August 09, 2021

Aster DM Healthcare Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital Facilities	136.00	135.00	[ICRA]A- (Stable); reaffirmed
Fund Based – Term Loan	50.00	139.00	[ICRA]A- (Stable); reaffirmed
Non-fund Based – Working Capital Facilities	30.00	30.00	[ICRA]A2+; reaffirmed
Unallocated	50.00	0.00	-
Total	**266.00**	**304.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings take into account Aster DM Healthcare Limited's (Aster/the Group/the company) established market position in the healthcare industry across Gulf Cooperation Council (GCC) countries and its growing presence in India. The ratings are also supported by the Group's diversified revenues from various healthcare segments such as hospitals, clinics and pharmacies. The debt protection indicators remained comfortable in FY2021, backed by prudent working capital measures, scheduled term loan repayments and healthy cash accruals, despite the operations being impacted by the Covid-19 pandemic. As on March 31, 2021, the gearing and net debt/adjusted OPBDITA (excluding IndAs-116 effect) stood at 0.7 times and 3.0 times, respectively, (0.9 times and 3.1 times, respectively, as on March 31, 2020).

The ratings, however, remain constrained by the low return indicators in the Indian operations due to the capital-intensive model (most hospitals in India are owned whereas almost all hospitals in the GCC are leased) and the relatively initial stage of operations of some of the hospitals in India. The ratings also consider the regulatory and country-specific risks with regard to the Group's organisational structure and operations in the GCC segment, which generated around 81% of the consolidated revenues and 85% of the consolidated OPBITDA in FY2021. Its operations in the GCC are exposed to a challenging competitive landscape as well as regulations with respect to foreign ownership restrictions. That said, ICRA notes that recent announcements by the United Arab Emirates (UAE) government, allowing 100% ownership by foreign shareholders in approved sectors (including healthcare), help mitigate such concerns to some extent.

In FY2021, revenues remained largely flattish despite the operations being impacted by the pandemic. Aster witnessed a weak Q1 FY2021 as elective surgeries were deferred and inpatient volumes declined on account of the lockdown and the associated restrictions. In H2 FY2021, revenues were supported by the increase in patient volumes. In FY2021, Aster's operating margin declined to 12.3% from 14.5% in FY2020 primarily due to the lower scale of operations in Q1 FY2021, higher fixed costs for running the newly set-up hospitals, and higher costs towards purchasing personal protective equipment (PPE) kits among others. Further, GCC Clinics and the pharmacy business witnessed lower footfalls during the entire period due to lockdowns in some of the countries coupled with frequent travel bans. This led to lower profit margins.

The Stable outlook reflects ICRA's expectations that the Group's track record and diversification across segments and geographies will help mitigate the impact of external circumstances such as the pandemic to some extent. Moreover, the Group has adopted various cost reduction measures and has restructured the fees of doctors and other staff as well as the salary range of other employees in FY2021. Most of these measures are expected to be sustained in the long term, aiding the company's profit metrics.

Key rating drivers and their description

Credit strengths

Established market position in healthcare industry with diversified offerings; promoters' extensive experience in the sector – Aster is one of the largest private healthcare service providers in GCC countries and a growing healthcare player in India. The Group commenced its operations in 1987 and had 27 hospitals (GCC – 13, India – 14), 115 clinics (GCC – 106, India – 9) and 223 pharmacies (GCC – 223) as on March 31, 2021. It has an established presence across multiple geographies and healthcare delivery verticals and serves several economic segments. The Group has a strong brand presence with different brands catering to different customer segments. It has expanded its presence in India over the last six years and currently operates under the Aster, MIMS, Ramesh, Prime, Aster Aadhar and Aster CMI brands in Kerala, Karnataka, Andhra Pradesh, Telangana and Maharashtra. Aster's GCC Hospitals, GCC Clinics, GCC Pharmacies and India Hospitals and Clinics contributed around 36%, 23%, 23% and 19%, respectively, to the revenues in FY2021. The Group is promoted by Dr. Azad Moopen and his family with more than three decades of experience in the industry, which is likely to support its operations going forward.

Comfortable leverage and coverage metrics – Despite the significant outflow towards capital expenditure and acquisitions in the past and sizeable capex in FY2021, the debt protection indicators remained comfortable in FY2021. This was backed by the adoption of prudent working capital measures, scheduled term loan repayments and healthy cash accruals despite the impact of the pandemic on the operations. As on March 31, 2021, the gearing and net debt/adjusted OPBDITA (excluding IndAs 116 effect) stood at 0.7 times and 3.0 times, respectively, against 0.9 times and 3.1 times, respectively, as on March 31, 2020. Most of the Group's borrowings are in the GCC countries with interest rates in the range of 2.36-3.36% as on March 31, 2021. Going forward, despite the expected incremental borrowings to support its upcoming capex, ICRA expects the company's coverage and capitalisation metrics to remain comfortable aided by the scheduled repayments of the existing debt and a likely improvement in the operating accruals.

Credit challenges

High dependence on operating facilities in GCC countries – Aster has historically generated more than ~80% of its consolidated revenues and OPBITDA from its GCC operations and is significantly dependent on its operations in the UAE. In FY2021, Aster derived ~81% of its revenues and ~85% of its OPBDITA from the GCC business. The GCC business is subject to seasonality because of the decline in volumes across hospitals, clinics and the pharmacy segment during the summer months. Its operations in the GCC are exposed to a challenging competitive landscape as well as regulations with respect to foreign ownership restrictions. That said, ICRA notes that recent announcements by the UAE government, allowing 100% ownership by foreign shareholders in approved sectors (including healthcare), help mitigate such concerns to some extent.

Low return indicators in Indian hospitals due to high capital investment; moreover, some hospitals still in ramp-up stage – The return indicators in Aster's Indian operations are low on account of the capital-intensive model adopted in India compared to the GCC. In India, the Group owns the land and building of some of the major revenue-contributing hospitals, whereas most of the hospitals in the GCC are owned by third-party entities (leased). Compared to the 7% return on capital employed (RoCE) for Aster's hospitals (including established units and units still in the ramp-up stage) in the GCC, the hospital units in India generate 1% for the Group. As per FY2020 data, the Group's RoCE for established hospital units in the GCC was 25% against 6% for Indian hospitals. Moreover, some of the hospitals such as MIMS Kannur, Aster RV Hospital, Aster Whitefield Women and Children Healthcare are still in the ramp-up stage and will require some time to break even. Aster has also started new initiatives such as Aster Labs, Telehealth and Aster at Home with an asset-light approach and the impact of the same on the profitability and profit margins of the Indian business remains a monitorable.

Operations impacted by pandemic, leading to moderation in financial profile – Revenues were significantly impacted in Q1 FY2021 by the pandemic (13% YoY decline). While GCC hospital revenues remained at similar levels supported by the higher Covid-19 patient admissions, Indian hospital revenues declined due to the lockdowns, the handling of the majority of the Covid-19 patients by government hospitals, and the deferral of elective procedures. The revenues of the GCC Clinics declined in FY2021 because of lower patient visits amidst the fear surrounding the pandemic. However, revenues started reviving from Q2 FY2021 supported by the pent-up demand in the GCC coupled with the relaxation of Covid-related restrictions in India.

Overall, Aster's revenues were relatively flat in FY2021 at Rs. 8,608.4 crore (against Rs. 8,651.9 crore in FY2020) despite the impact of the pandemic on overall operations.

The company's operating margin declined in FY2021 primarily owing to the lower scale in Q1 FY2021 as the operations were impacted by the pandemic-related lockdown and travel restrictions. Further, in FY2021, Aster incurred higher fixed costs to run the newly-commenced facilities in the GCC and India as well as higher cost towards the additional PPE purchased for the pandemic and the change in the case mix (Covid and non-Covid). The company also incurred higher lab outsourcing costs to conduct RT-PCR tests. However, the cost reduction measures adopted during the period supported margins to some extent. GCC Clinics and the pharmacy business witnessed lower footfalls during the entire period due to lockdowns in some of the countries coupled with frequent travel bans. This led to lower profit margins. The company restructured the manpower numbers and changed the salary ranges while it also looked into the fee structure of the doctors. Going forward, the company's ability to post healthy revenues and improve its profit margins amidst the evolving nature of the pandemic remains a key monitorable.

Liquidity position: Adequate

Aster's liquidity is **adequate** with a cash balance and liquid investments of Rs. 305.5 crore as on March 31, 2021 and healthy cash accruals despite moderating from the FY2020 levels amidst the ongoing pandemic. It also had undrawn lines of ~Rs. 110 crore as on June 30, 2021 (India business) against the sanctioned facilities with average working capital utilisation of 29.4% for the 8 months ending June 2021. The Group has planned a capex outlay of ~Rs. 580 crore in FY2022 and is expected to raise incremental debt to partially fund the same. ICRA expects the Group to meet its near-term and medium-term commitments through internal sources of cash and incremental debt.

Rating sensitivities

Positive factors – Aster's ratings could be upgraded on an improvement in the profitability (RoCE) and if the net TD/adjusted OPBDITA is less than 2.0 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is any deterioration in the margins and debt-funded capex or if acquisitions lead to a deterioration in the company's credit profile with net TD/adjusted OPBDITA of more than 3.0 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 the consolidated financials of Aster. Details are enlisted in Annexure-2.

About the company

Aster DM Healthcare Limited (formerly DM Healthcare Pvt Ltd), established in 1987, is the holding company of the Aster Group, which provides healthcare services through hospitals, clinics and pharmacies. Following the reorganisation of its structure in 2008, the Group's operations across the GCC countries and India were consolidated under Aster. As on March 31, 2021, the company had 77 subsidiaries and step down subsidiaries and 4 associate companies, through which the Aster Group operates 27 hospitals, 115 clinics, and 223 pharmacies in the GCC region and India. The Group is promoted by Dr. Azad Moopen and his family. It provides its services under the Medcare, Aster and Access brands. The GCC region accounted for ~81% of the consolidated revenues in FY2021 with India accounting for the rest. Aster was listed on the Indian stock exchanges on February 26, 2018.

Key financial indicators (audited)

Aster (consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	8,651.9	8,608.4
PAT (Rs. crore)	314.9	174.3
OPBDIT/OI (%)	14.5%	12.3%
PAT/OI (%)	3.6%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	2.0
Total Debt/adj. OPBDIT (times)	3.3	3.4
Interest Coverage (times)	3.5	3.6

Source: *Company, ICRA research; All calculations are as per ICRA research; Total debt/OPBDIT calculation excludes lease liabilities under total debt and the impact of IndAs-116 on OPBDIT (interest and depreciation arising out of lease liabilities and right of use assets, respectively)*
PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 9, 2021	Aug 28, 2020	Jan 17, 2020 Jun 14, 2019	Aug 24, 2018
1	Working Capital	Long Term	135.00	--	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
2	Term Loan	Long Term	139.00	115.2	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
3	Non-fund Based	Short Term	30.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term	0.00	--	--	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund Based – Term Loan	Simple
Long-term Fund Based – Working Capital	Simple
Short-term Non-fund Based – Working Capital	Very 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: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Federal Bank	Term Loan	Dec 27, 2016	8.35%	Jun 2028	20.00	[ICRA]A- (Stable)
Federal Bank	Term Loan	Dec 31, 2019	8.35%	Jul 2025	30.00	[ICRA]A- (Stable)
Federal Bank	Term Loan	Mar 16, 2021	8.35%	Apr 2026	34.00	[ICRA]A- (Stable)
HDFC Bank	Term Loan	Jun 16, 2020	8.55%	Sep 2025	35.00	[ICRA]A- (Stable)
Axis Bank	Term Loan	Sep 23, 2020	8.00%	Sep 2028	20.00	[ICRA]A- (Stable)
Federal Bank	Cash Credit	FY2021	8.35%	FY2022	70.00	[ICRA]A- (Stable)
Yes Bank	Overdraft	FY2021	9.20%	FY2022	60.00	[ICRA]A- (Stable)
Axis Bank	CC/ OD/ WCL	Sep 23, 2020	8.00%	FY2022	5.00	[ICRA]A- (Stable)
Federal Bank	LC/ BG	FY2021	NA	NA	30.00	[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Direct subsidiaries		
Aster DM Healthcare (Trivandrum) Limited	100%	Full Consolidation
DM Med City Hospitals (India) Private Limited	100%	Full Consolidation
Ambady Infrastructure Private Limited	100%	Full Consolidation
Prerana Hospital Limited	87%	Full Consolidation
Affinity Holdings Private Limited	100%	Full Consolidation
Malabar Institute of Medical Sciences Limited	74%	Full Consolidation
Aster Clinical Lab LLP	100%	Full Consolidation
Sri Sainatha Multispeciality Hospitals Private Limited	77%	Full Consolidation
Dr. Ramesh Cardiac and Multispeciality Hospital Private Limited	51%	Full Consolidation
Mindriot Research and Innovation Foundation	49%	Full Consolidation
Step down subsidiaries		
EMED Human Resources India Private Limited	100%	Full Consolidation
Ezhimala Infrastructure LLP	40%	Full Consolidation
Warseps Healthcare LLP	100%	Full Consolidation
Sanghamitra Hospitals Private Limited	26%	Full Consolidation
Aster Ramesh Duhita LLP	26%	Full Consolidation
Komali Fertility Centre LLP (earlier Ramesh Fertility Centre LLP)	26%	Full Consolidation
Aster Caribbean Holdings Limited (15 December 2020)	100%	Full Consolidation
Aster Cayman Hospital Limited (15 December 2020)	100%	Full Consolidation
Aster DM Healthcare FZC	100%	Full Consolidation
Aster Hospital Sonapur LLC	39%	Full Consolidation
Radiant Healthcare LLC	25%	Full Consolidation
Aster Day Surgery Centre LLC	49%	Full Consolidation
D M Healthcare (LLC)	100%	Full Consolidation
Wahat Al Aman Home Health Care LLC	49%	Full Consolidation
Aster Grace Nursing and Physiotherapy LLC	29%	Full Consolidation
Aster Pharmacies Group LLC	49%	Full Consolidation
New Aster Pharmacy DMCC	100%	Full Consolidation
Medshop Garden Pharmacy LLC	49%	Full Consolidation
Aster DCC Pharmacy LLC	49%	Full Consolidation
Aster Al Shafar Pharmacies Group LLC	49%	Full Consolidation
Rafa Pharmacy LLC	49%	Full Consolidation
Aster Pharmacy LLC, AUH	49%	Full Consolidation

Company Name	Ownership*	Consolidation Approach
Med Shop Drugs Store LLC	49%	Full Consolidation
Alfa Drug Store LLC	49%	Full Consolidation
Alfa One Drug Store LLC (1 June 2020)	49%	Full Consolidation
Alfaone FZ-LLC	100%	Full Consolidation
DM Pharmacies LLC **	49%	Full Consolidation
Aster Opticals LLC	49%	Full Consolidation
Medcare Hospital LLC	73%	Full Consolidation
Premium Healthcare Limited	80%	Full Consolidation
Dr. Moopens Healthcare Management Services LLC	49%	Full Consolidation
Eurohealth Systems FZ LLC	95%	Full Consolidation
Al Rafa Inve3stments Limited	0%	Full Consolidation
Al Rafa Holdings Limited	0%	Full Consolidation
Alfa Investments Limited #	0%	Full Consolidation
Active Holdings Limited	0%	Full Consolidation
Al Rafa Medical Centre LLC	40%	Full Consolidation
Dar Al Shifa Medical Centre LLC	40%	Full Consolidation
Aster Primary Care LLC	40%	Full Consolidation
Modern Dar Al Shifa Pharmacy LLC	40%	Full Consolidation
Harley Street LLC	9%	Full Consolidation
Harley Street Pharmacy LLC	9%	Full Consolidation
Harley Street Medical Centre LLC	9%	Full Consolidation
Harley Street Dental LLC	2%	Full Consolidation
Grand Optics LLC	34%	Full Consolidation
Noor Al Shefa Clinic LLC	19%	Full Consolidation
Zahrat Al Shefa Medical Center LLC	19%	Full Consolidation
Zahrath Al Shefa Pharmacy LLC	19%	Full Consolidation
Samary Pharmacy LLC	19%	Full Consolidation
Metro Meds Pharmacy LLC	15%	Full Consolidation
Metro Medical Center LLC	15%	Full Consolidation
Symphony Healthcare Management Services LLC	0%	Full Consolidation
E-Care International Medical Billing Services Co. LLC	0%	Full Consolidation
Al Raffah Hospital LLC	100%	Full Consolidation
Al Raffah Medical Centre LLC***	NA	Full Consolidation
Al Raffah Pharmacies Group LLC	70%	Full Consolidation
Oman Al Khair Hospital LLC	42%	Full Consolidation
Dr. Moopen's Healthcare Management Services WLL	49%	Full Consolidation
Welcare Polyclinic W.L.L	45%	Full Consolidation
Dr. Moopens Aster Hospital WLL	49%	Full Consolidation
Sanad Al Rahma for Medical Care LLC	100%	Full Consolidation
Aster DM Healthcare WLL (earlier Aster DM Healthcare SPC)	100%	Full Consolidation
Orange Pharmacies LLC	0%	Full Consolidation
Al Shafar Pharmacy LLC, AUH **	49%	Full Consolidation
Aster DM Healthcare INC **	90%	Full Consolidation
Aster Medical Centre LLC**	39%	Full Consolidation
Aster Kuwait Pharmaceuticals and Medical Equipment Company W.L.L **	2%	Full Consolidation
Asma Pharmacy LLC ***	NA	Full Consolidation
Shindagha Pharmacy LLC ***	NA	Full Consolidation
Union Pharmacy LLC ***	NA	Full Consolidation
Zabeel Pharmacy LLC ***	NA	Full Consolidation

Company Name	Ownership*	Consolidation Approach
Associates		
MIMS Infrastructure and Properties Private Limited	36%	Equity Method
Alfaone Medicals Private Limited (1 Feb 2021)	16%	Equity Method
Alfaone Retail Pharmacies Private Limited (1 Feb 2021)	16%	Equity Method
Aries Holdings FZC	25%	Equity Method
AAQ Healthcare Investments LLC	33%	Equity Method
Aries Investments LLC	25%	Equity Method
Al Mutamaizah Medcare Healthcare Investment Co. LLC	49%	Equity Method

Source: *FY2021 annual report; ownership as on March 31, 2021*

Note: *The ownership details mentioned only display legal ownership and not beneficial ownership*

** Although the percentage of voting rights as a result of the legal holding by the company is not more than 50% in certain entities listed above (direct subsidiaries and step down subsidiaries), the company has the power to appoint the majority of the board of directors of those entities to obtain substantially all the returns related to their operations and net assets and has the ability to direct the activities that most significantly affect these returns. Consequently, Aster has considered the above entities for consolidation and ICRA has accordingly taken a consolidated view of the parent and its subsidiaries and associates while assigning the ratings*

*** Represents subsidiaries which are in the process of being wound up*

**** Represents subsidiaries which were merged in the current year*

 # Although the percentage of voting rights as a result of the legal holding by the Group is Nil, the Group has the power to appoint/replace all members of the board of directors. Consequently, the Group has control over the entity

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