

Kovai Medical Center and Hospital Limited ^(Revised)
December 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term Bank Facilities	664.98 (enhanced from 110.63)	CARE A+; stable (Single A Plus; Outlook: stable)	Reaffirmed
Short-term Bank Facilities	30.00 (enhanced from 13.00)	CARE A1+ (A One Plus)	Reaffirmed
Total	694.98 (Rupees Six Hundred Ninety Four Crore and Ninety Eight Lakhs only)		

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, 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. The ratings also take note of the largely debt-funded capital expenditure project undertaken by the company for setting up of a medical college adjacent to the existing hospital which is expected to temper the leverage and liquidity ratios in the medium term. 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 the new medical college project and training hospital. Any delay in construction or scaling up of the operations of the new training hospital and medical college will remain a key rating sensitivity. Further, ability of the company to continue to attract incremental patients & improve the occupancies at its existing facilities, reduce its dependence on its main hospital and maintain its profitability will be the key 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

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 88% of the operating revenue of the company. The revenues from the Erode & Suler hospitals, in view of the increasing patronage from the people have also been able to improve their performance.

Diversified revenue stream across specialisations

The company's total income is spread across various specialities and Neurology and Cardiology continue to remain the major contributors. None of the specialities contribute to more than 20% of total revenue and top 5 departments contribute less than 50% to total sales during FY18. Neurology was the major contributor to the growth of income of KMCH in FY18 followed by Cardiology and Nephrology.

Growth in revenue, however decline in profitability margins in FY18

Total income of KMCH increased year-on-year by 11.63% from Rs. 536 crore in FY17 to Rs. 599 crore in FY18. Inpatient revenue makes up to more than 50% of the hospital's sales and has been increasing year on year. The PBILDT margin of the company had declined from 24.22% in FY17 to 22.56% in FY18 on the back of operational costs for operating the

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

Kovilpalayam Centre started in the FY18. The company recorded an operating income of Rs 300 crores in H1FY19 with a PBILDT of Rs. 63 Crores and a PAT of Rs. 27.55 Crores.

Comfortable liquidity position

Due to the cash and carry nature of business and the healthy accruals, the liquidity position of KMCH has been healthy and the dependence on the working capital borrowings has been generally low. The company has a very short working capital cycle. The company also has bank deposits of Rs. 91.75 crore as on March 31, 2018 which are expected to be utilized towards the large ongoing 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 of the new medical college project and teaching hospital.

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 88% of total revenue in FY18. 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 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. In the past, some of the doctors had quit to start their own practise. However, the company brought in new experienced doctors and also realigned its doctor team between its main hospital and peripheral centers.

Debt Funded Capital expenditure plans:

The company is setting up a medical college adjacent to its existing main hospital at Coimbatore, comprising of 150 seats per year and bed capacity of 750 beds at a total cost of Rs. 600 Crores, funded by term debt of Rs. 480 Crores and balance by internal accruals of Rs. 120 Crores. The company has received the major approvals required for the project and the construction is under progress. The first session of the medical college is expected to be launched in July 2019 with first batch of 150 students and operation of around 350 beds in the teaching hospital.

The company is undertaking a capex towards purchase of new medical equipments and expansion of existing facilities. The total cost of the project is estimated to be Rs. 150 Crores which shall be funded by term debt of Rs. 120 Crores and equity of Rs. 30 Crores. While a part of the project aggregating to Rs.110 Crores has already been undertaken by the company, the balance project of Rs. 40 Crores is expected to be taken up later.

Moderation in leverage

The Overall Gearing of the company deteriorated from 0.67 as of March 31, 2017 to 0.94 as of March 31, 2018 (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. The total debt to GCA stood at 2.94 years as on March 31, 2018. With the medical college project and the renovation projects in the books, the leverage ratios are expected to be tempered going forward.

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 improve its 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 for the FY18.

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](#)

[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 2018 operates a multi-specialty hospital with 862 operating beds at Coimbatore equipped with latest tertiary health care facilities. The company also has its satellite centers at Ramnagar, Coimbatore (27 beds), Erode (149 beds), Suler (100 beds) and Kovilpalayam (35 beds).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	536.24	598.60
PBILDT	129.87	135.04
PAT	59.98	57.99
Overall gearing	0.67	0.94
Interest coverage (times)	8.82	10.50

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.

Analyst Contact:

Name: Mrs Swathi Subramanian

Tel: 0422 – 450 2399

Mobile: +91 94442 34834

Email: swathi.subramanian@careratings.com

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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	-	-	August 2034	664.98	CARE A+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	10.00	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	10.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	664.98	CARE A+; Stable	-	1)CARE A+; Stable (05-Sep-17)	1)CARE A+ (14-Nov-16)	1)CARE A (25-Sep-15)
2.	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A1+	-	1)CARE A1+ (05-Sep-17)	1)CARE A1 (14-Nov-16)	1)CARE A1 (25-Sep-15)
3.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A1+	-	1)CARE A1+ (05-Sep-17)	1)CARE A1 (14-Nov-16)	1)CARE A1 (25-Sep-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A1+	-	-	-	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**

32, Titanium, Prahaladnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@careratings.com**CHENNAI****Mr. V Pradeep Kumar**

Unit No. O-509/C, Spencer Plaza, 5th Floor,

No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,

Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,

Madho Singh Road, Near Collectorate Circle,

Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)

10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**

13th Floor, E-1 Block, Videocon Tower,

Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**

9th Floor, Pride Kumar Senate,

Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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