# Artemis Medicare Services Ltd.

July 03, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Remarks |
|---|---|---|---|
| Long term Bank Facilities | 243.33 | **CARE A-; Stable (Single A Minus; Outlook: Stable)** | **Reaffirmed** |
| Long term/ Short term Bank Facilities | 40.00 | **CARE A-; Stable/ CARE A2 (Single A Minus; Outlook: Stable/ A Two)** | **Reaffirmed** |
| **Total** | **283.33 (Rs. Two Hundred Eighty Three crore and Thirty Three lakhs only)** | | |

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Artemis Medicare Services Ltd. continues to take into account the experienced management team and doctors supported by advanced medical equipments and improvement in financial risk profile marked by growth in total operating during FY19 (refers to the period April 01 to March 31). The rating also factors growth in occupancy, in-patient and out-patient registration leading to stable revenue growth and comfortable capital structure.

However, the ratings are constrained by presence of hospital at a single location, the competition in the healthcare industry especially in the National Capital Region (NCR).

Going forward, the ability of the firm to continue to attract in-patients, improve occupancy levels at its existing facilities and maintain capital structure & profitability levels would be key rating sensitivities. Additionally, commencement of operations of the new-tower at existing Gurgaon hospital will also be important to the AMSL's future prospects.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Comfortable financial risk profile**

AMSL has a comfortable financial risk profile marked by improving total income and healthy profitability margins and satisfactory overall solvency position during FY19.

During FY19, the total operating income of AMSL increased by 8.64% to Rs.548.83 cr in FY19 from Rs.505.18 cr in FY18 on account of growth in occupancy to 87% (P.Y: 81%), increase in in-patient and out-patient registrations and increase in ARPOB to Rs. 53,043 (PY: Rs. 49,827).

PBILDT margin remained stable at 12.17% in FY19 (P.Y: 12.25%). The PAT margin of AMSL decreased to 3.77% (P.Y: 5.28%) on account of non-availment of MAT credit in FY19. Further, the hospital generated healthy cash accruals amounting to Rs. 44.23 cr in FY19 (P.Y: Rs. 49.05 cr).

The capital structure of AMSL remained comfortable with long term debt-to-equity and gearing ratios of 0.42x and 0.63x respectively as on March 31, 2019 (P.Y: 0.56x and 0.56x respectively). The company has comfortable debt coverage indicators marked by total debt to GCA of 2.58x (P.Y: 1.85x). Further, the company has healthy interest coverage of 6.45x in FY19 as against 7.91x in FY18.

**Experienced management team & doctors supported by advanced medical equipments**

Though AMSL is the maiden venture of a 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 (Executive Director) along with group of professionals looks after day to day operations of the hospital.

**Diversification of revenue streams**

ASML's revenue stream is well diversified on account of integrated facilities, with specialization in various segments including cardiology, neurology, gastroenterology, orthopedics, critical care, nephrology and oncology and many other specialties. The revenue stream of AMSL remained well diversified with no particular specialization

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

contributing more than 10% to total revenue in FY19 (PY: 11%). Orthopedics and oncology were the highest revenue contributors for the hospital in FY19.

**Positive Industry prospects**

The growth in population, increase in lifestyle related diseases, rising purchasing power of the middle class and higher awareness of chronic illnesses will be the key growth drivers for the sector.

Although there is increasing competition in the sector, comfort is drawn from the sizeable presence and established position of the hospital. Going forward, AMSL's prospects would depend upon its ability to achieve envisaged operating metrics, profitable scale-up of operations and effectively manage the competitive pressures in the sector.

**Key Rating Weaknesses**

**Project risk**

The company is constructing a new hospital block at its existing location in Gurgaon hospital to add 144 beds (the same is expected to become operational from Q3FY20) at an estimated cost of Rs.173.50 crore mainly pertaining to building and equipment. The project is proposed to be funded by a term loan of Rs.148.00 crore (sanctioned) and balance Rs.25.50 crore from internal accruals. The project phase has to be well managed within costs and timelines so as to generate revenues and profits to service the higher debt load.

**Competition in the healthcare industry in the NCR region**

NCR is home to some big private players in healthcare domain such as Fortis, Apollo, Max Healthcare etc. Moreover, Delhi being national capital has presence of decent number of 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.

**Regulatory risks**

The industry is exposed to regulatory challenges by the government. The government has announced the flagship programme Ayushman Bharat Programme. It will cover approximately 50 crore beneficiaries over 10 crore poor and vulnerable families providing coverage upto 5 lakh rupees per family each year for secondary and tertiary care hospitalization. In a move likely to set new pricing standards for medical procedures in the country, the health ministry has prepared a rate list of 1354 packages, which will be covered under the National Health Protection Scheme. The packages include 23 specialties including cardiology, orthopaedics, ophthalmology, neurology and oncology.

**Liquidity analysis**

AMSL's liquidity profile is adequate with average utilisation of working capital limits at 10.61% for the 12 months ended Mar-19. The current ratio continued to remain low at 0.64x as on March 31, 2019 (PY: 0.59x). The operating cycle of the company generates cash and is marked by collection period of 45 days, credit period of 53 days and inventory holding of 5 days. The company has free cash and bank balance of Rs.10.33 cr as on March 31, 2019. Repayment of scheduled term debt over the next 12 months stands at Rs. 21.72 cr, as against gross cash accruals of Rs. 44.23 crore in FY19.

**Analytical approach:** Standalone

**Applicable criteria**

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology for Manufacturing Sector Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

**About the Company**

Incorporated in 2004, Artemis Medicare Services Ltd (AMSL) is engaged in healthcare business. AMSL owns and operates a 330-bedded multi-specialty tertiary care hospital in Gurgaon (under the brand name of Artemis Health Institute (AHI)). The specialty areas for AHI include Orthopedics & Joint Replacement (contributing 10% of total revenue), Oncology (Cancer) (contributing 9%), Cardiovascular (Heart) (contributing 6%), Neurosciences (contributing 14%) and Bariatric & Minimally Invasive Surgery. ASML has been awarded with the NABH accreditation (National Accreditation Board for Hospitals and Healthcare providers).

AMSL is wholly owned subsidiary of Artemis Health Sciences Ltd. (AHSL) which in turn is wholly held by Artemis Global Life Sciences Ltd. (AGLSL). Further, it is an associate company of Apollo Tyres Ltd (ATL). Mr. Onkar Kanwar (Promoter) is also the promoter of ATL.

| **Brief Financials (Rs. crores)** | **FY18 (A)** | **FY19 (A)** |
|---|---|---|
| Total operating income | 505.18 | 548.83 |
| PBILDT | 61.90 | 66.77 |
| PAT | 26.77 | 20.77 |
| Overall gearing (times) | 0.56 | 0.63 |
| Interest coverage (times) | 7.91 | 6.45 |

*A: Audited*

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

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

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

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Term Loan-Long Term | - | - | Dec 2030 | 243.33 | CARE A-; Stable |
| Fund-based - LT/ ST-Cash Credit | - | - | - | 40.00 | CARE A-; Stable / CARE A2 |

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

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Term Loan-Long Term | LT | 243.33 | CARE A-; Stable | - | 1)CARE A-; Stable (24-Sep-18) | 1)CARE A-; Stable (05-Sep-17) | 1)CARE A- (12-Aug-16) |
| 2. | Fund-based - LT/ ST-Cash Credit | LT/ST | 40.00 | CARE A-; Stable / CARE A2 | - | 1)CARE A-; Stable / CARE A2 (24-Sep-18) | 1)CARE A-; Stable / CARE A2 (05-Sep-17) | 1)CARE A- / CARE A2 (12-Aug-16) |

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

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