

Press Release

23 September, 2017

KMC Speciality Hospitals India Limited (KMC)

Rating Upgraded and Assigned



| | |
|--------------------------------------|---------------------------|
| Total Bank Facilities Rated * | Rs. 11.47 Cr. |
| Long Term Rating | SMERA BB/ Outlook: Stable |

* Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating on the Rs. 10.47 crore bank facilities to '**SMERA BB**' (read as **SMERA double B**) from '**SMERA B+**' (read as **SMERA B plus**) and assigned rating of '**SMERA BB**' (read as **SMERA double B**) to the Rs. 1.00 crore bank facility of KMC Speciality Hospitals India Limited (KMC). The outlook is '**Stable**'.

KMC, established in 1982 is part of the Kauvery Group of Hospitals based at Tiruchirappalli (Trichy). The company runs Kauvery Hospital, a 220 bed super speciality hospital that offers services in neurology, obstetrics & gynaecology, paediatrics, cardiology, ENT, dental, joint replacement among others.

Key Rating Drivers

Strengths

Long track record of operations and experienced management:

KMC, incorporated in 1982 is led by Dr. S Chandrakumar, Managing Director, who possesses over 18 years of experience in managing multi-speciality hospitals. He is joined by Dr. D Senguttuvan (Executive Director), Paediatrician, with over two decades of experience and Dr. S Manivannan (Non-executive Director), a senior consultant anaesthesiologist and intensivist with over a decade of experience.

Healthy and steady operating margins:

The operating margins of KMC increased to 21.87 percent in FY2016-17 (Provisional) from 18.87 percent in FY2015-16. The PAT margins increased to 10.86 percent in FY2016-17 (Provisional) from 7.54 percent in FY2015-16. The increase in operating margins is largely due to increase in revenue from the neurology department.

Healthy financial risk profile:

The financial risk profile of KMC is healthy marked by net worth of Rs. 19.33 crore as on 31 March, 2017 (Provisional) compared to Rs. 13.36 crore as on 31 March, 2016. The increase in net worth is mainly due to ploughing back of profits into the business. The gearing stood at 0.33 times as on 31 March, 2017 (Provisional) compared to 0.78 times in 31 March, 2016. The improvement in gearing is mainly due to repayment of term loans. The ICR improved to 9.76 times in FY2017 (Provisional) compared to 5.47 times in FY2016. The DSCR improved marginally to 2.31 times in FY2017 (Provisional) compared to 1.68 times in FY2016. SMERA believes that the financial risk profile of KMC will remain healthy on account of ploughing back of profits in the business and absence of major debt funded capex plan.

Weaknesses

Corporate Guarantee extended to holding company - Sri Kauvery Medical Care (Trichy) Limited (SKMCL)

SKMCL, the holding company gave its land on lease to KMC on which the hospital was built. Corporate guarantee was extended by KMC to SKMCL to avail credit facility as on 31 March, 2016 to the tune of Rs. 61.50 crore which was 4.60 times of its net worth. The facilities were later shifted from Axis Bank to State Bank of India (SBI) in May 2016. As on 31 March 31, 2017, the quantum stands reduced to Rs. 31.50 crore which is 1.63 times the net worth of KMC.

Moderate scale of operations marked by modest occupancy level:

KMC has moderate scale of operations marked by revenue of Rs. 54.83 crore in FY2017 and Rs. 42.57 in FY2016 despite having commenced commercial operations in 1982. KMC's occupancy level stood at ~ 55 percent during the period under study.

Competitive nature of business:

KMC is exposed to intense competition from other multispecialty hospitals in Tamil Nadu.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of KMC Speciality Hospitals India Limited to arrive at the rating.

Outlook: Stable

SMERA believes that KMC will maintain a stable outlook over the medium term owing to its experienced management and established operational track record. The outlook may be revised to 'Positive' in case of more than expected growth in revenues while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability, debt funded capex or higher working capital requirements increasing pressure on margins and capital structure.

About the Rated Entity - Key Financials

The company reported profit after tax (PAT) of Rs. 5.96 crore on net sales of Rs. 54.83 crore in FY2017 (Provisional) as against PAT of Rs. 3.21 crore on net sales of Rs. 42.57 crore in FY2016. The net worth stood at Rs. 19.33 crore as on 31 March, 2017 (Provisional) as against Rs. 13.36 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA (if applicable)

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities in Service Sector - <https://www.smera.in/criteria-services.htm>
- Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

| Date | Name of Instrument/ Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|--------------|-----------------------------------|-----------|-----------------------|------------------------|
| 29 Feb, 2016 | Term Loan I | Long Term | 1.57 | SMERA B+ (Assigned) |
| | Term Loan II | Long Term | 3.03 | SMERA B+ (Assigned) |
| | Term Loan III | Long Term | 1.77 | SMERA B+ (Assigned) |
| | Term Loan IV | Long Term | 3.93 | SMERA B+ (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|---------------------------|---------------------|-------------------|-------------------|----------------------------------|-----------------------------------|
| Term loan I | Not Applicable | Not Applicable | 2018 | 1.92 | SMERA BB/ Stable (Upgraded) |
| Term loan II | Not Applicable | Not Applicable | 2019 | 3.08 | SMERA BB/ Stable (Upgraded) |
| Term loan III | Not Applicable | Not Applicable | 2018 | 1.66 | SMERA BB/ Stable (Upgraded) |
| Term loan IV | Not Applicable | Not Applicable | 2020 | 3.81 | SMERA BB/ Stable (Upgraded) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.00 | SMERA BB/ Stable (Assigned) |

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ABOUT SMERA

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