

## Press Release

### AMRI Hospitals Limited

June 04, 2020

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 260.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB+ (CE)/ Outlook: Negative (Downgraded; Outlook revised)

\* Refer Annexure for details

### Rating Rationale

Acuité has downgraded the long-term rating of '**ACUITE A- (CE)**' (read as **ACUITE A minus credit enhancement**) to '**ACUITE BBB+ (CE)**' (read as **ACUITE triple B plus credit enhancement**) on the Rs. 260.00 crore bank facilities of AMRI HOSPITALS LIMITED (AHL). The outlook is revised from '**Stable**' to '**Negative**'.

Acuité, vide its press release dated July 02, 2019, had placed the long term rating of 'ACUITE A- (CE)' on 'Rating watch with Negative implications' in response to the announcement by the promoters of Emami Limited diluting 10 per cent of their stake in the company. Further, Acuité had observed that the stock prices of Emami Limited had been exhibiting a declining trend which resulted in increase in margin calls from some of the lenders.

The downward revision in rating is primarily driven by a deterioration in financial flexibility of the group and the inability to reduce debt at promoter level within the expected timelines. The same is also reflected through 11 per cent of the promoters' shareholding remaining unencumbered as on 01, June 2020 as compared to 47 percent as on 01, June 2019, thereby restricting the ability of the promoters to comply with margin calls in case of further decline in the share price. The downgrade in rating also reflects the continued pressures on profitability of the company which has impacted the financial risk profile of the company and therefore necessitates funding support from the group. Despite Acuité's expectation of operational turnaround, the operating performance continues to remain subpar. While Acuité understands that the group is close to completing the sale of its cement business, the timelines for monetisation and reduce leverage at the promoter level is still uncertain. Acuité is currently in discussions with the management to understand the progress of the transaction and its impact on the group leverage levels.

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, Salt Lake and Mukundpur) and one at Bhubaneswar. Further, it also runs a diagnostic center at Kolkata. The total intake capacity is 962 beds. The Kolkata-based, Emami Group holds 98.03 per cent stake in AHL with the balance 1.97 percent held by Government of West Bengal as on March 31, 2020.

### Unsupported (Standalone) Rating: **ACUITE B+/ Negative**

#### Analytical Approach

Acuité has considered the standalone business and financial risk profile of AHL and has factored credit enhancement in the form of structured payment mechanism, pledge of shares of Emami Limited to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Rating driven by pledge of shares of Emami Limited**

The rated bank facilities of AHL are secured by way of pledge of fully paid up unencumbered shares of Emami Limited held by Diwakar Viniyog Private Limited in addition to the movable and immovable assets of the company. The asset coverage ranges from 1.1x to 1.3x across the three banks. Apart from the asset coverage, the sanction terms also stipulate the timelines for top up in case of shortfall in collateral cover and invocation of pledge. Diwakar Viniyog Private Limited (pledger entity) is one of the investment companies of the promoters of the Emami Group, holding

10.73 per cent of the group's shares as on March 31, 2020. Diwakar Viniyog Private Limited, Bhanu Vyaapar Private Limited and Suntrack Commerce Private Limited (promoter group companies) have also extended corporate guarantees to the bank facilities of AHL.

Further, the rating also factors in support extended by the group to the company in the form of unsecured loans. Since, the operational cash flows of AHL are currently inadequate to service its debt obligation; the continuous support from the Emami group will be a key rating sensitivity factor. The rating also factors in the adherence to the security cover against pledge of shares to be maintained at all times.

- **Long track record and established position of the Emami Limited in 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, and 6500 sub-distributors with direct reach across 7.3 lakh retail outlets.

Emami Limited reported operating income of Rs. 2,696 crore and net profit of Rs. 302 crore for FY2019. The net worth of Emami Limited stood at Rs. 2,076 crore and debt-to-equity at 0.05 times as on March 31, 2019. The total market capitalization stood at Rs. 9352 crore as on May 21, 2020. The promoters holding stood at 51.85 per cent as on March 31, 2020 out of which 89 per cent shares are pledged.

Acuite believes that the Emami group will benefit from its established position in FMCG sector and proven strategy of scaling up operations through a mix of organic and inorganic initiatives.

## **Weaknesses**

- **Subdued operating metrics**

AHL's operating revenues stood at Rs. 694.46 crore (Provisional) in FY2020 as against Rs. 561.74 crore and Rs. 460.36 crore in FY2019 and FY2018 respectively. AHL posted operating profits of Rs. 80.57 crore (Provisional) in FY2020, against Rs. 52.46 crore in FY2019 and Rs. 15.99 crore in FY2018.

The tangible net worth declined to Rs. (3.46) crore (Provisional) as on March 31, 2020 against Rs. 68.13 crore as on March 31, 2019. The gearing levels stood at (10.66) times (Provisional) as on March 31, 2020 as against (401.04) times as on March 31, 2019. The total debt of Rs.1,487.54 crore (Provisional) outstanding as on March 31, 2020 comprises Rs.459.63 crore of long term loans, Rs. 115.34 crore as Non-convertible debentures, Rs. 777.63 crore as unsecured loans from promoters and Rs. 134.94 crore of short term borrowings.

Acuite believes that the financial risk profile will continue to be below average on account of regular expansion plans and lower cash accruals of the company and the servicing of debt will be contingent on ongoing support from the 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 the 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.

### Liquidity Position: Adequate

AHL is supported by the promoter's ability for repayment of debt that has been reflected from refinancing of maturing debt through fresh issuances. The company is also supported by way of unsecured loans infused in the company through promoter and promoter group companies.

### Outlook: Negative

Acuite believes that AHL's credit profile will be under pressure over near to medium term on account of continued deterioration in the financial risk profile and volatility in stock prices due to current market conditions. The rating may be downgraded in case the credit profile continues to deteriorate or if the shares of Emami Limited faces downfall in stock prices owing to occurrence of events considering stock market volatility.

### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	694.46	561.74
PAT	Rs. Cr.	(136.14)	(151.30)
PAT Margin	(%)	(19.60)	(26.93)
Total Debt/Tangible Net Worth	Times	(10.66)	(401.04)
PBDIT/Interest	Times	0.48	(0.21)

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Criteria for Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
02-Jul-19	Term Loans	Long term	60.00	ACUITE A- (CE) (Under rating watch with negative implications)
	Term Loans	Long term	100.00	ACUITE A- (CE) (Under rating watch with negative implications)
	Term Loans	Long term	100.00	ACUITE A- (CE) (Under rating watch with negative implications)
22-Apr-19	Term Loans	Long term	60.00	ACUITE A- (CE)/Stable (Reaffirmed)
	Term Loans	Long term	100.00	ACUITE A- (CE)/Stable (Reaffirmed)

	Term Loans	Long term	100.00	ACUITE A- (CE)/Stable (Reaffirmed)
17-Jan-18	Term Loans	Long term	60.00	ACUITE A- (CE)/Stable (Assigned)
	Term Loans	Long term	100.00	ACUITE A- (CE)/Stable (Assigned)
	Term Loans	Long term	100.00	ACUITE A- (CE)/Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	01-Apr-19	Not Applicable	31-Mar-24	23.00	ACUITE BBB+(CE)/ Negative (Downgraded and outlook revised)
Term loans	01-Mar-19	Not Applicable	31-Dec-22	68.75	ACUITE BBB+(CE)/ Negative (Downgraded and outlook revised)
Term loans	01-Jan-19	Not Applicable	30-Nov-20	25.00	ACUITE BBB+(CE)/ Negative (Downgraded and outlook revised)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	143.25	ACUITE BBB+(CE)/ Negative (Downgraded and outlook revised)

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**About Acuite Ratings & Research:**

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