August 28, 2020

Aster DM Healthcare Limited: Rating reaffirmed; rated limits enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based	105.00	136.00	[ICRA]A-(Stable); Reaffirmed; assigned for enhanced limits
Long-term Term Loan	20.00	50.00	[ICRA]A-(Stable); Reaffirmed; assigned for enhanced limits
Short Term Non-fund Based	30.00	30.00	[ICRA]A2+; Reaffirmed
Long-term Unallocated Limits	13.00	50.00	[ICRA]A-(Stable); Reaffirmed; assigned for enhanced limits
Total	**168.00**	**266.00**	

**Instrument details are provided in Annexure-1.*

Rationale

The rating takes into account the Group's established market position in the healthcare industry across GCC countries and its growing 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. In FY2020, operating income grew by 10% whereas Adjusted OPBITDA margin increased to 11.1% from 10.8% in FY2019 despite the impact of Covid-19 on the operations of the Group in the month of March 2020. As on March 31, 2020, Total Debt / Adjusted OPBDITA[1] stood at 3.3 times as against 3.2 times as on March 31, 2019. The Group continues to witness steady improvement in revenue across segments, backed by ramp-up of new facilities and improving operations in the existing facilities.

The ratings, however, remain constrained by the low return indicators in the Indian operations due to the capital-intensive model adopted in India. The rating also considers the regulatory and country risks faced with regards to the Group's organisational structure and operations in the GCC segment, which generated around 83% of the consolidated OPBITDA during FY2020. Further, ICRA notes the adverse impact of Covid-19 pandemic on the operations of the Group in Q1FY2021 and resultant moderation expected in the Group's financial metrics during the full year of FY2021. Overall, the Group witnessed a decline of 13% in revenues on a Y-o-Y (year on year) basis and reported a net loss during Q1FY2021. With the Covid-19 impact expected to continue into Q2FY2021, particularly in India units, recovery in revenues and margins to earlier levels is expected from Q3 onwards.

The stable outlook reflects ICRA's expectations that the Group's track record and diversification across segments and geographies will aid in mitigating the impact of external circumstances such as Covid-19 to some extent. Moreover, the Group is undertaking various cost containment measures and reducing capital expenditure which is expected to contain debt levels despite the lower profitability anticipated in FY2021.

[1] Adjusted OPBDITA refers to OPBDITA figures before implementation of IndAS 116 accounting standards.

Key rating drivers and their description

Credit strengths

Track record of over three decades with diversified healthcare service offerings - The Group commenced its operations in 1987 and as on June 2020, the Group had 26 hospitals (GCC-13, India-13), 116 clinics (GCC-107, India-9) and 238 pharmacies (GCC-238). It has established presence across multiple geographies, multiple healthcare delivery verticals and serves multiple economic segments. Aster DM Healthcare's GCC Hospitals, GCC Clinics, GCC Pharmacies and India Hospitals and Clinics contributed around 34%, 22%, 26% and 18% respectively to the revenues in FY2020. The Group continues to witness steady improvement in revenue across segments, backed by ramp-up of new facilities and improving operations in the existing facilities. All segments, except for GCC clinics showcased improved margins in FY2020 over FY2019.

Established presence across GCC states with strong brand equity and growing presence in India - Aster DM Healthcare is one of the largest private healthcare service providers in GCC countries and a growing healthcare player in India. The Group has a strong brand presence with different brands to cater to different customer segment. 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 Kerala, Karnataka, Andhra Pradesh, Telangana and Maharashtra.

Comfortable leverage and debt protection indicators – Despite significant outflow towards share buyback, capital expenditure and acquisitions in FY2020, the debt protection indicators remained comfortable during FY2020 backed by improving profitability and prudent working capital measures adopted. As on March 31, 2020, gearing and debt/adjusted OPBDITA stood at 0.9 times and 3.3 times respectively, as against 0.8 times and 3.2 times respectively as on March 31, 2019. Majority of the Group's borrowings are in the GCC countries with interest rates in the range of 3.3%-4.4%.

Credit challenges

High dependence on the GCC operations – The Group has historically generated more than 80% of its consolidated OPBITDA from its GCC operations and is significantly dependent on its operations in the UAE. The GCC business is subject to seasonality is because of the decline in volumes across hospitals, clinics and pharmacy segments during the summer months. Its operations in the GCC are exposed to challenging competitive landscape and regulations with respect to the foreign ownership restrictions. Recent announcements by the UAE government towards allowing 100% ownership by foreign shareholders in approved sectors (including healthcare) help mitigate such concerns to some extent.

Low return indicators in Indian operations – The Group has low return indicators in the Indian operations on account of the capital-intensive model adopted in India as compared to GCC. In India, the group owns the land and building of some of the major revenue contributing hospitals, whereas in GCC, most of the hospitals are owned by third-party entities. Compared to the 25% return on capital employed (ROCE) in the Group's established hospital in the GCC, the established hospital units in India generate 6% for the Group. 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.

Adverse impact of Covid-19 pandemic on the operations of the Group in Q1FY2021; resultant moderation in financial metrics for the year – Overall, the Group witnessed a decline of 13% in revenues on a Y-o-Y (year on year) basis, during Q1FY2021. GCC hospitals revenues remained at similar levels supported by higher Covid patient admissions, however Indian hospital revenue declined due to lockdowns and deferment of elective procedures. GCC Clinics revenues declined because of lower patient visits. Despite several cost reduction measures adopted during the period, the Group recorded net loss in Q1FY2021. With the Covid-19 impact expected to continue into Q2FY2021, particularly in India units, recovery in revenues and margins to earlier levels is expected from Q3 onwards. Moreover, the Group is reducing capital expenditure which is expected to contain debt levels despite the lower profitability anticipated in FY2021.

Liquidity position: Adequate

The Group's cash from operations is expected to moderate in FY2021 on account of the Covid-19 pandemic impact; nonetheless, it is expected to be comfortable in relation to the debt servicing obligations. The Group has availed the benefit of the moratorium on bank loan payments as per the RBI Covid regulatory package. The capital expenditure plans of the group in FY2021 have been curtailed in light of the Covid-19 pandemic and consequently debt drawdown towards capital expenditure is expected to be limited to certain ongoing projects in India. The Group had unencumbered cash and bank balances of Rs 168 crore as on March 31, 2020.

Rating sensitivities

Positive triggers – ADHL's ratings could be upgraded with improvement in profitability (ROCE) and net Debt/adjusted OPBDITA less than 2.0x on a sustained basis.

Negative triggers – 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 net Debt/adjusted 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	ICRA has taken a consolidated view of Aster DM Healthcare Limited and its nine subsidiaries, based on the strong operational and financial linkages between the group entities and their common management group.

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 reorganisation of its structure in 2008, the Group's operations across the GCC countries and India were consolidated under ADHL. As on March 31, 2020, the company had 9 subsidiaries, 69 stepdown subsidiaries and 5 associate companies, through which the Aster Group operates 26 hospitals, 116 clinics, and 238 pharmacies in the GCC region and India (as on March 31, 2020). 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 81% of the consolidated revenues in FY2020, with the remaining coming from India. ADHL was listed on the India stock exchanges on February 26, 2018.

The Group reported an operating income of Rs. 8738.5 crore in FY2020 as compared to an operating income of Rs. 7962.7 crore in FY2019.

Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	7962.7	8738.5
PAT (Rs. crore)	367.6	314.9
OPBDIT/OI (%)	10.8%	14.4%
PAT/OI (%)	4.6%	3.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	2.3
Total Debt/OPBDIT (times)	3.2	2.5
Interest Coverage (times)	4.8	3.5

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding *	Rating	FY2020		FY2019	FY2018
					28-Aug-2020	17-Jan-2020	14-Jun-2019	24-Aug-2018	-
1	Fund based-Working Capital Facilities	Long Term	136.00	NA	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	-
2	Fund based-Term Loan	Long Term	50.00	47.7	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	-
3	Non-fund based Facilities	Short Term	30.00	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
4	Unallocated Limits	Long Term	50.00	NA	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	-

*Amount in Rs. Crore; *As on March 31, 2020.*

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft	NA	NA	NA	60.00	[ICRA]A-(Stable)
NA	Cash Credit	NA	NA	NA	70.00	[ICRA]A-(Stable)
NA	Buyer's Credit	NA	NA	NA	6.00	[ICRA]A-(Stable)
NA	Term Loan 1	December 2017	NA	December 2019	20.00	[ICRA]A-(Stable)
NA	Term Loan 1	December 2019	NA	December 2024	30.00	[ICRA]A-(Stable)
NA	Bank Gaurantee/Letter of Credit	NA	NA	NA	30.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	50.00	[ICRA]A-(Stable)

Source: Aster DM Healthcare Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aster DM Healthcare (Trivandrum) Limited	100.0%	Full Consolidation
DM Med City Hospitals (India) Private Limited	100.0%	Full Consolidation
Ambady Infrastructure Private Limited	100.0%	Full Consolidation
Prerana Hospital Limited	87.0%	Full Consolidation
Affinity Holdings Private Limited	100.0%	Full Consolidation
Malabar Institute of Medical Sciences Limited	74.0%	Full Consolidation
Aster Clinical Lab LLP	100.0%	Full Consolidation
Sri Sainatha Multispeciality Hospitals Private Limited	77.0%	Full Consolidation
Dr. Ramesh Cardiac and Multispeciality Hospital Private Limited	51.0%	Full Consolidation

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About ICRA Limited:

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