

Press Release

AMRI Hospitals Limited

17 January, 2018

Rating Assigned



Total Bank facilities Rated*	Rs. 260.00 Cr.
Long term Rating	SMERA A- (SO)/Stable#

* Refer annexure for details

Credit enhancement on account of structured payment mechanism

SMERA has assigned long term rating of '**SMERA A-(SO)**' read as **(SMERA A minus structured obligation)** on the Rs.260.00 crore bank facilities of AMRI Hospitals Limited (AHL). The outlook is '**Stable**'.

AHL, a Kolkata based company was incorporated in 1986 by Mr. Ashish Goenka and Mr. Rupak Barua. The company runs three multi-specialty hospitals in Kolkata (Dhakuria, Saltlake, Mukundpur) and one at Bhubaneswar. Further, it also runs a diagnostic center at Kolkata. The total bed capacity is 1000.

The Kolkata-based Emami Group holds 98 percent stake in AHL with the balance 1.9 percent held by Government of West Bengal as on 31 December 2017.

List of key rating drivers and their detailed description:

Strengths

Rating driven by structured payment mechanism, pledge of shares of Emami Limited

The rated facilities of AHL have been availed from three banks and are secured inter alia by a pledge of shares of Emami Limited. The asset coverage ranges from 1.1x to 1.3x across the three banks. Apart from the asset coverage, the sanction terms also include the timelines for top up and invocation of pledge. Diwakar Viniyog Private Limited (pledger entity) is one of the investment companies of the promoters of the Emami Group. Diwakar Viniyog has also extended its corporate guarantee for AHL.

The continuous support from the Emami group will be a key rating sensitivity. The rating factors in the adherence to the structured payment mechanism.

Established position of Emami Limited in the FMCG sector

Emami Limited, the flagship company of the group was incorporated in 1974. Promoted by Mr. R. S. Agarwal and Mr. R. S. Goenka, the company is one of the leading FMCG companies in India with portfolio of over 300 products (ayurvedic formulations, herbal, cosmetic, personal and healthcare products comprising oil, talc, cream, balm, medicine). The major brands of the company are Navratna Oil, BoroPlus, Zandu & Mentho Plus, Fair & Handsome, Kesh King and Navratna Cool Talc.

Emami Limited headquartered in Kolkata, has presence in 60 countries with eight overseas subsidiaries, 3250 distributors, 6500 sub- distributors with direct reach across 7.3 lakh retail outlets.

Emami Limited reported operating income of Rs. 2346.36 crore and net profit of Rs. 346.37 crore for FY2017. The net worth of Emami Limited stood at Rs.1756.10 crore and debt-to-equity at 0.27 times as on 31 March, 2017. The total market capitalisation stood at Rs. 28941.78 crore as on 16 January, 2018. The promoters holding stood at 72.74 per cent as on 31 December, 2017 out of which 29.07 per cent shares are pledged indicating a strong resource mobilisation potential.

Weaknesses

Subdued operating metrics of AHL

AHL has subdued operating metrics during FY2015 to FY2017. AHL posted revenue of Rs. 351.60 crore in FY2017 as against Rs. 282.16 crore in the previous year. AHL had operating loss of Rs. 3.83 crore in FY2016, Rs. 14.69 crore in FY2015 and net loss of Rs. 60.63 crore in FY2016 and Rs. 53.28 crore in FY2015. In FY2017, the company registered operating profit of Rs. 20.99 crore. The tangible net worth stood at Rs. 155.03 crore as on 31 March, 2017 (PY: Rs. 204.68 crore). The gearing stood at 6.68 times as on 31 March, 2017 as against 4.33 times as on 31 March, 2016. The total debt of Rs.1036.01 crore outstanding as on 31 March, 2017 comprises Rs.348.94 crore of term loan from the bank, Rs. 326.96 crore as Non-convertible debentures, Rs. 26.45 crore as unsecured loans from promoters and Rs. 333.67 crore of short term borrowings. The management has plans to expand capacity of the hospital in Kolkata (Mukundpur 160 beds and 150 beds at Bhubaneswar).

SMERA believes that achieving optimal capacity utilisation and generating cash flows commensurate with its debt servicing commitments will be critical for AHL.

Debt servicing linked to timely refinancing/infusion of funds by promoters

The company runs three hospitals in Kolkata (Dhakuria, Saltlake, Mukundpur) and one at Bhubaneswar. Besides it also runs a diagnostic center at Kolkata. The hospital has been incurring losses. The operational cash flows of AHL are currently inadequate to service the debt obligation and meet its capital expenditure plan. The management has plans to expand its capacity in Kolkata (Mukundpur 160 beds and 150 beds at Bhubaneswar).

Since any improvement in operating metrics will be gradual, SMERA believes that in the medium term, the servicing of debt will be contingent on ongoing support from Emami Group.

Risk arising from adverse movement in stock prices

The rating is based on the structured payment mechanism and pledge of shares of Emami Limited. As per the sanctioned terms the borrower has to maintain minimum asset coverage between 1.1x to 1.3x times of the facility amount. The ability of the promoters to maintain the share pledge asset coverage is central to rating. Since the stock market is prone to volatility, occurrence of events such as slowdown in FII flows, sharp depreciation in domestic currency, political events, and other such macroeconomic events, can cause decline in stock prices. Additionally, company specific factors can also influence movements in stock prices. Any sharp and continuous decline in share prices could potentially lead to challenges in adhering to the covenants.

Analytical approach: SMERA has considered credit enhancement in the form of structured payment mechanism and pledge of shares of Emami Limited while arriving at the rating.

Applicable Criteria

- [Securitised Transactions-<https://www.smera.in/criteria-securitization.htm>](https://www.smera.in/criteria-securitization.htm)
- [Service Entities-<https://www.smera.in/criteria-service.htm>](https://www.smera.in/criteria-service.htm)
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Outlook – Stable

SMERA believes that the company will maintain a 'Stable' credit profile on the back of its association with Emami Group and the continuous support from Emami Group. The outlook may be revised to 'Positive' if AHL demonstrates significant improvement in its profitability and debt protection indicators. Conversely, the outlook may be revised to 'Negative' if AHL faces severe decline in its debt protection indicators owing to deterioration in the credit profile or occurrence of events impact the covenants.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	351.60	282.16	202.67
EBITDA	Rs. Cr.	20.99	(3.83)	(14.69)
PAT	Rs. Cr.	(49.89)	(60.63)	(53.28)
EBITDA Margin	(%)	5.97	(1.36)	(7.25)
PAT Margin	(%)	(14.19)	(21.49)	(26.29)
ROCE	(%)	(1.56)	(3.08)	(8.40)
Total Debt/Tangible Net Worth	Times	6.68	4.33	4.72
PBDIT/Interest	Times	(0.10)	(0.31)	(0.12)
Total Debt/PBDIT	Times	69.24	3111.52	(54.92)
Gross Current Assets (Days)	Days	86	82	98

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years: NA

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Term loan I	Not Applicable	Not Applicable	Not Applicable	60.00	SMERA A- (SO)/Stable (Assigned)
Term loan II	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A- (SO)/Stable (Assigned)
Term loan III	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A- (SO)/Stable (Assigned)

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ABOUT SMERA

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