

January 12, 2023

Iconkrishi Institute of Medical Sciences Private Limited: [ICRA]AA-(CE)(Stable) withdrawn and fresh rating of [ICRA]BBB+(Stable) assigned for bank limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Term loan	14.00	14.00	[ICRA]AA-(CE) (Stable) withdrawn and [ICRA]BBB+(Stable) assigned simultaneously
Long-term – Fund-based/Cash credit	3.00	3.00	[ICRA]AA-(CE) (Stable) withdrawn and [ICRA]BBB+(Stable) assigned simultaneously
Total	17.00	17.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has withdrawn its rating of [ICRA]AA-(CE) (Stable) for the bank facilities of Iconkrishi Institute of Medical Sciences Private Limited (IIMSPL/the company) and has simultaneously assigned fresh rating of [ICRA]BBB+(Stable) for these facilities.

The withdrawal of the CE rating is triggered by waiver of the corporate guarantee extended by Krishna Institute of Medical Sciences Limited (KIMS) to the lender of the rated bank facility. For arriving at the rating, ICRA has now assessed the standalone credit profile of IIMSPL and notched up the standalone rating factoring in the implicit support from KIMS.

The rating considers the support extended by IIMSPL's parent, KIMS, who supported the company through infusion of unsecured loans / preference shares in the past. The hospital operated by IIMSPL in Visakhapatnam uses the same brand name (hospital is known as KIMS ICON) as its parent and also receives operational support from KIMS, which has an established presence of over two decades in the healthcare industry. ICRA also draws comfort from improvement in the operational performance of the hospital with healthy occupancy, improved average revenue per occupied bed (ARPOB) and average length of stay (ALOS) rates, which led to sustained increase in revenues of the company in the past two years. Although the revenues and margins are expected to moderate in FY2023 in the absence of Covid-19 revenues and lower share of cash / insurance patients in the patient-mix, the company's profitability and debt metrics are expected to remain comfortable. Moreover, the company is adding 60 beds to expand its gastric division at an estimated capex of ~Rs. 17 crore, which along with expected improvement in occupancy would drive growth in earnings, going forward.

The rating is, however, constrained by the company's moderate scale of operations as indicated by its revenues of ~Rs. 105.5 crore in FY2022 as well as high geographical and asset concentration risks as its revenues are derived from a single hospital in Visakhapatnam. The rating is also constrained by the intense competition in the healthcare industry wherein IIMSPL's ability to retain key consultants remains critical, and the hospital's exposure to regulatory risks including the risk of restrictive pricing regulations instated by the central and state governments.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to improve its earnings and generate healthy cash flows driven by healthy occupancy levels and patient footfalls.

Key rating drivers and their description

Credit strengths

Support from KIMS – The rating takes support from the strong profile of the parent, KIMS. The parent is expected to support IIMSPL, if required, since they share the same brand name (KIMS ICON) along with a track record of parental support in the

form of infusion of funds as unsecured loans / preference shares. The KIMS Group has a long operational track record in the tertiary and the quaternary healthcare segments. IIMSPL benefits from the strong brand reputation and the extensive experience of the Group in the healthcare industry. Rebranding the hospital under the “KIMS Hospitals” brand in FY2019 has helped attract a higher share of critical/ elective surgeries. The Group also has renowned doctors and experienced consultants.

Improvement in the standalone performance of hospital – The patient footfalls increased significantly in FY2022 leading to improved revenues and margins. A part of the growth was due to admittance to Covid-19 patients, along with increase in complex cases. This resulted in growth of both ALOS and ARPOB rates and significant improvement in operating profits in FY2022. The company has continued its healthy performance in H1 FY2023 as footfalls have surpassed pre-Covid levels. However, ARPOB and ALOS rates moderated to an extent in the absence of Covid-19 patients along with pre-operative expenses incurred for the gastro division. Hence, margins are expected to moderate in FY2023 and improve on a sequential basis over the medium term. Despite moderation in margins, the company’s capital structure and coverage indicators are expected to remain comfortable.

Credit challenges

Moderate scale of operations with high geographical concentration risk – The scale of operations for the company is moderate with 434 beds and revenue of Rs. 105.5 crore in FY2022. The company is exposed to high geographical and asset concentration risk as it operates a single hospital in Visakhapatnam. However, the company is adding 60 beds to expand its gastric division, which along with expected improvement in occupancy rates would drive growth in earnings, going forward.

Intense competition in the industry – Retaining the doctors would remain a key challenge for the company given the intense competition in the healthcare industry. ICRA also notes the exposure of hospitals to regulatory risks, including that of restrictive pricing regulations instated by the central and state governments.

Liquidity position: Adequate

The liquidity of the company is adequate with a buffer of Rs.3.0 crore in working capital limits, Rs. 1.0-2.0 crore free cash balances and expected retained cash flows of Rs. 8.0–10.0 crore against repayment obligations of about Rs. 2.0-2.5 crore over the next 12 months. Moreover, the company would incur capex of Rs. 17.0 crore in FY2023, which would be funded through term loans of Rs. 13.0 crore and internal accruals of Rs. 4.0–5.0 crore.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is sustained improvement in the scale of operations of IIMSPL leading to a healthy financial profile and liquidity position. Moreover, improvement in the credit profile of the parent, KIMS, could also trigger a rating upgrade.

Negative factors – The ratings may be downgraded if there is a deterioration in the credit profile of the parent, KIMS, or weakening of linkages with the parent. Further, negative pressure on the rating could emerge with sharp deterioration in the earnings or significant rise in debt levels, resulting in moderation of debt coverage metrics or liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Hospitals Policy on withdrawal of credit ratings Rating Approach - Implicit parent or group support
Parent/Group support	Implicit support from parent, KIMS
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of IIMSPL along with implicit support from KIMS

About the company

Iconkrishi Institute of Medical Sciences Private Limited is a 434-bed, multi-speciality hospital in Visakhapatnam, Andhra Pradesh. The hospital was initially established by Vishaka Dairy through its Milk Producers Educational Health and Medical Welfare Trust for dairy farmers and their families. IIMSPL started its operations from April 10, 2018 and became a subsidiary of KIMS with effect from May 5, 2018. The majority stake (51%) in IIMSPL is owned by KIMS and the remaining by the doctors. KIMS, as the majority stake holder, enjoys both operational and financial control over IIMSPL. Any major capex to be undertaken at IIMSPL will be borne by Vishaka Trust as per the arrangement between KIMS and IIMSPL.

Key financial indicators (audited)

IIMSPL	FY2021	FY2022
Operating income	82.4	105.5
PAT	9.7	15.4
OPBDIT/OI	15.5%	21.5%
PAT/OI	11.7%	14.6%
Total outside liabilities/Tangible net worth (times)	6.6	1.0
Total debt/OPBDIT (times)	1.6	0.5
Interest coverage (times)	5.5	19.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Note: Amount in Rs. crore; All calculations are as per ICRA Research; Source: Company data, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years				
			Amount o/s as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		FY2022	FY2021	FY2020	
				Jan 12, 2023	Mar 31, 2022	Dec 15, 2020	Jul 27, 2020	Nov 19, 2019	
1 Term loans	Long term	14.00	9.27	[ICRA]AA-(CE)(Stable) withdrawn and [ICRA]BBB+(Stable) assigned simultaneously		[ICRA]AA-(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A(CE) (Positive)	[ICRA]A(CE) (Positive)
2 Cash credit	Long term	3.00	--	[ICRA]AA-(CE)(Stable) withdrawn and [ICRA]BBB+(Stable) assigned simultaneously		[ICRA]AA-(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A(CE) (Positive)	[ICRA]A(CE) (Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – fund-based/Term Loan	Simple
Long-term – fund-based/Cash credit	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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	July 2018	NA	July 2026	14.00	[ICRA]AA-(CE) (Stable) withdrawn and [ICRA]BBB+(Stable) assigned simultaneously
NA	Cash credit	NA	NA	NA	3.00	[ICRA]AA-(CE) (Stable) withdrawn and [ICRA]BBB+(Stable) assigned simultaneously

Source: Company

[Click here to view lender wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – NA

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545300

shamsherd@icraindia.com

Srikumar K

+91 44 45964318

ksrikumar@icraindia.com

Nithya Debbadi

+91 40 40676515

nithya.debbadi@icraindia.com

Akshay Dangi

+91 40 40676528

akshay.dangi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



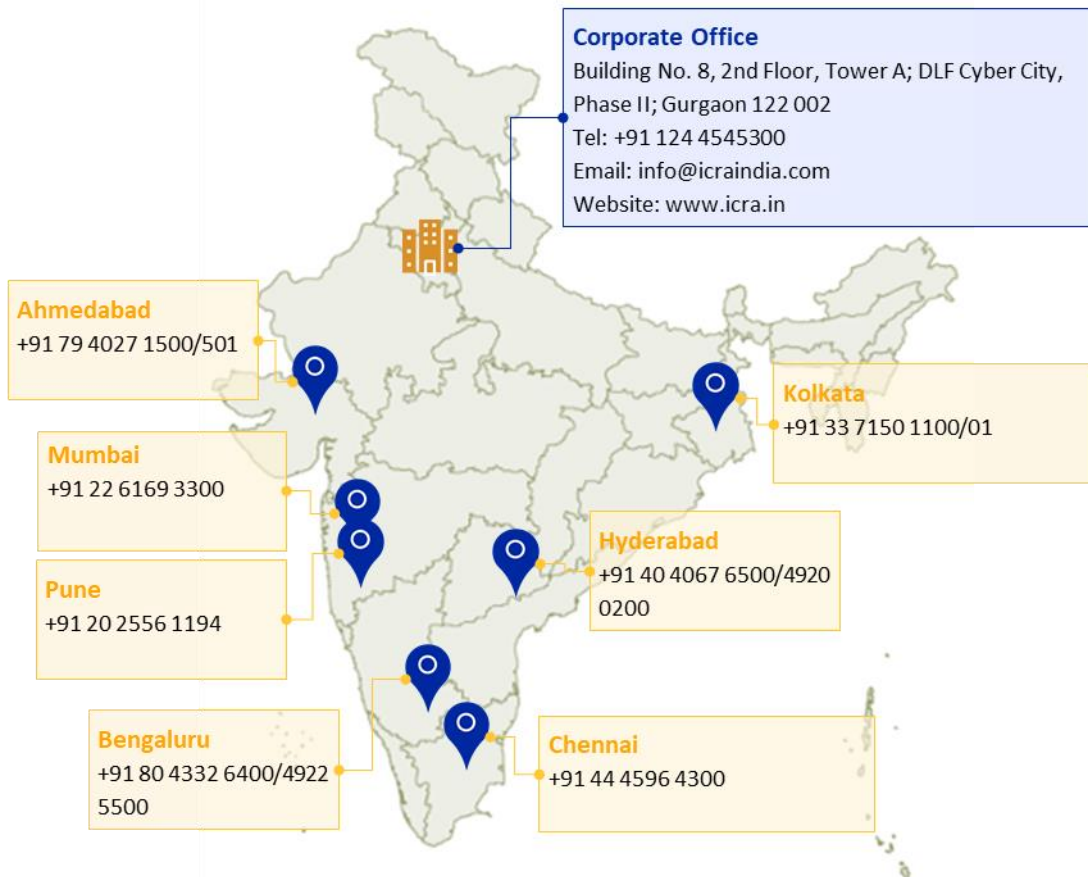
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.