February 09, 2022

Christian Medical College Vellore Association: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loans	820.00	870.00	[ICRA]AA (Stable) reaffirmed; assigned for enhanced limits
Short-term fund-based facilities	0.50	45.00	[ICRA]A1+ reaffirmed; assigned for enhanced limits
Short-term non-fund-based facilities	28.00	0.00	-[1]
Long term – Unallocated	1.50	0.00	-[2]
Total	**850.00**	**915.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation favourably factors in the strong business profile of Christian Medical College Vellore Association (CMC, the trust), supported by its established track record of over 100 years and strong brand image in the fields of healthcare and medical education, with the medical institutes and hospital being consistently ranked among the top medical institutions in India. CMC's healthcare segment with about 121 speciality departments contributed ~99.6% of the revenues in FY2021 and is highly diversified with the top-10 specialities contributing to ~22% of the total hospital revenues. The balance revenue (0.4%) come from the highly subsidised education segment. The rating is also supported by the trust's financial profile, characterised by comfortable capitalisation indicators with net gearing of 0.1 times as on March 31, 2021 and strong liquidity position in the form of cash and liquid investments of ~Rs. 470 crore as of December 31, 2021.

Amidst the Covid-19 pandemic impact, the trust's earnings were impacted in FY2021 with cash profit of ~Rs. 6 crore. While the operations were again impacted to an extent in Q1 FY2022 amid Covid 2.0, the trust witnessed healthy improvement in revenues from Q2 FY2022 onwards driven by healthy pick up in occupancies during the subsequent months and higher average revenue per operating bed (ARPOB), amid higher proportion of critical care treatments during the second wave and partial pick up in elective surgeries. ICRA expects the trust to reach pre-pandemic levels of revenues in FY2022, driven by pick up in footfalls and higher ARPOB. While the impact of any further waves of the pandemic remains a key monitorable, the medium term to long term demand outlook for the healthcare sector continues to remain stable in the country, due to structural factors including improving affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services.

CMC is located in Vellore, one of the medical hotspots of South India. Amidst steadily rising demand, CMC has seen capacity related constraints at its existing Vellore campus. It also has limited scope of margin expansion given the subsidised bed rates charged by CMC as compared to other private healthcare players. Being a charitable organisation, CMC also provides free medical services which stood at 15.3% of the gross hospital income in H1 FY2022 (15.6% in FY2021) and highly subsidised education services (subsidy at ~93% of per student education cost). Consequently, CMC is coming up with a 1,000-bed

[1] ICRA had [ICRA]A1+ (Stable) rating outstanding on the Rs. 28.00 crore short-term term non-fund-based facilities earlier. This has currently been revised to nil.

[2] ICRA had [ICRA]AA (Stable) rating outstanding on the Rs. 1.50 crore long-term unallocated facilities earlier. This has currently been revised to nil.

greenfield super-speciality hospital at Kannigapuram (~14 km from the Vellore campus in Tamil Nadu). While the hospital was slated to commence operations from April 2021 (as against initial planned commencement in Feb 2020), ICRA notes that the start of the operations has been delayed further to April 2022. This is primarily due to the operational related challenges and lower-than-expected demand amid the pandemic, which could have translated to operating losses amid higher fixed costs, upon commencement. Owing to the delayed commencement and subsequently lower-than-expected revenues in YTD FY2022, higher employee costs (post the salary revision) and higher interest costs during construction, the debt levels are higher than ICRA's earlier estimates and the coverage indicators of the trust have witnessed moderation, with net Debt/OPBITDA of 1.5 times as on September 30, 2021. Nevertheless, the project is at the final stages of completion and some last stage approvals are pending, the new campus is expected to commence operations from April 2022. With stabilisation of operations from both existing and new campus, CMC's debt protection metrics is likely to improve over the medium term. Healthy patient traffic and stable occupancy levels supported by CMC's high reputation for providing quality healthcare services at affordable fares and high incidence of lifestyle and critical diseases, are likely to drive the revenue growth in the medium term. That said, the timely completion and commencement of operations at the new campus and slower than expected ramp up in operations in the new campus could be a rating sensitivity.

Key rating drivers and their description

Credit strengths

Established brand presence of over 100 years; consistently ranked among the top medical institutions in India: CMC, which was established as a single-bed hospital in 1900, has been in existence for over 100 years and currently has a capacity of 3,005 beds (as of September 30, 2021) with 121 specialities. The trust which provides quality healthcare at affordable prices, is also well known for its community outreach services to the deprived sections of the society. The strong brand image attracts ~1,400 in-patients and ~5,100 out-patients per day to CMC. The medical college which offers over 110 medical courses has been consistently ranked among the top three medical colleges in India by the National Institutional Ranking Framework (NIRF) of Ministry of Human Resource Development.

Diversified revenue stream: With over 121 specialties, CMC's revenues are well diversified across segments. Biochemistry and hematology have been the highest grossing specialties over the years. The trust derived ~22% of its revenues from the top-10 specialties in FY2021.

Moderate financial profile: CMC has a moderate scale of operations with revenues of Rs. 1,288.2 crore in FY2021. While the trust had operating losses due to negative operating leverage in FY2021, the operating margins are generally in the range of 10-12% during FY2017-FY2020, supported by operating efficiency and stringent cost control measures, despite the discounted fares for healthcare and education services. Despite increase in debt levels owing to the debt-funded capex over the past four years, the trust had comfortable capitalization indicators with net gearing of 0.1 times as on March 31, 2021, due to the healthy accruals, stable cash flows and steady receipt of donations over the years. CMC continues to have a strong liquidity profile with cash and liquid investments of ~Rs. 470 crore as on December 31, 2021 (excluding the money parked under endowment funds, which is for restricted use). The revenues declined by ~22% on a YoY basis in FY2021 owing to sharp fall in occupancies and dip in Out-patient department (OPD) footfalls in H1 FY2021, amid the pandemic-induced inter-state travel restrictions, which continued further to an extent in Q1 FY2022 amid Covid 2.0.

That said, the trust has posted revenues of ~Rs. 792 crore in H1 FY2022 (YoY growth of ~67%) and ICRA expects the trust to reach pre-pandemic levels of revenues in FY2022, driven by pick up in footfalls witnessed during the rest of the year and higher ARPOB, amid higher proportion of critical care treatments during the second wave and partial pick up in elective surgeries. Nevertheless, the impact of any further waves of the pandemic remains a key monitorable.

Stable industry outlook: The demand outlook for the healthcare sector remains stable supported by structural factors which includes: better affordability through increasing per capita income and widening medical insurance coverage, under-penetration of healthcare services and technological improvements in early diagnosis and treatment, rising incidence of lifestyle diseases, increasing medical tourism, increasing health awareness and increasing population in India.

Credit challenges

Delay in commencement of Kannigapuram campus; moderation in coverage indicators owing to increase in debt levels amidst the ongoing capex plans: The new hospital at Kannigapuram was proposed to commence operations from April 2021 (as against the initial planned commencement in February 2020). However, the same has been deferred to April 2022, owing to the disruptions amid the pandemic. Consequently, with lower-than-expected revenues in YTD FY2022, higher employee costs (post the salary revision) and higher interest costs during construction, the debt draw down has been higher than ICRA's earlier estimates. The trust has incurred capex of Rs. 1,175.6 crore as on September 30, 2021 towards the new hospital, with a debt draw down of Rs. 617.6 crore for the same (debt drawdown as on December 31, 2021 is Rs. 652.0 crore out of the total sanctioned limits of Rs. 820.0 crore). The balance capex is expected to be incurred during February 2022-April 2022, to be funded through undrawn term loans and internal accruals. While the increase in debt levels and moderate operating profits have resulted in moderation in coverage metrics with Net debt/OPBITDA of 1.5 times as on September 30, 2021, ICRA expects improvement in debt protection metrics over the medium term, aided by scheduled repayment of term loans, expected financial support by way of donations and higher accruals, driven by higher occupancy and incremental revenues from the Kannigapuram campus. That said, the timely completion and commencement of operations at the new campus and slower than expected ramp up in operations in the new campus could be a rating sensitivity.

Capacity constraints and subsidized fares restrict revenue and margin expansion: CMC being a not-for-profit organisation provides healthcare and education services at subsidised rates compared to other private players, which limits the scope for margin expansion. The demand for CMC's inpatient services at the existing Vellore campus outstrips bed capacity resulting in long wait times for surgeries and consultations. However, with the upcoming addition of the 1,000-bedded hospital at Kannigapuram (about 14 km from the Vellore campus), the capacity constraints are likely to ease to some extent. The new hospital would include 300 beds (belonging to a few speciality departments) relocated from the existing Vellore campus, thus effectively leading to a bed capacity of 3,705 beds in FY2022 from 3,005 beds in FY2021. The space available in the Vellore campus post relocation of beds will be utilised by the other speciality departments though the number of bed additions is yet to be finalised.

Liquidity position: Strong

CMC's liquidity position is strong with cash and liquid investments of ~Rs. 470 crore and undrawn working capital lines of Rs. 45.0 crore as on December 31, 2021. The trust has cumulative capex commitments of ~Rs. 320.0 crore during H2 FY2022 and FY2023, which is expected to be funded through a mix of term loans and internal accruals. CMC has nil repayments in H2 FY2022 and repayment obligations of Rs. 75.5 crore, Rs. 83.0 crore and Rs. 88.0 crore during FY2023, FY2024 and FY2024 respectively. ICRA expects the liquidity position to remain strong going forward.

Rating sensitivities

Positive factors – A upgrade in the near term is unlikely given the limited scale of operations and concentrated presence in the Vellore market. However, ICRA may upgrade CMC's rating if there is a significant increase in scale of operations and improvement in profitability apart from improvement in geographical diversification of the trust.

Negative factors – Negative pressure could arise if there is a material decline in the operational performance resulting in lower growth in revenues and profitability. Additionally, higher than expected debt-funded capex outgo towards Kannigapuram campus could be a rating sensitivity. Specific credit metrics which could lead to downgrade could include Net Debt / OPBITDA greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidation

About the company

Christian Medical College Vellore Association (CMC), a registered trust, operates a tertiary care hospital (CMC Hospital) and an educational and research institute in Vellore, Tamil Nadu. It was founded in 1900 by an American missionary, Dr. Ida S. Scudder, as a single bed hospital. CMC Hospital is now one of the most prominent and well-known medical establishments in India with 121 specialised departments and 3,005 beds (as on September 30, 2021). Apart from the main hospital in Vellore, the trust runs a 130-bed hospital in Chittoor, Andhra Pradesh. With more than 110 medical courses including M.B.B.S. (with 100 seats), CMC's educational institutes are some of the top-ranked medical institutes in India. Apart from the medical college, CMC runs a nursing college and a college for allied health sciences.

Around 58% of the patients visiting the hospital are from Tamil Nadu, while the rest are predominantly from Andhra Pradesh and West Bengal. The hospital network served around 1,14,250 in-patients and ~ 19 lakh out-patients in FY2021. The institute and hospital have been pioneers in the field of medicine and medical research with many significant achievements. CMC also carries out various community outreach activities through a network of peripheral hospitals. CMC's council members include 53 Indian Christian churches and Christian organisations, that run a large number of hospitals, health centres and dispensaries in India, many of which are in remote rural areas.

Key financial indicators (audited)

CMC Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	1,656.7	1,288.2
PAT (Rs. crore)	214.7	-52.3
OPBDIT/OI (%)	14.5%	-3.1%
PAT/OI (%)	13.0%	-4.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	1.7	-13.6
Interest Coverage (times)	707.4	-18.8

Source: CMC; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019			Date & Rating in FY2018
					Feb 09, 2022	January 11, 2021	August 31, 2020	-	February 27, 2019	August 13, 2018	July 27, 2018	June 27, 2017
1	Term Loans	Long-term	870.00	691.64	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable) ISSUER NOT COOPERATING*	-	[ICRA]AA (Stable)	-	-	-
2	Fund based bank facilities	Short term	45.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ ISSUER NOT COOPERATING*	-	[ICRA]A1+	-	-	-
3	Non-fund based facilities	Short term	0.00	-	-	[ICRA]A1+	[ICRA]A1+ ISSUER NOT COOPERATING*	-	[ICRA]A1+	-	-	-
4	Unallocated	Long-term	0.00	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable) ISSUER NOT COOPERATING*	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Short-term Fund-based facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	FY 2019	6.65%	FY2031	870.00	[ICRA]AA (Stable)
NA	Working capital demand loan	FY2022	-	-	45.00	[ICRA]A1+

Source: *CMC*

Please click here to view details of lender-wise facilities rated by ICRA

ANNEXURE I: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
CMC Vellore Campus	100.00%	Full Consolidation
CMC Chittoor Campus	100.00%	Full Consolidation
CMC Kannigapuram Campus	100.00%	Full Consolidation

Source: CMC

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