Analysis: Kovai Medical Center and Hospital Ltd

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Business & Industry Analysis:

Business Positioning-

Structural Business (B-C):

- Majorly delve into Neurology, cardiology, aortic surgery, bone marrow practices and treatment of liver and kidney disorders.
- Neurology is the Major contributor of revenue.
- It is quite evident that KMCH is a B-C business, mostly catering to individual patients. It operates in a structural Industry that is barely prone to seasonality.
- Disorders and diseases are rising perpetually.
- Industry commands a stable growth rate.

Major Resources:

- Skilled professionals form the central core of a hospital. KMCH does have skilled professionals, and has started a Medical Institute in order to comprise with future growth
- Technological Advancements, and to keep up with the latest practices. From our above compilation it can be assumed that the company does make it a point to be consistent with latest practices.
- People: Subjected to rising rate of heath problems.
- Health Insurance determines how well things move forward.
- Strong liquidity positioning

Risks Involved:

- Capital Intensive in nature. Appropriate capital allocation and debt regulation need to be in place.
- Losing of skilled professionals might be an issue, until now the company has dealt effectively with these issues.
- Government policies and public health care might raise concerns. Until 2019, no opposing policies have been issued. A close track has to be kept despite the good circumstances.
- The currently started Medical Institute is yet to justify its establishment and viability.
- Treatments can be tremendously expensive, health insurance plays a major role here.
- Maintaining its reputation within its constrained geographical location.
- Currently the hospital is also engaged in heavy expansion phase, unable to manage debt, defaulting with project execution or the failure of assets to produce required revenue in the coming future are risk to be faced.

Current Stage-

Growth Stage-

- The hospital started out with 200 beds, today have exceeded 800 beds.
- The business right now is certainly in a growing stage. Constrained to one geographical location, but exercising leadership. The hospital is yet to expand and make larger strides. It seems to be currently participating in newer technology additions, research, discovering newer practices and expanding size.
- Currently planning to start a medical institute in conjunction with the hospital. This might help diversify revenue further in the same geographical location
- Industry is also still in a growing stage. Rural population is under served, and current skilled professionals rank below the average in our country. Non metro cities are yet to match up with necessary standards of heath care.

Geographical Expansion-

- The hospital enjoys most of its revenue from its main establishment. 12-14% of revenue seems to come from its peripheral centres.
- They've recently started a Medical Institute rather than expanding to Chennai. Probably because of tax policies and medical council regulations. Recognition and availing skilled professionals seem to be the underlying idea.
- The medical institute also allows for diversification of revenue in the same geographical location.
- 88% revenue from main the centre.

Expanding Current Offerings-

- It might not be fruitful to diversify further with respect to core medical practices. None of the hospitals practices command more than 30% of their revenue.
- Their planning to plunge further into cardiac and liver treatment and practices, alongside maintaining its grip on neurology.
- Mobile stroke unit, and STEMI make it evident of where the hospitals interest lie. Their commitment to innovation and expansion.
- Hub and Spoke satellite model and telemedicine are couple of methods to cater better and reach a wider population. It to be seen how the hospital makes these implementations more practical and effective.
- The construction of a medical institute and running their hospital unit is one strategy the hospital has looked forward too.

Industry Penetration-

- Market size is expected to grow to 380 billion US$.
- The industry has only been catering to organized sectors and classes of India. Rural population is yet to be touched.
- Health insurance is availed by 20% of India. This is one of the major determinants.
- Currently medical professionals at average catering 1000 patients are much lesser than the average, being 0.7 per 1000.
- The number of beds in India fall below global average beds per 1000 people.
- Health care as % of GDP hasn't exceeded 5% yet, despite hefty health care promises nothing seems to have changed with respect to expenditure.
- Telemedicine might be new trend in the industry that yet to exploited.
- The Indian private health care industry offers a market for medical tourism. Due to good quality health service and treatment, along with reasonable pricing. The market for medical tourism is pegged at $1 billion per anum.

  Government policies to aid medical tourism-

  - ⇨ To support the medical tourism, the visa formalities have been simplified to enable hospitals to attract more and more abroad patients.
  - ⇨ The FDI limit in medical insurance has been raised by the government to 49 percent
  - ⇨ India and Sweden entered into MOU which will help in improving research and bringing innovative technology to aid provisioning of quality healthcare
- Well the industry is like an ocean yet to be explored, whose depths are yet to be navigated. 70% of Indians do not have access to the good health care. The rising incomes of people and age of information might further help the rural population avail good health care.
- India's competitive advantage also lies in the increased success rate of Indian companies in getting Abbreviated New Drug Application (ANDA) approvals.

Competitive Advantage:

- When compared to metro cities, billing here is lower by 25-30%. This might give it an edge in certain specific circumstances. But not necessarily.
- Huge cash reserves.
- Extremely good cash flow and liquidity positioning. The hospital also enjoys reasonable and excessive payable days from its suppliers. Extremely good inventory management.
- Receivables do not seem to be a hassle at all. Patients pay-up upfront, and corporates pay within 15-20 days, allowing the hospital to collect its dues within a very short span of time
- Enjoy and very short working capital and cash conversion cycle.
- The liquidity position is assumed to strong due to the hospitals regional presence and directorships of promoters in associated companies.
- The sustained high margins % is a depiction of its presence and competitive advantage.
- The mobile stroke unit, STEMI plan and continuous tech addition, help infer that the hospital and its management believe its important to keep up with newer industry trends.
- Constrained to its geographical position, a major disadvantage.
- Credit rating reports state that, KMCH is the largest player in Coimbatore, and utilize's the most sophisticated and latest equipment.

Competition:

- Despite its brand and regional presence, KMCH certainly might have a problem with geographical expansion and further in its pursuit for growth. There are a lot of huge hospitals with an immensely wide and strong network. A very strong and established brand presence and an extremely well diversified business.
- Well as we discussed earlier, the industry offer a lot of room for growth. There's a long-long way to go before the industry saturates. Currently many new opportunities and diversification room is also being offered by the industry, example telemedicine, medical tourism etc. Despite the favourable industry scenario, KMCH to expand might further need to compete with massive players and industry leaders.
- Considering the above, a private medical institute along with running an established hospital seems to be a good method to pursue diversification further. The presence of the hospital and the opportunities it can offer might help and make the presence medical institute much for attractive. Ex: The same strategy was used by M&M, while they established Mahindra Ecole engineering college.
- A fair amount of competition exists in the region too. KG hospitals, PSG hospitals and sri kuppuswamy are couple of the private competitors in the region.

The Value Chain

- There doesn't seem to be any strict value chain, but the following deductions can be made-
- 1)- Doctors being major assets to the hospital, who also exercise the power to resign. Their expertise is what the hospital capitalizes on.
- Doctors-->Hospital--->Patient
- 2)Technology and other equipment's and the ones who provide them are true suppliers.
- Dealers--->Hospital-->Patients
- 3)- Government has the ability to formulate disruptive policies for the private health care industry.

Assessing the Power of Hospital and Patient and Other Service Providers:

- 1) Not being able to retain its medical professionals, and meeting their demands can be detrimental to the hospital (probably that is why the medical institute plan in the first place).
- The patients certainly do not exercise any bargaining power here.

- 2) The service providers and suppliers do not necessarily enjoy much bargaining power, unless they have some very specific and exclusive technology to offer. The comfortable liquidity position and cash conversion ability does demonstrate the regional presence and competitive advantage of the hospital
- 3) The government can shape things the way it wishes to. Currently favourable policies have been issued. Spending as a % of GDP has not improved much, but is predicted to do better. The country's economic performance also a plays a major role.
- 4) Health insurance doesn't directly affect the hospital, but its issuance pace in the region and its surroundings does affect the hospital significantly.
- Well apart from

Threat of New Entrants:

- Threat of new entrants in the health care industry is not really a concern. The following justify the argument-
- Capital intensive nature of the business
- A lot of permissions and qualification needs to be attained in order to start a hospital.
- Shortage of medical professionals
- Hell of experience is required to run a hospital
- A strong reputation and brand is required.
- Regional Government support and eminent group network is required too.

Other miscellaneous inferences-

- It is to be noted, how suddenly the hospital leaped from Chennai expansion plan to Opening a medical institute. This sudden change of plan is quite fishy. It has to further be seen of how well does the institute do, and does it really have the potential to produce required talent.
- Claims to have performed the fastest Whipples surgery, but no hard and fast evidence on the following.
- The construction of medical college has proceeded faster than expected. Such plans carried out in haste might have serious ramifications, a resultant of bad capital allocation and ineffective strategizing.
- Started a liver Institute in the year 2014-2015

- KMCH claims to have developed a mobile stroke unit (MSU) for treating cardiac failure effectively. It is also claimed to have been the first in india.

  ⇨ **link:** https://health.economictimes.indiatimes.com/news/diagnostics/kmch-launches-indias-first-mobile-stroke-unit/57466283
- In the year 2016-2017, the hospital has performed its first Da vinci robotic surgery

- Heterotopic Heart transplant at KMCH.

  ⇨ **link:** https://www.healthcareradius.in/2017/08/01/a-cardiac-feat
- The Nuclear Medicine Department of KMCH played host to the Second World Rhenium Congress, a platform to foster research collaborations among various Nuclear medicine Specialists from 22 countries. Advanced Liver Cancers, which cannot be cured but need palliation for better quality of life, are being treated by radio nuclide therapy using radio conjugates. This radio conjugate is cheaper and equally effective if not better than other available options in treating advanced liver cancers. KMCH has been in the forefront of making available this novel treatment option
- Contribution by main facility has reduced to 88% as of 2018, when compared to 89% for 2017.

- The Mobile stroke unit has been relaunched as of 2017-1028. It is not understood why was redesigning taken place, when the mobile stroke unit was being launched the first time effectively.
- Dietary patterns and global warming suggests descending health and wellness
- The main drivers of growth in the healthcare sector are India's booming population; growing middle class; increasing purchasing power; growth in infectious, chronic degenerative and lifestyle diseases; and rising awareness of personal healthcare
- India is having only 0.7 doctors and 1.5 nurses per 1000 population. India is way below the "WHO set" average. Health care is still an underserved industry.
- According to WHO estimates, approximately 9.8 million deaths occurred in India, of which 60% were on account of non-communicable diseases ("NCDs") and nearly 17% were caused due to cardiovascular diseases.

- The benefit of section 80-IB has been extended to new hospitals with 100 beds or more that are set up in rural areas; such hospitals are entitled to 100 per cent deduction on profits for 5 years Tax Incentives.(year-2017)
- 1.1 beds per 1,000 populations in India compared to the world average of 2.7 beds per 1,000 populations.
- If the public health care industry makes strides in the next few years, it might turn out to be detrimental to the private health care industry.
- Telemedicine might be difficult and costly to set up for provider.
- Telemedicine saves money for the patient.
- Telemedicine might help identify fatal medical conditions earlier, this might save the patients life and money. Might on the contrary result in lesser revenue from general operations for hospitals
- Finding qualified staff & specialized doctors is a major challenge for hospitals in India
- Industry with stiff competition.
- Investments are heavily dependent on political environment

Management Analysis-

1) Promoters' and Hospitals Background:

Verifying the promoter's background before moving ahead with management analysis is critical. We'll consider inspecting for any fraudulent practices, past disputes and conflicts with the SEBI. The following are a couple such scenarios-

- Some of the patients and their families are extremely disappointed and infuriated by the hospitals management for their insensitive and money centred system. Some of the reviews also state of the losses they have suffered due to the lack of seriousness by the staff.

The following is a link to a couple reviews of the hospital:

Linkhttps://www.mouthshut.com/product-reviews/Kovai-Medical-Center-and-Hospital-Coimbatore-reviews-925667837

Note: Reviews might not be precise and accurate, none of the reviews here have been taken at face value.

- The hospital misdiagnosed a problem with patient, that led to the death of the patient. SDRC commanded the hospital to pay 5lakhs for the mental agony suffered by the late patients family.

Link: https://www.deccanchronicle.com/141006/nation-crime/article/hospital-told-pay-negligence

- The hospital is involved in a land dispute, the district court has passed an order that is not in favour of the hospital. Further the hospital has approached the high court for this matter as of 2016-2017.
  There is no information to be found concerning the land dispute of 2019 annual report.

The title of piece of land belonging to the company measuring 5000 Sq. ft. is challenged legally by a third party which the Company is defending. The case filed against the company before the District Court, Erode has been adjudicated against the Company. The Company has filed a second appeal against the order before the Honourable High Court of Judicature, Madras. The High Court was pleased to pass an interim order of status quo until further order. The Company is confident of succeeding the matter before the Madras High Court and hence no provision is considered necessary for the amount paid towards the cost of land.

- KMCH has donated 1cr to chief ministers relief fund as of 2020.
  This a noble and a good sign to maintain healthy relationship with the state government.
  Also certainly adds to the reputation of the hospital
  Link: https://www.covaipost.com/coimbatore/kmch-donates-rs-one-crore-for-corona-virus-relief/?__cf_chl_jschl_tk__=e04a5b568a9499ecd0a50887aba300c435d63811-1588861738-0-ARsQyoWIKP1fxb5BBprxgPvo8XDcvH15_JnrkBb16K_Ndmc5ynasrHm7qTBxG_fFhEFfOmW5obzDDcvepYiVxAZ4YtygD-dJ71Ojkh70exKdCkZQX6lipzCdAhlbvEpZVq-6cimfbzTS5IcJs57GXPiNIXkaRzSdMPrT7PYRI6hnT5vZcNC72ULTVPV9CslvaIdzmbgX7jDmqmqtbcOCZxO-oj3ZvrZCMru43Hl8fOAbUNSMFOEo4rY9RQGbqfQP4IFcbR8CNv3zYUPOouaHVfGlbx_U7jAO2wdxf1zmcBX87qlFARYFE8BdO5s7Mzbm25CB27vSxDZoA2UIZB5scct2zGLaJl15atmYRTfDezUE
- Certain tough medical cases have been cracked by the hospital and its doctors in the past.
  There are several such accomplishments of the hospital that significantly add to its reputation and standard.

Link: https://www.thenewsminute.com/article/risky-kidney-transplant-performed-12-yr-old-boy-haemophilia-coimbatore-118299

2) Shareholding Pattern:

2014-2015-

Here, from the following shareholding pattern below. It is evident that all family members have diluted their individual stake and consolidated all their shareholding under kovai Purani Finance ltd.

Sl. No.	Shareholders Name	Shareholding at the beginning of the year			Shareholding at the end of the year			% change in shareholding during the year
		No of shares	% of total shares of the company	% of shares pledged / encumbered to total shares	No. of Shares	% of total shares of the company	% of shares pledged / encumbered to total shares	
1	Dr.N.Palaniswami	51167	0.47	-	10000	0.09	-	(0.38)
2	Dr.Thavamani Devi Palaniswami	2060017	18.82	-	1094530	10.00	-	(8.82)
3	Dr.Balasundaram. S	86944	0.79	-	86944	0.79	-	-
4	Dr.K S K Murugaiyan	70000	0.64	-	70000	0.64	-	-
5	Dr.S K Sundaramoorthy	10000	0.09	-	30000	0.27	-	0.18
6	Dr. Arun N Palaniswami	779948	7.12	-	10000	0.09	-	(7.03)
7	Dr. Mohan S Palaniswami	849769	7.76	-	10000	0.09	-	(7.67)
8	Dr.Purani P Palaniswami	667491	6.10	-	10000	0.09	-	(6.01)
9	Mrs.Mallika Murugaiyan	10000	0.09	-	10000	0.09	-	-
10	Dr.K C Ramaswami	101	0.00	-	101	0.00	-	-
11	M/s.Kovai Purani Finance (P) Ltd	733999	6.71	-	4006461	36.61	-	29.90
12	Mrs.Vani Thirumoorthi	71485	0.65	-	71485	0.65	-	-
13	Dr.P R Perumalswami	45193	0.41	-	45193	0.41	-	-
14	Dr.Nanjappa C Sadasivan	12513	0.11	-	12513	0.11	-	-
15	Dr.M C Thirumoorthi	6013	0.06	-	6013	0.06	-	-
	Total	**5454640**	**49.84**	**-**	**5473240**	**50.02**	**-**	**0.18**

2015-2016-

- No change is shareholding as of the current year.

S. No.	Shareholders Name	Shareholding at the beginning of the year			Shareholding at the end of the year			% change in shareholding during the year
		No. of Shares	% of total shares of the company	%of shares pledged / encumbered to total shares	No. of Shares	% of total shares of the company	%of shares pledged / encumbered to total shares	
1	DR.N.PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
2	DR.THAVAMANI DEVI PALANISWAMI	1094530	10.00	NIL	1095430	10.01	NIL	0.01
3	DR.BALASUNDARAM S	86944	0.79	NIL	86944	0.79	NIL	0.00
4	DR.K.S.K.MURUGAIYAN	70000	0.64	NIL	70000	0.64	NIL	0.00
5	DR.S.K.SUNDARAMOORTHY	30000	0.27	NIL	30000	0.27	NIL	0.00
6	DR. ARUN N PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
7	DR. MOHAN S PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
8	DR.PURANI P PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
9	MRS.MALLIKA MURUGAIYAN	10000	0.09	NIL	10000	0.09	NIL	0.00
10	DR.K.C.RAMASWAMI	101	0.00	NIL	101	0.00	NIL	0.00
11	M/s. KOVAI PURANI FINANCE (P) LTD	4006461	36.61	NIL	4006461	36.61	NIL	0.00
12	MRS.VANI THIRUMOORTHI	71485	0.65	NIL	71485	0.65	NIL	0.00
13	DR.P. R.PERUMALSWAMI	45193	0.41	NIL	45193	0.41	NIL	0.00
14	DR.NANJAPPA C SADASIVAN	12513	0.11	NIL	12513	0.11	NIL	0.00
15	DR.M.C.THIRUMOORTHI	6013	0.05	NIL	6013	0.05	NIL	0.00
	Total	**5473240**	**50.02**	**NIL**	**5474140**	**50.03**	**NIL**	**0.01**

2016-2017:

- No change is shareholding as of the current year.

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2	DR.THAVAMANI DEVI PALANISWAMI	1094530	10.00	NIL	1095430	10.01	NIL	0.01
3	DR.BALASUNDARAM S	86944	0.79	NIL	86944	0.79	NIL	0.00
4	DR.K.S.K.MURUGAIYAN	70000	0.64	NIL	70000	0.64	NIL	0.00
5	DR.S.K.SUNDARAMOORTHY	30000	0.27	NIL	30000	0.27	NIL	0.00
6	DR. ARUN N PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
7	DR. MOHAN S PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
8	DR.PURANI P PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
9	MRS.MALLIKA MURUGAIYAN	10000	0.09	NIL	10000	0.09	NIL	0.00
10	DR.K.C.RAMASWAMI	101	0.00	NIL	101	0.00	NIL	0.00
11	M/s. KOVAI PURANI FINANCE (P) LTD	4006461	36.61	NIL	4006461	36.61	NIL	0.00
12	MRS.VANI THIRUMOORTHI	71485	0.65	NIL	71485	0.65	NIL	0.00
13	DR.P. R.PERUMALSWAMI	45193	0.41	NIL	45193	0.41	NIL	0.00
14	DR.NANJAPPA C SADASIVAN	12513	0.11	NIL	12513	0.11	NIL	0.00
15	DR.M.C.THIRUMOORTHI	6013	0.05	NIL	6013	0.05	NIL	0.00
	Total	**5473240**	**50.02**	**NIL**	**5474140**	**50.03**	**NIL**	**0.01**

2017-2018:

- The chairman's wife, Dr. Thavamani Devi has purchased 1.26% shares through the market.

S.No.	Shareholders Name	Shareholding at the beginning of the year (01.04.2017)			Shareholding at the end of the year (31.03.2018)			% change in shareholding during the year
		No of shares	% of total shares of the comp any	% of shares pledged/ encumber ed to total share	No. of Shares	% of total shares of the company	% of shares pledged/ encumbered to total shares	
1	DR. N.PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
2	DR. THAVAMANI DEVI PALANISWAMI	1096730	10.02	NIL	1234647	11.28	NIL	1.26
3	DR. BALASUNDARAM. S	86944	0.79	NIL	86944	0.79	NIL	0.00
4	DR. K S K MURUGAIYAN	70000	0.64	NIL	70000	0.64	NIL	0.00
5	DR. KALIANNAGOUNDER SUNDARAMOORTHY	10000	0.09	NIL	10000	0.09	NIL	0.00
6	DR. ARUN N PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
7	DR. MOHAN S PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
8	DR. PURANI P PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
9	MRS. MALLIKA MURUGAIYAN	10000	0.09	NIL	10000	0.09	NIL	0.00
10	DR. K C RAMASWAMI	101	0.00	NIL	101	0.00	NIL	0.00
11	M/s KOVAI PURANI FINANCE (P) LTD	4006461	36.61	NIL	4006461	36.61	NIL	0.00
12	MRS. VANI THIRUMOORTHI	71485	0.65	NIL	71485	0.65	NIL	0.00
13	DR. P R PERUMALSWAMI	45193	0.41	NIL	45193	0.41	NIL	0.00
14	DR. NANJAPPA C SADASIVAN	4200	0.04	NIL	4200	0.04	NIL	0.00
15	DR. M C THIRUMOORTHI	6013	0.05	NIL	6013	0.05	NIL	0.00
	Total	**5447127**	**49.78**	**NIL**	**5585044**	**51.04**	**NIL**	**1.26**

2018-2019:

- Dr. Thavamni Devi has purchased 0.1% through the market. Dr. P R Perumalswami has hold his entire stake of 0.45%

S.No.	Shareholders Name	Shareholding at the beginning of the year (01.04.2018)			Shareholding at the end of the year (31.03.2019)			% change in shareholding during the year
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1	DR. N. PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
2	DR. THAVAMANI DEVI PALANISWAMI	1234647	11.28	NIL	1235647	11.29	NIL	0.01
3	DR. BALASUNDARAM. S	86944	0.79	NIL	86944	0.79	NIL	0.00
4	DR. K S K MURUGAIYAN	70000	0.64	NIL	70101	0.64	NIL	0.00
5	DR. KALIANNA GOUNDER SUNDARAMOORTHY	10000	0.09	NIL	10000	0.09	NIL	0.00
6	DR. ARUN N PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
7	DR. MOHAN S PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00
8	DR. PURANI P PALANISWAMI	10000	0.09	NIL	10000	0.09	NIL	0.00

Year	Promoter	Promoter Group	Total
	Undergraduate		
2012	47.50	1.23	48.73
2013	48.35	1.23	49.58
2014	48.61	1.23	49.84
2015	12.17	36.61+1.24	50.02
2016	12.18	36.61+1.24	50.03
2017	12.01	36.61+1.16	49.78
2018	13.27	36.61+1.16	51.04
2019	13.28	36.63+0.75	50.66
2020	**13.19**	**36.79+0.73**	**50.71**

- From the above table it is evident that, the individual family promoters combined their entire shareholding under the name and holding entity- Kovai Purani Finance Ltd. KPF is probably named after the chairman daughter or maybe daughter inlaw, Purani Palaniaswami. The Directors of this entity are N. G Planiswami, Thamani Devi, Purani Planiswami, Arun Palinaswami and Mohan S Gouder.
- Thavamani Devi individually is the largest shareholder. This seems like much of a family arrangement, where all the successors are joint shareholders through the entity Kovai Purani Finance Ltd. It is still difficult to confirm this fact, since KPF is a private entity.
- Well, when looking forward to shareholding, No pledging of shares, warrants and stock options were observed from 2012-2020.
- As for shareholding from 2012-2020 has risen till the year 2018(apart from a miniscule drop in 2017) and has finally settled at a slightly lower value. The individual promoter's share increase and decrease is solely contributed by shareholding of Dr. Thavamani Devi. The rest of the family seems to have a constant hold.

As for Promoter's group shareholding, The NRI Individual promoter's shareholding as a whole as decreased by up to 40%; followed by a minor but not equal increase in KPF shareholding

- Currently there seems to be no notable or suspicious trend. Hence we do not see any reason to delve deeper into shareholding pattern.

3) Related Party Transactions:

4) Promoter's Remuneration:00

Designation	Promoters	2015	2016	2017	2018	2019
chairman And Director	Dr.N.Pallinaswamy	49.52	71	79	80	84
	Commission	125.95	134	197.5	193	199.84
Joint Managing Director	Dr.Thavamani Devi	24.99	52	70	74	83
	Commission	125.94	134	197.5	193	199.84
Joint Managing Director	Dr.Mohan S Gouder	76.21	82	88	94	71
Whole time director	Dr.N.Pallinaswamy Arun	0	23	40	46	55
	Total	402.61	496	672	680	692.68
	Ceiling	634	671	987	966	999
	PAT	39	40	60	58	60
	Remuneration/PAT%	10.32%	12.40%	11.20%	11.72%	11.54%

- The above are the 4 promoter's out of the family who've been managing the company consistently. As far

  remuneration is concerned it seems fairly high as commanding 10-12% of PAT. But we shall also consider the fact that the promoters are all highly experienced doctors. They are extremely well educated and of high calibre. All of them have pursued their education from reputed universities from the United States of America.

- The individual remuneration is acceptable in that sense, considering the above.
- Dr. Mohan S Gouder's salary decreased in 2019, since the joint managing director as of 2019 is Dr.N.Pallinaswamy Arun. It is assumed that Dr. Mohan S Gouder has acquired a full time position at either one of a associate or subordinate companies. On the flip side has been demoted.
- The commissions are 2.15 % of PBT and 3.5% of PAT. Which seems slightly on the hire side.
- The promoters did take a slightly higher salary despite losses in 2018. Nothing significant though.
- It acceptable for aged promoters to withdraw higher salaries, what is important is whether successors of the company are devoted to growing the company rather than filling their pockets
- The total remuneration as of now is under the ceiling value set, but the trend has to be kept under sight. Years of losses such 2020 have to be monitored. The dedication of the successors can be determined further by corporate governance reports(It'll be covered under that section) and further coming year's performance. The promoter's do take a fair share from the company, since the dividend's declared by the hospital are barely 5-6% of PAT, which certainly doesn't suffice.

- Currently the hospital is engaged in an intensive expansion phase, and do not see fit to declare dividends. Hence their dedication to expansion and the remuneration seems fair. Further their dedication to the company and justification of their remuneration can be concluded with their project execution skills and corporate governance.

5) Dividend Pay Out:

Dividend Payout%	32%	19%	12%	11%	11%	8%	7%	4%	7%	5%	6%

- The following is the consolidated dividend pay out from the year 2008 to 2018. As evident, the dividend pay out is quite miniscule. The shareholders of the hospital do not obtain that much of a dividend yield. Even though the predominant shareholders of the company are the promoters themselves. As the business is capital intensive, unless the promoters aren't siphoning money in any other shrewd manner, the dividend pay out is justified.

➢ It's better than paying out dividends using debt. The hospital currently is in a heavy expansion phase, CFI is much larger compared to CFO and CFF; yielding a negative net cash flow. In such scenario's, the company retaining most profits is justified, along with the remuneration of promoter's from the previous section.

6) Project Execution:

Successful Completion Of Medical college Project:

- One of the major recent projects undertaken by the hospital is the medical college. A 600 cr project with total capacity of 700 beds. The project is majorly debt funded, with up to a 480 cr of debt expenditure. The hospital has managed to successfully establish 300 beds and restricted to intake to 150 students as their first batch. They've successfully pulled of the project under the stipulated period and have experienced a 100% intake of students.
  Despite of their incurring massive amounts of debt, they've maintained a comfortable liquidity and cash position.
  It is hence fair to claim the establishment of medical hospital as a milestone achieved, but it is to be seen further how the intake of students, managing debt and completion of project unfolds.

What The Numbers Have to Say:

- Well on examining of the financial statements for the last 12 years, the growth rates are the following –
  - ⇨ Fixed assets have grown x10
  - ⇨ Sales has acquired a growth of x8
  - ⇨ PBT has acquired a growth of x14
  - ⇨ PAT has acquired a growth of x15

Borrowings have increased from 2008-2012, have slowly decreased till 2017. Further depict a rising pattern from

Abandoning of Chennai Hospital Project:

- The hospital initially planned on a geographical expansion to Chennai. But in 2018 made a change of plans assumably in haste, and went ahead with the medical college program.
- It is odd to have swayed so quickly from an extensively planned project and desire to expand geographically. Well, despite the success with the medical college, it is advisable to be cautious of further announcements of any expansion and alongside keep a track of the on going work at the medical college

Hub and Spoke Model:

- The hospital has established a "Hub and Spoke Model", where the main centre represents the "hub" and smaller establishments representing the "spoke". The motive of this model is to shift the entire focus from the main centre, and alongside cater to a geographically dispersed population. 85-88% of revenue is generated by the main centre. Currently the model is successful, and there exists good coordination between the main and subordinate centres.
- Geographical concentration certainly still serves to be a problem, it is important the hospital maintains its current pool and cautiously diversifies further.

  - ➢ Well, considering all the above, Medical college plan seems to be a fairly executed project, but is not close to completion yet. It is important to keep a close watch over the development of the medical college project for any further decisions to be made.
    The numbers do portray the good capital allocation carried out by the management, but they certainly do not speak solely for the expansion that the management is planning out further. It to be seen further whether the hospital can rid itself of its geographical concentration and will the numbers remain equally.

7) Promoter's Commitment to the Hospital:

- The table below represents the number of directorships held by each board member. Further inferences are made using the following.
- Most non-independent hold directorships in the following companies-
  - ⇨ Purani Hospital Supplies ltd
  - ⇨ Aosta Software Technologies ltd
  - ⇨ ABT Industries ltd
  - ⇨ Biomed Hitech Industries ltd
  - ⇨ Shakti Sugars ltd
  - ⇨ K Pharmacy

  Most of these companies are indirectly or directly in business with the hospital. This might prove to be beneficial for conducting operations with ease. For instance, with payables and receivables, supply contracts and negotiations. It is probably on the whole maintaining good and beneficial relationship with suppliers.
- The senior most promoters also held directorship in Idhayam hospitals erode, a former subsidiary. When the amalgamation took place, the directorships diluted from two to one.

Name	Designation	2014	2015	2016	2017	2018	2019
Dr. Nalla G Palaniswami	Promoter & Executive	2	2	2	2	2	1
Dr. Thavamani Devi Palaniswam	Promoter & Executive	4	4	4	4	4	3
Dr. Mohan S Gounder	Non Independent and Executive	3	3	3	3	3	3
Arun N Palaniswamy	Non Independent and Executive	-	3	3	3	3	3
Mr. Kasi K Goundan	Independent & Non-Executive	-	-	-	-	-	-
Dr. M. Manickam	Independent & Non-Executive	10	9	7	7	8	8
Dr. K.S.K. Murugaiyan	Non Independent & Non-Executive	-	-	-	-	-	-
CA.A.M. Palanisamy	Independent & Non-Executive	2	2	2	1	1	1
Dr. P.R. Perumalswami	Non Independent & Non-Executive	-	-	-	-	-	-
Dr. M.C. Thirumoorthi	Non Independent & Non-Executive	1	1	1	1	1	1

Mr. A.K. Venkatasamy	Independent & Non-Executive	3	3	3	3	3	2
Mr. K. Saminathan	Independent & Non-Executive	-	-	-	-	-	-
Dr. M.A. Muthusethupathi	Independent & Non-Executive	-	-	-	-	-	-
Dr. S. Krishnasamy	Independent & Non-Executive	1	1	1	1	1	1
Dr. Purani P Palaniswamy	Non Independent & Non-Executive	3	3	3	3	3	3

- Dr. P.R. Perumalswami and Dr. K.S.K. Murugaiyan remained Non independent directors with their stake in KMCH, but were not part of the board after the year 2016.
- Dr. Arun N Palaniswamy was promoted to joint managing director, followed by Dr. Mohan S Gouder being demoted to Non-executive director. Is this some kind of personal dispute in the family among successors? Apart from this, despite turning to non-executive director, Dr. Mohan S Gouder remuneration is quite substantial. This is one area where a close watch of how things develop further is to be seen. Annual reports of 2020 might shed light on this situation, and reveal remuneration and designation of Dr. Mohan S Gouder.
- Apart from this, while examining the number of meetings being attended by board members
  few important yet disappointing facts were discovered-
  - ⇨ Dr. Mohan S Gouder has evidently been present to only 2-3 out of 5 meetings before 2018, despite holding joint managing director's position. Could this be the reason for his demotion to non-executive director.
  - ⇨ A lot of other Independent and Non-Independent directors have been irregular to meetings Dr. S. Krishnasamy
  - ⇨ Dr. Purani was also quite irregular to meeting, but it's suspected due to shared alternating postion with
  - ⇨ There's another angle and explanation to this. Dr. Mohan demotion may be linked to amalgamation of Idhamyam Erode hospitals, Both of these events took place in the same year. And maybe a clash of meetings that must have taken place with respect to directorships in other companies.

The directorship of the promoter's doesn't really strike to be much of concern. Rather might serve to be beneficial. The swapping of positions between Dr.Mohan and Dr. Arun and the high remuneration being drawn from the company requires attention further. Following this, clarification of the irregularity of independent and non-independent directors certainly need an explanation. It seems as though Dr. N Palinaswamy and Dr. Thavani Devi are the only dedicated, devoted and undisputed senior

Financial Analysis:

Margins and Growth Rates:

Growth%-

Growth%										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales Growth		34.33%	27.27%	33.62%	12.43%	20.22%	15.86%	14.13%	10.78%	6.68%
PBT Growth		13.41%	-16.85%	92.92%	19.12%	59.24%	4.59%	48.55%	-3.14%	3.81%
PAT Growth		4.40%	-1.16%	77.82%	11.62%	63.15%	4.47%	48.33%	-3.32%	3.73%

Sales Growth	10 years	5 years	3 years		OP growth	10 years	5 years	3 years
	19.11%	13.44%	10.49%			20.40%	12.67%	13.00%
PAT Growth	10 years	5 years	3 years		PBT Growth	10 years	5 years	3 years
	20.09%	20.45%	14.15%			20.59%	20.00%	14.31%

Margins%-

Margin Ratios										
as a % of Sales	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
OPM%	19.14%	20.63%	19.51%	23.64%	21.81%	23.47%	19.71%	23.48%	22.01%	21.08%
NPM%	8.90%	6.92%	5.37%	7.15%	7.10%	9.64%	8.69%	11.29%	9.86%	9.58%
Raw Material Cost	33.08%	33.34%	33.43%	31.25%	31.81%	30.32%	14.42%	30.08%	29.25%	29.85%
Power and Fuel	3.68%	3.86%	3.76%	3.45%	2.84%	2.43%	2.19%	1.96%	1.25%	1.38%
Manufacturing Expense	27.79%	25.85%	24.87%	22.60%	24.50%	24.56%	26.31%	23.61%	25.61%	24.94%
Employ Cost	13.09%	13.01%	14.62%	16.39%	15.78%	16.09%	17.06%	16.53%	16.63%	17.67%
Selling and Administration Exp	3.93%	3.69%	4.15%	3.04%	3.39%	2.97%	3.48%	2.28%	3.25%	3.43%
Other Expenses	0.05%	0.00%	0.00%	0.01%	0.00%	0.00%	0.32%	2.07%	2.00%	1.65%

- Well it is evident that the sales growth has been pretty consistent. The growth hasn't slipped to negative in any particular year. But the average sales growth after 2014 did slip to half its former average, despite the enormous capital expenditure. It is probably because they've exhausted a single geographical location.
- We do not see any consistent trends in PBT and PAT growth. Certain years profit growth is phenomenal and much higher than the sales growth, and on the flip side for certain year's meagre growth, much lesser than that of the sales growth. Sales and operating profit seem very consistent followed by inconsistency in PAT growth. This is majorly due the rising interest and depreciation.
- Well the interest payment was consistently high from 2011-2016. But the interest amount tends to descend further despite borrowing increasing phenomenally. This could be due to improving credit rating or due to unaccounted borrowings, we'll further resort to notes to financial statement to understand this further.
- Well it doesn't look the intake of their first batch 150 students contributed much to the 2019 revenue. It is also possible, that the revenue is yet to be factored in, further depends on their medical college fee schedule.
- OPM%: 21-22%, NPM%: 8-10%

  - ⇨ Well their expenditure on raw material has slightly reduced. Probably because of their good relationship with suppliers, and the promoter's also holding directorship in the raw material supplying companies.
  - ⇨ Establishing BMS, purchasing wind power and sensor control system has reduced expenditure on power and fuel by 35%.
  - ⇨ Manufacturing expense have remained almost in the same range.
  - ⇨ Employ cost is has risen, and expected to rise further too.
  - ⇨ Selling cost+ Other expenses are quite minuscule and under control. Doesn't look like the hospital invests much in advertisement.

Financial stability:

Financial Stability	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Interest Coverage	5.14	3.24	2.62	2.56	3.04	4.63	5.50	8.47	10.07	10.86
Debt/ Equity	2.69	3.79	3.73	2.60	1.80	1.18	0.90	0.53	0.70	1.10
Current Ratio	1.70	0.97	0.68	0.77	0.86	0.88	0.77	0.95	1.14	1.07
Woring Capital/Sales	3.20%	9.18%	-1.45%	0.67%	0.04%	-0.06%	-3.74%	-0.52%	5.64%	3.84%

- The interest coverage ratio over the years has improved threefold. The business right now commands a better net profit margin and has a higher capacity to bear interest
- The debt/equity ratio reduced consistently until 2017. After to 2017 the company started issuing debt and has stepped into a capital expenditure phase. It is important to keep a close watch on debt levels and other relevant parameters further.
- Current ratio has for over a couple years been lesser than 1, and has currently settled at 0.6. Despite the tremendous cash equivalents, the current assets are falling shorter of the current liabilities. Well, the payables are much larger than inventory and receivables in most cases, this is one reason certainly. Apart from this, other liability items is a very large number that require the assistance of notes to financial statements. If short term debt is being used for long term assets, or other liabilities is the issue, caution must be exercised

Performance and Quality of Business:

ROE with Du-Ponts Analysis:

Performance Ratios										
Du-ponts Analysis using Total Assets										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
ROE%	28.77%	23.82%	19.55%	26.42%	23.20%	27.96%	23.03%	25.48%	20.18%	17.52%
NPM%	8.90%	6.92%	5.37%	7.15%	7.10%	9.64%	8.69%	11.29%	9.86%	9.58%
Asset Turnover	0.75	0.62	0.66	0.86	0.95	1.04	1.08	1.14	0.97	0.74
Leverage Ratio	4.31	5.59	5.54	4.29	3.43	2.79	2.45	1.97	2.11	2.48

- ROE calculation using Total Assets.
  - ⇨ ROE has for almost all years been above cost of capital. ROE dropped from 28% to 23% from 2010-2016.
  - ⇨ While here the leverage ratio significantly dropped from 5 to 1.7. The asset turnover ratio rose from 0.8 to 1.3.
  - ⇨ But after 2016, the same trend has been catching up. A settled NPM, with rising leverage ratio and falling asset turnover ratio. This might not necessarily be deteriorating quality of business, capital expenditure phases might disrupt ratios and these ratios might require time to settle. Since assets take time to become functional and generate revenue.

Du-ponts Analysis without Cash & Bank	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
ROE%	28.77%	23.82%	19.55%	26.42%	23.20%	27.96%	23.03%	25.48%	20.18%	17.52%
NPM%	8.90%	6.92%	5.37%	7.15%	7.10%	9.64%	8.69%	11.29%	9.86%	9.58%
Asset Turnover	0.81	0.68	0.71	0.95	1.06	1.21	1.23	1.34	1.15	0.84
Leverage Ratio	3.99	5.03	5.14	3.90	3.09	2.39	2.16	1.68	1.78	2.18

- ROE calculation using Total Assets-Cash and Equivalents.
  - ⇨ We've rid ourselves of cash in the balance sheet, since cash is a non-operational asset
  - ⇨ The same trend is exhibited, a rising leverage ratio after 2017 and descending asset turnover ratio.
  - ⇨ This tells us that operational assets have improved, generated revenue and have not been subjected to heavy debt expansion solely over time.
  - ⇨ Here their capital allocation skill is at test, it to be seen whether the ratios recover further along with improvement in sales and revenue.

Du-ponts Analysis using Fixed Assets										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
ROE%	28.77%	23.82%	19.55%	26.42%	23.20%	27.96%	23.03%	25.48%	20.18%	17.52%
NPM%	8.90%	6.92%	5.37%	7.15%	7.10%	9.64%	8.69%	11.29%	9.86%	9.58%
Fixed Asset Turnover	1.32	0.94	0.77	1.06	1.21	1.43	1.38	1.50	1.33	1.34
Leverage Ratio	2.45	3.65	4.72	3.47	2.71	2.03	1.92	1.50	1.54	1.37
Fixed Asset Turnover	1.32	1.23	0.94	1.05	1.20	1.44	1.50	1.54	1.48	1.38

- ROE calculation using Net Fixed Assets:
  - ⇨ NFAT ratio does drop after 17, but does stabilize in 2019. Meaning that fixed assets might have contributed to sales despite being fully operation yet.
  - ⇨ Leverage ratio similarly stabilises after tumbling a bit in 2018. Meaning certain net fixed asset expenditure is being handles using equity too.

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Fixed Asset Turnover	1.32	1.23	0.94	1.05	1.20	1.44	1.50	1.54	1.48	1.38
ROFA%	11.76%	8.52%	5.05%	7.48%	8.52%	13.87%	13.08%	17.34%	14.56%	13.19%
Borrowing vs Assets										
Borrowings	108.18	192.25	227.81	209.34	183.63	162.67	158.36	125.48	201.6	377.73
Borrowings Inc/Dcr %		77.71%	18.50%	-8.11%	-12.28%	-11.41%	-2.65%	-20.76%	60.66%	87.37%
Fixed Assets	98.45	185.26	288.4	279.46	277.18	280.93	337.49	354.04	442.6	469.3
Fixed Assets Inc/Dcr %		88.18%	55.67%	-3.10%	-0.82%	1.35%	20.13%	4.90%	25.01%	6.03%
Fixed Assets/Borrowings	0.91	0.94	1.13	1.30	1.42	1.61	1.93	2.44	2.44	1.57

- ROFA% in beginning years average somewhere between 7-9%, further after 2015 averaged somewhere between 13-15%. When sighting all years at once, there has been improvement, but the return as for 2018 and 2019 has dimmed a bit. The same trend is being shared by the asset turnover ratio.

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Inventory Turnover	26.01	32.48	34.16	36.73	35.92	44.62	55.16	61.29	60.00	59.89
Debtors Turnover		31.94	45.29	80.85	58.61	46.30	48.80	51.26	48.36	55.57
CFO	23.94	41.24	55.57	61.81	67.61	97.20	84.61	98.79	86.95	119.67
CAPEX		82.69	65.19	-4.37	-2.06	15.48	49.99	12.10	95.79	241.12
Free Cash Flow		-41.45	-9.62	66.18	69.67	81.72	34.62	86.69	-8.84	-121.45
	10 years	5 years	3 years			10 years	5 years	3 years		
FCF	157.52	142.41	-8.98		FCF/CFO	22.08%	25.67%	-2.30%		

- Inventory Turnover has increased over the last few years, and finally settled at a since the three years 55-60. It is to be seen whether the management can sustain and run at same efficiency even after expansion. But as of now, their inventory management is undoubtedly very good
-

Efficiency

Effeciency of Operations										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Receivable days		15.35	10.26	6.03	7.00	9.48	8.67	8.13	8.36	7.01
Payable Days		28.06	27.16	20.52	12.90	21.85	24.99	20.40	18.21	19.85
Inventory Days		15.10	13.60	13.28	11.42	9.83	7.67	6.80	6.74	6.50
CCC		2.39	-3.30	-1.21	5.53	-2.54	-8.66	-5.47	-3.11	-6.34
CFO	23.94	41.24	55.57	61.81	67.61	97.20	84.61	98.79	86.95	119.67
PAT	11.58	12.09	11.95	21.25	23.72	38.7	40.43	59.97	57.98	60.14
C-CFO vs C-PAT	10 years	5 years	3 years							
CFO	737.39	554.83	390.02							
PAT	337.81	280.94	218.52							

- The receivable days are extremely low, mind boggling. The hospital barely faces any trouble with its receivables. Either the patients pay up upfront or the insurance companies clear the bills very quickly. This certainly requires some delving into

- Their management of inventory relative to sales is also mind boggling. Inventory days have reduced significantly over the past decade. Extremely good anticipation of inventory and its management
- The payable days are plenty, probably due to the regional presence and fruitful directorships of their board members in associate companies.
- All together an extremely efficient cash conversion cycle. The hospital doesn't need to issue much debt for working capital management. They seem to be converting their profits to cash without much effort or hassle.
- Well As for cumulative CFO vs PAT, the CCC made the cash conversion very clear. And certainly the same reflects here. The hospital has not fallen short of cash for a single year.

Additional Inferences:

- After capacity additions in 2015, along with establishment of liver institute, exploitation of robotic surgery and mobile stroke unit revenue did not perform as much differently.
- It is not understood why the company is holding such huge amounts of cash as current assets. Yes, they do certainly have a comfortable working capital cycle, and no worries of receivables. Despite this the hospital does have a lot of on going expenditure, why expand using debt solely?
- There were no investments sold as perceived from CFI, the investment in the balance sheet zeroed out due to amalgamation of Idhayam Hospitals Erode.
- The major capacity addition phase existed from 2008-2011, depicted by the enormous CWIP. Further small purchases and consistent expenditure was done until 2018 and 2019. As of 2019, the CWIP has been the largest, proving KMCH being in the most heavy expansion and capital allocation phase yet.
- Advance from customers have started building up lightly in the past 4 years. It's a very minuscule amount, but it's a good sign if keeps continuing further. Will further help their receivables and cash conversion, despite it already being phenomenal.
- Looks like other income mostly is interest received, as perceived from CFI.
- Net cash on the whole for every single year has been a negative amount. For certain years the CFF did aid the CFO, but despite of that CFI is just much more of a larger amount. The company is certainly unable to manage their investing activity under the required cash flow.

The following Inferences require further analysis with the help of notes to financial statements-

- Why does the interest amount decrease further despite rise in borrowings?
- Other assets and other liabilities are a huge amount under current assets and liabilities. It is important to understand what assets and liabilities soak such huge amounts
- Repayment of borrowings under CFF is not consistent with that of the balance sheet. Might require some digging.
- The financing items under CFF is quite large as of 2018 and 2019, they add up hugely to net cash.
- Other investing Items under CFI tend to be increasing year over year.
- Proceeds from borrowings might require some digging.
- Dig into loans and advances, and whom they're being given out to
- Accumulated depreciation reduces significantly after 2016. What reason could have triggered such a sudden drop?
- Why does the company have such huge amounts of cash on balance sheet?
- Other financing items under CFF.
- The imbalance of Current Assets to Current Liabilities.
- The trend between profits and reserves is not consistent every year. Is this due to expansion using internal accruals. Consider digging deeper