Artemis Medicare Services Limited

September 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	378.21 (Reduced from 407.23)	CARE A; Stable	Revised from CARE A-; Stable
Long Term / Short Term Bank Facilities	45.00	CARE A; Stable / CARE A2+	Revised from CARE A-; Stable / CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Artemis Medicare Services Limited (AMSL) favourably factors in the improvement in operational performance of the company as marked by higher influx of international patients and a better case mix with higher number of critical surgeries, leading to higher average revenue per occupied bed (ARPOB), indicating the company's strengthening market position in Delhi-NCR. The ratings also take cognizance of the investment from a marquee investor - the International Finance Corporation (IFC) through Compulsorily Convertible Debentures (CCDs) aggregating to Rs 330 crore which led to strengthening of the capital structure of the company and will support the acquisition and expansion plans of the company in the near-medium term.

Additionally, the ratings also derive strength from AMSL's resourceful and reputable promoter, experienced management team, and skilled medical staff. The company's strategy to diversify its revenue streams by establishing a third tower in Gurgaon and opening new medical centres under the Artemis Lite and Daffodils models further strengthen its ratings. 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 1100 crore and PBILDT (Profit before interest, lease rentals, depreciation, and taxes) margin above 20% on a sustained basis.
- Timely completion of capex and sustained improvement in leverage leading to overall gearing below 0.30x.

Negative factors

- Change in Management or effective control of promoter group.
- Any debt funded capex or acquisition leading to total debt to PBILDT above 2.25x
- Sustained decline in operations with TOI (Total Operating Income) below Rs 700 crore and PBILDT margin below 14%.

Analytical approach: Consolidated.
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. The list of entities consolidated is provided below in Annexure 06.

Outlook: Stable

The "Stable" outlook indicates the expected improvement in AMSL's scale of operations, driven by a sustained increase in international patients with a healthy ARPOB, and the addition of new centres, along with the timely completion and operationalization of Tower 3 in the Gurugram hospital.

[1]Complete 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 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 67.51% stake in AMSL through an investment company (Constructive finance private limited) as on June 30, 2024. 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.

The company has also received an investment of Rs 330 crore through Compulsorily Convertible Debentures (CCDs) from the International Finance Corporation, a member of the World Bank Group. These CCDs are convertible into equity shares of the company within 18 months, in one or more tranches. The funds will be utilized to support the company's acquisition and expansion plans. CARE Ratings will continue to monitor the developments and expansion plans of AMSL in this regard. The ability of AMSL to complete the brownfield and greenfield capex plans, without any significant time and cost overruns, and draw the envisaged benefits from the same will be the key monitorable.

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 June 30, 2024, AMSL had a team of 503 doctors, 616 administrative employees, 1013 nurses and 420 paramedical staff.

Growing scale of operations along with improvement in profitability margins in FY24

Due to an increase in operational beds to 448 with the operationalization of Tower 2, while maintaining a stable occupancy rate of 67% (PY: 427 beds with 69% occupancy rate), along with rising health insurance penetration and growth in medical tourism, the company reported a 19% year-on-year (YoY) revenue growth to Rs 879.17 crore (PY: Rs 738.30 crore) at the consolidated level in FY24 (refers to the period from April 01 to March 31).

Additionally, factors such as the annual price revision, a better case mix with more critical surgeries and procedures (which are relatively more profitable than Outpatient Department), and higher revenue from international patients led to an improvement in the ARPOB to Rs 76,078 (PY: Rs 66,192). Consequently, the operating profit per bed also improved to Rs 0.29 crore in FY24 compared to Rs 0.23 crore in FY23. With the Daffodils and Lite models nearing maturity, profitability is expected to improve slightly in the medium term, however, it remains contingent upon the timely completion of Tower 3.

Q1FY25: In Q1FY25 (refers to the period from April 01 to June 30), the company has earned revenue of Rs 227.60 crore with improved PBILDT margin of 17.83% driven by economies of scale derived from full operationalization of Tower 2.

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, oncology, and many other specialties. The revenue stream of AMSL remained well diversified with no particular specialization contributing more than 15% to total revenue in FY24. Orthopaedic, Oncology, Neurology (including Neurosurgery and Interventional Neuroradiology) and Cardiology were the highest revenue contributors for the hospital in FY24 with a contribution of approximately 44% (PY: 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 and reduce dependency on a single hospital. Further, the hospital has diversified in overseas market as well by entering into operations and maintenance contract with hospitals in Mauritius.

Key weaknesses

Competition in the healthcare industry in the National Capital Region (NCR)

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 regulatory and concentration risk

AMSL operates in a regulated industry that has witnessed continuous regulatory intervention during the 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 company's profitability and thus would remain a key monitorable. Additionally, AMSL generates over 90% of its revenue from its hospital in Gurugram, Haryana, making it vulnerable to geographical risk, especially since major private players in the healthcare industry operate multiple hospitals. However, the company is mitigating this risk by adding new centres under the Daffodil and Lite models and entering overseas market with O&M (operations and maintenance) contracts in Mauritius.

Moderate financial risk profile

The capital structure of the company remained moderate, with an overall gearing of 0.95x as of March 31, 2024 (PY: 0.98x as of March 31, 2023). Over the past few years, AMSL has undertaken capital expenditure to expand its existing facility in Gurugram and open centres and Cath labs in tier 2/3 cities in India. Additionally, the company has been sanctioned an extra debt of Rs 103 crore for the construction of Tower 3.

Debt coverage indicators have moderated, as reflected by the PBILDT interest coverage ratio of 4.26x (PY: 4.84x) during FY24 and a total debt to gross cash accruals (TDGCA) ratio of 3.33x (PY: 3.91x). However, with the investment from IFC in the form of CCDs, will strengthen the overall gearing and other debt coverage measures.

Liquidity: Adequate

The liquidity profile of the group is adequate as reflected by scheduled repayment of term loan to the tune of Rs 26.20 crore in FY25 against projected gross cash accruals of Rs 131.70 crore. Further, the company had free cash and bank balance to the tune of Rs 57.73 crore at consolidated level as on March 31, 2024. The average utilization of working capital limits stood nil for the trailing 12 months ended July 2024 providing extra cushion to the company. AMSL is projected to incur a capex of Rs 122.65 crore in FY25 on account of construction of tower 3, new centres in AMSL, regular capex, and further expansion of Cath lab units which is proposed to be funded by way of term loans and internal accruals.

Environment, social, and governance (ESG) risks

The hospital sector has a low impact on the environment owing to its comparatively lesser water consumption and lower emission due to low energy intensive nature of operations of hospitals. Social impact is moderate because of its large workforce and value chain partners. AMSL is dedicated to sustainability through various environmental and social practices. Environmentally, the hospital focuses on reducing waste and monitor greenhouse gas emissions and have systems in place to measure Scope 1 and 2 emissions. Measures to reduce emissions include the use of an Anaesthetic Gas Scavenging System in operating theatres and efforts to increase the use of renewable energy. Energy conservation measures are also implemented to further reduce their environmental impact.

Socially, Artemis Hospital regularly trains its nurses and paramedical staff according to industry best practices. The hospital's "Boondh" initiative focuses on water conservation, aiming to increase water security in Gurugram by replenishing groundwater and managing water resources effectively. Additionally, the Artemis Health Foundation focuses on cancer awareness, early detection, and treatment, with a special emphasis on breast and cervical cancers. They engage in community outreach programs to support healthcare access and provide financial assistance for cancer treatment.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Hospital
Financial Ratios – Non financial Sector
Short Term Instruments

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 448-bedded multi-specialty tertiary care hospital in Gurgaon (PY: 427 beds). The specialty areas for AMSL include Orthopaedics, Oncology, Cardiovascular, Neurosciences and Bariatric & Minimally Invasive Surgery etc. 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, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	738.30	879.17	227.60
PBILDT	95.01	133.35	40.57
PAT	38.01	49.14	16.52
Overall gearing (times)	0.98	0.95	NA
Interest coverage (times)	4.84	4.26	4.99

A: Audited UA: Unaudited; NA: Not Available; 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	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		-	-	March 2034	378.21	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 2024-2025	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
1	Term Loan-Long Term	LT	378.21	CARE A; Stable	-	1)CARE A-; Stable (28-Aug-23)	1)CARE A-; Stable (01-Sep-22)	1)CARE A-; Stable (28-Sep-21)
2	Fund-based - LT/ ST-Cash Credit	LT/ST	45.00	CARE A; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2 (28-Aug-23)	1)CARE A-; Stable / CARE A2 (01-Sep-22)	1)CARE A-; Stable / CARE A2 (28-Sep-21)

LT: Long term; LT/ST: 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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Artemis Cardiac Care Private Limited	Full	Subsidiary

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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