

Press Release

Dr. Kamakshi Memorial Hospital Private Limited (KMHPL)

March 06, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Bank Facility – Term Loan	84.00	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)
2.	Short Term Bank Facility – Overdraft	1.00	IVR A3 (IVR A Three)
	Total	85.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Dr. Kamakshi Memorial Hospital Pvt Ltd derives comfort from its experienced board of directors, modern infrastructure and latest equipment, corporate tie-ups with reputed clients, favorable demographics & surge in medical tourism and healthy growth prospects for the Indian healthcare industry. However, the rating strengths are partially offset by Modest scale of operations, average financial risk profile, high gestation period along with high cost of medical equipment – all resulting in elongated payback period, intense competition coupled with geographical concentration and impact of regulatory restrictions on revenues.

Key Rating Sensitivities

Upward revision factors:

Substantial & sustained improvement in revenue and/or profitability leading to improvement in debt-protection metrics.

Downward revision factors:

Any decline in revenue, Profitability and/or any debt-led capex leading to deterioration in debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced Board of Directors

KMHPL was founded in the year 2004 spearheaded by Dr. T.G. Govindarajan who is presently the Chairman and MD of the company; he has over 41 years of experience in field of medicine. He is accompanied by his eldest daughter, Dr. T.G. Sivaranjani who possess over 17 years of experience and specialises in the field of Gynaecology, Laparoscopic surgery and Infertility. The directors are supported by a team of experienced and qualified professionals

Modern infrastructure and latest equipment

The hospital has state-of-art equipment and facilities available for its patients. It is a leading multispecialty hospital with NABH-PEH accreditation (in 2018). The medical services provided by the hospital are in the fields of Gastroenterology, Dentistry, Psychiatry, Nephrology, Cardiology, Neurology, Oncology, General Surgery, Gynecology etc. Latest facilities offered are Cardiothoracic Intensive Care Unit, Catheterization Laboratory, Child Development Center, Nuclear Medicine, Pediatric Intensive Care Unit – PICU, Transplant ICU and Preventive health check-up packages.

Corporate tie-ups with reputed clients:

The hospital is empaneled with renowned Corporate and Government organizations like Airport Authority of India (AIA), Food Corporation of India (FCI), Bharat Heavy Electricals Limited (BHEL), Reserve Bank of India (RBI) etc. for providing health care services to their employees. Besides, it has tie-ups with leading insurance companies and third party administrators like Employees' State Insurance Corporation. Moreover, the hospital is empaneled in various central and state government schemes. These empanelment and tie-ups facilitate the hospital in attracting patients as patients mostly prefer facilities like cash less treatment and ease in claim settlement through insurance companies, which in turn leads to higher occupancy rate.

Favorable demographics & surge in medical tourism

Factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare, under-penetration of healthcare

services, technological improvements in early diagnosis and treatment and higher incidence of lifestyle diseases support the industry prospects.

Healthy growth prospects for Indian healthcare industry

Healthcare has become one of India's largest sectors both in terms of revenue & employment. The industry is growing at a tremendous pace owing to its increasing outreach, better services and increasing expenditure by public as well private players. During 2017-20, the market is expected to record a CAGR of 16.5%. The total industry size is expected to touch \$260 billion by 2020. The central government's thrust towards the healthcare sector including steps proposed in the last Union Budget (1st Feb, 2018) for Ayushman Bharat of Rs. 10,000 crores are expected to benefit the players in this industry. A growing population, increasing life expectancy, rising incidence of non-communicable diseases related to lifestyles, growing per capita spending and health insurance cover are long term positives for the industry.

Key Rating Weaknesses

Modest Scale of Operations

KMHPL has witnessed growth in its scale of operations at a CAGR of ~17% over the past three years (FY17-FY19). The growth in scale of operations is guided by increased reputation leading to satisfactory occupancy rate and improved realisations. However, the scale of operation continues to be modest with revenue of Rs.109.20 crore and PAT of Rs.5.06 crore in FY19.

Average financial risk profile

The financial risk profile of the company is moderate by a significant increase in debt over the past three years. The fact that the industry is highly capital intensive on account of high real estate and high equipment costs, the company spending on these has put pressure on their debt-protection parameters. The capex amounts to Rs. 32.87 crore in FY19 – a majority of which has been utilised to add an additional wing to the hospital (Rs. 25 crore) and the rest is spent on medical equipment. The gearing ratio has remained moderate at 1.90x in FY19 as compared to 1.83x in FY18. EBITDA margin remained healthy at 26.20% in FY19. The decline in EBITDA margin in FY18 was due to written-off of bad-debts.

High gestation period, high cost of medical equipment – all resulting in elongated payback period

The hospital segment is capital intensive with a long gestation period usually. Generally, the payback period for a new hospital is about 5-6 years. Further, the maintenance capex required for the hospital segment also remains high owing to regular replacement of equipment to remain updated with the latest technology. With technology evolving day by day, the need to train their existing manpower to handle highly sophisticated deliverance of care becomes important. With limited resources and high attrition rates in the healthcare sector, training and development becomes tough, which can in turn impact operational efficiency.

Intense competition coupled with geographical concentration

KMHPL is exposed to stiff competition from other established hospital in Chennai such as Apollo Hospitals and Fortis Hospital, to name among a few. The competition also affects the pricing flexibility of the hospital. The company operates its facilities in its two operational facilities in Chennai (the multi-specialty hospital located in Pallikaranai and their clinic located in Medavakkam), this geographic concentration has exposed the company to increased impact of regional regulations.

Impact of regulatory restrictions on revenues

The pricing of multiple medical inputs is controlled by government regulatory agencies, more specifically by NPPA (National Pharmaceutical Pricing Authority) in India with the motive of bringing transparency and rationale in the billing process and to maintain a viable ceiling on the prices of medical inputs. The hospitals are also mandated to treat certain patients belonging to the economically weaker section of the society at a subsidised cost. This poses a huge financial burden on the hospitals, due to the rising equipment and operating costs and in some cases it is even difficult for the hospitals to identify if the beneficiary of any subsidised scheme is bonafide or not, which inadvertently affects their top-line. Additionally, the National Accreditation Board for Hospitals and Healthcare providers, under the purview of the Ministry of Commerce (under GoI) provides guidelines for running hospitals emphasizing on protocols and internal control mechanisms.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Liquidity is adequate, marked by gross cash accruals of Rs. 17.42 crore and a moderate cash balance of Rs. 1.37 crores as on March 31, 2019, which is enough to fulfil their yearly interest payment obligation of Rs. 12.03 crore, supported by a current ratio of 2.14x and quick ratio of 2.00x in FY19. The projected cash accruals seem enough to fulfil their debt obligations. As the company does not have any major capex planned in the future, their debt burden is expected to decrease with scheduled repayment.

About the Company

Dr. Kamakshi Memorial Hospital Private Limited 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. About 50 percent of revenue is being generated from institutional clients including Airport Authority. It takes about 60 days to realize payment from such clients. Company had capex in FY 2017-18 and FY 2018-19 amounting to about Rs.35.00 Crores being spent towards opening of a new wing and additional equipment. The building under construction is an out-patient center and will be located in the same premise. It will lead to addition of 50 beds in the capacity. Currently the building is partially operational and will be fully operational by the end of the financial year. KMHPL has recently opened Multispecialty Clinic in Medavakkam, that was inaugurated in the month of November, 2019. The facility has state-of-the-art lab facilities, 24*7 Ambulance services and other essential and modern amenities.

Financials:

For the year ended/ As On	31-03-2018	31-03-2019
	(Audited)	(Audited)
Total Operating Income	95.48	109.20
EBITDA	9.23	28.61
PAT	-10.28	5.06
Total Debt	76.67	89.87
Tangible Net-worth	75.23	80.29
<u>Ratios</u>		
EBITDA Margin (%)	9.67	26.20

PAT Margin (%)	-10.67	4.01
Overall Gearing Ratio (x)	1.02	1.12

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Acuite has moved the rating of Dr. Kamakshi Memorial Hospital Pvt Ltd into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure as per the Press Release dated July 09, 2019.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Bank Facility – Term Loan	Long Term	84.00	IVR BBB-/ Stable Outlook	--	--	--
2.	Short Term Bank Facility – Overdraft	Short Term	1.00	IVR A3	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Team:

Name: Rajath Rajpal

Tel: (022) 62396023

Email: rrajpal@infomerics.com

Name: Amit Bhuwania

Tel: (022) 62396023

Email: abhuania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Term Loan	NA	NA	Up to 180 months	84.00	IVR BBB- / Stable Outlook
Short Term Bank Facility – Overdraft	NA	NA	< 12 months	1.00	IVR A3