

December 10, 2024

Aster DM Healthcare Limited- Placed on rating watch with positive implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term–Fund-based –Term Loan	382.00	382.00	[ICRA]A; Placed on Rating watch with positive implications
Short-term–Fund-based–Working Capital Facilities	190.00	190.00	[ICRA]A1; Placed on Rating watch with positive implication
Short-term–Non-fund Based – Working Capital Facilities	30.00	30.00	[ICRA]A1; Placed on Rating watch with positive implication
Total	602.00	602.00	

*Instrument details are provided in Annexure-1

Rationale

Material Event

On November 29, 2024, Aster DM Healthcare Limited’s (Aster/company) board of directors approved a merger between the company and Quality Care India Limited (QCIL), subject to completion of customary conditions and receipt of requisite regulatory approvals. QCIL operates three brands namely CARE Hospitals, KIMSHEALTH and Evercare in India and Bangladesh and is focused on emerging cities in India. It operates a network of 19 hospitals across 14 cities in India and Bangladesh and had a total capacity of 5,150+ beds as on September 30, 2024. The merger is expected to be completed in the next 12-14 months, subject to regulatory and shareholders’ approvals.

The merger is planned in two stages. In the first stage, Aster will acquire around 5% stake in QCIL from Blackstone and TPG in consideration of primary share issuance by Aster for 3.6% of its stake on post preferential allotment basis. In the second stage, QCIL will be merged into Aster through amalgamation. This complete transaction will be carried out by share swap mechanical and will be cash neutral. QCIL shareholders will be issued Aster DM shares in the agreed swap ratio. The swap ratio for both the steps shall be the same of 977 equity shares of Aster for every 1,000 equity shares of QCIL. For this transaction, Aster is valued at 36.6x in FY2024 Adj. Post INDAS EV/ EBITDA and QCIL is valued at 25.2x in FY2024 Adj. Aster has been valued at 45% higher than relative multiple of QCIL. Once the transaction is concluded, Aster and Blackstone are expected to hold 24% and 30.7% in the merged entity, respectively, while the balance would be held by other (including public) shareholders of Aster and QCIL.

Impact of Material Event

The merger of Aster and QCIL will create an entity with the name of Aster DM Quality Care Limited. ICRA has noted the above event and placed the outstanding long-term and short-term ratings 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 credit profile.

The merged entity is expected to have 38 hospitals and seven medical centres across nine states and 27 cities, which will also include four brands under its umbrella namely Aster DM, CARE Hospitals, KIMSHEALTH and Evercare and will have significantly higher scale of operations than Aster. The merged entity would be one of the largest hospital chains in the country with strong presence in South India. The transaction is also expected to trigger scale-related synergies in addition to increasing geographical presence and penetration, which will improve the company’s market position. The management also intends to integrate the backend operations of all the four brands, to rationalise procurement cost, improve material margins, reduce corporate overheads, and facilitate better vendor management leading to improvement in operating margins.

The combined entity has capex plans to add ~3,500 beds across various geographies by the end of FY2027. Of the same, ~2,300 beds are expected to be set up in existing facilities, while ~1,200 beds are expected to be set up in new hospitals. Thus, the

capacity of the merged entity will increase to ~13,300 beds by the end of FY2027. ICRA notes that Aster and QCIL are expected to incur capex toward these bed additions through existing cash and liquid investment balances and internal accruals in addition to some drawdown of debt. Despite the sizeable, planned capex, ICRA expects the merged entity's debt metrics and liquidity position to remain healthy on the back of expected strong accruals from operations and part of the proceeds from GCC asset sale remaining on the balance sheet of the company.

The extent of the positive impact on the credit profile of the merged entity would be ascertained upon successful completion of the merger. The merger is expected to be completed by the end of Q3 FY2026, subject to receipt of requisite approvals. ICRA would continue to monitor the developments related to the transaction and take appropriate rating action, as required.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology –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-II.

About the company

Aster DM Healthcare Limited (formerly DM Healthcare Pvt. Ltd.), established in 1987, is the holding company of the Aster Group, providing 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 concluded the sale of its GCC business, following which it will only hold its India business, including the hospital, clinics, labs and pharmacies. As on September 30, 2024, the company operated 19 hospitals across 15 cities with total bed capacity of 4,994 with 212 pharmacies and 232 labs in India. The company is promoted by Dr. Azad Moopen and family. In India, the Group operates under the 'Aster Medcity', 'Aster MIMS', 'Aster Ramesh', 'Aster Prime', 'Aster Aadhar' and 'Aster CMI' brands. Aster was listed on the India stock exchanges on February 26, 2018.

Key financial indicators (audited)

Aster India Consolidated	FY2023	FY2024
Operating income	3068.2	3698.9
PAT	185.4	222.9
OPBDIT/OI	15.3%	15.9%
PAT/OI	6.0%	6.0%
Total outside liabilities/Tangible net worth (times)	0.6	2.8
Total debt/OPBDIT (times)	2.4	2.4
Interest coverage (times)	4.9	4.9

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore 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 (FY2025)					Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Dec 10, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Working capital	Long Term	-	-	Apr 16, 2024	-	Dec 07, 2023	-	Oct 20, 2022	[ICRA]A-(Stable)	Aug 9, 2021	[ICRA]A-(Stable)
Working capital	Short Term	190.00	[ICRA]A1; Rating watch with Positive Implications	Apr 16, 2024	[ICRA]A1	Dec 07, 2023	[ICRA]A2+; Rating watch with Positive Implications		-		
Term loan	Long Term	382.00	[ICRA]A; Rating watch with Positive Implications	Apr 16, 2024	[ICRA]A(Stable)	Dec 07, 2023	[ICRA]A-; Rating watch with Positive Implications	Oct 20, 2022	[ICRA]A-(Stable)	Aug 9, 2021	[ICRA]A-(Stable)
Non-fund based	Short Term	30.00	[ICRA]A1; Rating watch with Positive Implications	Apr 16, 2024	[ICRA]A1	Dec 07, 2023	[ICRA]A2+; Rating watch with Positive Implications	Oct 20, 2022	[ICRA]A2+	Aug 9, 2021	[ICRA]A2+

Complexity level of the rated instrument

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 analyzing 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, is available on ICRA's website: [Click Here](#)

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	FY2017-FY2024	8.43%	FY2032	382.0	[ICRA]A(Stable); Rating Watch with Positive Implications
NA	Overdraft	NA	NA	NA	190.0	[ICRA]A1; Rating Watch with Positive Implications
NA	LC/BG	NA	NA	NA	30.00	[ICRA]A1; 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, 2024	Consolidation Approach
Direct Subsidiaries		
DM Med City Hospitals (India) Pvt Ltd	100%	Full Consolidation
Aster DM Healthcare (Trivandrum) Pvt Ltd	100%	Full Consolidation
Ambady Infrastructure Pvt Ltd	100%	Full Consolidation
Prerana Hospital Limited	87%	Full Consolidation
Sri Sainatha Multispeciality Hospitals Private Limited	100%	Full Consolidation
Malabar Institute of Medical Sciences Limited	79%	Full Consolidation
Dr. Ramesh Cardiac and Multispeciality Hospitals Private Limited	57%	Full Consolidation
Aster Clinical Lab LLP	100%	Full Consolidation
Hindustan Pharma Distributors Private Limited	86%	Full Consolidation
Step-down Subsidiaries		
EMED Human Resources (India) Private Limited	100 %	Full Consolidation
Warseps Healthcare LLP	100 %	Full Consolidation
Cantwon Infra Developer LLP	78 %	Full Consolidation
Ezhimala Infrastructure LLP	78 %	Full Consolidation
Sanghamitra Hospitals Private Limited*	56 %	Full Consolidation
Aster Ramesh Duhita LLP*	29 %	Full Consolidation
Komali Fertility Centre LLP (Formerly known as Ramesh Fertility Centre LLP)*	29 %	Full Consolidation
Adirian IB Healthcare Private Ltd	57 %	Full Consolidation
Komali Fertility Centre Ongole LLP*	29 %	Full Consolidation
Associates		
MIMS Infrastructure and Properties Private Limited	38%	Equity Method
Alfaone Retail Pharmacies Private Limited**	16%	Equity Method
Alfaone Medicals Private Limited**	16%	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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