AMRI Hospitals Limited
April 05, 2021

Ratings

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Ratings1</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Bank Facility</td>
<td>147.88 (reduced from 159.13)</td>
<td>CARE BBB; Stable [Triple B; Outlook: Stable]</td>
<td>Reaffirmed</td>
</tr>
<tr>
<td>Non-Convertible Debt issue</td>
<td>102.20 (Reduced from 118.63)</td>
<td>CARE BBB; Stable [Triple B; Outlook: Stable]</td>
<td>Reaffirmed</td>
</tr>
</tbody>
</table>

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities/Instruments of AMRI Hospitals Ltd (AHL) continue to draw strength from the long and satisfactory track record of the company with strong financial flexibility of the Emami group, demonstrated financial support from the group and its promoters and willingness of continuity of support as and when required. The ratings continue to factor in multi-specialty hospitals with modern facilities, steady occupancy rate of the Hospital with increasing average revenue per operating bed (ARPOB) and steady Average Length of Stay (ALOS), tie-ups with corporates and favourable demographic profile of the hospital’s location. The ratings, however, continue to remain constrained by geographical concentration risk, weak financial risk profile in view of continued losses, weak capital structure, regulatory / event risk and human resource intensive nature of business.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:
- Reduction of debt and improvement in overall gearing ratio below 1.50x on sustained basis.
- Better ARPOB with operating margin above 14% and cash profit above Rs.70 crore on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:
- Inability to infuse funds on a timely manner to fund the debt servicing requirement of AHL.
- Increase in working capital cycle above 60 days on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Strong financial flexibility of the Emami group along with demonstrated financial support from the group and its promoters

Emami Group is one of the leading industrial group with major interest in cosmetics, healthcare, edible oil, paper, retail, and real estate sectors. The flagship company of the group, Emami Limited (EL; rated CARE AA+; Stable/ CARE A1+), has presence in personal and healthcare products. The promoters of the group, Mr R S Agarwal and Mr R S Goenka, are qualified professionals with business experience of over four decades. Emami Group has demonstrated regular support towards funding of losses, servicing of debt obligation and financing of ongoing projects of the company. As on March 31, 2020, the unsecured loans balance stood at Rs.558.86 crore which further increased to Rs.1136.21 crore as on December 31, 2020. This apart, AHL also issued compulsory convertible debentures (CCD) of Rs.100 crore in FY16 by converting unsecured subordinated debt.

The financial flexibility available to the group improved with sale of promoters’ stake in power and cement business to reduce the promoter level debt and the pledge of promoter shareholding. Consequently, the outstanding loan against pledge of promoter’s shares reduced from Rs.2,408 crore as on July 29, 2019 to Rs.1,370 crore as on February 02, 2021. The pledge of shares stands at 34.85% of promoter shareholding as on February 02, 2021 (46.80% as on June 30, 2019).

Multi-specialty hospitals with modern facilities

The hospital has Critical Care and Emergency departments which provides services, backed by specialised equipment, like ECMO, SLED and CRRT. The hospital also has set up for support in Cardiac Sciences, along with facilities for advanced treatment procedures in angioplasty, CABG, valve replacement, etc. Besides these, the company also provides treatment and surgical facilities, across disciplines like Cardiology, Gastroenterology, Nephrology and Urology, General Medicine, General and Laparoscopic surgery. The hospital is also equipped with Oncology department, providing holistic care and treatment – surgical, medical, radiation, haematological and palliative care – for all kinds of Cancer.

Favourable demographic profile of the hospital’s location albeit geographical concentration risk

The company has its hospitals located at 4 locations (Dhakuria, Saltlake, Mukundapur and Bhubaneshwar). Hence geographical concentration risk remains with presence only in West Bengal and Bhubaneshwar. However, the company is one of the reputed hospitals, engaged in providing healthcare services to people from Kolkata, North-Eastern India and neighbouring countries.

Steady occupancy rate of the Hospital with increasing average revenue per bed and steady Average Length of Stay (ALOS)

Occupancy rate (OR) for a hospital depends upon available infrastructure facilities, composition of doctors, its brand image, successful handling of cases and easy accessibility for the patients. AMRI with a bed capacity of 967 at its four location, has shown a steady occupancy level at 70%-75% over 3 years (FY18-FY20) with ARPOB of Rs.24496 in FY20. The ALOS of the hospital

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1Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications
Press Release

has been steady at ~4 days. In 9MFY21, the occupancy rate declined to 59% vis-à-vis 76% in 9MFY20, due to fears on account of sudden outbreak of COVID-19 as people started avoiding hospitals. Further there was decline in out-patient departments occupancy rate by ~50%. However, despite lower occupancy, the ARPOB of the company increased to Rs.29,182 in 9MFY21 as against Rs.25,929 in 9MFY20 due to high ticket bill charged from COVID-19 patients.

**Tie-ups with corporates**

AMRI has entered into tie-ups with many reputed corporates. The company has also made arrangements with top Third Party Administrators (TPAs). These tie ups coupled with popularity has resulted in providing revenue stability of the hospital.

**Key Rating Weaknesses**

**Weak financial risk profile**

AHL’s operating income witnessed growth of 16% in FY20 over FY19, in view of increase in ARPOB in all units as well as increase in occupancy level. As a result, the PBI LTD margin, has increased from 8.56% in FY19 to 9.83% in FY20. The loss of the company in FY20 reduced and stood at Rs.98.67 crore from Rs.151.30 crore in FY19. The adjusted cash loss (after elimination of non-cash interest on unsecured loan from cash loss) of the company also improved from Rs.36.32 crore in FY19 to Rs.7.81 crore in FY20.

In 9MFY21, the company reported de-growth of ~15% in income from operation to Rs.439.85 crore as against Rs.519.16 crore in 9MFY20. The decline was mainly due to lower occupancy rate on account of spread of COVID-19. Consequently, the company reported operating profit of Rs.34.84 crore in 9MFY21 as against operating profit of Rs.63.65 crore in 9MFY20. The net loss of the company stood at Rs.150 crore. The adjusted cash loss of the company stood at Rs.11 crore. The performance of the Company has started witnessing improvement Q3FY21 onwards and is expected to result in improved financial performance from FY22 onwards, after expected deterioration in FY21.

**Weak capital structure supported by fund support from promoter holding companies**

Owing to the losses reported by the company in FY19-FY20, the net worth of the company has turned negative. The company’s total debt to EBITDA remained high at 17.78x as on March 31, 2020 due to reliance on debt. The company has been receiving fund support from other promoter holding companies in the form of unsecured loans to service the interest and debt obligations. The company has repaid Rs.158 crore till December 31, 2020 towards debt obligations through infusion of unsecured loans from related parties. Need based timely support is one of the key monitorable.

**Capital intensive and human resource intensive nature of business**

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 equipments, 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.

**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.

**Industry Outlook**

The healthcare industry being considered the most essential service continued even during the lockdown period where many other services were shut. While treatment of non-Covid patients (primarily non-emergency treatments) were instructed by the government to be kept on hold, treatment of Covid patients was prioritised after the outbreak of pandemic in India. Also, some hospitals had suspended outpatient departments (OPD) to ensure safety of the healthcare workers and to avoid the spread of infection in healthcare premises. Nevertheless, with easing of lockdown restrictions, the situation of hospital & healthcare industry improved sequentially in the September 2020 quarter and the December 2020 quarter which can be witnessed in the financials of the industry. Sales of the hospital & healthcare industry which had declined by a sharp 28.8% y-o-y in the June 2020 quarter fell by a slower 8.1% and 1.4% in the September 2020 quarter and the December 2020 quarter, respectively, thereby showing sequential improvement.

The industry is estimated to return to normal levels by end of Q1FY22 backed by expected improvement in occupancy rates, footfalls and ongoing vaccination program. Also, 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 will support the industry growth in FY22.
Liquidity: Adequate

AHL maintains adequate liquidity out of fund support from group entities. AHL’s cash and bank balance stood at Rs. 16.68 crore as on March 31, 2020 vis-à-vis Rs. 13.76 crore as on March 31, 2019 including fixed deposits. AHL is mainly dependent on its promoters/other group companies to service its debt obligation. The company has repaid Rs. 158 crore till Dec 31, 2020 towards debt obligations through infusion of unsecured loans from related parties. Further, as confirmed by the banker and management, the company had availed for moratorium on principal and interest till August 31, 2020 on its bank facilities under RBI COVID-19 relief package.

Analytical approach: Standalone. Ratings factor in the financial flexibility of the Emami group in raising resources and demonstrated fund support by the group investment Companies.

Applicable Criteria
CARE’s Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning Outlook and Credit watch to Credit Ratings
Factoring Linkages in Ratings
Rating Methodology for Service Sector Companies
Rating Methodology for Hospital Industry
Criteria for Short Term Instruments
Liquidity analysis of Non-financial sector entities

About the Company
Established in 1986, AHL commenced operation in 2001. The hospital was jointly promoted by Kolkata based Emami Group (having 65.4% stake) and Shrachi Group (having 32.7% stake) until Mar 2015, when AHL was wholly taken over by the Emami Group which holds 98.1% stake in the shareholding pattern of the company. Govt. of West Bengal (GoWB) has a minor stake of 1.90% in the company, 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 bed capacity of 967 beds.

<table>
<thead>
<tr>
<th>Brief Financials (Rs. crore)</th>
<th>FY19 (A)</th>
<th>FY20 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>559.82</td>
<td>651.89</td>
</tr>
<tr>
<td>PBILDT</td>
<td>50.73</td>
<td>64.06</td>
</tr>
<tr>
<td>PAT</td>
<td>-151.30</td>
<td>-98.67</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>NM</td>
<td>NM</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>0.39</td>
<td>0.37</td>
</tr>
</tbody>
</table>

A: Audited

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>147.88</td>
<td>CARE BBB; Stable</td>
</tr>
<tr>
<td>Debiture-Non Convertible Debentures</td>
<td>INE437M07059, INE437M07075, INE437M07083, INE437M07067</td>
<td>December 31, 2015</td>
<td>10.80%</td>
<td>March 2027</td>
<td>102.20</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>Current Ratings</th>
<th>Rating</th>
<th>Date(s) &amp; Rating(s) assigned in 2020-2021</th>
<th>Date(s) &amp; Rating(s) assigned in 2019-2020</th>
<th>Date(s) &amp; Rating(s) assigned in 2018-2019</th>
<th>Date(s) &amp; Rating(s) assigned in 2017-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Term Loan-Long Term</td>
<td>LT</td>
<td>147.88</td>
<td>CARE BBB; Stable</td>
<td>1)CARE BBB; Stable (03-Apr-20)</td>
<td>-</td>
<td>-</td>
<td>1)CARE A-(SO); Stable (26-Mar-18) 2)CARE A-(SO); Stable (27-Apr-17) 3)CARE A-(SO); Stable (27-Apr-17)</td>
</tr>
<tr>
<td>2.</td>
<td>Debentures-Non Convertible Debentures</td>
<td>LT</td>
<td>102.20</td>
<td>CARE BBB; Stable</td>
<td>1)CARE BBB; Stable (03-Apr-20)</td>
<td>-</td>
<td>-</td>
<td>1)CARE A-(SO); Stable (26-Mar-18) 2)CARE A-(SO); Stable (27-Apr-17)</td>
</tr>
<tr>
<td>3.</td>
<td>Fund-based - LT-Term Loan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1)CARE BBB+ (SO); Stable (27-Apr-17)</td>
</tr>
<tr>
<td>4.</td>
<td>Fund-based - LT-Term Loan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1)CARE BBB+ (SO); Stable (27-Apr-17)</td>
</tr>
</tbody>
</table>

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

Not Applicable

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

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the 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>

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