CARE Ratings
Professional Risk Opinion

No. CARE/DRO/RL/2020-21/1688

Mr. Sanjiv Kothari
Chief Finance Officer,
Artemis Medicare Services Ltd.,
Artemis Health Institute,
Sector-51, Gurgaon,
Haryana - 122 001

July 07, 2020

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY20 (Audited) our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long term/ Short term Bank Facilities	60.00 (enhanced from Rs. 40.00 Cr)	CARE A-; Stable/ CARE A2 (Single A Minus; Outlook: Stable/ A Two)	Reaffirmed
Long term Bank Facilities	271.87 (enhanced from Rs. 243.33 Cr)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total	331.87 (Rs. Three Hundred Thirty-One Crore and Eighty-Seven Lakhs only)		

1. Refer **Annexure 1** for details of rated facilities.

2. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible.

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

In any case, if we do not hear from you by July 07, 2020 we will proceed on the basis that you have no any comments to offer.

3. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

4. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by “ISSUER NOT COOPERATING”. CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

5. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.

6. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

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Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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Annexure 1
Details of Rated Facilities

1. Long-term facilities

1. A. Secured rupee term loans **(Rs. crore)**

S.no	Lender	Nature of Facility	Amount	Remarks
1	HDFC Bank Ltd.	LT	22.83	Total 7 years (repayment in 10 equal half yearly installments including moratorium of 2 years, starting from 2019). Maturing in FY26.
2	HDFC Bank Ltd.	LT	31.24	Total 7 years (repayment in 10 equal half yearly installments including moratorium of 2 years, starting from 2019). Maturing in FY26.
3	HDFC Bank Ltd.	LT	20.00	Total 7 years (repayment in 10 equal half yearly installments including moratorium of 2 years, starting from date of first disbursement). Maturing in FY26.
4	HDFC Bank Ltd.	LT	95.00	10 years (16 structured half-yearly installment including moratorium period of 30 months starting from the date of first disbursement). Maturing in FY31
5	Axis Bank Ltd.	LT	60.00	10 years (16 structured half-yearly installment including moratorium period of 30 months starting from the date of first disbursement). Maturing in FY31
6	IDFC Bank Ltd.	LT	42.80	10 years (16 structured half-yearly installment including moratorium period of 30 months starting from the date of first disbursement). Maturing in FY30.
	Total Facility 1		**271.87**	

Total Long term facilities: Rs. 271.87 crore

2. Long-term/Short-term facilities

2.A. Fund Based limits **(Rs. crore)**

S.No.	Name of Bank	Fund Based Limits		
		CC*	**OD**	**Total fund-based limits**
1	Axis Bank	-	40.00	40.00
2	Yes Bank	20.00		20.00
	Total Facility 2	**20.00**	**40.00**	**60.00**

Total Long term/Short Term facilities: Rs.60.00 crore

Total Facilities (1+2) = Rs. 331.87 crore

Draft Press Release
Artemis Medicare Services Ltd.

Ratings

Facilities	Amount (Rs. crore)	Rating[2]	Remarks
Long term/ Short term Bank Facilities	60.00 (enhanced from Rs. 40.00 Cr)	**CARE A-; Stable/ CARE A2 (Single A Minus; Outlook: Stable/ A Two)**	**Reaffirmed**
Long term Bank Facilities	271.87 (enhanced from Rs. 243.33 Cr)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Total	**331.87 (Rs. Three Hundred Thirty-One Crore and Eighty-Seven Lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Artemis Medicare Services Limited (AMSL) continues to take into account resourceful promoter, experienced management team and qualified team of doctors and medical staffs. The rating also factors in healthy operational parameters leading to stable revenue growth and comfortable capital structure during the year.

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), risk associated with the expansion project and regulatory risk associated with the industry.

Key Rating Sensitivity:

Positive Factors

- Sustained improvement in income beyond Rs.750 crore and PBILDT margin of 15% backed by improvement in operational parameters
- Timely completion of capex and sustained improvement in leverage leading to overall gearing below 0.50x

Negative Factors

- Change in Management or effective control of promoter group
- Further delay in project execution and scaling up of operations leading to overall gearing above 1.5x
- Sustained decline in income and profitability beyond Rs.400 crore and PBILDT margin of 10%

Detailed description of the key rating drivers

Key Rating Strengths

Established Track record and 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 Ltd. He holds stake in AMSL through an investment company Constructive Finance Private Limited (100% stake of Mr. Onkar Kanwar). ATL comes under the enterprise influenced by Key Management Personnel of AMSL. AMSL has awarded with Joint

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

Commission International (JCI) (in 2013) and National Accreditation Board for Hospitals and Healthcare providers (NABH) accreditation.

Reputed management team & experienced doctors
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 (Managing Director) along with group of professionals looks after day to day operations of the hospital. As on May 31, 2020, AMSL had team of 405 doctors, 175 visiting consultant, 813 nurses and 307 paramedical staff.

Healthy Operational parameters:
The growth in operating income in FY20 is supported by increase in the average revenue per occupied bed (ARPOB) to Rs. 59,084 (P.Y: Rs. 53,043) which is attributable to the increase in inpatient registration. The inpatient revenue contributes the major portion of the total revenue and has increased by 4.5% to Rs. 465 crore backed by increase in inpatient registration by 32.4% (PY: 16.2%) though the occupancy rate declined to 81% (PY: 87%).

Comfortable financial risk profile
AMSL has a comfortable financial risk profile marked by improving total income and satisfactory profitability margins and overall solvency position during FY20.

During FY20, the total operating income of the company grew by 2.81 % y-o-y (FY19: 8.85%) to Rs. 565.88 crore on account of improvement in operational parameters. PBILDT margin has declined marginally to 11.54% in FY20 (PY: 12.55%) due to decrease in share of International patients. Further, the hospital has generated healthy cash accruals of Rs. 46.86 crore in FY20 (PY: Rs. 43.34 crore).

The capital structure of AMSL remained comfortable with long term debt-to-equity and overall gearing ratios of 0.40x and 0.46x respectively as on March 31, 2020 (P.Y: 0.42x and 0.63x respectively). The Debt/GCA ratio has also improved to 1.98x (PY: 2.63x) whereas interest coverage ratio has declined to 5.22x (PY: 6.28x) due to decline at PBILDT level and higher interest expense

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, orthopedics, critical care, nephrology and oncology and many other specialties. The revenue stream of AMSL remained well diversified with no particular specialization contributing more than 10% to total revenue in FY20. Orthopedics and oncology were the highest revenue contributors for the hospital in FY20.

Positive Industry prospects
With the Outbreak of Covid-19 profitability margins of the industry are expected to remain under pressure till H1FY21 due to drop in outpatient footfalls, elective surgeries and international patients. However, the long term prospect of the industry is expected to remain positive and continue to grow backed by an increase in demand for modern healthcare facilities, a rise in awareness about diseases, health consciousness among people, increase in per capita income, changing lifestyle, transition in disease profile etc.
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.

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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 Q1FY22) at an estimated cost of Rs.168.72 crore mainly pertaining to building and equipment. The project is proposed to be funded by a term loan of Rs.142.80 crore (sanctioned) and balance Rs.25.92 crore from internal accruals. Till June 30, 2020, the company had incurred cost of Rs. 70.54 cr funded by loan of Rs. 45.30 cr and Rs. 25.24 cr from internal accruals. The project is expected to generate sufficient revenues and profits to service the higher debt load. Timely completion of the project without any significant cost overrun would be critical for AMSL and will remain a key monitorable.

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
AMSL operates in a regulated industry which has witnessed continuous regulatory intervention during 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 group's profitability and thus would remain a key monitorable.

Liquidity: Adequate
AMSL's liquidity profile is adequate with average utilisation of working capital limits at 65.92% for the 12 months ended April-2020 further supported by free cash & bank balance is ~ Rs. 23 cr as on May 30, 2020 and Rs. 14.40 cr as on March 31, 2020 which includes Rs. 11.20 cr of cash & bank balance and FD of Rs. 3.20 cr. The average collection period of the AMSL remains at 50 days (PY: 45days) as the collections from TPA, ECHS, CGHS, and PSUs etc. has a collection period of ~ 4 months and also due to greater share of international patients in total revenue.

Analytical approach: Standalone

Applicable criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology for Hospital 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 318-bedded multi-specialty tertiary care hospital in Gurgaon. The specialty areas for AMSL include Orthopedics & Joint Replacement (contributing 10% of total FY 20 revenue), Oncology (Cancer) (contributing 9%), Cardiovascular (Heart) (contributing 7%), Neurosciences (contributing 14%) and Bariatric & Minimally Invasive Surgery. ASML has been awarded with the NABH accreditation (National Accreditation Board for Hospitals and Healthcare providers). As per the NCLT order dated September 30, 2019, the amalgamation of holding company of AMSL i.e. Artemis Global Life Sciences Limited (AGLSL) & Artemis Health Sciences Limited. (AHSL) into AMSL has taken place in order to simplify the group structure, business

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operation and eliminate cross holding within the group. Further, Mr. Onkar Kanwar (Chairman of AMSL) is also the chairman of Apollo Tyres Ltd.

Brief Financials (Rs. crores)	FY19(A)	FY20 (A)
Total operating income	550.42	565.88
PBILDT	69.07	65.29
PAT	20.69	20.43
Overall gearing (times)	0.63	0.46
Interest coverage (times)	6.28	5.22

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	-	-	March 2031	271.87	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	60.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	271.87	CARE A-; Stable	-	1)CARE A-; Stable (03-Jul-19)	1)CARE A-; Stable (24-Sep-18)	1)CARE A-; Stable (05-Sep-17)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	60.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (03-Jul-19)	1)CARE A-; Stable / CARE A2 (24-Sep-18)	1)CARE A-; Stable / CARE A2 (05-Sep-17)

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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