

Kovai Medical Centre and Hospital Limited

December 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	663.66 (Enhanced from 623.42)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	39.00 (Enhanced from 34.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	702.66 (Rs. Seven hundred two crore and sixty six lakh only)		

Details of 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, 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 and presence of substantial liquid investments.

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 ongoing large debt-funded capex. However, given the long tenure of the funding, with repayments commencing post the closure of the existing debt, 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 medical college hospital which is nearing completion.

Key Rating Sensitivities

Positive factors

- Successful completion of Medical College project on time with 100% intake in Medical College and more than 70% occupancy in the Academic Hospital on sustained basis.
- The ability to reduce the revenue concentration from Single location hospital.

Negative factors

- Any large debt-funded capital expenditure leading to moderation in capital structure with overall gearing ratio above 1.5x.
- Any significant drop in intake for medical college or fall in occupancy of the hospitals.

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 FY20 (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: Total income is spread across various specialties and Neurology and Cardiology continue to remain the major contributors contributing to 23% of the revenue in FY20. None of the specialties contribute to more than 15% of the total revenue and top five departments contribute less than 50% to the total sales during FY20. Neurology was the major contributor to the growth of income of KMCH in FY20 followed by Cardiology and Nephrology.

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

Growth in revenue and improved profitability margins in FY20 & H1FY21: The total income of KMCH increased year-on-year by 13.2% from Rs.635.1 crore in FY19 to Rs.719.2 crore in FY20. The PBILDT margin of the company had improved from 22.29% in FY19 to 24.88% in FY20 due to the ability of the hospital to collect increased fee for the advanced treatment methods. The company has recorded a turnover of Rs.317 crores in H1FY21. The PBILDT margin improved to 27.81% in H1FY21 due to higher margins from the treatment of covid patients.

Nearing completion of medical college and hospital project

KMCH had planned to 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. The company also included construction of additional buildings such as library block and laboratory at the cost of around Rs.20 crore to be funded by internal accruals thereby increasing the total cost to around Rs.620 crore. As on November 30, 2020, KMCH had incurred Rs.596 crore (inclusive of the library) towards the project funded by term loan of Rs.420 crore, loan against deposits of Rs.35.8 crore and rest by accruals. The entire project is expected to be completed by FY21 post which there are no major debt funded capex planned.

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 87% of total revenue in FY20. 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, 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.

Moderate capital structure and coverage ratios: The overall gearing of the company had moderated from 1.18x as of March 31, 2019 to 1.26x as of March 31, 2020 (including the operating lease of KMCH considered as debt) on the back of increased term loan borrowings availed for the medical college project and renovation of main hospital. However, the interest coverage ratio of the company improved from 9.61x in FY19 to 10.15x in FY20 on the back of improved operating profits.

Liquidity: Strong

Liquidity is marked by strong accruals against its repayment obligations and liquid investments to the tune of Rs.112 crore as on March 31, 2020. The company also prepaid loans of Rs.7.35 crore during the current year. The company has a very short 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 22.11% for the past 12 months ended November 2020. KMCH had not availed any moratorium offered by the banks as a relief measure for covid-19 crisis

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 GoI has announced Rs 69,000 crore (US\$ 9.87 billion) outlay for the health sector that is inclusive of Rs 6,400 crore (US\$ 915.72 million) for PMJAY in Union Budget 2020-21. Despite the current Covid-19 crisis being a healthcare issue, the private healthcare system in the country continues to reel under the negative impact of COVID-19. The industry is facing twin challenges of investing additional manpower, equipment, consumables and other resources to ensuring 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), Suler (105 beds) and Kovilpalayam (121 beds) including beds for ICUs, dialysis ward, etc. From June 2019, KMCH also runs a medical college with 150 students with a 350-bed medical college hospital.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	635.1	719.2
PBILDT	141.6	179.0
PAT	60.1	94.6
Overall gearing (times)	1.18	1.26
Interest coverage (times)	9.61	10.15

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: NA

Complexity of instruments rated for the company: Please refer Annexure-3.

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	-	-	February 2037	663.66	CARE A+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	15.00	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	13.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	663.66	CARE A+; Stable	-	1)CARE A+; Stable (19-Dec-19)	1)CARE A+; Stable (05-Dec-18)	1)CARE A+; Stable (05-Sep-17)
2.	Fund-based - ST-Bank Overdraft	ST	15.00	CARE A1+	-	1)CARE A1+ (19-Dec-19)	1)CARE A1+ (05-Dec-18)	1)CARE A1+ (05-Sep-17)
3.	Non-fund-based - ST-Letter of credit	ST	13.00	CARE A1+	-	1)CARE A1+ (19-Dec-19)	1)CARE A1+ (05-Dec-18)	1)CARE A1+ (05-Sep-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	11.00	CARE A1+	-	1)CARE A1+ (19-Dec-19)	1)CARE A1+ (05-Dec-18)	-

Annexure-3: Complexity level of various instruments rated for the company

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 Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

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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