AMRI Hospitals Limited
January 03, 2022

Rating

<table>
<thead>
<tr>
<th>Facilities/Instruments</th>
<th>Amount (Rs. crore)</th>
<th>Rating¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Bank Facilities</td>
<td>135.97 (Reduced from 147.88)</td>
<td>CARE BBB+; Stable (Triple B Plus; Outlook: Stable)</td>
<td>Revised from CARE BBB; Stable (Triple B; Outlook: Stable)</td>
</tr>
<tr>
<td>Total Bank Facilities</td>
<td>135.97 (Rs. One Hundred Thirty-Five Crore and Ninety-Seven Lakh Only)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Convertible Debentures (NCD)</td>
<td>87.60 (Reduced from 102.20)</td>
<td>CARE BBB+; Stable (Triple B Plus; Outlook: Stable)</td>
<td>Revised from CARE BBB; Stable (Triple B; Outlook: Stable)</td>
</tr>
<tr>
<td>Total Long Term Instruments</td>
<td>87.60 (Rs. Eighty-Seven Crore and Sixty Lakh Only)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities/NCD issue of AMRI Hospitals Limited (AHL) takes into account improvement in the operating profitability of the company in 8MFY22 (refers to the period April 1 to November 30) which is expected to be sustained going forward. The company has increased the bed capacity of its Mukundpur unit in April 2021 and has also partly restarted the operations in a section of its Dhakuria unit which was closed due to fire since 2011. Out of the 200-bed capacity in the particular section of its hospital in Dhakuria, 50 beds are already operational, while the remaining 150 beds are expected to start operating from FY23 (refers to the period April 1 to March 31). These additions in bed capacity are expected to generate higher revenues going forward along with improved profitability due to better absorption of fixed costs. The occupancy rate of AHL’s hospitals which had dipped to 60% in FY21 again improved to 69% during 8MFY22 despite increase in number of beds available due to increase in hospitalization rates on the back of the severe impact of the second wave of Covid-19 pandemic. The average revenue per occupied bed (ARPOB) has also witnessed a steady increase during FY21 and 8MFY22 along with average length of stay (ALOS) of around 5 days.

AHL benefits from being a part of the established Emami group. The ratings take note of the continued support from the promoter group in the form of unsecured loans to meet its funding requirements; and gradual improvement in financial flexibility at the group level with share pledge of promoter’s holding in Emami Limited reducing from 34.85% of promoter shareholding as on February 02, 2021 to about 28% in November 2021. Also, external debt in the company has reduced significantly primarily through infusion of interest-bearing unsecured loans by the promoters; albeit total debt (including promoter’s unsecured loan) has continued to go up. Emami group has demonstrated its timely need-based support to AHL in the past and the same is expected to continue as and when required in the future.

The ratings further continue to derive strength from AHL’s long and satisfactory track record of operations in the hospital industry, company having multi-speciality hospitals with modern facilities and association of experienced doctors. The rating also takes note of the company’s tie-up with corporates and favourable demographic profile of the hospital’s location.

The ratings, however, continue to remain constrained by AHL’s weak capital structure with negative net worth and modest overall debt protection metrics necessitating reliance on support from Emami group leading to continuous increase in total debt of the company. The ratings are further constrained by its moderate geographical concentration, inherent challenges in attracting and retaining quality doctors due to ever increasing competitive environment in healthcare industry and high vulnerability to treatment-related risks and regulatory/event risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in occupancy rate and ARPOB leading to improvement in PBI-LDT margin above 20% on a sustained basis.
- Sustained improvement in total debt/PBI-LDT to around 5 times.
- Improvement in ROCE to around 15% on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Moderation in PBI-LDT margin to below 10% on sustained basis and significant increase in cash losses going forward.
- Inability to infuse funds by the promoter group in a timely manner, if required or overall deterioration in financial flexibility available with the group.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.’s publications
Detailed description of the key rating drivers

Key Rating Strengths

Strong financial flexibility of the Emami group along with demonstrated financial support to AHL from the group

AHL belongs to the Kolkata based Emami Group with Emami Limited (El; rated CARE AA+; Stable/CARE A1+) being the flagship company of the group. The group is one of the leading manufacturers of herbal and ayurveda products in personal, cosmetic and health care segments with market leadership in few of its products and presence across diverse business segments like paper, edible oil, real estate, hospitals, etc. The promoters of the group, Mr R S Agarwal and Mr R S Goenka, are qualified professionals with extensive business experience.

Emami Group has demonstrated regular support towards funding of losses, servicing of debt obligation and financing of ongoing projects in AHL. As on March 31, 2021, the promoter's unsecured loans in AHL stood at Rs.710.45 crore (Rs.558.86 crore as on March 31, 2020), which further increased to Rs.1,352.26 crore as on September 30, 2021. This apart, AHL also issued compulsory convertible debentures (CCD) of Rs.100 crore in FY16 by converting unsecured subordinated debt of promoter group. The negative tangible net worth of AHL has been supported by such funding support from the promoters.

While the promoter group has demonstrated continued financial support to the company, the financial flexibility available to the group has also improved. The promoters took several steps like sale of some of its stake in EL along with monetization of the group's cement and power businesses to reduce the promoter level debt and the pledge of promoter shareholding.

Multi-specialty hospitals with well diversified facilities mix, diagnostics and modern facilities

The hospitals of AHL have critical care and emergency departments which provide round-the-clock services, backed by specialized equipment and modern facilities. The revenue stream of the company remains well diversified with no particular specialization contributing more than 25% of total revenue.

Many experienced doctors specialized in their respective fields have been a part of AHL for a long period. As on March 31, 2021, AHL had a team of 3,617 medical professionals, nursing staffs and other support staffs (including 550 visiting doctors). AHL has maintained a decent doctors per bed ratio of around 1:4 during the last 3 years, i.e. FY19-FY21 and H1FY22.

Favourable demographic profile of the hospital’s location and tie-ups with corporates; albeit geographical concentration risk

The company has its hospitals at 4 locations (Dhakuria, Salt Lake, Mukundpur and Bhubaneshwar). However, the hospitals have geographical concentration risk with presence only in 3 locations of West Bengal and 1 of Odisha. Further the hospitals are also surrounded by other renowned hospitals in the adjacent areas which increases competitive intensity. However, the hospitals are reputed, engaged in providing healthcare services to people from Kolkata, North-Eastern India and neighboring countries. AHL has also entered into tie-ups with many reputed corporates. The company also has arrangements with leading Third Party Administrators (TPAs). These tie-ups have resulted in providing revenue stability for the hospital.

Steady occupancy rate of the hospitals with increasing ARPOB and steady ALOS

Occupancy rate (OR) for a hospital depends upon available infrastructure facilities, composition of doctors, its brand image, successful handling of critical cases and easy accessibility for the patients. AHL, with a bed capacity of 941 as on March 31, 2021 at its four locations, had a steady occupancy level of 70%-75% during FY18-FY20. However, due to the pandemic, the occupancy level witnessed a decline in FY21 to 60% as people started avoiding hospitals other than for emergencies. Further, there was a decline in out-patient department's occupancy rate by 50% compared with FY20. The ARPOB, however, witnessed a significant increase from Rs.24,496 in FY20 to Rs.30,264 in FY21. The ALOS remained steady at about 5 days in FY21.

The occupancy rate which had declined in FY21, has picked up again in 8MFY22 to 69% despite increase in number of beds available due to the severe impact of the second wave of Covid-19 pandemic resulting in increase in hospitalization rates. Further, the ARPOB also witnessed increase to Rs.32,727 in 8MFY22. The ALOS remained steady at about 5 days in 8MFY22.

Improvement in operating profitability witnessed in 8MFY22

The total operating income of the company witnessed a de-growth of 6.82% y-o-y in FY21 on account of decline in occupancy levels of hospitals. Despite decline in revenue, PBILDT margin witnessed improvement from 9.83% in FY20 to 12.23% in FY21 on account of reduction in payment to medical consultants and lower sales promotion expenses along with increase in ARPOB. Further, the flow of scheme-based low costs patients was low which led to improvement in patient mix. The company continued to incur cash losses, however, on adjusting the interest component related to unsecured loans (being from promoter group companies and can be deferred in case of need), the company earned GCA of Rs.30 crore in FY21 vis-à-vis cash loss of Rs.8 crore in FY20.

In 8MFY22, the total operating income witnessed a healthy growth of 65% y-o-y aided by increase in occupancy rate and ARPOB. Also, the additional capacity in the Mukundpur unit commenced operations from April 2021 which further added to the revenue. Accordingly, PBILDT also witnessed an increase from Rs.25.95 crore in 8MFY21 to Rs.102.33 crore in 8MFY22 and PBILDT margin improved from 6.91% in 8MFY21 to 16.54% in 8MFY22. In the current year, the company has increased its critical care bed ratio from 33% to 40% which has led to improvement in patient mix and product mix. Also, the increase in bed capacities in Dhakuria and Mukundpur has led to better absorption of fixed costs leading to improved operating margins which are expected to sustain going forward. The loss before tax also witnessed reduction from Rs.141 crore in 8MFY21 to Rs.65 crore in 8MFY22. The company continues to incur cash losses on overall basis, however, the same has reduced significantly. Further,
on adjusting the interest component related to unsecured loans (being from promoter group companies and funded by fresh infusion of promoter loans), the company earned GCA of Rs.76 crore in 8MFY22 vis-à-vis cash loss of Rs.18 crore in 8MFY21.

Favourable industry prospects
The growth in population, increase in lifestyle related diseases, rising purchasing power of the middle class and higher awareness of chronic illnesses are the key growth drivers for the sector. With the outbreak of Covid-19 pandemic, profitability margins of the industry may remain under pressure due to drop in outpatient footfalls, elective surgeries and international patients. The increase in momentum of non-Covid treatments and elective surgeries which tend to provide better ARPOBs on an average compared to the ARPOBs from Covid patients is expected to support the industry growth going forward.

Key Rating Weaknesses
Weak capital structure and negative tangible net worth; albeit supported by fund support from promoter holding companies
Owing to the continuous net losses reported by the company in the past, the net worth of the company has turned negative. The company’s total debt to PBILD remained high at 21.36x as on March 31, 2021 (19.79x as on March 31, 2020) due to high reliance on debt. The company has been receiving fund support from other promoter holding companies in the form of unsecured loans to service the external interest and principal debt repayment obligations.
As on September 30, 2021, the total debt of the company stood at Rs.1,654 crore (Rs.1,587 crore as on March 31, 2021) with majority portion comprising of unsecured loans from promoter group companies (Rs.1,352 crore as on September 30, 2021). As the unsecured loans from promoters are interest-bearing, the overall debt of the company has been continuously increasing. The company has repaid Rs.129 crore till September 30, 2021 towards debt obligations through infusion of unsecured loans from related parties. Need based support has been provided to AHL on regular basis and going forward, continuation of the timely fund support, as required, shall remain key rating monitorable.

Capital intensive nature of business along with challenges in retaining quality doctors in a competitive environment
Hospital industry is a capital-intensive industry with relatively long gestation period. Generally, new hospital takes around 2-3 years’ time frame to breakeven at operational level. Establishment, occupancy rate and financial stability in the initial period of operation takes time. Thus, the promoter is required to support the operation until the mentioned parameters reach the minimum desired level. Further, the maintenance capex required for the hospital industry also remains high owing to regular replacement of equipment, non-reusable pharmaceutical and surgical products and to update the latest technology. The industry also faces challenges with respect to hiring on-role and/or off-role doctors, nurses and other staff. Hence dependence on human resources is high and is employed and deployed as per requirement. If any renowned doctor disassociates himself/herself from any hospital it has a high probability of impacting the hospital’s performance. Moreover, the hospital sector is highly fragmented with few large players in the organized sector and numerous small players in the unorganized sector leading to high level of competition in the business. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in treatment of critical / complex diseases, etc. will be crucial to attract patients and increase occupancy.

Regulatory/Event Risk
Hospitals operate in a regulated industry. In India, hospitals are governed by various laws such as Indian Medical Council Act 1956, The Clinical Establishments (registration and regulation) Act 2010, Indian Medical Council Regulations 2002 etc. Given the importance of healthcare facilities, Government of India has been taking various steps towards increasing the affordability and coverage of healthcare services in the country by putting price restriction on pharmaceutical entities, medical equipment manufacturers and hospitals services. Various state governments have also implemented the Clinical Practice Establishment Act, bringing in accountability on how hospitals price their cost of services to patient, and penal provisions for violations. Healthcare is a highly sensitive sector where any mistake on a critical case or negligence on part of any doctor and/or staff of the unit can lead to distrust among the masses. Thus, all the healthcare providers need to monitor each case diligently and meticulously to avoid the occurrence of any unforeseen incident which can damage the reputation of a hospital. In the past, one of the hospital units of AHL had witnessed a fire accident which had severely impacted its operations.

Liquidity: Adequate
AHL maintains adequate liquidity primarily out of fund support from promoter group entities. The company had free cash and cash equivalents of Rs.32.93 crore as on September 30, 2021. The company has already repaid Rs.129 crore of debt obligations till September 30, 2021 out of funds infused by promoter group companies in the form of unsecured loans. Further, the company had availed a short-term loan of Rs.457.49 crore from lenders which were outstanding as on March 31, 2021. The same has also been repaid by the company during H1FY22 out of funds infused by promoter group companies. In H2FY22, the company has debt repayment obligation of Rs.57 crore which is also envisaged to be partly met out of fund support from promoter group companies. Further, the major portion of interest cost comprises of interest on unsecured loans availed from promoter group companies which is funded out of fresh loans from promoters. The average working capital limit utilisation stood at 76% during the trailing 12 months period ending November 2021, thus providing some cushion to its liquidity.
**Analytical approach:** Standalone. Ratings additionally factor in the financial flexibility of the Emami group in raising resources and demonstrated fund support to AHL by the group’s investment companies.

**Applicable Criteria**

*Policy on default recognition*

*Factoring Linkages Parent Sub JV Group*

*Financial Ratios – Non financial Sector*

*Liquidity Analysis of Non-financial sector entities*

*Ratings Outlook and Credit Watch*

**Hospital Service Sector Companies**

**About the Company**

Established in 1986, AHL commenced operation in 2001. Initially, the hospital was jointly promoted by Kolkata based Emami Group (65.4% stake) and Shrachi Group (32.7% stake). In March 2015, Shrachi group’s holding was taken over by the Emami Group which presently holds 98.10% stake in the company. Govt. of West Bengal (GoWB) has a minority stake of 1.90% in AHL, in lieu of the land provided for setting up of its first hospital. Currently, the company is operating four hospitals, out of which three are in Kolkata (Dhakuria, Mukundpur and Salt Lake) and one in Bhubaneswar with an aggregate capacity of 1,123 beds as on November 30, 2021. AHL’s hospitals are NABH certified (National Accreditation Board for Hospitals and Healthcare Providers).

**Brief Financials (Rs. crore)**

<table>
<thead>
<tr>
<th></th>
<th>31-03-2020 (A)</th>
<th>31-03-2021 (A)</th>
<th>8MFY22 (UA)</th>
</tr>
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<tbody>
<tr>
<td>Total operating income</td>
<td>651.86</td>
<td>607.38</td>
<td>618.73</td>
</tr>
<tr>
<td>PBILDT</td>
<td>64.06</td>
<td>74.27</td>
<td>102.33</td>
</tr>
<tr>
<td>PAT</td>
<td>-98.67</td>
<td>-91.67</td>
<td>* -64.67</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>-12.54</td>
<td>-7.53</td>
<td>NA</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>0.37</td>
<td>0.47</td>
<td>0.80</td>
</tr>
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*A: Audited; UA: Unaudited; * PBT; NA: Not available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

**Annexure-1: Details of Instruments / Facilities**

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>ISIN</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Loan-Long Term</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>March 2027</td>
<td>135.97</td>
<td>CARE BBB+; Stable</td>
</tr>
<tr>
<td>Debentures-Non Convertible Debentures</td>
<td>INE437M07059</td>
<td>December 31, 2015</td>
<td>10.80%</td>
<td>March 2027</td>
<td>87.60</td>
<td>CARE BBB+; Stable</td>
</tr>
</tbody>
</table>

**Annexure-2: Rating History of last three years**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Type</th>
<th>Amount Outstanding (Rs. crore)</th>
<th>Current Ratings</th>
<th>Rating history</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Date(s) &amp; Rating(s) assigned in 2021-2022</td>
</tr>
<tr>
<td>1</td>
<td>Term Loan-Long Term</td>
<td>LT</td>
<td>135.97</td>
<td>CARE BBB+; Stable</td>
<td>1)CARE BBB; Stable (05-Apr-21)</td>
</tr>
<tr>
<td>2</td>
<td>Debentures-Non Convertible</td>
<td>LT</td>
<td>87.60</td>
<td>CARE BBB+; Stable</td>
<td>1)CARE BBB; Stable</td>
</tr>
</tbody>
</table>
Press Release

Debentures Stable (05-Apr-21) (03-Apr-20) (08-Jan-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Detailed explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NCD issue</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Financial covenants</strong></td>
<td></td>
</tr>
<tr>
<td>I. DSCR</td>
<td>Should be greater than 1x (in case of failure of borrower to maintain DSCR of at least 1x, the borrower shall have to arrange from the sponsor or any group company, any shortfall amount required to service the borrower's debt obligations).</td>
</tr>
<tr>
<td>II. Fixed Asset Coverage Ratio</td>
<td>Should be greater than 1.3x</td>
</tr>
<tr>
<td>III. Debt Service Reserve Account (DSRA)</td>
<td>DSRA equivalent to one quarter interest and principal shall be maintained.</td>
</tr>
</tbody>
</table>

Annexure 4: Complexity level of various instruments rated for this company

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Name of instrument</th>
<th>Complexity level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Debentures-Non Convertible Debentures</td>
<td>Simple</td>
</tr>
<tr>
<td>2</td>
<td>Term Loan-Long Term</td>
<td>Simple</td>
</tr>
</tbody>
</table>

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.
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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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