advanced medical equipment, hospital's established brand presence and its long and stable operational track record of over two decades.

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.

Going forward, ability of the company to continue to attract incremental patients & report high level of occupancies at its existing facilities, reduce its dependence on its main hospital and maintain its profitability will be key rating sensitivity. Further, the company is undertaking capital investment in terms of adding new equipment and machineries over the medium term and any higher than envisaged debt funded capital expansion would also remain a rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in the medical field, 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 actively 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 hospitals albeit smaller, showing improved performance in FY17

KMCH established its main hospital in Coimbatore in 1985 as a tertiary care multi-speciality hospital catering to patients in Coimbatore & 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 centres treat patients from the surrounding regions. The Revenue from this main hospital contributes to about 89% of the operating revenue of the company. The revenues from both Erode Speciality and Erode centres have improved in FY17 over FY16. These Hospitals in view of the increasing patronage from the people have been able to improve their performance. The Suler centre started providing inpatient services from 2016.

Diversified revenue stream across therapeutic segments

The company's total income is spread across various specialities and Neurology and Cardiology continue to remain the major contributors at about 19% and 11% of the total revenue respectively.

Growth in revenue and improvement in profitability in FY17

Total income of KMCH increased year-on-year by 12.77% from Rs. 472 crore in FY16 to Rs. 532 crore in FY17. The healthy occupancy rates in the main hospital and the improving occupancies in peripheral hospitals have increased the inpatient revenue by 13.75% during FY17.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

The PBDIT margins have historically been high for KMCH aided by established nature of operations of its main hospital and higher share of income from hospital services. The PBILDT margin of KMCH has increased to 24.26% in FY17 compared to 20.84% in FY16. The PAT margin of the company had improved from 8.57% in FY16 to 11.24% in FY17.

Improvement in Capital structure and liquidity position

The Overall Gearing of the company had improved from 1.08 as of March 31, 2016 to 0.67 as of March 31, 2017 (including the operating lease of KMCH considered as debt). The coverage ratios of the company also improved with PBILDT/Interest improving from 5.90x in FY16 to 8.79 in FY17. The liquidity position of the company strengthened during FY17 with steady cash generation over the past years. The company had unencumbered cash deposits of Rs. 67.64 crore as on March, 2017

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 89% of total revenue in FY17. 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 centres 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 more than 10 years and have generated good patronage from the patients in Coimbatore. KMCH is dependent on these scarcely available qualified medical professionals. Given the increasing competition, good patronage for some of the specialist doctors in KMCH and the scarcity of medical specialists, the ability of the hospital to retain its current pool would be important.

Industry and Prospects

The Health Care industry is highly competitive with a large number of established organized players and their growing network of hospitals. KMCH has an established presence in the Coimbatore region with stable operation over the years. Though there are competitors in the region, KMCH has latest equipment and facilities for sophisticated surgeries and has attracted considerable patronage from the population of Coimbatore. Going forward, the ability of KMCH to maintain its high occupancy levels & profitability and retain its established position in its catchment area amidst high competition and diversify its revenue base across locations are key to its prospects.

Analytical approach:

Consolidated. The Financials of Idhayam Hospitals Erode Limited (a wholly owned subsidiary of KMCH) have been consolidated in the financials of KMCH.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Factoring Linkages in 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 June 2017 operates a NABH accredited multi-specialty hospital with 787 beds as on July 2016 at Coimbatore equipped with latest tertiary health care facilities. The company also has three satellite centres at Ramnagar, Coimbatore (20 beds), Erode (65 beds) and Sullur (51 beds). In addition, KMCH through its subsidiary "Idhayam Hospitals Erode Ltd." operates another specialty hospital (58 beds) in Erode.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	472	532
PBILDT	98	129
PAT	40	60
Overall gearing	1.08	0.67
Interest coverage (times)	5.90	8.79

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2025	110.63	CARE A+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	10.00	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	3.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	110.63	CARE A+; Stable	-	1)CARE A+ (14-Nov-16)	1)CARE A (25-Sep-15)	1)CARE A- (03-Sep-14)
2.	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A1+	-	1)CARE A1 (14-Nov-16)	1)CARE A1 (25-Sep-15)	1)CARE A2 (03-Sep-14)
3.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A1+	-	1)CARE A1 (14-Nov-16)	1)CARE A1 (25-Sep-15)	1)CARE A2 (03-Sep-14)

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CIN - L67190MH1993PLC071691