

## Press Release

### KMC Speciality Hospitals India Limited

December 26, 2019

### Rating Upgraded



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

\* Refer Annexure for details

### Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **Acuite triple B minus**) on the Rs. 11.47 crore bank facilities of KMC SPECIALITY HOSPITALS INDIA LIMITED (KMC). The outlook is '**Stable**'.

The upgrade in rating reflects sequential improvement in business and financial risk profile of KMC as reflected by sustained by growth in revenues as a result of healthy occupancy levels and improvement in average realisation per bed. The revenue grew at a healthy compound annual growth rate (CAGR) of 25 per cent over past three years through FY2019 to Rs.83 Cr. The company is poised to record further improvement in its scale of operations to around Rs.100 Cr in 2019-20. The rating upgrade also reflects stable operating margins at about 20 per cent, healthy financial risk profile marked by low gearing and healthy debt protection metrics and its strong liquidity position.

KMC Specialty Hospitals India Limited (KMC) incorporated in the year 1982, founded by Dr. Chandra Kumar. The company runs a 220 bed multi-specialty hospital at Trichy, Tamil Nadu. It offers services in neurology, obstetrics & gynecology, pediatrics, cardiology, ENT, dental, joint replacement, neurosurgery, plastic surgery among others. Further, during FY2018, the company also started liver transplantation services in the hospital. KMC is a publicly listed company with Bombay Stock Exchange. It is a part of Kauvery group of hospitals and it is a subsidiary company of Sri Kauvery Medical Care (India) Limited (SKMCL). SKMCL has taken over KMC in the year 2008.

Kauvery group of hospitals is one of the reputed hospital chain with about 1200 beds across Tamil Nadu, promoted by Dr. Chandra Kumar. SKMCL is the flagship entity of the group, runs with 560 beds across Chennai, Salem and Trichy in Tamil Nadu.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

- **Experienced management, long track record of operations and strong brand image**

KMC is founded and promoted by Dr. Chandra Kumar who has over three decades of experience in managing multi-specialty hospitals. Dr. S Manivannan, is the other managing director and senior consultant anesthesiologist with over two decades of experience in the health care industry. The hospital has about 20 active doctors supported by 40 consultants and 660 support staff. Over the period, with reputed consultants and doctors, the occupancy levels stood around 65-70 percent during the last three years through FY2019 and average revenue per occupied bed per day has improved from Rs.9,499/- in FY2017 to Rs.14,935/- in FY2019. The same has resulted in revenue growth at a CAGR of about 25 percent from Rs.42.57 crore in FY2016 to Rs.83.09 crore in FY2019. For the H1FY2020 (April-September), the company reported revenues of Rs.46.35 crore. Acuite believes that KMC's revenue profile is expected to improve over the medium term supported by the increase in average revenue per occupied bed, experienced team of doctors and established brand name of Kauvery Group of Hospitals in Tamil Nadu.

#### • **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by low gearing (debt to equity ratio) and total outside liabilities to total net worth (TOL/TNW), moderate net worth and healthy debt protection metrics.

The net worth of KMC is at Rs. 38.49 crore as on 31<sup>st</sup> March, 2019. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves, the latter is a result of improvement in its scale of operations coupled with stable operating margins.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.44 times and 0.60 times as on 31 March, 2018. The leverage levels improved to 0.27 times as on 31<sup>st</sup> March 2019. KMC's moderate cash accruals to the tune of about Rs. 12.81 crores have supported in minimizing the reliance on external debt lead to healthy gearing and debt levels of 0.27 times and Rs. 10.31 crores as on March 31, 2019. Total debt comprises of long-term borrowings of Rs. 9.58 crores and working capital borrowings of Rs. 0.82 crores. KMC's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs. 15.39 crores to Rs. 16.04 crores which are comfortable to support the routine capex and incremental working capital requirements to an extent. As a result, the gearing is expected to remain healthy at around 0.08 times as on March 31, 2021 on back of absence of any major debt funded capex plan.

KMC has extended corporate guarantee to its holding company SKMCL to the tune of Rs.43.09 crore as on 31 March, 2019. It is about 1.12 times of its net worth as on 31 March, 2019. 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 may impart a negative implication towards the rating.

The revenues of the company increased by around 17.58 per cent to Rs. 83.09 crore during 2018-19, while its operating margin has remained healthy at around 20.60 per cent in FY2019. The healthy profitability levels coupled with low debt levels has led to healthy debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were healthy at 1.24 per cent and 12.79 times, respectively.

Acuite believes that the financial risk profile of the company is expected to remain healthy on account of healthy accretion to reserves.

#### **Weaknesses**

##### • **Limited geographic presence**

KMC is exposed to geographic concentration risk as it operates only at single location Trichy, Tamil Nadu. The same led to modest revenues during the years under review. Further, KMC is faces stiff competition in the health care industry with large players like Apollo Hospitals, CARE Hospitals among others. Any unforeseen eventuality will impact the business risk profile of the company.

#### **Rating Sensitivities**

- Sustained improvement in revenues and profitability margins.
- Any extension or increment in corporate guarantee to its group entity.

#### **Liquidity position**

KMC has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.8.55 to 12.81 crore during the last three years through FY2019, while its maturing debt obligations were in the range of Rs.2.5-3.5 crore over the same period. The cash accruals of the company are estimated to remain around Rs.15-17 crore during 2020-22 while its repayment obligation are estimated to be around Rs.2 crore every year. The company's working capital is efficiently managed as reflected in gross current asset (GCA) days of 53 in FY 2019. This has led to low reliance on working capital borrowings. The company maintained bank deposits and unencumbered cash and bank balances of Rs.4.59 crore and Rs.1.78 crore respectively as on

March 31, 2019. The current ratio of the company stands moderate at 1.07 times as on March 31, 2019. The company is likely to incur capex of Rs.7 – 8 crore over the medium which is likely to be funded by internal accruals for upgrading its equipment's. Acuite believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accrual and no major repayments over the medium term.

### 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	83.09	70.67
PAT	Rs. Cr.	8.61	6.65
PAT Margin	(%)	10.36	9.41
Total Debt/Tangible Net Worth	Times	0.27	0.44
PBDIT/Interest	Times	12.79	14.95

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

None

### Any other information

None

### Material Covenants

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.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
28-Sep-2018	Term Loan	Long Term	INR 0.04	ACUITE BBB-/Stable (Upgraded)
	Term Loan	Long Term	INR 0.83	ACUITE BBB-/Stable (Upgraded)
	Term Loan	Long Term	INR 2.03	ACUITE BBB-/Stable (Upgraded)
	Cash Credit	Long Term	INR 1.00	ACUITE BBB-/Stable (Upgraded)
	Term Loan	Long Term	INR 4.62	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 2.95	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 1.92	ACUITE BB / Stable (Upgraded)

23-Sep-2017	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 1.00	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. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	2.90	ACUITE BBB (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.62	ACUITE BBB / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.95	ACUITE BBB / Stable (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	2.90	ACUITE BBB / Stable (Assigned)

#### Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 <a href="mailto:naveen.papisetty@acuite.in">naveen.papisetty@acuite.in</a>	

#### About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or

*omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuite.*