

Artemis Medicare Services Limited

September 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long term Bank Facilities	248.38 (enhanced from Rs.223.66 crore)	CARE A-; Stable (Single A Minus)	Reaffirmed
Long term/ Short term Bank Facilities	25.00	CARE A-; Stable/ CARE A2 (Single A Minus/ A Two)	Reaffirmed
Total	273.38 (Rs. Two Hundred Seventy Three crore and Thirty Eight lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to take into account the experienced management team and doctors supported by advance medical equipments and improvement in financial risk profile marked by growth in total operating during FY18 (refers to the period April 01 to March 31). The rating also factors in the healthy in-patient registration leading to stable revenue growth and comfortable capital structure.

However, the ratings are constrained by the high dependence on the Gurgaon hospital which contributes to the major portion of revenues, the competition in the healthcare industry especially in the National Capital Region (NCR), furthermore the company closed its Dwarka hospital wef May, 2018.

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

Financial risk profile

AMSL has a comfortable financial risk profile marked by improving total income and profitability margins during FY18 and satisfactory overall solvency position

Revenue and Profitability: During FY18, the total operating income of AMSL increased by 9.43% to Rs.505.18 crore in FY18 from Rs. 461.66 crore in FY17 on account of growth in in-patient and out-patient revenue of Gurgaon unit driven by increase in ARPOB to Rs.49,827 (PY: Rs. 45,440) and this hospital contributes around 97.03% (P.Y: 96.35%) of the total income during FY18. The company also earns small income from pharmacy which was Rs.11.45 crore in FY18 (PY: Rs.12.20 crore). The increase in average revenue per occupied bed (ARPOB) is attributable to the new super specialties and improved case mix of the hospital with focus on relatively high margin cases such as neuro surgery, neurointerventional and increasing contribution from international patients.

In terms of profitability, AMSL has been continuously reporting growth in its PBILDT margin. The PBILDT margin has increased from 11.81% in FY17 to 12.25% in FY18.

Further, with improvement in profitability, the hospital generated healthy cash accruals amounting to Rs. 49.05 crore in FY18 (P.Y: Rs. 47.45 crore)

During Q1FY19, the company achieved y-o-y growth of 5.57% in total operating income to Rs. 125.95 crore (P.Y: Rs.119.89 crore) and the occupancy rate increased to 83%.

Solvency: The capital structure of AMSL remained comfortable with long term debt-to-equity and gearing ratios of 0.56x and 0.56x respectively as on March 31, 2018 (P.Y: 0.68x and 0.68x respectively). The debt coverage indicators improved during FY18 marked by total debt to GCA of 1.85x (P.Y: 1.98x) on account of repayment of term loan and increase cash profits. The debt structure of the company as on March 31, 2018 comprises only of term debt and working capital bank borrowing stands fully unutilized at year end (against sanctioned limit of Rs. 25.00 crore). Further, the interest coverage ratio improved to 7.91x in FY18 as against 6.21x in FY17.

Experienced management team & doctors supported by advanced medical equipments

Though AMSL is the maiden venture of the promoters 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,

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

Fortis, Apollo, etc. Dr. Devlina Chakravarty (Executive Director) and Dr. (Col) Manjinder Singh (Director- Cardiology) along with group of professionals looks after day to day operations of the hospital.

Diversification of revenue streams

The hospitals are equipped with state-of-the-art and high-end medical equipment of latest available technology. The company's facilities are integrated, with specialization in various segments including cardiology, neurology, gastroenterology, orthopedics, critical care, nephrology and oncology and many other specialties. Further, as reflected from the table above, the revenue stream of AMSL remained well diversified with no particular specialization contributing more than 11% to total revenue in FY18 (PY: 13%). Orthology and oncology were the highest revenue contributors for the hospital in FY18. There is increase in contribution from neurology segment (including neuro surgery and neurointerventional) on account of technical upgradation and increase in new beds specifically dedicated for neurology treatment. During FY18, AMSL launched M6 CyberKnife, a robotic stereotactic radiosurgery technology to treat cancer and benign tumors in various body parts without surgical intervention. It will create new areas of growth for the hospital.

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; however, 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 to manage the competitive pressures in the sector.

Key Rating Weaknesses

Project risk

The company is constructing new hospital block at the existing location in Gurgaon hospital to add 125 beds (the same is expected to become operational from Q4FY19) at estimated cost of Rs.173.50 crore mainly pertaining to building and equipment. The project is proposed to be funded by the term loan of Rs.148.00 crore (sanctioned) and balance Rs.25.50 crore from internal accruals.

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. There are a number of hospitals in Gurgaon & Dwarka as well like Columbia Asia, Rockland Hospital etc which are expected to further increase in the competition of AMSL in acquiring patients.

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.

Earlier, the capping of stent prices to Rs.30,000 in Feb, 2017 was done by National Pharmaceutical Pricing Authority (NPPA) (Previously price was Rs.121,000). NPPA also capped the price of knee implants in Aug 2017. The price of widely used Chromium Cobalt knee implants were capped at Rs.54,720 from the market rates of Rs1.58 lakh to Rs2.50 lakh earlier.

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology for Service Sector Companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated on 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 11% of total revenue), Oncology (Cancer) (contributing 8%), Cardiovascular (Heart) (contributing 6%), Neurosciences (contributing 13%) and Bariatric &

Minimally Invasive Surgery. ASML has been awarded with the NABH accreditation (National Accreditation Board for Hospitals and Healthcare providers) for both the hospitals (Gurgaon & Dwarka).

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)	FY17 (A)	FY18 (A)
Total operating income	461.66	505.18
PBILDT	54.52	61.90
PAT	27.07	26.77
Overall gearing (times)	0.68	0.56
Interest coverage (times)	6.21	7.91

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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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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	248.38	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	25.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	248.38	CARE A-; Stable	-	1)CARE A-; Stable (05-Sep-17)	1)CARE A- (12-Aug-16)	1)CARE A- (15-Sep-15)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	25.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (05-Sep-17)	1)CARE A- / CARE A2 (12-Aug-16)	1)CARE A- / CARE A2 (15-Sep-15)

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