June 20, 2024

Christian Medical College Vellore Association: Ratings reaffirmed

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	784.00	[ICRA]AA (Stable); Reaffirmed
Short-term fund-based facilities	45.00	90.00	[ICRA]A1+; Reaffirmed
Long term/ Short-term – Unallocated	50.00	41.00	[ICRA]AA (Stable)/ [ICRA]A1+; Reaffirmed
Total	**915.00**	**915.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings on the bank lines of Christian Medical College Vellore Association (CMC/the Trust) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by its strong business profile and liquidity position. CMC has strong brand equity, with presence for over 100 years, and is a reputed healthcare provider in Vellore (Tamil Nadu), attracting patients from across the country. It derives revenues from over 120 specialties including Hematology, Oncology, Gastroenterology and Neurology. Further, its medical college offers over 110 courses and 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, for the last several years.

CMC provides education services at subsidised fees compared to other private players. Further, it provides concessional/free services, as part of its initiative to provide quality healthcare to the underprivileged; free services constituted 13.8% of revenues in FY2024. All these have restricted margin expansion over the years. CMC's operating margins, in addition, were impacted by the sub-optimal occupancy levels (63.8% in FY2024 as against 69.1% in FY2023 and 74.8% pre-Covid) and moderated to 6.5% in FY2024 from 12.2% in FY2023. The lower operating margins have cascaded into net losses of Rs. 17.8 crore in FY2024. While margins are expected to increase going forward from FY2024 levels with higher occupancy and better absorption of fixed overheads from the new facility, they are expected to remain below the industry peers, given the focus on free work and the subsidised fees for the medical college.

CMC's revenues have witnessed a compounded annual growth rate of 10.4% in the last five years (revenues of Rs. 2,434.9 crore in FY2024), aided by enhanced bed capacity, increasing complexity of treatments/surgeries and inflation in treatment costs. The Trust has had healthy annual accruals of close to Rs. 200.0 crore per year, in the last five years (barring FY2021, which was impacted by the Covid-19 pandemic), and this, along with periodic donation receipts has resulted in healthy capital structure (net gearing of 0.2 times as on March 31, 2024) and coverage metrics (DSCR of 2.6 times for FY2024), despite the recent debt-funded capex undertaken. While the Net Debt/OPBDITA has moderated to 2.0 times as on March 31, 2024 (PY: 0.9 times) because of debt funded capex for the new facility at Ranipet and lower operating profits in FY2024 due to weaker absorption of fixed cost. However, it is likely to improve going forward, supported by favourable demand outlook, better operating leverage and fixed cost absorption as occupancies ramp-up. CMC's liquidity position remains strong, supported by its healthy cash accruals and sizable cash and bank balance of Rs. 557.7 crore as on March 31, 2024.

The demand outlook for the healthcare sector remains favourable supported by structural factors including rising lifestyle diseases, technological advancements supporting early diagnosis and treatment, increasing medical tourism and health awareness, under-penetration of healthcare services amid population increase, widening medical insurance coverage and better affordability by virtue of increasing per capita income. These augur well for CMC and provide revenue visibility over the medium term, despite the competition in the healthcare industry. However, CMC's moderately high geographic concentration is expected to continue, although footfalls of patients from multiple states across India mitigates the risk to an extent.

The stable outlook on CMC's long-term rating reflects ICRA's expectations that the Trust will be able to sustain its credit profile, supported by favourable demand outlook and healthy accruals, strong liquidity and absence of any large debt-funded capex plans over the medium term.

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 has been in existence for over 100 years and is a reputed healthcare provider, attracting patients from across the country. It has a capacity of 3,633 beds as on March 31, 2024. It also provides concessional/free services, as part of its initiative to provide quality healthcare to the underprivileged. The medical college offers over 110 courses and 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, for the last several years.

Diversified revenue streams – CMC derives its revenues from over 120 specialties including Hematology, Biochemistry, Oncology, Gastroenterology and Neurology. Further, the revenues are well diversified with the top 10 specialties contributing to less than 25% of the total hospital revenues in FY2024. The diversification mitigates risks arising from any change in disease patterns that would require the hospital to realign its specialty mix over a period to ensure sustainability in revenues.

Healthy financial profile – CMC's revenues have witnessed a compounded annual growth rate of 10.4% in the last five years (revenues of Rs. 2,434.9 crore in FY2024), aided by enhanced bed capacity, increasing complexity of treatments/surgeries and inflation in treatment costs. The Trust has had healthy annual accruals of close to Rs. 200.0 crore per year, in the last five years (barring FY2021, which was impacted by the Covid-19 pandemic), and this, along with periodic donation receipts has resulted in healthy capital structure (net gearing of 0.2 times as on March 31, 2024) and coverage metrics (DSCR of 2.6 times for FY2024), despite the recent debt-funded capex undertaken. While the Net Debt/OPBDITA has moderated to 2.0 times as on March 31, 2024 (PY: 0.9 times) because of debt funded capex for the new facility at Ranipet and lower operating profits in FY2024 due to weaker absorption of fixed cost. However, it is likely to improve going forward, supported by favourable demand outlook, better operating leverage, fixed cost absorption as occupancies ramp-up and absence of any large debt-funded capex plans over the medium term. CMC's liquidity position remains strong, supported by its healthy cash accruals and sizable cash and bank balance of Rs. 557.7 crore as on March 31, 2024.

Favourable demand outlook – The demand outlook for the healthcare sector remains favourable supported by structural factors including rising lifestyle diseases, technological advancements supporting early diagnosis and treatment, increasing medical tourism and health awareness, under-penetration of healthcare services amid population increase, widening medical insurance coverage and better affordability by virtue of increasing per capita income. While the Trust's occupancy and operating margins in FY2024 witnessed moderation on account of slower ramp up in the Ranipet facility and renovations undertaken in the main campus, the favourable demand outlook augurs well for CMC and provides revenue visibility over the medium term, despite the competition in the healthcare industry.

Credit challenges

Moderately high geographic concentration – The Trust derives a major part of its revenue from the campuses located in Vellore/Ranipet and satellite centres around these facilities, although it also has presence in Chittoor (Andhra Pradesh). This exposes its earnings and cash flows to concentration risks arising from regional-specific issues. However, CMC attracts patients from multiple states across India, which mitigates the risk to an extent. Also, CMC's strong brand equity, its reputation and established presence for several decades augur well for the Trust.

Reduction in occupancy with capacity addition; subsidised fares restrict margin expansion – CMC provides education services at subsidised fees compared to other private players. Further, it provides concessional/free services, as part of its initiative to provide quality healthcare to the underprivileged; free services constituted 13.8% of revenues in FY2024. All these have restricted margin expansion over the years. CMC's operating margins, in addition, were impacted by the sub-optimal occupancy levels (63.8% in FY2024 as against 69.1% in FY2023 and 74.8% pre-Covid) and moderated to 6.5% in FY2024 from 12.2% in FY2023. The lower operating margins have cascaded into net losses of Rs. 17.8 crore in FY2024. However, occupancy is expected to gradually increase going forward supported by ramp-up in operations in the new hospital, renovated facilities in the main campus and favourable demand outlook. While margins are expected to increase going forward from FY2024 levels with higher occupancy and better absorption of fixed overheads from the new facility, they are expected to remain below the industry peers, given the focus on free work and the subsidised fees for the medical college.

Competition in healthcare industry – CMC is exposed to competition from other hospitals pan-India, which could restrict revenue growth and margin improvement. However, its strong brand equity, reputation, established presence for several decades, and favourable demand outlook mitigate the risk to a large extent.

Liquidity position: Strong

CMC's liquidity position is expected to remain strong, supported by its healthy cash accruals, sizeable cash and bank balance of Rs. 557.7 crore and undrawn working capital lines of Rs. 55.0 crore as on March 31, 2024. Further, the Trust receives periodic donations. As against these sources of cash, CMC has annual capex commitments of ~Rs. 150.0-175.0 crore per annum during FY2025 and FY2027 (including the capex for the upcoming paediatric ward at the Ranipet campus), which are expected to be funded through a mix of internal accruals and donations. CMC has repayment obligations of Rs. 58.5 crore in FY2025, Rs. 64.3 crore in FY2026 and Rs. 65.0 crore in FY2027 on its existing loans, and no incremental debt is envisaged going forward. Overall, ICRA expects CMC to be able to meet its near-term commitments through internal sources of cash and yet be left with sufficient cash surplus.

Rating sensitivities

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

Negative factors – Negative pressure on CMC's ratings could emerge with sharp deterioration in the earnings, or significant rise in net debt, leading to deterioration in the credit profile. Specific credit metric that could lead to downgrade 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	For arriving at the ratings, ICRA has considered CMC's consolidated financials of the three hospitals. Details are provided in Annexure 2

About the Trust

Christian Medical College Vellore Association 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 and is now one of the most prominent medical establishments in India. The Trust derives a major part of its revenue from the campuses located in Vellore/Ranipet and satellite centres around these facilities, although it also present in Chittoor (Andhra Pradesh). However, CMC attracts patients from across India. The hospital had over 120 specialised departments and 3,633 beds as on March 31, 2024. The medical college offers over 110 courses and 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, for the last several years. The hospital network served 1.5 lakh in-patients and 33.2 lakh out-patients in FY2024 (7% higher than pre-Covid level).

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	2,225.1	2,434.9
PAT	151.7	-17.8
OPBDIT/OI	12.2%	6.5%
PAT/OI	6.8%	-0.7%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	3.3	5.6
Interest coverage (times)	6.5	2.2

Source: Trust, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the CMC in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					June 20, 2024	Apr 28, 2023	-	Feb 09, 2022
1	**Term Loans**	Long-term	784.00	784.00	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	-	**[ICRA]AA (Stable)**
2	**Fund based bank facilities**	Short term	90.00	90.00	**[ICRA]A1+**	**[ICRA]A1+**	-	**[ICRA]A1+**
3	**Unallocated**	Long term and short term	41.00	-	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Short-term fund-based facilities	Simple
Long term/ Short-term – Unallocated	Not applicable

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**	FY2019	8.20%	FY2033	784.00	[ICRA]AA (Stable)
NA	**Working capital demand loan**	-	7.14%	-	90.00	[ICRA]A1+
NA	**Unallocated Limits**	-	-	-	41.00	[ICRA]AA (Stable)/[ICRA]A1+

Source: CMC

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

Annexure II: List of entities considered for consolidated analysis

Name	Ownership	Consolidation approach
CMC Vellore Campus	100.00%	Full consolidation
CMC Chittoor Campus	100.00%	Full consolidation
CMC Ranipet Campus	100.00%	Full consolidation

Source: CMC

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

K Srikumar
+91 44 4596 4318
k.srikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Kishore Kumar A
+91 44 4596 4312
kishore.a@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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