

December 07, 2023

## Aster DM Healthcare Limited: Placed on rating watch with positive implications; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Working Capital Facilities	190.00	0.00	--
Short-term – Fund-based – Working Capital Facilities	0.00	190.00	[ICRA]A2+; Placed on Rating Watch with Positive Implications/assigned
Long-term – Fund-based – Term Loan	264.00	382.00	[ICRA]A-; Placed on Rating Watch with Positive Implications/assigned
Short-term – Non-fund Based – Working Capital Facilities	30.00	30.00	[ICRA]A2+; Placed on Rating Watch with Positive Implications
<b>Total</b>	<b>484.00</b>	<b>602.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

Aster DM Healthcare Limited (Aster/ the company) on November 28, 2023, announced that its board has approved the 100% sale of its GCC business leading to separation of Aster's India and GCC businesses, subject to regulatory and corporate approvals including shareholders' approval. Under the separation plan, a consortium led by Fajr Capital has entered into a definitive agreement to acquire a 65% stake in the ownership of the GCC business, Aster DM Healthcare FZC. The promoter family will continue to manage and operate the GCC business retaining a 35% stake, on and from closing. Following the expected completion of the transaction by Q4 FY2024, only the India business will remain with the company. Consequently, ICRA has considered the consolidated financials of the India business to assess the credit profile of the residual entity following the transaction.

The transaction values the GCC business at an enterprise value of ~\$1.7 billion (~Rs. 13,540 crore, post Ind AS 116), and an equity value of ~\$1.0 billion (~Rs. 8,215 crore). Equity value will be received by Aster in two tranches with upfront consideration of \$903 million and up to \$98.8 million to be received subsequently, subject to certain contingent events, including an earnout of up to \$70 million based on EBITDA achieved by the GCC business in FY2024, which will be paid following audit of the FY2024 financial information. Dr. Azad Moopen will continue in his role as the Founder and Chairman and will oversee both the India and GCC businesses. As indicated by the company, the transaction is expected to allow independent operations and governance structure with a clear capital allocation strategy for the India business, enabling it to pursue its growth plans organically and inorganically. The company intends to utilise a large portion of the transaction proceeds for a dividend distribution to the shareholders and the remaining proceeds will be retained to pursue growth opportunities and to keep as reserves.

ICRA has noted the above event and placed the outstanding long-term and short-term rating of the company on rating watch with positive implications, based on its expectations that the transaction is expected to lead to significant improvement in the company's financial profile. Over the years, the India business has shown a significant improvement in its operational and financial profile and is no longer dependent on the GCC business for support. While the scale of the company is expected to reduce materially after the closure of the transaction, the debt metrics of the residual entity are expected to improve significantly. ICRA notes that as on March 31, 2023, the operating margin, Net Debt (including lease liabilities of Rs. 533.2 crore)/OPBDITA and interest coverage ratio for the India business fared better at 15.3%, 2.2 times and 4.9 times, respectively, than the combined GCC and India business metrics of 13.6%, 3.2 times and 4.2 times, respectively. The extent of the positive

impact on the credit profile of the residual entity would be ascertained upon successful completion of the aforesaid transaction as per the expected terms. The transaction is expected to be completed by the end of Q4 FY2024, subject to receipt of requisite approvals. ICRA would continue to monitor the developments related to the transaction and take appropriate rating action, as required.

The ratings continue to consider Aster India's growing presence in India along with the promoters' extensive experience in the healthcare sector. The ratings are also supported by the Aster India's diversified revenues from various healthcare segments such as hospitals, clinics, and pharmacies.

During FY2023, Aster's India business witnessed a revenue growth of 28.1%, mainly driven by the hospitals and clinics segment, which generated ~92-93% of the total revenue for the India business. The segment grew by 21.7% YoY during FY2023 supported by higher operational beds, improved occupancy and ARPOB, alongside increased inpatient and outpatient volumes. The growth momentum continued in H1 FY2024, with YoY revenue growth of 25.9% supported by the India hospitals and clinics segment, which witnessed a YoY growth of 24.5%. During FY2023, the operating margin improved to 15.3% from 14.9% in FY2022, driven by improvement in key parameters for its hospitals and clinics segment. This trend continued into H1 FY2024 with the company's OPBDITA margin improving to 16.1% from 15.6% in H1 FY2023, majorly driven by the hospitals and clinics division. Going forward, Aster India is expected to witness healthy revenue growth during FY2024, supported by incremental operational beds, stable occupancy and healthy ARPOB. ICRA expects newly added beds and planned addition of beds to impact the operating margin of the Aster India to an extent, going forward. Aster India's net debt(including lease liabilities)/OPBDITA increased marginally to 2.2 times on March 31, 2023, from 2.1 times as on March 31, 2022, primarily due to increase in lease liabilities and external debt for ongoing capacity expansion. Consequently, coverage indicators witnessed a decline, but continued to remain healthy.

The ratings, however, remain constrained by the moderate return indicators of the Indian operations due to the capital-intensive model in India (most hospitals in India are owned). While operating margin for the company improved in FY2023 and H1 FY2024, sustenance of the same will be a key rating monitorable amid the planned expansion. While the labs and pharmacy segment in addition to the O&M asset-light model are currently in nascent stages of operations and are being operated under an asset-light model, these segments are expected to have an impact on operating margin of the company to an extent, going forward. Impact of the same on overall financial profile of the India business will be a key monitorable. Moreover, Aster India has planned for partially debt-funded capex of ~Rs.900-1,000 crore between FY2024 and FY2026 for incremental bed capacity and maintenance capex. However, debt metrics are expected to remain comfortable on account of part of the proceeds from GCC asset sale remaining on the balance sheet along with healthy cash accruals from operations. While Aster's established foothold in South India has allowed it to achieve healthy operational and financial growth in recent years, such dependence on specific geographies exposes the company to potential risk associates with regional economic downturns, competitive pressure or regulatory changes.

## Key rating drivers and their description

### Credit strengths

**Finalisation of GCC business segregation expected to improve the financial profile of Aster India** –Over the years, the India business has shown a significant improvement in its operational and financial profile and is no longer dependent on the GCC business for support. Although after the completion of the above transaction, the scale of the company is expected to reduce materially as the GCC business contributed ~73% to its revenues and 64% to the OPBDITA during H1 FY2024 (75% of revenues and 71% of OPBDITA during FY2023), it is likely to have a favourable impact on the credit profile of the residual entity. ICRA notes that as on March 31, 2023, the operating margin, net debt (including lease liabilities)/OPBDITA and interest coverage ratio for the India business fared better at 15.3%, 2.2 times and 4.9 times, respectively, than the combined GCC and India business metrics of 13.6%, 3.2 times and 4.2 times, respectively. The extent of the positive impact on the credit profile of the residual entity would be ascertained over a period and upon successful completion of the aforesaid transaction as per the expected terms.

**Growing presence in India; promoter's extensive experience in the sector** – Expanding footprint in India supported by the promoter's extensive sector experience has led to a significant improvement of Aster India's operational and financial profile over the last seven years. The company currently operates 19 hospitals, 13 clinics, 226 pharmacies and 251 labs across six Indian states, particularly establishing a strong foothold in South India. It operates under various brands in the country, such as Aster, MIMS, Ramesh, Prime, Aster Aadhar and Aster CMI, catering to different customer segments, benefiting from its strong brand presence. The Group is promoted by Dr. Azad Moopen and family with more than three decades of experience in the healthcare industry, which will support its operations, going forward.

**Strong financial profile characterised by improving revenue growth and margins and comfortable credit metrics** – Increased efficiency in existing units and ramp-up of newer units have led to improvement in overall revenue growth for the India business in FY2023 and H1 FY2024. During FY2023, its operating income grew by 28.1% mainly driven by the hospitals and clinics division, which contributed ~92-93% to the total revenue of the India business. The segment grew by 21.7% YoY during FY2023 supported by higher operational beds, improved occupancy and ARPOB, alongside increased Inpatient and outpatient volumes. The growth momentum also continued in H1 FY2024, with YoY revenue growth of 25.9% supported by the hospitals and clinics, segment which witnessed a YoY growth of 24.5%. Capacity addition over the years and improvement in key parameters like occupancies and ARPOB has allowed the India business to enjoy a better operating leverage, which is reflected in the improving OPBDITA margin to 16.1% during H1 FY2024 from 11.3% in FY2020. During FY2023, the operating margin improved to 15.3% from 14.9% in FY2022, driven by improvement in key parameters for the hospitals and clinics segment with OPBDITA margin for the segment improving to 18.0% in FY2023 and 17.4% in FY2022. The newly operational O&M asset-light hospitals are expected to dilute the operating margin to an extent; but this model is also expected to improve the ROCE to a certain extent with faster breakeven at operating level. During H1 FY2024, Aster India's OPBDITA margin improved to 16.1% from 15.6% in H1 FY2023, mainly driven by hospitals and clinics segment where segment's OBIDTA margin improved to 19.1% in H1FY2024 from 18.4% in H1FY2023. Going forward, the company is expected to witness healthy revenue growth during FY2024, supported by incremental operational beds, stable occupancy and healthy ARPOB. ICRA expects newly added beds and planned addition of beds to impact the operating margin to an extent.

Aster India's net debt (including lease liabilities) /OPBDITA increased marginally to 2.2 times on March 31, 2023, from 2.1 times as on March 31, 2022, primarily due to increase in lease liabilities and external debt availed for its ongoing capacity expansion. The total debt increased to Rs.1,132.0 crore as on March 31, 2023 over Rs.875.4 crore at March 31, 2022. Consequently, coverage indicators witnessed a decline, with interest coverage ratio declining to 4.9 times during FY2023 from 5.1 times during FY2022 and DSCR declining to 3.4 times during FY2023 from 4.3 times during FY2022. Despite this decline, coverage indicators continued to remain healthy. Moreover, despite the planned partially debt-funded capex of ~Rs. 900-1,000 crore between FY2024 and FY2026, the debt metrics are expected to remain comfortable on account of part proceeds from the GCC asset sale remaining on the balance sheet, along with healthy cash accruals from operations.

## Credit challenges

**Albeit improving, return indicators remain moderate due to the capital-intensive nature of business** – The return indicators (ROCE) for the Indian operations are moderate on account of adoption of capital-intensive model wherein the company owns the land and building of some of its major revenue contributing hospitals. In FY2022, the India business forayed into an O&M asset-light model for hospitals. This model has a lower capex requirement and higher ROCE with faster breakeven than traditional hospital models. Currently, Aster India operates four hospitals with a total bed capacity of 528 beds under the O&M asset light model and plans to evaluate this segment's performance before expanding further. Consequently, among the currently planned expansion, part of the new beds will be added under owned hospital model, requiring longer time to breakeven. The impact of the same on return indicators will be a key monitorable.

**Nascent stage of operations for labs and pharmacy segment along with entry into O&M segment; margins will remain a key monitorable, going forward** – Aligned with its expansion strategy to create a healthcare ecosystem and enhance its brand visibility, Aster's India business has increased its pharmacy and lab presence and currently operates 226 pharmacies and 251 labs (one reference lab, 15 satellite labs and 235 patient experience centres). Operating on an asset-light model, Aster pharmacies operate on leased premises, minimising the capex costs. For Aster labs, the primary capex outlay is towards the

reference lab and satellite lab, while majority of the patient experience centres operate under a franchise model with a revenue sharing arrangement. This segment currently contributes ~7-8% to the total revenue for the India business, and it witnessed substantial YoY growth of 72.2% and 42.9% during FY2023 and H1 FY2024, respectively. However, the segment continued to incur operating losses due to nascent stages of its operations. While the overall capex towards the segment is low, impact of the same on Aster India's profitability and debt metrics remains a monitorable.

Moreover, the India business started adding beds under O&M asset light model in FY2022 and currently has 528 beds under the same. Under this model, Aster enters into O&M contracts with hospitals in tier-II and III cities to manage their operations. The company's incremental capex under this model is minimal as the company invests only in critical equipment to optimise the revenue potential. It primarily operates hospitals under this model in tier-II and III cities which generally exhibit lower ARPOB, resulting in relatively lower operating margins than the traditional model. However, the ROCE under this model is expected to be higher with faster breakeven, with some newly opened hospitals under this model reaching breakeven within a few months of their operations. Although the incremental capex for the company is not very material under this model, impact of the same on profit margins remains monitorable.

**Significant ongoing debt-funded capex to expand capacity** – Over the past few years, Aster India has made substantial investments to expand its capacity in India through both organic and inorganic routes with the total bed capacity increasing to 4,855 (in 19 hospitals) as on September 30, 2023, from 3,007 (in 10 hospitals) as on March 31, 2018. Going forward, the company plans to add 1,479 beds in phases over the next three years. Along with some capex in other segments including the maintenance capex this is expected to result in cumulative capex of Rs. 900-1,000 crore between FY2024 and FY2026. The company is expected to fund this planned capex through a mix of debt and internal accruals. While ICRA does not expect the same to impact the company's debt metrics significantly, timely commencement and ramp-up of the newly added beds and their impact on the credit metrics remain a key monitorable.

**Revenues mainly generated from South India leading to higher geographic concentration risk** – Aster India has a strong brand presence in South India with the Kerala cluster being one of the highest contributors in terms of revenue and total bed capacity. This is followed by the Karnataka and Maharashtra cluster, and the Andhra and Telangana cluster. Recent expansion in pharmacies and labs have also primarily been in these clusters. While established foothold in the south has allowed the India business to achieve healthy operational parameters and healthy revenue growth, such dependence on specific regions exposes Aster India to potential risks associated with regional economic downturns, competitive pressures or regulatory changes. Nevertheless, availability of specialised medical services and rising medical tourism from GCC states to its India hospitals, and leveraging Aster's brand in the GCC region mitigates the risk to a certain extent.

### Liquidity position: Strong

Aster India's liquidity position remains strong with free cash and liquid investments of Rs. 78.1 crore as on March 31, 2023. The average working capital utilisation for Aster India at a standalone level remained at 65.7% for the 12-month period ended in September 2022, against sanctioned fund-based limit of Rs. 190.0 crore. The India business has plans for a capex of ~Rs. 900-1,000 crore over FY2024–FY2026, which will be funded through debt and internal accruals. Aster India has a repayment obligation of ~Rs. 89 crore, ~Rs. 110 crore and ~Rs. 111 crore during FY2024, FY2025 and FY2026, respectively, for its existing debt. Despite the significant debt-funded capex, ICRA expects Aster India's liquidity position to remain strong on the back of higher accruals from its operations and part of the proceeds from GCC asset sale remaining on the balance sheet of the company.

### Rating sensitivities

**Positive factors** – Aster's ratings could be upgraded after the successful segregation of the GCC and India businesses as per the expected terms.

**Negative factors** – Negative pressure on Aster’s ratings could arise if there is any deterioration in margins and debt-funded capex or acquisitions leading to deterioration of the company’s credit profile with Total Debt/ OPBDITA greater than 3.5x on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology - Hospitals</a>
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-II.

## 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 a reorganisation of its structure in 2008, the Group’s operations across the GCC countries and India were consolidated under Aster. The company recently announced the sale of its GCC business. The transaction is expected to be completed by the end of Q4 FY2024, after which Aster is expected to hold only the India business, which includes Hospital, Clinics, Labs and Pharmacies. As on September 30, 2023, the company operated 19 hospitals with a total bed capacity of 4,855, 13 clinics, 26 pharmacies, and 251 labs in India. The company is promoted by Dr. Azad Moopen and family. The Group operates in India under the “Aster”, “MIMS”, “Ramesh”, “Prime”, “Aster Aadhar” and “Aster CMI” brands. Aster was listed on the India stock exchanges on February 26, 2018.

## Key financial indicators

Aster India Consolidated *	FY2022	FY2023
Operating income	2,394.8	3,068.2
PAT	151.8	185.4
OPBDIT/OI	14.9%	15.3%
PAT/OI	6.3%	6.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDIT (times)	2.5	2.4
Interest coverage (times)	5.1	4.9

All ratios as per ICRA calculations. PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore \* Provisional.

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 07, 2023	Oct 20, 2022	Aug 9, 2021	Aug 28, 2020
1 Working Capital	Long term	0.00	NA	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Working Capital	Short term	190.00	178.7	[ICRA]A2+%	-		
3 Term Loan	Long term	382.0	504.1	[ICRA]A-%	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4 Non-fund Based	Short term	30.00	NA	[ICRA]A2+%	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
5 Unallocated	Long term	-	NA	-	-		[ICRA]A- (Stable)

+: Rating watch with Positive Implications. Note: Outstanding amounts are for Aster India consolidated entity.

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Short 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: [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	FY2017-FY2024	8.43%	FY2032	382.0	[ICRA]A-; Rating watch with Positive Implications
NA	Overdraft	NA	NA	NA	190.0	[ICRA]A2+; Rating watch with Positive Implications
NA	LC/BG	NA	NA	NA	30.00	[ICRA]A2+; Rating watch with Positive Implications

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership as on March 31, 2023	Consolidation Approach
<b>Direct Subsidiaries</b>		
DM Med City Hospitals (India) Pvt Ltd	100.00%	Full Consolidation
Aster DM Healthcare (Trivandrum) Pvt Ltd	100.00%	Full Consolidation
Ambady Infrastructure Pvt Ltd	100.00%	Full Consolidation
Prerana Hospital Limited	86.99%	Full Consolidation
Sri Sainatha Multispeciality Hospitals Private Limited	100.00%	Full Consolidation
Malabar Institute of Medical Sciences Limited	76.00%	Full Consolidation
Dr. Ramesh Cardiac and Multispeciality Hospitals Private Limited	57.00%	Full Consolidation
Aster Clinical Lab LLP	100.00%	Full Consolidation
Hindustan Pharma Distributors Private Limited	86.00%	Full Consolidation
Mindriot Research and Innovation Foundation	49.00%	Full Consolidation
<b>Step-down Subsidiaries</b>		
EMED Human Resources (India) Private Limited	100.00%	Full Consolidation
Warseps Healthcare LLP	100.00%	Full Consolidation
Cantwon Infra Developer LLP	76.00%	Full Consolidation
Ezhimala Infrastructure LLP	76.00%	Full Consolidation
Sanghamitra Hospitals Private Limited*	53.00%	Full Consolidation
Aster Ramesh Duhita LLP*	29.00%	Full Consolidation
Komali Fertility Centre LLP (Formerly known as Ramesh Fertility Centre LLP)*	29.00%	Full Consolidation
Adirian IB Healthcare Private Ltd	57.00%	Full Consolidation
Komali Fertility Centre Ongole LLP*	29.00%	Full Consolidation
<b>Associates</b>		
MIMS Infrastructure and Properties Private Limited	37.00%	Equity Method
Alfaone Retail Pharmacies Private Limited**	16.12%	Equity Method
Alfaone Medicals Private Limited**	16.12%	Equity Method

Source: company

\* Subsidiary due to Board control

\*\* Associate due to control over management and policy decisions by Aster DM



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