

Artemis Medicare Services Ltd

September 05, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	223.66 (enhanced from Rs.23.36 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	248.66 (Rs. Two forty eight crore and sixty six lakh only)		

Details of instruments/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 equipment's and improvement in financial risk profile marked by growth in total operating income during FY17 (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 main 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 yet to achieve break even in its Dwarka hospital.

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 full-fledged 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

Improvement in operating parameters of the Gurgaon & Dwarka hospital over time

The operational parameters of the Gurgaon hospital including inpatient admissions, outpatient registrations, average revenue per occupied bed, average length of stay, etc. *(please refer the table below)* have witnessed improvement over time which has resulted into consistent increase in the revenues. However, the occupancy rate at the main hospital i.e. Gurgaon hospital has slightly decreased from 81% in FY16 to 79% in FY17 mainly due to technical upgradation and addition of new beds for Neurology treatment. Further, the company has also reported increased patient registration and higher revenue per patient in FY17.

Stable financial risk profile marked by comfortable capital structure

During FY17, the net sales of AMSL increased by 14.24% to Rs.451.23 crore. The income from medical services grew by 14.08% to Rs.439.04 crore in FY17 on account of improved operations of Gurgaon unit which saw income increasing by 13.87% to Rs.435 crore in FY17 backed by growth in ARPOB and to Rs.45,000 (PY:Rs39,000) and this hospital contributes to about 96.35% of the total income during FY17.

The overall gearing of the company slightly deteriorated to 0.72x as on March 31, 2017 as compared to 0.66x as on March 31, 2016 mainly on account increase in term loan for neuro expansion project at Gurgaon Hospital resulting in deterioration in overall gearing in FY17.

Experienced management team & doctors supported by advanced medical equipment's

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 definition of the ratings assigned are available at www.careratings.com and 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 in terms of speciality and customer base; albeit high dependence on Gurgaon hospital

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. AMSL derives its revenues from above mentioned healthcare services with no single specialty contributing more than 13% to total revenue in FY17 (PY: 17%).

Despite being in operational for 10 years and enjoying continued patronage from the people, AMSL runs only in centre of Gurgaon & Dwaraka. The revenue of AMSL is heavily dependent on the main hospital at Gurgaon which currently gives about 96.35% of the total revenue.

Key Rating Weaknesses

Project risk: The company is constructing new hospital block at the existing location in Gurgaon hospital to add 125 beds in FY18 (the same will become operational from FY19) at estimated cost of Rs.130 crore mainly pertaining to building and equipment as land is already in place. The project is proposed to be funded by the term loan of Rs.110 crore (sanctioned) and balance Rs.20 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.

Industry prospects

The Hospital Industry accounts for 70% of India's healthcare sector. The industry is set to drive the growth of the healthcare sector. The growth drivers include rise in per capita spending on healthcare, change in demographic profile, increase in health insurance penetration and fast growing medical tourism market. However, the competition in NCR region remains a challenge for AHPL given the presence of established players like Max Healthcare, Apollo, Fortis etc as well as new projects being implemented by the other players.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

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

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

[CARE's Methodology for Service Industry](#)

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

About the Company

Incorporated on 2004, Artemis Medicare Services Ltd (AMSL) owns and operates a 330-bedded multi-specialty hospital in Gurgaon and 50-bedded secondary care facility in Dwarka (under the brand name of Artemis Health Institute (AHI)). The specialty areas for Gurgaon hospital include Cardiovascular (Heart), Oncology (Cancer), Orthopedics & Joint Replacements, Neurosciences and Bariatric & Minimally Invasive Surgery. Artemis hospital is a multi-specialty hospital with 377 beds as on March 31, 2017 at Gurgaon & Dwarka hospital equipped with latest machines & equipment's. It has been awarded with the NABH accreditation (National Accreditation Board for Hospitals and Healthcare providers) for both the hospitals. (Gurgaon & Dwarka).

Brief Financials (Rs. crores)	FY16 (A)	FY17 (A)
Total operating income	405.61	461.53
PBILDT	47.06	53.73
PAT	21.64	29.95
Overall gearing (times)	0.66	0.72
Interest coverage (times)	5.33	5.73

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of 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	223.66	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	223.66	CARE A-; Stable	-	1)CARE A- (12-Aug-16)	1)CARE A- (15-Sep-15)	1)CARE BBB (08-Aug-14)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	25.00	CARE A-; Stable / CARE A2	-	1)CARE A- / CARE A2 (12-Aug-16)	1)CARE A- / CARE A2 (15-Sep-15)	1)CARE BBB / CARE A3 (08-Aug-14)
3.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (08-Aug-14)

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