October 20, 2022

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	135.00	190.00	[ICRA]A- (Stable); reaffirmed
Fund Based – Term Loan	139.00	264.00	[ICRA]A- (Stable); reaffirmed
Non-fund Based – Working Capital Facilities	30.00	30.00	[ICRA]A2+; reaffirmed
Total	**304.00**	**484.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to consider 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 along with the promoters' extensive experience in the healthcare sector. 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 FY2022, despite the operations being impacted by the Covid-19 pandemic in a few months. As on March 31, 2022, the gearing and adj. net debt/adjusted OPBDITA (excluding IndAs-116 effect) stood at 0.6 times and 1.6 times, respectively, (0.7 times and 3.0 times, respectively, as on March 31, 2021).

In FY2022, the group witnessed revival of revenues with easing of covid restrictions. In H2 FY2022, the company's healthy revenue growth was supported by the healthy patient volumes. In FY2022, Aster's operating margin improved to 14.5% from 12.3% in FY2021, primarily on the back of pent-up demand and healthy patient footfalls and positive impact of cost saving measures by the company. GCC Clinics and the pharmacy business witnessed higher footfalls during FY2022 given the large quantum of patients affected by the pandemic and the relatively higher RTPCR tests performed. Further, the company's India operations also witnessed sequential improvement supported by improving scale and healthy performance at new hospitals.

The ratings, however, remain constrained by the modest return indicators in the Indian operations due to the capital-intensive model in India (most hospitals in India are owned whereas almost all hospitals in the GCC are leased). While margins for the company's India operations improved in FY2022, sustenance of the same will be a key rating monitorable amidst the planned expansion. The ratings also consider the regulatory and country-specific risks given the Group's organisational structure and operations in the GCC segment, which generated around 77% of the consolidated revenues and 76% of the consolidated OPBITDA in FY2022. Its operations in the GCC are exposed to a challenging competitive landscape as well as regulations with respect to foreign ownership restrictions. ICRA notes that the policy changes by the United Arab Emirates (UAE) government, allowing 100% ownership by foreign shareholders in the hospitals, help mitigate such concerns to some extent.

The company plans to incur capital expenditure of ~Rs. 580 crore each in FY2023 and FY2024, out of which ~Rs. 300 crore would be allocated to India for the upcoming projects while the balance would be spent in GCC. The company is also looking at the asset-light O&M model to expand its footprint in India. It has already entered into two such contracts in the recent past wherein it would be managing operations at two hospitals in tier-2 cities in South India going forward. Further, the company is also expanding in the labs and pharmacies segment in India. While these businesses are not as capital-intensive as the company's hospital operations in India, impact of expansion of these businesses on the company's overall financial profile will be a key monitorable.

ICRA also notes that the company is in the midst of corporate restructuring wherein it is evaluating various options to enhance shareholder value. Impact of the same on the company's operational and financial profile will be a key rating monitorable. ICRA will continue to monitor the same and will take appropriate rating action as and when required.

The Stable outlook reflects ICRA's expectations that the Group's track record and diversification across segments and geographies.

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 has 29 hospitals (GCC – 14, India – 15), 121 clinics (GCC – 110, India – 11) ,421 pharmacies (GCC – 245, India - 176) and 126 Labs and PEC's (India – 126) as on June 30, 2022. 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 34%, 23%, 21% and 22%, respectively, to the revenues in FY2022. The Group is promoted by Dr. Azad Moopen and his family with more than three decades of experience in the industry, which will support its operations going forward.

Diversified revenue sources from multiple countries and various segments like hospitals, clinics and pharmacies – The group has operations in various segments of the healthcare value-chain including hospitals, clinics and retail pharmacies. The company has strong brand presence with different brands to cater to different customer segment. The 'Aster' and 'Medcare' brands address the needs of the upper and middle-income segments in the GCC states respectively, while the 'Access' brand offers affordable healthcare services to blue collar expatriate workers and the lower income segment in the GCC states. Further, the presence of pharmacies at multiple locations across various GCC states and India also enhances the visibility of the company's brands. The company is also setting up labs in India to enhance its visibility in the domestic market and provide a complete set of healthcare offerings to patients. The group's scale of operations has increased significantly in the last five years mainly through inorganic acquisitions of clinics and retail pharmacies in GCC countries and hospitals in India and Saudi Arabia.

Comfortable leverage and coverage metrics – Despite the significant outflow towards capital expenditure and acquisitions in the past and sizeable capex in FY2022, the debt protection indicators remained comfortable in FY2022. 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, 2022, the gearing and net adj. debt/adjusted OPBDITA (excluding IndAs 116 effect) stood at 0.6 times and 1.6 times, respectively, against 0.7 times and 3.0 times, respectively, as on March 31, 2022. Most of the Group's borrowings are in the GCC countries with interest rates in the range of 2.90-7.50% as on March 31, 2022. 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 continue healthy accruals.

Credit challenges

High dependence on the operating facilities in the Gulf Cooperation Council (GCC) countries, which generate majority of the revenues and profits of the group – Aster has historically generated majority of its consolidated revenues and OPBITDA from its GCC operations and is significantly dependent on its operations in the UAE. In FY2022, Aster derived ~77% of its revenues and ~78% 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 the policy changes by the UAE government, allowing 100% ownership by foreign shareholders in the hospital sector, help mitigate such concerns to some extent.

Albeit improving, relatively moderate return indicators due to the high capital investments made and relatively nascent stage of some hospitals in the portfolio – 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). 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.

Recent expansion in labs and pharmacies in India along with ongoing capex towards expansion; entry into O&M segment; margins will remain a key monitorable in the new business segments and hospitals – In line with its expansion strategy, Aster plans to invest in asset-light models to improve its footprint in India. The company has expanded its pharmacy footprint significantly in Q1 FY2023 and has also entered the labs business to enhance its service offerings to patients in addition to improving its brand visibility. While the overall capex towards the expansion of labs and pharmacies is expected to be ~Rs. 40-50 crore in FY2023, impact of the same on the company's profitability metrics remains a monitorable.The company has also entered into O&M contracts with two hospitals where it would be sharing a portion of the revenue with promoters of these hospitals. Aster plans to bring its clinical expertise along with vast experience of operating and maintaining hospitals across multiple geographies to turn such entities around. Though the incremental capex from company's end will not be very material towards this business model, impact of the same on profit margins remains monitorable.

Liquidity position: Adequate

Aster's liquidity is **adequate** with a cash balance and liquid investments of Rs. 313 crore as on June 30, 2022 and healthy cash accruals. It also had undrawn lines of ~Rs. 140 crores as on July, 2022 (India business) against the sanctioned facilities with average working capital utilisation of ~26% for the 12 months ending July 2022. The Group has planned a capex outlay of ~Rs. 580 crore each in FY2022 and FY2023 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 – ADHL's ratings could be upgraded with improvement in profitability (ROCE) and adj. net debt/adjusted OPBDITA less than 2.0x on a sustained basis.

Negative factors – Negative pressure on ADHL's ratings could arise if there is any deterioration in margins and debt-funded capex or acquisitions lead to deterioration of the company's credit profile with adj. net debt/adj. OPBDITA greater than 3.0x 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 (ADHL / the company - 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 reorganization of its structure in 2008, the Group's operations across the GCC countries and India were consolidated under ADHL. As on March 31, 2022, the company had 74 subsidiaries and 8 associate companies, through which the Aster Group operates 27 hospitals, 120 clinics, 371 pharmacies and 114 Labs and PEC's in the GCC region and India. The Group is promoted by Dr. Azad Moopen and his family. It operates its services under the Medcare, Aster and Access brands. The GCC region accounted for over 77% of the consolidated revenues in FY2022, with the remaining coming from India. ADHL was listed on the India stock exchanges on February 26, 2018.

Key financial indicators (audited)

Aster (consolidated)	FY2021	FY2022
Operating Income (Rs. crore)	8,608.4	10,253.3
PAT (Rs. crore)	174.3	600.5
OPBDIT/OI (%)	12.3%	14.5%
PAT/OI (%)	2.0%	5.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.8
Total Debt/adj. OPBDIT (times)	3.4	2.0
Interest Coverage (times)	3.6	5.8

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

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Oct 20, 2022	Aug 9, 2021	Aug 28, 2020	Jan 17, 2020 Jun 14, 2019
1	Working Capital	Long Term	190.00	68.89	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term Loan	Long Term	264.00	129.06	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund Based	Short Term	30.00	3.45	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term	-	--	--	--	[ICRA]A- (Stable)	[ICRA]A- (Stable)

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-I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Dec 27, 2016	8.12%	Jun 2028	20.00	[ICRA]A- (Stable)
NA	Term Loan	Dec 31, 2019	8.25%	Jan 2025	30.00	[ICRA]A- (Stable)
NA	Term Loan	Mar 16, 2021	8.25%	Feb 2026	34.00	[ICRA]A- (Stable)
NA	Term Loan	Dec 31,2019	7.90%	Sep 2025	35.00	[ICRA]A- (Stable)
NA	Term Loan	Sep 23, 2020	8.00%	April 2023	20.00	[ICRA]A- (Stable)
NA	Term Loan	Feb 2,2021	8.00%	Jan 2031	125.00	[ICRA]A- (Stable)
NA	Cash Credit	Dec 31,2019	8.55%	FY2023	70.00	[ICRA]A- (Stable)
NA	Overdraft	Aug 3, 2021	8.00%	FY2023	50.00	[ICRA]A- (Stable)
NA	Overdraft	Nov 21, 2020	7.90%	FY2023	5.00	[ICRA]A- (Stable)
NA	CC/ OD/ WCL	July 15,2021	8.50%	FY2023	60.00	[ICRA]A- (Stable)
NA	Overdraft	Nov 21, 2020	8.00%	FY2023	5.00	[ICRA]A- (Stable)
NA	LC/ BG	FY2021	NA	NA	30.00	[ICRA]A2+

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*	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	74%	Full Consolidation
Warseps Healthcare LLP	100%	Full Consolidation
Sanghamitra Hospitals Private Limited	37%	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

Company Name	Ownership*	Consolidation Approach
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
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***	NA	Full Consolidation
Zahrat Al Shefa Medical Center LLC	19%	Full Consolidation
Zahrath Al Shefa Pharmacy LLC***	NA	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	40%	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

Company Name	Ownership*	Consolidation Approach
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
Medshop Garden LLC***	NA	Full Consolidation
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: *FY2022 annual report; ownership as on March 31, 2022*

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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