Artemis Medicare Services Limited

August 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	407.23 (Enhanced from 328.06)	CARE A-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	45.00	CARE A-; Stable / CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Artemis Medicare Services Limited (AMSL) continues to derive strength from consistent improvement in operational performance marked by growth in scale, improvement in profitability margins during FY23 (refers to the period from April 01 to March 31), high Average Revenue Per Occupied Bed (ARPOB) and healthy operational cash flow generation over the past 3 fiscals. The ratings also favourably factor in resourceful and reputed promoter, experienced management team and a qualified team of doctors and medical staff. The ratings take cognizance of AMSL's strategy to diversify its revenue streams through the establishment of a third tower in Gurgaon and the opening of new medical centres under the Artemis Lite and Daffodils models, coupled with a diversified revenue stream. However, the ratings are constrained by competition in the healthcare industry especially in the National Capital Region (NCR) which gets accentuated due to presence of hospital at a single location and regulatory risk associated with the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in income and profitability beyond Rs 750 crore and PBILDT margin above 17% on a sustained basis
- Timely completion of capex and sustained improvement in leverage leading to overall gearing below 0.50x

Negative factors

- Change in management or effective control of promoter group
- Deterioration in overall gearing above 1.50x due to significant capex undertaken for multiple projects to expand its operations

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) takes a consolidated view of the parent (AMSL) and its subsidiary (Artemis Cardiac Care Private Limited) owing to significant business, operational, and financial linkages between the two entities.

Outlook: Stable

The rating outlook "Stable" indicates the expected sustenance of AMSL's scale of operations, supported by a continued increase in international patients with a healthy ARPOB, and the addition of new centres.

Detailed description of the key rating drivers:

Key strengths

Established track record of operation in healthcare industry with resourceful promoters: AMSL started its operation in 2007 and is established by the promoters of the Apollo Tyres Group. Mr. Onkar Kanwar, the chairman of AMSL is also the chairman of Apollo Tyres Limited (ATL) and holds 68.03% stake in AMSL through an investment company (Constructive finance private limited) as on June 30, 2023. AMSL's board is represented by some of the Key Management Personnel of ATL and comprises independent directors from diverse industry sectors. AMSL has been awarded with the National Accreditation Board for Hospitals and Healthcare Providers (NABH) and Joint Commission International (JCI) accreditation**.**

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Experienced management supported by a qualified team of doctors: Though AMSL is the maiden venture of the promoter in healthcare business, the operations of the company are well supported through group of professionals having extensive work experience in renowned hospitals like Max Healthcare, Fortis, Apollo, etc. Dr. Devlina Chakravarty (Managing Director) along with group of professionals looks after the day-to-day operations of the hospital. As on August 17, 2023, AMSL had a team of 516 doctors, 594 administrative employees, 926 nurses and 389 paramedical staff.

Growing scale of operations along with improvement in profitability margins in FY23: AMSL has reported YoY (Year on Year) growth of ~33% in revenue to Rs 738.30 Cr (PY: 555.19 Cr) on a consolidated basis led by increase in number of beds to 427 operational beds (PY: 363 beds) while maintaining a stable occupancy rate of 69% in the last fiscal. Further, profitability improved as marked by PBILDT margin (Profit before interest, lease rental, depreciation, and tax) of 12.87% in FY23 (PY: 12.31%) due to increasing health insurance penetration, better case mix as critical surgeries and procedures are relatively more profitable than OPD, increasing ARPOB of Rs 66,192 in FY23 (PY: Rs 58,964), and growth in medical tourism. However, due to operationalisation of Tower 2 and ongoing debt funded capex (including tower 3 and establishment of new centres under Artemis Daffodils, Artemis Lite and Artemis Cardiac Care Models), depreciation and interest cost increased thereby leading to moderation in PAT margins to 5.15% in FY23 (PY: 5.66%).

Diversification of revenue streams: AMSL's revenue stream is well diversified on account of integrated facilities, with specialization in various segments including cardiology, neurology, gastroenterology, orthopaedics, critical care, nephrology and oncology and many other specialties. The revenue stream of AMSL remained well diversified with no particular specialization contributing more than 10% to total revenue in FY23. Orthopaedic, Oncology, Neurology (including Neurosurgery and Interventional Neuroradiology) and Cardiology were the highest revenue contributors for the hospital in FY23 with a contribution of approximately 41%.
Further, AMSL is expanding its business via new asset light business models of Daffodils and Artemis Lite. Artemis Lite are neighbourhood multi-speciality hospitals whereas daffodils are special units focussed on mothers and newborns. These are small multi-speciality centres with 30-40 beds to increase the reach of Artemis brand. However, these centres are still in their growth stage and profitable scale up from them will remain a key monitorable.

Key weaknesses

Competition in the healthcare industry in the NCR region: NCR is home to some big private players in healthcare domain such as Fortis Healthcare, Apollo Hospital, Max Healthcare etc. Moreover, Delhi being national capital has presence of numerous government hospitals such as AIIMS, Safdarjung Hospital, Ram Manohar Lohia Hospital etc. as well. This leads to competition not only in acquiring patients, but also in attracting experienced staff. Ability of AMSL to keep on attracting domestic as well as international patients will remain key monitorable.

Exposure to high regulatory risk: AMSL operates in a regulated industry which has witnessed continuous regulatory intervention during past couple of years. Regulations such as capping of stent prices and knee implants and stricter compliance norms have adversely impacted the margin of the industry in past. Any such future regulation might have adverse impact on the group's profitability and thus would remain a key monitorable.

Moderate financial risk profile: The capital structure of the company moderated as reflected by overall gearing of 0.98x as on March 31, 2023 (PY: 0.80x as on March 31, 2022). During the past few years, AMSL has undertaken capex by way of expanding its existing facility in Gurgaon along with opening up of centres and Cath labs in tier 2/3 cities in India due to which additional debt has been availed to the tune of Rs 70 crore. In FY24, overall gearing is expected to go up on account of construction of third tower at a total project cost of approximately Rs 150 crore. Debt coverage indicators also moderated as marked by the PBILDT interest coverage ratio of 4.83x (PY: 5.67x) during FY23. Further, the construction of second tower was completed in FY23 with a total project cost of Rs 185 Cr.

Liquidity: Adequate

The liquidity profile of AMSL is adequate as reflected by scheduled repayment of term loan to the tune of Rs 26 Cr in FY24 against projected gross cash accruals to the tune of Rs 74.94 Cr. Further, the company at consolidated level had free cash and bank balance to the tune of Rs 49.29 Cr as on March 31, 2023. The average utilization of working capital limits stood negligible at 0.04% for the trailing 12 months ended July 2023 providing extra cushion to the company. However, timely completion of the under-construction Tower 3 within the cost estimates and timelines would be critical. Any delay in completion or stabilization of operations will have a bearing on the liquidity profile the company. Other than the ongoing capex, there is no plan of additional large size capex in the near term.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Hospital
Service Sector Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare Services	Hospital

Incorporated in May 2004, Artemis Medicare Services Limited (AMSL) is engaged in healthcare services. AMSL owns and operates a 427-bedded multi-specialty tertiary care hospital in Gurgaon (PY: 363 beds). The specialty areas for AMSL include Orthopaedics, Oncology, Cardiovascular, Neurosciences and Bariatric & Minimally Invasive Surgery. ASML has been awarded with the NABH and JCI accreditation. Further, Mr. Onkar Kanwar (Chairman of AMSL) is also the chairman of Apollo Tyres Limited. In FY19, AMSL approved an investment in Artemis Cardiac Care Private Limited (ACCPL) which is a Joint Venture with Philips Medical Systems B.V (35% shareholding). ACCPL is a subsidiary of the AMSL with 65% shareholding formed primarily for operating and setting up of Cath lab units in Tier 2/3 cities in India. AMSL has also diversified its presence through Artemis Daffodil (Mother and Child centres), Artemis Lite (Neighbourhood hospitals) and Artemis Solace (Home services) models.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	555.19	738.30	209.54
PBILDT	68.36	95.05	29.15
PAT	31.40	38.01	9.75
Overall gearing (times)	0.80	0.98	-
Interest coverage (times)	5.71	4.83	4.24

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	45.00	CARE A-; Stable / CARE A2
Term Loan-Long Term		-	-	September 2032	407.23	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Term Loan-Long Term	LT	407.23	CARE A-; Stable	-	1)CARE A-; Stable (01-Sep-22)	1)CARE A-; Stable (28-Sep-21)	1)CARE A-; Stable (07-Jul-20)
2	Fund-based - LT/ ST-Cash Credit	LT/ST*	45.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (01-Sep-22)	1)CARE A-; Stable / CARE A2 (28-Sep-21)	1)CARE A-; Stable / CARE A2 (07-Jul-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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