

Kovai Medical Center and Hospital Limited
 December 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	623.42 (reduced from 664.98)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	34.00 (enhanced from 30.00)	CARE A1+ (A One Plus)	Reaffirmed
Total	657.42 (Rupees Six Hundred Fifty Seven crore and Forty Two lakhs 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 also consider the significant progress of the debt-funded capex with commencement of medical college in July 2019.

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 the new medical college project and training hospital.

Rating Sensitivities**Positive Factors**

- Successful completion of Medical College project without any cost overrun or delays with 100% intake in Medical College and more than 70% occupancy in the Academic Hospital.
- The ability to diversify the revenue concentration from Single location hospital.

Negative Factors

- Any other large debt-funded capital expenditure leading to moderation of the capital structure.
- 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 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 smaller hospitals: KMCH established its main hospital in Coimbatore in 1985 as a tertiary care multi-speciality 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 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 & Sulur hospitals, in view of the increasing patronage from the people have also been able to improve their performance.

Diversified revenue stream across specializations: The company's total income is spread across various specialities and Neurology and Cardiology continue to remain the major contributors contributing to 22% of the revenue in FY19. None of the specialities contribute to more than 15% of the total revenue and top 5 departments contribute less than 50% to the total sales during FY19. Neurology was the major contributor to the growth of income of KMCH in FY19 followed by Cardiology and Nephrology.

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

Growth in revenue, however decline in profitability margins in FY19: The Total income of KMCH increased year-on-year by 6.77% from Rs.594 crore in FY18 to Rs.634.4 crore in FY19. The PBILDT margin of the company had declined from 22.76% in FY18 to 21.91% in FY19 on the back of higher operational costs for operating the recently opened Kovilpalayam Centre (started in the FY18) and also due to increasing doctor fees.

The company has recorded a turnover of Rs.347 crores in H1FY20. The PBILDT margin stood at 23.46% and the PAT margin stood at 10.43% during the above period.

Commencement of the medical college with full enrollment in the first batch: KMCH had planned to setup up a 750-bed medical college & 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 crores. KMCH commenced the project during October 2017 and the hospital for medical college with 350 beds commenced operations from October 2018 and the 1st batch of medical college (with blocks for 1st to 3rd year students) with 150 students (65% of Government Quota and 35% of Management Quota) started from July 2019 with 100% enrolment. As on October 31, 2019, KMCH incurred Rs.462.93 crore (77.15%) of cost funded by term loan of Rs.370 crore and rest by accruals. The entire project is expected to be completed by FY21 post which there is no large 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 88% of total revenue in FY19. 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.

Moderate capital structure and coverage ratios: The overall gearing of the company had deteriorated from 0.94x as of March 31, 2018 to 1.30x as of March 31, 2019 (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. However, the interest coverage ratio of the company improved from 10.52x in FY18 to 11.41x in FY19 on the back of reduced interest costs due to repayment of debt.

Liquidity: Strong – Liquidity is marked by strong accruals against its repayment obligations and liquid investments in the form of fixed deposit to the tune of Rs.101.4 crore as on March 31, 2019 as against Rs.91.9 crore as on March 31, 2018. These fixed deposits are majorly for a period of 9 months to 1 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 11.86% for the past 12 months ended October 2019.

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.

Analytical approach:

Standalone

Applicable Criteria

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

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

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

[Rating Methodology: Hospital Industry](#)

[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 November 2019 operates a multi-specialty hospital with 868 operating beds at Coimbatore equipped with latest tertiary health care facilities. The company also has its satellite centers at Ramnagar, Coimbatore (27 beds), Erode (163 beds), Suler (92 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)	FY18 (A)	FY19(A)
Total operating income	598.60	634.40
PBILD	135.04	139.02
PAT	57.99	60.14
Overall gearing (times)	0.94	1.30
Interest coverage (times)	10.50	11.41

Status of non-cooperation with previous CRA:

Not Applicable

Any other information: Not Applicable

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

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	623.42	CARE A+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	10.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	623.42	CARE A+; Stable	-	1)CARE A+; Stable (05-Dec-18)	1)CARE A+; Stable (05-Sep-17)	1)CARE A+ (14-Nov-16)
2.	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A1+	-	1)CARE A1+ (05-Dec-18)	1)CARE A1+ (05-Sep-17)	1)CARE A1 (14-Nov-16)
3.	Non-fund-based - ST-Letter of credit	ST	13.00	CARE A1+	-	1)CARE A1+ (05-Dec-18)	1)CARE A1+ (05-Sep-17)	1)CARE A1 (14-Nov-16)
4.	Non-fund-based - ST-Bank Guarantees	ST	11.00	CARE A1+	-	1)CARE A1+ (05-Dec-18)	-	-

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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