April 16, 2024

Aster DM Healthcare Limited: Ratings upgraded; removed from Rating Watch with Positive Implications and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term–Fund-based –Term loans	382.00	382.00	[ICRA]A; upgraded from [ICRA]A-; Removed from Rating Watch with Positive Implications and Stable outlook assigned
Short-term–Fund-based–Working capital facilities	190.00	190.00	[ICRA]A1; upgraded from [ICRA]A2+; Removed from Rating Watch with Positive Implications
Short-term–Non-fund Based – Working capital facilities	30.00	30.00	[ICRA]A1; upgraded from [ICRA]A2+; Removed from Rating Watch with Positive Implications
Total	**602.00**	**602.00**	

**Instrument details are provided in Annexure-I*

Rationale

Aster DM Healthcare Limited (Aster/ the company) on November 28, 2023, announced that its board approved the 100% sale of its GCC business, leading to the separation of Aster's India and GCC businesses, subject to regulatory and corporate approvals, including shareholders' approval. Following the announcement, ICRA had placed the company's outstanding long-term and short-term ratings on Rating Watch with Positive Implications, based on its expectations that the transaction is anticipated to result in a significant improvement in the company's financial profile.

Subsequently, the separation plan was approved by the company's shareholders in January 2024. On April 03, 2024, the company announced the conclusion of the transaction after receiving all the regulatory and contractual approvals and closing of condition precedents. With the conclusion of this segregation, only the India business remains with the company. Therefore, ICRA has considered the consolidated financials of the India business to assess the credit profile of the residual entity.

The upgraded ratings take into account the successful completion of the segregation transaction as per the expected terms and the consequent significant improvement in the company's financial profile, as well as ICRA's expectation that the same will be sustained going forward. Additionally, ICRA has removed Rating Watch with Positive Implications and has simultaneously assigned a stable outlook to the company's long-term rating.

Following the conclusion of the transaction, the company's wholly-owned subsidiary, Affinity Holdings Pvt Ltd (Affinity), has received an upfront payout of $903 million as expected, along with an additional payout of $4 million (reduced from $28 million), which was contingent upon the ongoing forensic investigation in one of the GCC subsidiaries. Further, based on EBITDA achieved by the GCC business, there is possibility of an additional earnout of up to $70 million, to be paid post audit of FY2024 financial information. With the receipt of the current proceeds, the company is expected to pay a dividend of Rs. 118 per share (translating into total dividend of ~Rs. 5,900 crore) with a record date of April 23, 2024. ICRA understands that a major part of the proceeds following the dividend payout will be retained and kept as reserves to pursue inorganic growth opportunities, which remains an event risk and would be evaluated on a case-by-case basis.

Dr. Azad Moopen will continue in his role as the Founder and Chairman and will oversee both the India and GCC businesses. Despite the material reduction in the scale of the company following this transaction, the debt metrics of the residual entity have improved. ICRA notes that as on September 30, 2023, the operating margin, net debt (including lease liabilities of Rs. 660.4 crore)/OPBDITA and interest coverage ratio for the India business fared better at 15.5%, 2.3 times and 4.6 times, respectively, compared to the combined GCC and India business metrics of 11.7%, 3.6 times and 3.8 times, respectively.

The ratings continue to consider Aster India's growing presence in the country along with the promoters' extensive experience in the healthcare sector. The ratings are also supported by Aster India's diversified revenues from various healthcare segments such as hospitals, clinics, labs and pharmacies.

During 9M FY2024, Aster's India business witnessed a revenue growth of 24.9%, mainly driven by the hospitals and clinics segment, which generated ~92-93% of the total revenue of the India business. The segment grew by 24.2% year-on-year (YoY) in 9M FY2024, supported by the increased number of operational beds, improved occupancy and the average revenue per operating bed (ARPOB), along with increased inpatient and outpatient volumes. The operating margin improved to 15.7% from 15.0% in 9M FY2023, driven by improvements in key parameters for its hospitals and clinics segment.

Going forward, Aster India is expected to witness healthy revenue growth, supported by incremental operational beds, stable occupancy and improvement in its ARPOB. However, ICRA expects the newly added beds and the planned additions to impact the operating margin of Aster India to an extent. Aster India's net debt (including lease liabilities) /OPBDITA increased marginally to 2.3 times on September 30, 2023, from 2.2 times as on March 31, 2023, primarily due to the increase in lease liabilities and external debt for the ongoing capacity expansion. Consequently, coverage indicators witnessed a decline but continued to remain healthy.

The ratings, however, remain constrained by the moderate return indicators of the Indian operations due to the capital-intensive model in India (most hospitals in India are owned). Although operating margin for the company improved in 9M FY2024, sustenance of the same will be a key rating monitorable amid the planned expansion. While the labs and pharmacy segment in addition to the O&M asset-light model are currently in nascent stages of operations and are being operated under an asset-light model, these segments are expected to have an impact on operating margin of the company to an extent, going forward. Impact of the same on overall financial profile of the India business will be a key monitorable.

ICRA notes that Aster India has planned for partially debt-funded capex of ~Rs. 1,000 crore between FY2025 and FY2027 for incremental bed capacity and maintenance capex. However, debt metrics are expected to remain comfortable due to a portion of the proceeds from the GCC asset sale remaining on the balance sheet, along with healthy expected cash accruals from operations and repayment of existing term loans. While Aster's established foothold in South India has allowed it to achieve healthy operational and financial growth in recent years, dependence on specific geographies exposes the company to potential risk associated with regional economic downturns, competitive pressures or regulatory changes.

The Stable outlook on the long-term rating reflects ICRA's opinion that, going forward, the company's revenue growth will be supported by the addition of new beds, ramp-up in occupancy for newly added beds, stable occupancy for existing beds and healthy ARPOB levels, while maintaining its healthy margins. However, planned bed additions may impact margins to some extent. Further, the debt metrics are expected to remain comfortable on the back of healthy accruals, despite the anticipated moderation in the same due to the ongoing debt-funded capex.

Key rating drivers and their description

Credit strengths

Improved financial profile of Aster India following the GCC business segregation – Over the years, the India business has shown a significant improvement in its operational and financial profile and is no longer dependent on the GCC business for support. While the scale of the company has reduced materially following conclusion of the transaction, with the GCC business contributing ~73% to its revenues and 67% to the OPBDITA during 9M FY2024 (75% of revenues and 71% of OPBDITA during FY2023), it has led to a favourable impact on the credit profile and debt metrics of the residual entity and ICRA expects the same to sustain going forward. ICRA notes that as on September 30, 2023, the operating margin, net debt (including lease liabilities of Rs. 660.4 crore)/OPBDITA and interest coverage ratio for the India business fared better at 15.5%, 2.3 times and 4.6 times, respectively, compared to the combined GCC and India business metrics of 11.7%, 3.6 times and 3.8 times, respectively.

Growing presence in India; promoter's extensive experience in the sector – The expanding footprint in India, supported by the promoter's extensive sector experience, has led to a significant improvement of Aster India's operational and financial profile over the last seven years. At present, the company operates 19 hospitals, 13 clinics, 223 pharmacies and 224 labs across six Indian states, particularly establishing a strong foothold in South India. It operates under various brands in the country, such as Aster Medcity, Aster MIMS, Aster Ramesh, Aster Prime, Aster Aadhar and Aster CMI, catering to different customer segments benefiting from its strong brand presence. The Group is promoted by Dr. Azad Moopen and family, with more than three decades of experience in the healthcare industry, which will support its operations going forward.

Strong financial profile characterised by improving revenue growth and margins and comfortable credit metrics – The increased efficiency in existing units and ramp-up of newer units have led to improvement in overall revenue growth for the India business in FY2023 and 9M FY2024. In FY2023, its operating income grew by 28.1% mainly driven by the hospitals and clinics division, which contributed ~92-93% to the total revenue of the India business. The segment grew by 21.7% YoY during FY2023 supported by higher operational beds, improved occupancy and ARPOB, along with increased inpatient and outpatient volumes. The growth momentum also continued in 9M FY2024, with YoY revenue growth of 24.9% supported by the hospitals and clinics segment, which witnessed a YoY growth of 24.2%. The capacity additions over the years and improvement in key parameters such as occupancies and ARPOB have allowed the India business to enjoy a better operating leverage, reflected in the improving operating margin to 15.7% during 9M FY2024 from 11.3% in FY2020. In FY2023, the operating margin improved to 15.3% from 14.9% in FY2022, driven by improvement in key parameters for the hospitals and clinics segment, with OPBDITA margin for the segment improving to 18.0% in FY2023 from 17.4% in FY2022.

The newly operational O&M asset-light hospitals are expected to dilute the operating margin to an extent. However, this model is also expected to improve the RoCE to a certain extent with faster breakeven at the operating level. In 9M FY2024, Aster India's OPBDITA margin improved to 15.7% from 15.0% in 9M FY2023, mainly driven by the hospital and clinics segment where segment's OBIDTA margin improved to 19.5% in 9M FY2024 from 18.6% in 9M FY2023. Going forward, the company is expected to witness healthy revenue growth, supported by incremental operational beds, stable occupancy and healthy ARPOB. ICRA expects newly added beds and planned addition of beds to impact the operating margin to an extent.

Aster India's net debt (including lease liabilities) /OPBDITA increased marginally to 2.3 times on September 30, 2023 (2.2 times on March 31, 2023), from 2.1 times as on March 31, 2022, primarily due to increase in lease liabilities and external debt availed for its ongoing capacity expansion. The total debt (including lease liabilities) increased to Rs.1,343.1 crore on September 30, 2023 (Rs. 1,132.0 crore as on March 31, 2023) over Rs. 875.4 crore on March 31, 2022. Consequently, coverage indicators witnessed a decline, with interest coverage ratio declining to 4.6 times during H1 FY2024 (4.9 times during FY2023) from 5.1 times during FY2022 and DSCR declining to 3.4 times during FY2023 from 4.3 times during FY2022. Despite this decline, coverage indicators continued to remain healthy. Moreover, despite the planned partially debt-funded capex of ~Rs. 1,000 crore between FY2025 and FY2027, the debt metrics are expected to remain comfortable on account of part of the proceeds from GCC asset sale remaining on the balance sheet along with healthy expected cash accruals from operations and repayment of existing term loans.

Credit challenges

Albeit improving, return indicators remain moderate due to the capital-intensive nature of business – The return indicators (RoCE) for the Indian operations are moderate on account of the adoption of capital-intensive model wherein the company owns the land and building of some of its major revenue contributing hospitals. Aster India also operates hospitals under an O&M framework (including leasing), across 9 hospitals, which includes major facilities like Aster CMI, RV, and Whitefield. In this model, the company predominantly invests in medical equipment only. In FY2022, the India business forayed into an O&M asset-light model for hospitals. This model has a lower capex requirement and higher RoCE with faster breakeven than traditional hospital models. At present, Aster India operates four hospitals with a total bed capacity of 528 beds under the O&M asset light model and plans to evaluate this segment's performance before significantly expanding further. Impact of the ongoing expansion on the company's return indicators will be a key monitorable, going forward.

Nascent stage of operations for labs and pharmacy segment along with entry into O&M segment; margins will remain a key monitorable, going forward – Aligned with its expansion strategy to create a healthcare ecosystem and enhance its brand visibility, Aster's India business has increased its pharmacy and lab presence and currently operates 223 pharmacies (operated by ARPPL under brand license from Aster)and 224 labs (one reference lab, 15 satellite labs and 208 patient experience centres). Operating on an asset-light model, Aster pharmacies operate on leased premises, minimising the capex costs. For Aster labs, the primary capex outlay is towards the reference and satellite labs, while a majority of the patient experience centres operate under a franchise model with a revenue-sharing arrangement. This segment (labs and wholesale pharmacy) currently contributes ~7-8% to the total revenue for the India business, and it witnessed substantial YoY growth of 72.2% and 35.7% during FY2023 and 9M FY2024, respectively. However, the segment continued to incur operating losses due to nascent stages of its operations. While the overall capex towards the segment is low, impact of the same on Aster India's profitability and debt metrics remains a monitorable.

Moreover, the India business started adding beds under O&M asset light model in FY2022, with 528 beds at present. Under this model, Aster enters into O&M contracts with hospitals in tier-II and III cities to manage the operations. The company's incremental capex under this model is minimal as the company invests only in critical equipment to optimise revenue potential. It primarily operates hospitals under this model in tier-II and III cities which generally exhibit lower ARPOB, resulting in relatively lower operating margins than the traditional model. However, the ROCE under this model is expected to be higher with faster breakeven, with some newly opened hospitals under this model reaching breakeven within a few months of their operations. Although the incremental capex for the company is not very material under this model, impact of the same on profit margins remains monitorable.

Significant ongoing debt-funded capex to expand capacity – Over the past few years, Aster India has made substantial investments to expand its capacity in India through both organic and inorganic routes with the total bed capacity increasing to 4,857 (in 19 hospitals) as on December 31, 2023, from 3,007 (in 10 hospitals) as on March 31, 2018. Going forward, the company plans to add 1,759 beds in phases by FY2027. Along with some capex in other segments including the maintenance capex this is expected to result in cumulative capex of ~Rs. 1,000 crore between FY2025 and FY2027. The company is expected to fund this planned capex through a mix of debt and internal accruals. While ICRA does not expect the capex to impact the company's debt metrics significantly, timely commencement and ramp-up of the newly added beds and its impact on the credit metrics remain a key monitorable.

Revenues mainly generated from South India leading to higher geographic concentration risk – Aster India has a strong brand presence in South India, with the Kerala cluster being one of the highest contributors in terms of revenue and total bed capacity. It is followed by Karnataka, Maharashtra, Andhra Pradesh and Telangana clusters. Recent expansions in pharmacies and labs have also primarily been in these clusters. While the established foothold in the south allowed the India business to achieve healthy operational parameters and revenue growth, such dependence on specific regions exposes Aster India to potential risks associated with regional economic downturns, competitive pressures or regulatory changes. Nevertheless, the availability of specialised medical services and rising trend for medical tourism from GCC countries to its India hospitals, as well as leveraging Aster's brand in the GCC region mitigates the risk to a certain extent.

Liquidity position: Strong

Aster India's liquidity position remains strong with free cash and liquid investments of Rs. 68.8 crore as on December 31, 2023. The average working capital utilisation for the company at a standalone level remained at 63.6% for the 12-month period ended March 2023, against the sanctioned fund-based limit of Rs. 190.0 crore. The India business has plans for a capex of ~Rs. 1,000 over FY2025 to FY2027, which will be funded through debt and internal accruals. Aster India has a repayment obligation of ~Rs. 89 crore, ~Rs. 110 crore and ~Rs. 111 crore during FY2024, FY2025 and FY2026, respectively, for its existing debt. Despite the significant debt-funded capex, ICRA expects Aster India's liquidity position to remain strong on the back of higher accruals from its operations and part of the proceeds from GCC asset sale remaining on the balance sheet of the company.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating if it demonstrates significant growth in revenues and improvement in the profitability and debt metrics while maintaining its liquidity position.

Negative factors – Negative pressure on ADHL's ratings could arise if there is any deterioration in margins and debt-funded capex or acquisitions lead to deterioration of the company's credit profile with DSCR lower than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology –Hospitals
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Aster. Details are enlisted in Annexure-II.

About the company

Aster DM Healthcare Limited (formerly, DM Healthcare Pvt. Ltd.), established in 1987, is the holding company of the Aster Group, providing healthcare services through hospitals, clinics and pharmacies. Following a reorganisation of its structure in 2008, the Group's operations across the GCC countries and India were consolidated under Aster. The company recently concluded the sale of its GCC business following which it will only hold its India business, including the hospital, clinics, labs and pharmacies. As on December 31, 2023, the company operated 19 hospitals with a total bed capacity of 4,857, 13 clinics, 223 pharmacies, and 224 labs in India. The company is promoted by Dr. Azad Moopen and family. The Group operates in India under the "Aster Medcity", " Aster MIMS", "Aster Ramesh", "Aster Prime", "Aster Aadhar" and "Aster CMI" brands. Aster was listed on the India stock exchanges on February 26, 2018.

Key financial indicators (audited)

Aster India Consolidated *	FY2022	FY2023
Operating income	2,394.8	3,068.2
PAT	151.8	185.4
OPBDIT/OI	14.9%	15.3%
PAT/OI	6.3%	6.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDIT (times)	2.5	2.4
Interest coverage (times)	5.1	4.9

*All ratios as per ICRA calculations. PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore * Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 16, 2024	Dec 07, 2023	Oct 20, 2022	Aug 9, 2021
1	**Working capital**	Long term	0.00	NA	-	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**Working capital**	Short term	190.00	178.7	**[ICRA]A1**	**[ICRA]A2+%**	-	-
3	**Term loan**	Long term	382.0	504.1	**[ICRA]A(Stable)**	**[ICRA]A-%**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
4	**Non-fund based**	Short term	30.00	NA	**[ICRA]A1**	**[ICRA]A2+%**	**[ICRA]A2+**	**[ICRA]A2+**

%: Rating watch with Positive Implications. Note: Outstanding amounts are for Aster India consolidated entity.

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Short term – fund based - Working capital	Simple
Short-term Non-fund Based – Working capital	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2017-FY2024	8.43%	FY2032	382.0	[ICRA]A(Stable)
NA	Overdraft	NA	NA	NA	190.0	[ICRA]A1
NA	LC/BG	NA	NA	NA	30.00	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership as on March 31, 2023	Consolidation Approach
Direct Subsidiaries		
DM Med City Hospitals (India) Pvt Ltd	100.00%	Full Consolidation
Aster DM Healthcare (Trivandrum) Pvt Ltd	100.00%	Full Consolidation
Ambady Infrastructure Pvt Ltd	100.00%	Full Consolidation
Prerana Hospital Limited	86.99%	Full Consolidation
Sri Sainatha Multispeciality Hospitals Private Limited	100.00%	Full Consolidation
Malabar Institute of Medical Sciences Limited	76.00%	Full Consolidation
Dr. Ramesh Cardiac and Multispeciality Hospitals Private Limited	57.00%	Full Consolidation
Aster Clinical Lab LLP	100.00%	Full Consolidation
Hindustan Pharma Distributors Private Limited	86.00%	Full Consolidation
Mindriot Research and Innovation Foundation	49.00%	Full Consolidation
Step-down Subsidiaries		
EMED Human Resources (India) Private Limited	100.00%	Full Consolidation
Warseps Healthcare LLP	100.00%	Full Consolidation
Cantwon Infra Developer LLP	76.00%	Full Consolidation
Ezhimala Infrastructure LLP	76.00%	Full Consolidation
Sanghamitra Hospitals Private Limited*	53.00%	Full Consolidation
Aster Ramesh Duhita LLP*	29.00%	Full Consolidation
Komali Fertility Centre LLP (Formerly known as Ramesh Fertility Centre LLP)*	29.00%	Full Consolidation
Adirian IB Healthcare Private Ltd	57.00%	Full Consolidation
Komali Fertility Centre Ongole LLP*	29.00%	Full Consolidation
Associates		
MIMS Infrastructure and Properties Private Limited	37.00%	Equity Method
Alfaone Retail Pharmacies Private Limited**	16.12%	Equity Method
Alfaone Medicals Private Limited**	16.12%	Equity Method

Source: company

* *Subsidiary due to Board control*

*** Associate due to control over management and policy decisions by Aster DM*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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