

Date: 25th August, 2021

CIN: L55101TG1973PLC040558

<p>The Secretary, Bombay Stock Exchange Ltd (BSE) Phiroze Jheejhebhoys Towers, Dalal Street, Mumbai - 400 001. Scrip Code - 543308 ISIN: INE967H01017</p>	<p>The Secretary, National Stock Exchange, Exchange Plaza, 5th Floor Plot No.C/1, 'G' Block Bandra - Kurla Complex Mumbai - 400 051. Symbol - KIMS ISIN: INE967H01017</p>
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Dear Sir,

Subject: Disclosure under Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 – Credit Rating

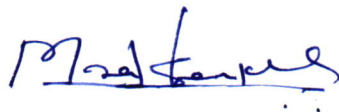
Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform that CRISIL Ratings Limited has rated Bank Facility as under:

Facilities	Type	Amount	Rating	Status
Fund Based Facilities	Long Term	Rs. 166 Cr	CRISIL AA-/Stable	Upgraded from CRISIL AA-/Stable to CRISIL AA-/Positive and rating reaffirmed
Non-fund based facilities	Short Term	Rs. 4 Cr	CRISIL A1+	Reaffirmed

The Report issued by CRISIL Ratings Limited dated 24th August, 2021 received by the Company today i.e. 25th August, 2021 is enclosed as Annexure.

Kindly take this on record.

For Krishna Institute of Medical Sciences Limited




Umashankar Mantha
 Company Secretary & Compliance Officer

Krishna Institute of Medical Sciences Limited
 Minister Road, Secunderabad - 500 003, Telangana, India

+91 40 4488 5000/4488 5184 +91-40-27840980 kimshospitals.com
 CIN : L55101TG1973PLC040558

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

August 24, 2021 | Mumbai

Krishna Institute of Medical Sciences Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.170 Crore
Long Term Rating	CRISIL AA-/Positive (Outlook revised from 'Stable' and rating reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long term ratings of Krishna Institute Of Medical Sciences Limited (KIMS) to **'Positive'** from **'Stable'** while reaffirming the ratings at **'CRISIL AA-/CRISIL A1+'**.

The outlook revision reflects the better than expected performance of KIMS in fiscal 2021 despite the pandemic, and expectations that the company will continue to sustain its healthy business performance over the medium term, supported by established market position in Telangana and Andhra Pradesh, improving occupancy levels, and sound operating efficiencies. Besides, CRISIL Ratings expects that healthy cash generation and management's philosophy to prudently fund capital expenditure (capex), will enable KIMS to maintain comfortable debt metrics, even as it enhances its geographic presence in newer territories.

The outbreak of covid-19 in mid-March 2020 led to severe decline in elective surgeries and preventive healthcare treatment for most players until June 2020. However, KIMS was impacted lower than most peers, as covid-19 impact was felt later in Andhra Pradesh and Telangana, which allowed KIMS to gear up its facilities to treat covid-19 impacted and non-covid patients. This also benefitted its occupancy levels, and enabled KIMS to register 18% growth in revenues. This along with tight control over costs, and the continuing doctor-partnership model, enabled the company report healthy operating margins of 28.5% in fiscal 2021 (22.6% in fiscal 2020).

Financial risk profile remains healthy marked by sizeable net worth (Rs.759 crore on March 31, 2021, benefitting further from a recent Rs. 200 crore equity raise) and comfortable debt protection metrics. Interest cover was over 10 times and the ratio of debt to earnings before interest, tax, depreciation and amortisation (EBITDA) was 0.83 times in fiscal 2021. Despite steady organic and strategic inorganic expansions, KIMS' management has demonstrated track record of maintaining prudence in its expansion plans as reflected in the company's low debt levels. In June 2021, KIMS completed its Initial Public Offering (IPO) to provide partial exit to its private equity investor, General Atlantic (stake reduced to 17% from 43.9%), while its promoters also partly diluted their stake (by 8% to 38.8%). About Rs.200 crore was raised by the company, which was largely used to retire debt.

Over the next 3-4 years, KIMS may undertake moderately aggressive capex of over Rs.1000 crores to expand into adjacent geographies in South India, and other states, which may involve part debt funding. However, debt metrics will still remain comfortable, supported by healthy annual cash generation of over Rs.300 crore. Peak gearing and debt/EBITDA are estimated at less than 0.5 times and ~1-1.10 times in fiscal 2023.

The rating continues to reflect the KIMS group's established market position in Telangana and Andhra Pradesh through its network of nine hospitals under the "KIMS Hospital" brand, its sound operational efficiencies as reflected in improving in occupancy and Average Revenue per Bed per Day (ARPOBD), also leading to good profitability. The ratings are also supported by the company's healthy financial risk profile, and adequate liquidity. These strengths are partially offset by high dependence on flagship hospital in Secunderabad for revenues and profits, modest geographical concentration of its hospitals, and regulatory risks associated with the hospital sector.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has fully consolidated the business and financial risk profiles of KIMS and its subsidiaries, which are strategically important to, and have a significant degree of operational integration with KIMS. These

companies are together referred to as KIMS group. CRISIL Ratings considers these entities as being strategic to KIMS in view of their common line of business and management and strong integration with KIMS' operations. Further the group allows transfer of funds amongst entities depending upon the requirements.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

- **Established market position:** Through its network of nine hospitals under the "KIMS Hospital" brand, the group has an established presence in the South Indian market. The group also has a long operational track record of 16 years in the tertiary and the quaternary healthcare segments and also benefits from the strong brand reputation and the extensive experience of the group's promoters in the healthcare industry. In terms of specialties, cardiac treatments account for the highest share of revenues at ~20%, followed by neuro sciences ~16% and renal sciences ~11%. The balance is spread across oncology, mother and child, gastric sciences, orthopedics and others. The group, with a combined bed capacity of 3064 beds as on March 31, 2021, is one of the leading players in the tertiary care segment in Andhra Pradesh and Telangana. The group's Secunderabad facility is one of the largest single location hospitals with ~1000 beds, offering multi-specialties.
- **Sound operating efficiency:** The group has reported above average operating profitability (28.5% in fiscal 2021), despite constant capacity addition, including through acquisitions. The policy of providing equity partnership to its key doctors, have enabled the company to attract talents in Tier II locations and maintain low attrition levels and tight control over costs. These factors coupled with prudent capital spending have helped KIMS to turn around acquired hospitals as well as achieve break-even at newer hospitals in a short span of time, translating into healthy operating capabilities. Despite bed additions both through organic expansions as well as strategic acquisitions, occupancy levels have improved to 73% in fiscal 2021 compared to 63% in fiscal 2015. ARPOBD has also risen to Rs. 20,609 from Rs 16775 during the same period indicating improvement in services provided. The presence of highly qualified professionals enables a low average length of stay (about 4.0 days during fiscal 2021), which is comparable to large hospital chains. Healthy profitability and increasing occupancy levels, have enabled a steady improvement in the group's return on capital employed (RoCE), which stood at ~30% in fiscal 2021, compared with ~13-15% in earlier years. With initial losses from newly being set up hospitals expected, operating margins may moderate over the medium term, but still remain healthy.
- **Healthy financial risk profile:** Financial risk profile has improved over time, as reflected in sizeable net worth and comfortable debt protection metrics, further benefitting from the Rs. 200 crore IPO. The group has a demonstrated track record of maintaining prudence in its expansion plans as indicated by its low dependence on external debt, despite steady organic and strategic inorganic expansions, exceeding Rs. 700 crore since fiscal 2015. While over the medium term, the group is likely to pursue organic/inorganic expansions, which will help reduce its dependence on the flagship hospital, funding for the same is also expected to remain prudent. The expected capex spend of over Rs.1000 crore spread over the next 3-4 years will involve only part debt funding, resulting in debt metrics remaining comfortable.

Weaknesses:

- **Revenue and geographic concentration risks:** The group has high reliance on its flagship hospital in Secunderabad, which contributed 50% of the revenues and 63% of EBITDA in fiscal 2021. While contribution of Secunderabad unit has reduced in the recent years, with addition of new hospitals, the flagship hospital is likely to continue to be the key revenue and profitability driver over the medium term exposing the group to significant revenue and geographic concentration risks. Besides, all of the company's other hospitals too are concentrated in the states of Telangana and Andhra Pradesh, which renders operations partly vulnerable to any regulations imposed by authorities in these states. Also owing to these reasons, geographical diversification is modest compared to other peers in the healthcare space.

The group is trying to address the same, by proposing new hospitals in neighbouring states of Karnataka (Bengaluru) and Tamil Nadu (Chennai), as well as possibly in Mumbai. Successful completion of these projects could result in over 1000 additional beds. However, there are already established players in these geographies, and ability of KIMS to ramp up occupancy levels post project completion, will be critical to reduce revenue dependence on its flagship hospital.

- **Exposure to regulatory risk:** The group, like other hospital chains, remains exposed to regulations which may come into play, as introduced. For instance, the performance of private hospitals was significantly impacted on account of price caps cardiac stents and knee implants imposed in the last quarter of fiscal 2017. Regulatory actions and their impact will remain monitorables.

Liquidity: Strong

Liquidity position is strong, with unencumbered cash balance of over Rs. 300 crore as on June 30, 2021 and healthy cushion in the existing fund-based facilities. Expected annual cash accruals of over Rs. 300 crore, should be sufficient to fund routine maintenance capex as well as part of expansion capex. The group has also successfully raised long tenure debt for funding capex, which results in only modest annual debt obligations. The group pre-paid Rs. 150 crore of term debt

obligations in fiscal 2022 using the proceeds of the IPO, and had principal debt obligations of Rs. 43 crore respectively in fiscal 2022 and 2023, which can be comfortably serviced from accruals. Given current sizeable capex plans, the group is also unlikely to pay out material dividend over the medium term, with cash flows likely to be reinvested.

Outlook: Positive

CRISIL Ratings believes that KIMS will continue to benefit over the medium term from its established presence in the South Indian market and diversified revenue stream. Ramp in operations at the newly acquired hospitals is expected benefit revenue growth as well as profitability in addition to reducing dependence on the flagship hospital. The company is also expected to maintain financial prudence and sustain its debt metrics at healthy levels, while pursuing organic and inorganic growth.

Rating Sensitivity factors

Upward factors

- Sustained double digit revenue growth while maintaining healthy operating margin of ~over 24-25%, resulting in significantly better than expected cash generation
- Steady ramp-up of occupancy levels at new hospitals leading to substantial reduction in dependence on the flagship hospital
- Sustaining healthy debt metrics, considering organic and inorganic expansion plans – Debt/EBITDA at 1-1.2 times

Downward factors

- Sluggish revenue growth, and deterioration of operating margin to below 12-14%, affecting cash flows
- Significant increase in debt levels for additional organic/inorganic growth, or to fund cost overruns in ongoing projects, leading to deterioration of key debt metrics - Debt/EBITDA in excess of 2.25-2.5 times

About KIMS group

Founded by Dr. Bhaskar Rao Bollineni, a renowned cardiothoracic surgeon, KIMS operates a chain of multispecialty hospitals in Andhra Pradesh and Telangana, with a focus on tertiary and quaternary healthcare. It began its journey in 2004 with a 300 bed hospital in Secunderabad. Today, KIMS is one of the India's leading multi-disciplinary integrated private healthcare service providers offering comprehensive healthcare services across specialties and super specialties.

The flagship hospital of the Group in Secunderabad has a capacity of 1,000 beds. Spread across eight cities in the states of Andhra Pradesh and Telangana, KIMS has a total bed capacity of 3,064 beds and an established presence in the southern part of India.

At present, Dr Bhaskar Rao, his associate firm and relatives have a 38.8% stake in KIMS, General Atlantic holds 17% through General Atlantic Singapore KH Pte Ltd, and the balance is held by institutional investors and the general public, including doctors. In June 2018, General Atlantic invested over USD 130 million, in a combination of primary capital and secondary purchases, to acquire a significant minority stake of 42.6% in KIMS. This included the takeover of 30% stake from India Advantage Fund, India's largest private equity fund held by ICICI Ventures.

Key Financial Indicators (Consolidated)

As on / for the period ended March 31	Unit	2021	2020
Revenue	Rs crore	1333	1126
Profit after tax (PAT)	Rs crore	205	115
PAT margin	%	15.4	10.2
Adjusted debt/adjusted net worth	Times	0.42	0.57
Interest coverage	Times	10.32	5.74

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crs.)	Complexity levels	Rating Assigned with Outlook
NA	Term Loan	NA	9.10%	Aug-26	58.04	NA	CRISIL AA-/Positive
NA	Term Loan	NA	9.20%	Apr-26	21.46	NA	CRISIL AA-/Positive
NA	Term Loan	NA	8.85%	May-25	25.45	NA	CRISIL AA-/Positive
NA	Cash Credit	NA	NA	NA	50.0	NA	CRISIL AA-/Positive
NA	Non-Fund Based	NA	NA	NA	4.0	NA	CRISIL A1+

	Limit						
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	11.05	NA	CRISIL AA-/Positive

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Krishna Institute of Medical Sciences Limited	Full	Common management, similar line of business, business and financial linkages, and common promoters
Arunodaya Hospitals Private Limited - Srikakulam	Full	
KIMS Hospital Enterprises Private Limited - Kondapur	Full	
Icnkrishi Institute of Medical Sciences Private Limited– Vizag	Full	
Saveera Intitute of Medical Sciences Private Limited– Anantapur	Full	
KIMS Hospital Kurnool Private Limited–Kurnool	Full	
KIMS Hospitals Private Limited	Full	
KIMS Swastha Private Limited	Full	
KIMS Cuddles Private Limited	Full	
KIMS Hospital (Bhubaneswar) Private Limited	Full	

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	166.0	CRISIL AA-/Positive		--	08-10-20	CRISIL AA-/Stable		--		--	Suspended
Non-Fund Based Facilities	ST	4.0	CRISIL A1+		--	08-10-20	CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Cash Credit	26.5	CRISIL AA-/Positive
Cash Credit	23.5	CRISIL AA-/Positive
Non-Fund Based Limit	4	CRISIL A1+
Proposed Fund-Based Bank Limits	11.05	CRISIL AA-/Positive
Term Loan	58.04	CRISIL AA-/Positive
Term Loan	21.46	CRISIL AA-/Positive
Term Loan	25.45	CRISIL AA-/Positive

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com Naireen Ahmed	Anuj Sethi Senior Director CRISIL Ratings Limited B: +91 44 6656 3100 anuj.sethi@crisil.com Rajeswari Karthigeyan Associate Director	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries:

Media Relations
CRISIL Limited
D: +91 22 3342 1818
B: +91 22 3342 3000
naireen.ahmed@crsil.com

CRISIL Ratings Limited
D:+91 44 6656 3139
rajeswari.karthigeyan@crsil.com

ratingsinvestordes@crsil.com

Biswa Prakash Sukla
Manager
CRISIL Ratings Limited
D:+91 44 6656 3137
Biswa.Sukla@crsil.com

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