

Press Release

Dr. Kamakshi Memorial Hospital Private Limited

02 May, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.20.00 Crore.
Long Term Rating	SMERA BB+/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (read as **SMERA double B plus**) on the above mentioned facilities of Dr. Kamakshi Memorial Hospital Private Limited. The outlook is '**Stable**'.

Dr. Kamakshi Memorial Hospital Private Limited (KMHL) was established in 2004 by Dr. T. G. Govindarajan. The 285-bed multi-specialty hospital at Pallikaranai (Chennai) offers a range of healthcare facilities in the fields of cardiology, oncology, pediatrics among others.

Key rating drivers

Strengths

Experienced management: The hospital is promoted by Dr. T. G. Govindarajan who has around four decades of experience in the industry.

Growth in revenues and operating margins: KMHL reported operating income of Rs.88.21 crore in FY2017 as compared to Rs.82.75 crore in FY2016. For 11 months ended February 28, 2018, KMHL reported revenue of Rs.90.25 crore and expects the full year revenue of about Rs.97.0 crore, indicating growth of 10 percent. Revenue from day-care patients contributed about 30 percent to total revenue in FY2018, an increase from 12 percent in the previous year. The hospital generated in-patient revenue of about 48 percent and around 22 percent from pharmacy sales. Operating margins are moderate at 23.40 percent in FY2017, an improvement from 21.93 percent in FY2016 due to better absorption of administrative expenses and increase in the scale of operations. SMERA believes that KMHL's revenue profile is expected to improve over the medium term considering the moderate bed occupancy levels coupled with the scope for medical services in the territory.

Moderate financial risk profile: KMHL's financial risk profile is marked by healthy net worth, low gearing and comfortable debt protection metrics. The net worth stood at Rs.88.79 crore as on March 31, 2017 as compared to Rs.73.05 crore. The increased net worth was mainly pooled from unsecured loans/quasi-equity infusion of Rs.10.24 crore and the balance by way of internal accruals. The gearing stood at a healthy 0.59 times in FY2017, an improvement from 0.72 times in FY2016. The Debt protection metrics of Interest Coverage Ratio (ICR) and Net Cash Accruals to Total Debt (NCA/TD) stood at a moderate 2.45 times and 0.19 times respectively for FY2017.

Weaknesses

Working capital intensive operations: KMHL's operations are working capital intensive with 60 percent revenue being generated from institutional clients including Employees' State Insurance (ESI), Food Corporation of India, Indian Oil Corporation Ltd and State Trading Corporation. Typically in these cases, the realisation takes about 60 days. KMHL's Gross Current Asset (GCA) days are about 100 as on March 31, 2017. The debtor days stood at 59 as on March 31, 2017, mainly comprising receivables from institutional clients. SMERA believes that the operations of KMHL will continue to be working-capital-intensive

considering the high dependence on institutional clients.

Geographical concentration risk, intense competition: The profit margins are exposed to geographical concentration risk since KMHL runs only one hospital at Chennai. Further, KMHL faces intense competition from Apollo Specialty Hospital, Velachery KS Hospital, Pankajam Memorial Hospital among others.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of KMHL to arrive at the rating.

Outlook – Stable

SMERA believes that the outlook of KMHL will remain 'Stable' over the medium term on account of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' if the hospital achieves better than expected growth in revenue while maintaining profitability margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of stretch in its liquidity owing to increase in receivables or larger-than-expected capital expenditure (capex) plan undertaken.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	88.21	82.75	81.30
EBITDA	Rs. Cr.	20.64	18.15	19.09
PAT	Rs. Cr.	5.54	4.82	4.87
EBITDA Margin	(%)	23.40	21.93	23.48
PAT Margin	(%)	6.28	5.83	5.99
ROCE	(%)	12.51	11.21	23.50
Total Debt/Tangible Net Worth	Times	0.59	0.72	0.83
PBDIT/Interest	Times	2.45	2.80	2.91
Total Debt/PBDIT	Times	2.45	2.76	2.73
Gross Current Assets (Days)	Days	99	98	86

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Service Entities - <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>

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Rating History (Upto last three years)

Not Applicable

*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	20.00	SMERA BB+/Stable (Assigned)

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ABOUT SMERA

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