

Aster DM Healthcare Limited

| Instrument | Amount | Rating Action |
|------------------|----------|--------------------|
| | Rs Crore | November 2016 |
| Commercial Paper | 60.00 | [ICRA]A2+ assigned |

ICRA has assigned a short term rating of [ICRA]A2+ (pronounced as ICRA A two plus) to the Rs. 60.00 crore proposed commercial paper (CP) programme of Aster DM Healthcare Limited (ADHL).

While assigning the rating, ICRA has taken a consolidated view of ADHL (“the company”) and its subsidiaries (“the group”) given the strong operational, financial and management linkages among the various entities.

The rating draws comfort from the group’s established market position in the healthcare industry combined with the promoters’ extensive experience in this sector. The rating is also supported by the diversified revenue sources of the group from multiple countries and various segments like hospitals, clinics and pharmacies. The group’s operating segments have scaled up rapidly over the last five years through a mix of acquisitions and greenfield / brownfield projects. The group’s expansions, combined with stable operational parameters such as occupancy, have resulted in steady growth in revenues and comfortable profitability metrics at consolidated level. The rating also takes into account the consistent funds infusion into the group by private equity investors, which has resulted in comfortable capital structure despite the large scale of acquisitions and expansions undertaken in the past. The initial public offering (IPO) plans of the company in FY2017 are expected to further support the equity base of the company and enable moderation in debt levels at the standalone level.

The rating, however, remains constrained on account of high dependence on the operating facilities in the Gulf Cooperation Council (GCC) countries, which generate the majority of the revenues and profits of the group. The Indian operations are marked by higher break even periods, muted profitability on account of larger share of nascent facilities and high funding requirements on account of the future growth plans. The standalone financial profile of ADMHL (which primarily reflects the performance of two recently commissioned hospitals in Kochi and Bangalore) remains weak on account of nascent stage of operations and high project debt funding. The liquidity profile on a standalone basis is expected to be supported by sanction of overdraft limits (which cover the size of proposed commercial paper issue) and timely repatriation of profits from the subsidiaries, primarily in the GCC countries. The rating also considers the regulatory and country risks faced with respect to the group’s organizational structure and operations in the GCC segment. The aggressive expansion plans of the group will keep the funding requirements high, thereby leading to dependence on debt funding in the near to medium term. The rating also takes into account the stiff competition the group faces from other private and government hospitals operating in both GCC and Indian segments.

The group’s ability to maintain healthy profitability metrics in the established operating facilities, achieve quick turnaround in profitability of new facilities, scale of future acquisitions / capital expenditure and timely conclusion of IPO will be the key rating sensitivities going forward. Moreover, any material events impacting ability to upstream cash flows from GCC to the Indian holding company will also be key rating monitorables.

Group Profile

ADMHL (formerly, DM Healthcare Pvt Ltd), established in 1987, is the holding company of the Aster group which provides health care services through the operation of hospitals, clinics and pharmacies. Following a reorganization of the group structure in 2008, the group’s operations across the GCC countries and India were consolidated under ADMHL. It has 56 subsidiaries, step-down subsidiaries, associates and JVs through which the Aster group operates 13 hospitals, 87 clinics, and 180 pharmacies in the GCC region and India (as on 31st March 2016). ADMHL, on a standalone basis, operates two quaternary super-specialty hospitals - Aster Medcity in Kochi and Aster CMI in Bengaluru. The group is promoted by Dr. Azad Moopen and his family. It operates its services under the Aster, Medcare, and Access brands. The GCC region accounted for 87% of the consolidated revenues in FY2016 and India for the rest.

Recent Results

The group reported net profit of Rs. 163 crore (after minority interest) on an operating income of Rs. 5,250 crore for FY2016 and net profit of Rs. 168 crore on operating income of Rs. 3,876 crore in FY2015.

November 2016



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