

Press Release

KMC Speciality Hospitals India Limited

September 28, 2018

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs. 11.47 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.3.90 crore bank facilities of KMC Speciality Hospitals India Limited. The outlook is '**Stable**'.

Further, Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) to the Rs.7.57 crore bank facilities of KMC Speciality Hospitals India Limited. The outlook is '**Stable**'.

Upgrade in rating reflects sustained growth in revenues backed by healthy occupancy levels and realisations. In revenues, the company has reported a healthy compound annual growth rate (CAGR) and year-over-year growth of about 29 per cent over past three years through FY2018 and over FY2017. Revenues have improved to Rs.70.67 crores in FY2018 against Rs.54.8 crores in FY2017. The rating also reflects stable operating margins at about 20 per cent; and healthy liquidity as reflected by cash accruals and moderate debt obligations and debt-funded capex. However, the ratings are constrained by moderate revenues within the industry, competition, and geographical concentration in revenues.

KMC Specialty Hospitals India Limited (KMC), established in 1982, is a part of the Kauvery Group of Hospitals based at Tiruchirappalli (Trichy). The company runs Kauvery Hospital, a 220 bed super specialty hospital that offers services in neurology, obstetrics & gynecology, pediatrics, cardiology, ENT, dental, joint replacement among others. Further, during FY2018, the company also started liver transplantation services in the hospital. Kauvery group of hospitals is one of the reputed hospital chain with about 1200 beds across Tamil Nadu. KMC is a publicly listed company with Bombay Stock Exchange.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the KMC to arrive at this rating.

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 two decades of experience in managing multi-specialty hospitals. He is joined by Dr. S Manivannan (Joint Managing Director), who is a senior consultant anesthesiologist with over two decades of experience. The hospital has about 20 active doctors supported by nursing staff and others of 660. The hospital specialises in pediatrics and neurology. Over the period, with healthy consultants and Doctors, the occupancy levels have improved to 70 percent in FY2018 from 57 percent in FY2016. The same has resulted in growth in revenues at a CAGR of about 29 percent from Rs.42.57 crore in FY2016 to Rs.70.67 crore in FY2018. For the 4MFY2019 (April-July), the company reported revenues of Rs.26.74 crore. Acuite believes that KMC's revenue profile is expected to improve at about 20-25 percent over the medium term supported by the increasing occupancy levels, vintage Doctor team and the services they offer.

• **Healthy financial risk profile**

Financial risk profile of the company is healthy marked by strong gearing (debt to Equity ratio) and total outside liabilities to total networth (TOL/TNW), debt protection metrics and comfortable debt service coverage ratio (DSCR). Gearing is strong at 0.44 times as on 31 March, 2018 as against 0.26 times as on 31 March, 2017; marginal deterioration in the gearing is attributed to moderate debt-funded capex of about Rs.17.00 crore for purchase of land for expansion, and for medical equipment with term loan of Rs.9.43 crores. KMC has plans to expand by construction of a new 30 bed facility for neuro department in the land purchased. The capex is likely to cost about Rs.10-12 crores and propose to fund at debt-to-equity of 60:40. TOL/TNW is healthy at 0.60 times as on 31 March, 2018 as against 0.37 times as on 31 March, 2017. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are robust at 14.95 times and 0.78 times respectively for FY2018. DSCR is comfortable at 2.97 times in FY2018 as against 2.13 times in FY2017. KMC reported cash accruals of Rs.10.52 crores in FY2018 and they are likely to be in the range of Rs.13.0 – 17.0 crores over the medium term; and against which its repayment obligations are around Rs.4.0 crores per annum. Acuite believes that though KMC has debt-funded capex plans, however healthy cash accruals are expected to keep the financial risk profile at similar levels over the medium term.

Weaknesses

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

KMC has extended corporate guarantee to its holding company SKMCL to the tune of Rs.48.00 crore as on 31 March, 2018; it is about 1.58 times of its net worth as on 31 March, 2018. The above guarantees represents financial guarantees provided by KMC for term loans availed by the SKMCL. Acuite believes that, any further extension or increase in corporate guarantee to its holding company or any of its associates or subsidiaries would be the key rating sensitivity factor over the medium term though the management confirmed they will not be extending any additional guarantees over and above the current limit.

• **Moderate revenues within the industry, geographical concentration risk and intense competition**

KMC operates only one hospital with 220 beds; the same are modest within the industry dominated by large players like Apollo Hospitals, CARE Hospitals among others. Further, KMC's entire revenues are skewed from a single location property. Any unforeseen eventuality will impact the entire business and financial risk profile of the company. Though KMC has a brand 'Kauvery' in the State of Tamil Nadu with a chain of hospitals with aggregate bed capacity of about 1200, however KMC Hospital at Trichy remain under pressure and faces competition from other leading hospitals in the vicinity as reflected in volatile operating margins.

Outlook: Stable

Acuite 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 significant improvement in revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any incremental investments or guarantees to group entities or larger-than-expected debt-funded capex leading to stretch in its liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	70.67	54.83	42.57
EBITDA	Rs. Cr.	14.39	12.48	8.03
PAT	Rs. Cr.	6.65	5.35	3.21
EBITDA Margin	(%)	20.36	22.76	18.87
PAT Margin	(%)	9.41	9.77	7.54
ROCE	(%)	32.74	38.38	47.97
Total Debt/Tangible Net Worth	Times	0.44	0.26	0.78

PBDIT/Interest	Times	14.95	8.89	5.47
Total Debt/PBDIT	Times	0.92	0.50	1.16
Gross Current Assets (Days)	Days	24	28	25

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Service Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23 Sep, 2017	Term Loan	Long Term	INR 1.92	ACUITE BB / Stable (Upgraded)
	Term Loan	Long Term	INR 3.08	ACUITE BB / Stable (Upgraded)
	Term Loan	Long Term	INR 1.66	ACUITE BB / Stable (Upgraded)
	Term Loan	Long Term	INR 3.81	ACUITE BB / Stable (Upgraded)
	Cash Credit	Long Term	INR 1	ACUITE BB / Stable (Assigned)
29 Feb, 2016	Term Loan	Long Term	INR 1.57	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	INR 3.03	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	INR 1.77	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	INR 3.93	ACUITE B+ / Stable (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	Not Applicable	Not Applicable	Not Applicable	0.04	ACUITE BBB- / Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.83	ACUITE BBB- / Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.03	ACUITE BBB- / Stable (Upgraded)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- / Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.62	ACUITE BBB- / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.95	ACUITE BBB- / Stable (Assigned)

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About Acuité Ratings & Research:

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