Aster DM Healthcare Limited

August 24, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based	105.00	[ICRA]BBB+(Positive); Assigned
Long-term Term Loan	20.00	[ICRA]BBB+(Positive); Assigned
Short Term Non-fund Based	30.00	[ICRA]A2+; Assigned
Long-term Unallocated Limits	13.00	[ICRA]BBB+(Positive); Assigned
Total	**168.00**	

* Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB+ (pronounced ICRA Triple B plus) to the Rs. 105.0-crore long-term fund-based limits, the Rs. 20.0-crore long-term term loans and the Rs 13.0-crore long-term unallocated limits of Aster DM Healthcare Limited (ADHL). ICRA has also assigned the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 30.0-crore short-term non-fund based limits of the company. The outlook on the long-term rating is Positive.

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.

Rationale

The assigned ratings draw comfort from the Group's established market position in the healthcare industry across GCC states and its emerging presence in India. The ratings are also supported by the Group's diversified revenue sources from various healthcare segments such as hospitals, clinics and pharmacies. The Group's operating income has witnessed a healthy CAGR of 28% over the last five years as the company undertook a mix of acquisitions and greenfield/brownfield projects. There has been a significant improvement in the profitability metrics at a consolidated level in FY2018 compared to that of FY2017 due to stabilisation of operational metrics at newly commissioned hospitals, reduction in provisions towards receivables, and write-back of earlier provisions. The rating also positively factors in the fresh equity infusion of Rs. 725 crore through Initial Public Offering (IPO) proceeds, which was largely utilised towards debt repayment. The improvement in profitability along with debt repayment from the IPO proceeds improved the leverage and coverage indicators of the Group in FY2018.

The ratings, however, remain constrained by the low return indicators and the longer gestation periods in the Indian operations. Notwithstanding the improvement in leverage metrics in FY2018, the financial risk profile remains moderate because of the large-scale debt-funded capital expenditure incurred during FY2016-FY2018, moderation in profits, and provisioning for receivables in certain hospital units in GCC. The liquidity profile on a standalone basis would also be contingent on timely repatriation of profits from the subsidiaries, primarily in the GCC countries. The rating also considers the regulatory and country risks faced with regard to the Group's organisational structure and operations in the GCC segment. Regulatory risks in terms of any restrictive pricing regulations levied by central and state governments in India could also constrain the profit margins of the industry going forward. The rating also takes into account the stiff competition the Group faces from other private and government hospitals operating in both GCC and India.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that the Group will continue to benefit from its established market position, with the ramp-up in operations in the newer units expected to result in improvement in profit margins and reduction in leverage as measured by Debt-to-EBITDA. The outlook may be revised to Stable or Negative if substantially large debt-funded capex or lower-than-expected profitability deteriorates the leverage and coverage indicators.

Key rating drivers

Credit strengths

Track record of three decades with diversified healthcare service offerings - The Group commenced its operations in 1987 as a single doctor clinic in Dubai and has witnessed significant growth over the last three decades, with presence in nine countries across GCC and India. As on June 30, 2018, the Group had 20 hospitals (GCC-9, India-11), 112 clinics (GCC-103, India-9) and 213 pharmacies (GCC-213). It has established presence across multiple geographies, multiple healthcare delivery verticals and serves multiple economic segments. The group has operations in various segments of the healthcare value-chain including hospitals, clinics and retail pharmacies. Aster DM Healthcare's GCC Hospitals, GCC Clinics, GCC Pharmacies and India Hospitals & Clinics made revenue contribution of around 29%, 26%, 28% and 17% respectively in FY2018.

Established presence across GCC states with strong brand equity and emerging presence in India - Aster DM Healthcare is one of the largest private healthcare service providers in GCC states and an emerging healthcare player in India. The Group provides healthcare services in all the GCC states (the United Arab Emirates, Oman, Saudi Arabia, Qatar, Kuwait and Bahrain) and Jordan (classified as GCC operations). The Group has a 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. The Group has expanded its presence in India over the last five years and at present operates under 'Aster', 'MIMS', 'Ramesh', 'Prime', 'Aster Aadhar' and 'Aster CMI' brands in Kochi, Kolhapur, Kozhikode, Kottakkal, Bengaluru, Vijayawada, Guntur, Wayanad and Hyderabad.

Healthy growth in operating income over last five years - The Group has expanded its capacity significantly in GCC— from 145 operating units (six hospitals, 41 clinics & 98 pharmacies) in FY2013 to 310 operating facilities (nine hospitals, 94 clinics and 207 pharmacies) in FY2018. Over the last five years, the Groups operational beds increased to 3538 (GCC-761, India-2777) as on March 31, 2018 from 1309 (GCC-401, India-908) as on March 31, 2013 on the back of organic and inorganic expansions. Coupled with the increase in the operational beds, the outpatient volumes and clinic revenues have grown at a CAGR of 29% during the last five years resulting in a consolidated revenue growth at a CAGR of 28% over the last five years.

Improvement in margins in FY2018 with ramp up in new hospitals - The Group's operating margin fell in FY2016 and FY2017 on account of losses incurred in the new facilities and significant provisions for doubtful receivables in the Sanad Hospital (Saudi Arabia). The operating profit margin, which dipped to 5.6% in FY2017 from 13.1% in FY2015, improved to 9.1% in FY2018 on the back of stabilisation of new hospital operations and improved performance across geographies including Saudi Arabia. The Group has healthy return indicators in the GCC countries; however, the return indicators in the Indian operations remain subdued.

IPO proceeds result in improved capital structure and coverage indicators - The improvement in profitability coupled with utilisation of IPO proceeds towards debt repayment reduced the gearing levels to 0.74 times as on March 31, 2018, from 1.23 times as on March 31, 2017. The company raised Rs. 725 crore as IPO proceeds in February 2018, of which Rs.

564.2 crore was utilised towards debt repayment. The debt/OPBDITA also reduced significantly for the Group to 3.86 times as on March 31, 2018 from 8.31 times as on March 31, 2017 owing to improvement in profitability and reduction in debt levels. The Group proposes to maintain the Net Debt/OPBDITA levels at below 3.0 times going forward.

Credit challenges

Exposure to regulatory risks – The Group is exposed to regulations with respect to the foreign ownership restrictions. Regulatory risks in terms of any restrictive pricing regulations levied by central and state governments in India could also constrain the profit margins in the industry going forward.

Seasonality in cash flows impacts liquidity in H1 of financial year - The Group due to the operations in GCC faces seasonality in business, which impacts the cash flows during the year. The seasonality is because of the decline in volumes across hospitals, clinics and pharmacy segments during the summer months in its major revenue contributing GCC countries owing to the extreme climatic conditions. The H1 and H2 of financial year, revenues in GCC are usually split 45%-55% but the OPBDITA split is at 30% and 70% for H1 and H2 because of the high fixed cost and the corresponding operational leverage. The Group, however, maintains adequate liquidity in the form of undrawn term loans of Rs 700 crore and free cash and bank balances of Rs 274 crore as on March 31, 2018.

Low return indicators in Indian operations – The Group has low return indicators in the Indian operations on account of the greater share of units in the initial ramp up stage. Compared to the 27% return on capital employed in the Group's established hospital in the GCC, an established hospital in India generates 3% for the Group.

Moderate working capital intensity because of high receivables from government and insurance segments - The working capital intensity has been moderately high, at ~13%, on account of high debtor days. Majority of patients at GCC states are credit-paying whilst that at the Indian operations are cash-paying. Credit patients (credit period of 60 to 90 days), who are covered either by health insurance or by corporate medical packages, form a higher percentage of the Group's revenues, resulting in higher debtor days.
The Group had made significant provisions, amounting to Rs. 858 crore during the period FY2015 till FY2017; a majority of Rs. 502 crore is towards receivables in Sanad Hospital from the Saudi government. In order to decrease the reliance on revenues generated from the government sector in Saudi Arabia, the group has diversified the revenues by increasing the share of private insurance patients and walk-in cash patients. The percentage of revenue derived from Saudi government decreased from 82% of the total revenue for Sanad Hospital in FY2016 to 25% of total revenue for Sanad Hospital in FY2018.

Proposed new units to constrain margins in near term – The Group has undertaken large capex both in the form of organic and inorganic expansion in the past and has a planned capex of Rs 650 crore in FY2019 and Rs 300 crore in FY2020 for establishing greenfield hospitals. The initial ramp up-period losses expected in first 18-24 months for the greenfield units is expect to negate the improvement in profitability in the older units to an extent, thus constraining the profitability.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Hospitals

Group Profile

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 reorganisation of its structure in 2008, the Group's operations across the GCC countries and India were consolidated under ADHL. As on March 31, 2018, the company had 9 subsidiaries, 48 stepdown subsidiaries and 4 associate companies, through which the Aster Group operates 19 hospitals, 101 clinics, and 207 pharmacies in the GCC region and India (as on March 31, 2018). 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 83% of the consolidated revenues in FY2018, with the remaining coming from India. ADHL was listed on the India stock exchanges on February 26, 2018.

The Group reported a net profit of Rs. 289.78 crore on an operating income of Rs. 6721 crore in FY2018 as compared to a net profit of Rs. 65.40 crore on an operating income of Rs. 5931 crore in FY2017.

Key financial indicators (consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	5,931	6,721
PAT (Rs. crore)	65.40	289.78
OPBDIT/OI (%)	5.60%	9.12%
RoCE (%)	10.54%	10.14%
Total Debt/TNW (times)	1.23	0.74
Total Debt/OPBDIT (times)	8.31	3.86
Interest coverage (times)	1.22	2.71

Source*: company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					August 2018	December 2017@	November 2016	-
1	Commercial Paper	Long Term	0.00	0.00	NA	[ICRA]A2+ Withdrawn	[ICRA]A2+	-
2	Fund based-Working Capital Facilities	Long Term	105.00	72.36	[ICRA]BBB+(Positive)	-	-	-
3	Fund based-Term Loan	Long Term	20.00	17.06	[ICRA]BBB+(Positive)	-	-	-
4	Non-fund based Facilities	Short Term	30.00	24.00	[ICRA]A2+	-	-	-
5	Unallocated Limits	Long Term	13.00	0.00	[ICRA]BBB+(Positive)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN o	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	December 2016	NA	NA	60.00	[ICRA]BBB+(Positive)
NA	Cash Credit	July 2017	NA	NA	15.00	[ICRA]BBB+(Positive)
NA	Overdraft	December 2017	NA	NA	30.00	[ICRA]BBB+(Positive)
NA	Term Loan	December 2017	NA	December 2019	20.00	[ICRA]BBB+(Positive)
NA	Bank Gaurantee/Letter of Credit	December 2017	NA	NA	30.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	13.00	[ICRA]BBB+(Positive)

Source: Aster DM Healthcare Limited

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About ICRA Limited:

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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.

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