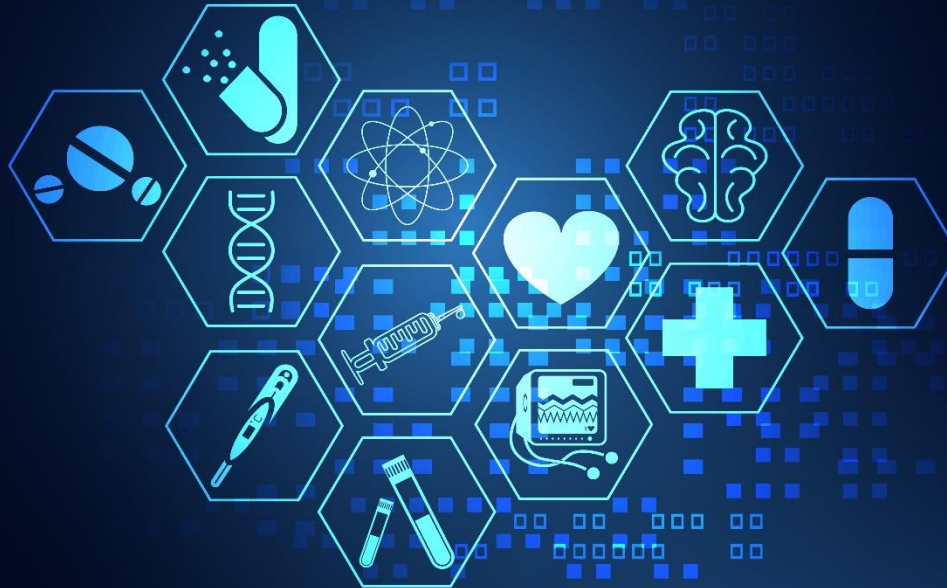


Indian Healthcare

The sky is the limit



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Indian Healthcare Industry – The sky is the limit

India's healthcare industry has shown remarkable growth in the recent past and the momentum will certainly continue in FY23 with improvement in occupancy, better case mix and sustainability of current ARPOB. Beyond FY23, we believe hospital companies will be more focused on growth as they are 1) adding new capacities largely through brownfield expansion for faster operationalization of beds & lower startup costs and 2) scaling up other ancillary businesses to tap further opportunities. We initiate coverage on Hospital Sector and recommend a 'BUY' rating on: Apollo Hospital (APHS IN, BUY, TP Rs 5772), Aster DM (ASTERDM IN, BUY, TP Rs 234), Fortis Healthcare (FORH IN, BUY, TP Rs362), Healthcare Global Enterprises (HCG IN, BUY, TP Rs 316), KIMS (KIMS IN, BUY, TP Rs 1638), Max Healthcare (MAXHEALT IN, BUY, TP Rs 427) and Narayana Hrudayalaya (NARH IN, BUY, TP Rs 773).

Investment Rationale:

- **Secular story- Hospitals to be biggest beneficiaries in rising healthcare spends:** Overall health spends are expected to grow at 16-18% CAGR, driven by improving affordability and increasing incidence of non-communicable diseases. Private hospital players are expected to be largest beneficiary with 65-70% share of healthcare spends with incremental gains from standalone hospitals/nursery centers to even large corporate Hospitals during COVID.
- **Brownfield expansion to aid hospital segment:** Companies under our coverage like APHS, NARH, HCG and ASTERDM had an aggressive investment phase over FY16-18, benefits of that were visible FY20 onwards. Most players are in consolidating phase till FY22. As companies reach to optimal level of utilization, we see companies initiating to fresh level of capex. However, this time companies are in better position to fund new capex and will be aided by internal accruals. Further companies are looking to add additional capacities through brownfield expansion for faster operationalization of beds and relatively lower costs.
- **Ancillary business scaling up:** Hospital companies are scaling up ancillary business like third party diagnostics, retail pharmacy and digital business for future growth. Scaling up of ancillary businesses and potential spin-offs could be value unlocking opportunity. APHS, FORH and MAXHEALT are best play in this theme with ancillary business contributing ~5-27% to total EBIDTA in FY24E .
- **Strong FCF generation; compounding EBITDA:** Companies under our coverage have reduced leverage over last 2 years, given low capex intensity and scale up in profitability. Hence we expect them to continue generating strong FCF annually after factoring annual brownfield capex streamlined over next 2-3 years. we expect +48% EBITDA CAGR over FY21-24E and 18% EBITDA CAGR over FY22-24E. Overall RoE are also likely to sustain at +15% for APHS, ASTERDM, KIMS, MAXHEALT and NARH despite capex intensity going up.

	Pre IND AS EBITDA (Rs mn)				CAGR (%)	
	FY21	FY22E	FY23E	FY24E	FY21 to FY24	FY22 to FY24
APHS	9,124	21,408	25,177	31,883	51.7	22.0
ASTERDM	7,724	11,339	12,817	14,666	23.8	13.7
FORH	3,604	10,618	11,597	14,193	57.9	15.6
HCG	631	1,757	2,215	2,668	61.7	23.2
KIMS	809	2,386	3,854	4,576	78.2	38.5
MAXHEALT	5,780	13,696	14,368	17,414	44.4	12.8
NARH	1,321	5,809	7,077	8,392	85.2	20.2
Total	28,993	67,013	77,104	93,792	47.9	18.3

Listed Hospitals: What We Like and Where To Invest

Apollo Hospitals Enterprise:

APHS has pursued aggressive expansion (25-30% capacity expansion) in past few years and created a strong growth platform. The company's digital foray (2021) makes it a strong omni - channel play whereas strong presence in offline format makes it a formidable player than pure play online companies.

Aster DM Healthcare:

ASTERDM Healthcare has a unique business model with presence in India's growing healthcare industry and an established business with strong returns in GCC. We expect 26% EBITDA CAGR over FY21-24E as margin in its India business gradually improve and new hospitals ramp-up in the GCC.

Fortis Healthcare:

FORH had legacy issues, wherein they had inefficient capital structure. Post IHH entry in FY19, FORH witnessed strong recovery across segments. We expect margins across segments to improve, given increasing volume in diagnostics business and improving product mix in hospital segment along with cost rationalization initiatives. We expect 58% EBITDA CAGR (16% over FY22-24E) over FY21-24E.

HealthCare Global Enterprises:

HCG's asset light approach with focus on partnering has made its business model capital efficient and scalable. The company operates most of its comprehensive cancer center (CCC) on lease/rental basis with HCG investing only in equipment's. HCG is in a consolidation mode and given reducing capex intensity, we expect profitability to improve from FY22. We expect a 62% EBITDA CAGR over FY21- 24E (23% CAGR over FY22-24E) after adjusting for IND AS.

Krishna Institute of Medical Sciences:

KIMS's robust cost control, low capital intensive set-up, value accretive acquisitions have ensured good profitability. EBITDA has grown at 40% CAGR over FY18-22. The recent acquisition of Sunshine is value accretive. This coupled with brownfield and greenfield expansion of +1500 beds over next 3-4 years will enhance capacity by +65%.

Max Healthcare Institute:

MAXHEALTH's operational efficiency (EBITDA/bed at 4.5x vs 0.9-2.5x of peers) has been commendable in competitive markets like NCR. Company's EBITDA growth (61% CAGR over FY20-22) has been phenomenal in past two years. Company's expansion plan (2x bed addition over next 5 years), improving payor mix (reducing low margin institutional mix which is at 31%) and scale up in labs business will aid growth momentum in medium term.

Narayana Hrudayalaya:

NARH's India business got most impacted from COVID due to higher reliance on elective surgeries, international patients and company ethos of not charging much for vaccine and other COVID related revenues.

With strong performance at Cayman, steady pick up in mature India hospitals and ramp-up at new hospitals, we expect EBITDA CAGR of 20% (21% CAGR over FY20-24E) over FY22-24E. This also would lead to superior return ratios at 25% by FY24E.

Operating dynamics- Listed firms have strong platform

Key operating metrics – MAXHEALT, FORH & APHS enjoy higher ARPOB while NARH, KIMS cost/bed is very impressive

Listed Firms (Q3FY22)	APHS	ASTERDM	FORH	HCG	KIMS	MAXHEALT	NARH
No of hospitals	44	14	24	25	9	16	20
Operational beds	7,860	2,907	3,881	1,702	2,590	3271	6,181
Avg revenue per occupied bed (INR /day)	46,062	33,600	50,959	38,317	23,189	61,000	32,055
Avg length of stay (days)	4.3	3.4	NA	2.1	4.8	4.3	4.6
Gross block per bed (Rs in mn)	10	17	13	7	3.5	11	4.5
Q3 FY22 Occupancy (%)	66%	65%	65%	55%	61%	77%	NA
9MFY22 hospital OPM (%) for India operations- Post IND AS	23.0%	16.6%	16.0%	16.9%	31.0%	26.0%	11.0%

Source: Company, PL Note: APHS ARPOB is net of doctor fees; ASTERDM ARPOB, ALOS and occupancy is only for India operations

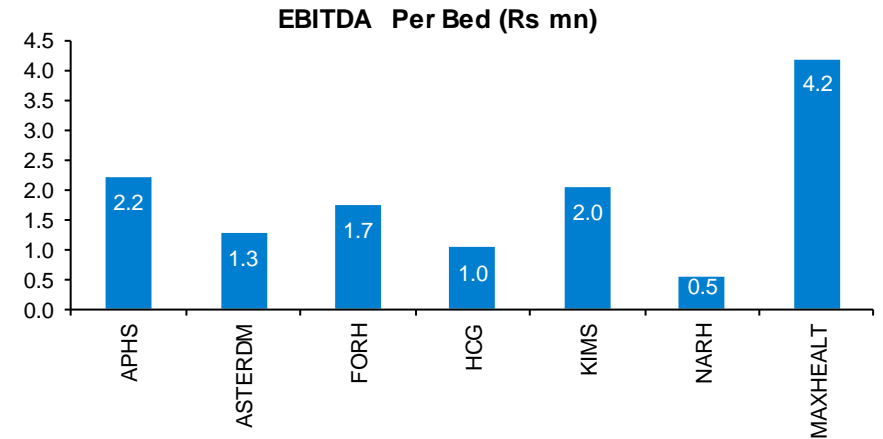
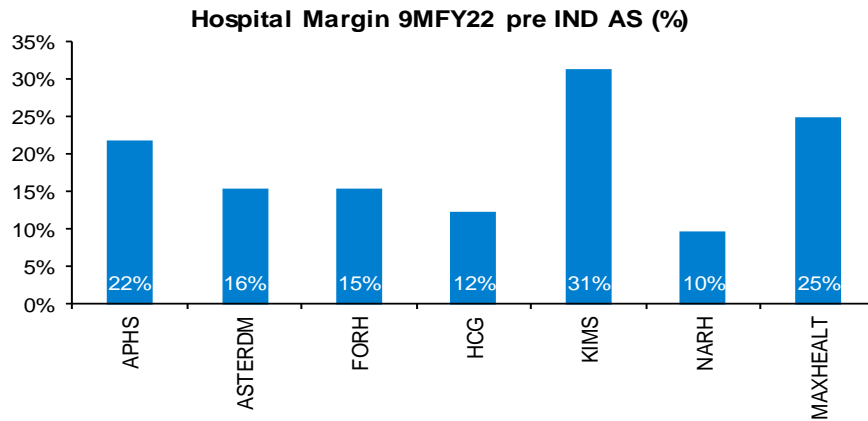
APHS & FORH opting largely for owned while NARH and HCG opting largely for asset light model

Company	Particulars	Remark
APHS	Most properties are owned	Prefers to owned land; 65-70% of hospital assets/land are owned by Apollo
ASTERDM	Consists of owned, leased and O&M basis	13 Hospitals in GCC and 19 hospitals in India
FORH	Owned model	Post buy out of stake from RHT- Fortis now owns 100% of land/hospital building .
HCG	Only four out of 25 properties is on owned land	The company operates most of its comprehensive cancer center on lease/rental basis with HCG investing only in equipment
KIMS	Out of nine properties – 4 are owned, 2 on lease, 1 on O&M and remaining 2 as part owned /part leased	KIMS low capital intensive set up given bed configuration of 200-250 beds/unit in micro markets
MAXHEALT	Consists of owned, leased and O&M basis	Network consists of 10 owned/ leased hospitals, four partnered healthcare facilities, two Radiant hospitals on O&M basis
NARH	Only four out of 20 properties are on owned land	The current NARH's network cost is at ~ Rs3.6mn/bed.

Source: Company, PL

Cost comparison- MAXHEALT, KIMS & APHS model is cost efficient

KIMS & MAXHEALT enjoys higher margins while NARH & HCG low margins on account of lower ARPOB and losses from new hospitals



Source: Company, PL Note: NARH & ASTERDM margins are only of India operations while APHS margins is optically higher as doctor fee cost are net off from revenues

Cost structure across hospitals – Better operational efficiency for KIMS, MAXHEALT

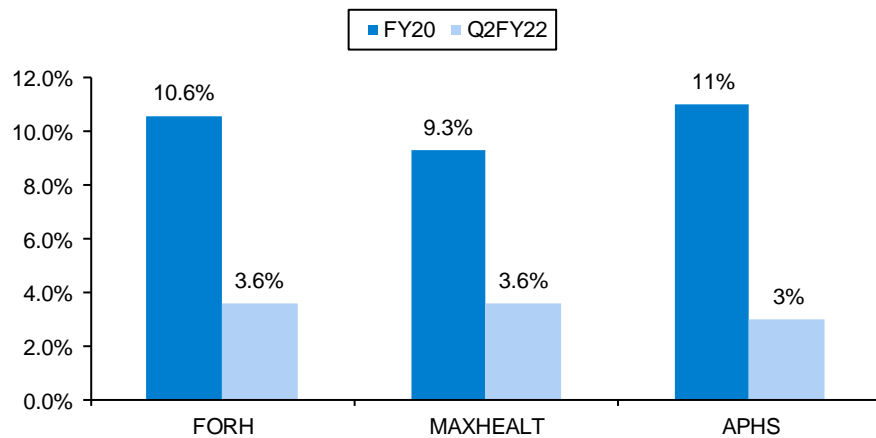
	CoGS (% of sales)			Employee cost (% of sales)			Other expenses		
	FY20	FY21	9MFY22	FY20	FY21	9MFY22	FY20	FY21	9MFY22
APHS	41	45	52	14	13	12	21	20	21
ASTERDM	29	30	30	34	32	32	23	26	25
FORH	21	24	24	20	21	17	45	45	40
HCG	22	24	26	19	19	17	43	44	41
KIMS	23	22	22	18	17	15	39	34	31
MAXHEALT	22	27	28	22	26	21	41	30	33
NARH	24	26	25	22	24	21	41	42	37

Source: Company, PL Note APHS COGS are higher due to pharmacy biz. NARH and ASTERDM expenses factors in Cayman and GCC operations. Other exps includes doctor cost

Occupancy, specialty & payor-mix will drive profitability in near term

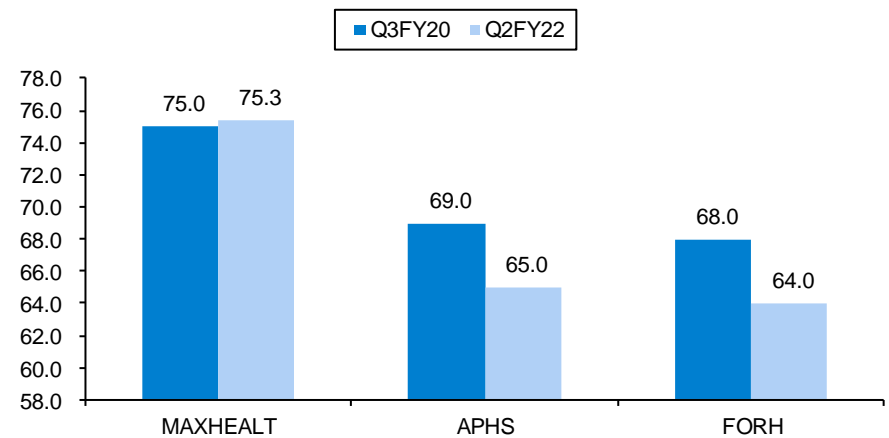
- Companies like APHS, FORH reported occupancy of 65% in 9MFY22 which is still below pre-covid levels of ~ 70%.
- International patients used to contribute 10-12% of total revenues which is currently at 60-80% below pre-covid levels. As travel normalizes, revenue from international patients should pick up (which is of high margin in nature).
- Further companies like MAXHEALT are also increasing cash & non-institutional payor mix, in order to drive profitability.
- Large tertiary care hospitals in our coverage have relied on case mix to continue improving their ARPOBs. This will continue to aid pricing.

International patient revenue contribution (in %)



Source: CRISIL Research

Occupancy still below pre-COVID levels for APHS & FORH



Source: CRISIL Research

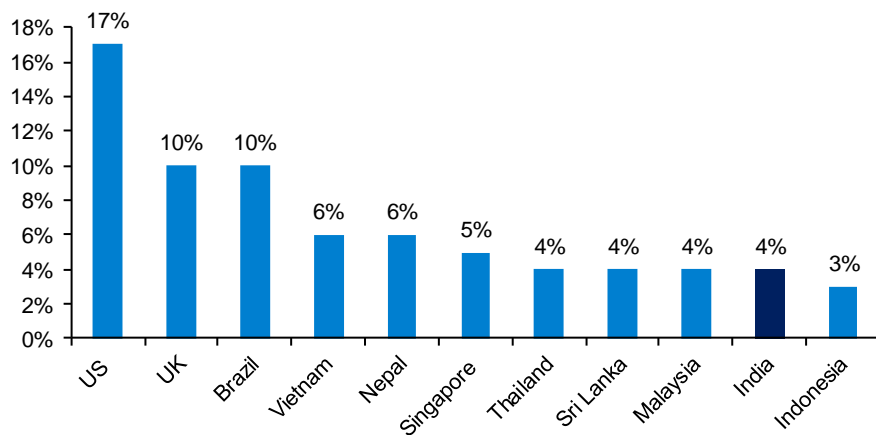
Investment Rationale

Secular story: Under penetration market with attractive dynamics

Secular story: Under penetration market with attractive dynamics

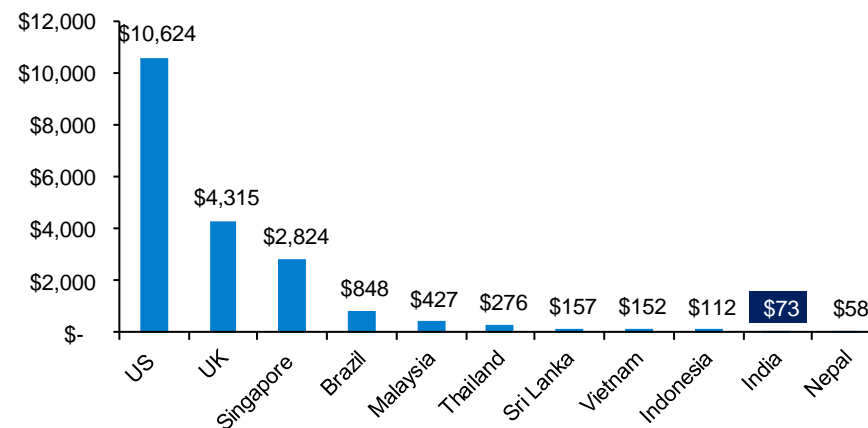
- India healthcare industry is poised to grow at a 15-17% CAGR driven by ageing population, burgeoning lifestyle diseases, rising affordability which in turn drives quality healthcare and improved medical insurance penetration. Hospitals are largest component and biggest beneficiaries of the healthcare market (~73%) in India with public spend likely to be limited to ~25-30% of annual healthcare spend.
- Unlike most countries where public spend dominates the industry, India's private sector accounts for 70-75% of healthcare spend; hence new investments will largely be driven by private firms.
- Low public spending and limited penetration of health insurance has led to 'out-of-pocket' expenditure accounting for ~63% of total healthcare which is one of highest in the world and well above global average of 22%.
- Given rising disposable income, we see pricing environment for hospitals to remain healthy
- India healthcare spend is just 3.8% of GDP vs 17% in case of US. This works out to be USD 73 per person annually on health care vs USD 10,600 in case of US.
- India offers significant opportunity for growth of medical tourism. This market is expected to rise at a CAGR of 65- 70% between FY21-25.

Healthcare expenditure (4% of GDP) – A lots of room to catch up



Source: CRISIL Research

Per capital healthcare expenditure (in \$) – 1.5-11x in developing countries



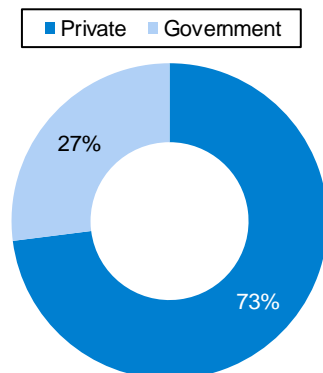
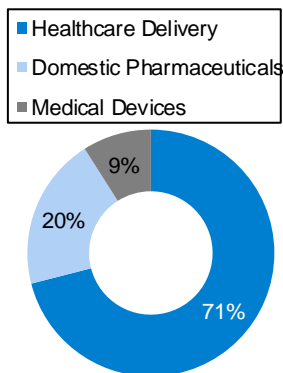
Source: CRISIL Research

Hospital spend: Dominant pie of healthcare spend

Growing Indian Healthcare Delivery industry

The healthcare delivery industry has **grown at CAGR of 12-14%** over FY16-20

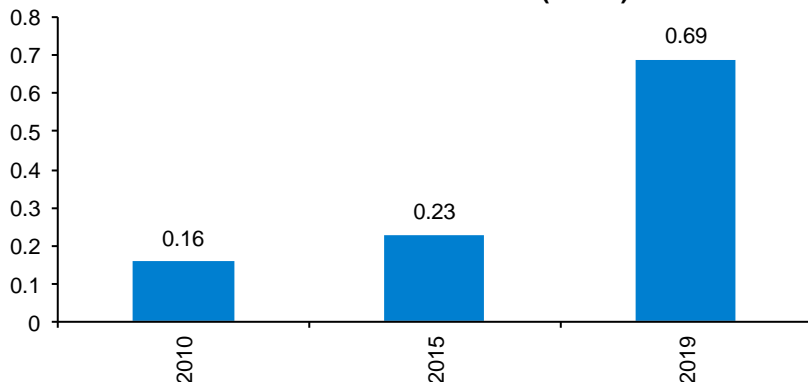
India Healthcare Expenditure



Source: CRISIL Research

India is emerging faster as a major medical tourist destination

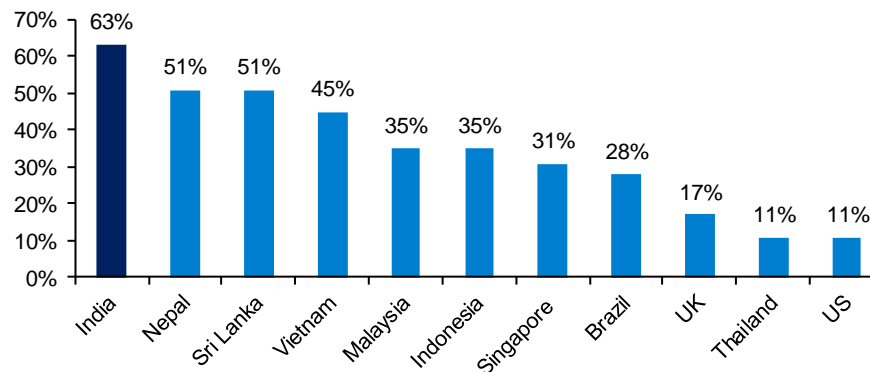
Medical Medical tourists (in mn)



Source: CRISIL Research

Public healthcare expenditure is low, with private sector accounting for bulk

Out-of-pocket expenses as % of Healthcare expenditure



Source: CRISIL Research

India enjoys a huge cost advantage globally with control over quality

Ailments (US\$)	US	Korea	Singapore	Thailand	India
Hip replacement	50,000	14,120	12,000	7,879	7,000
Knee Replacement	50,000	19,800	13,000	12,297	6,200
Heart bypass	144,000	28,900	18,500	15,121	5,200
Angioplasty	57,000	15,200	13,000	3,788	3,300
Heart valve replacement	170,000	43,500	12,500	21,212	5,500
Dental implant	2,800	4,200	1,500	3,636	1,000

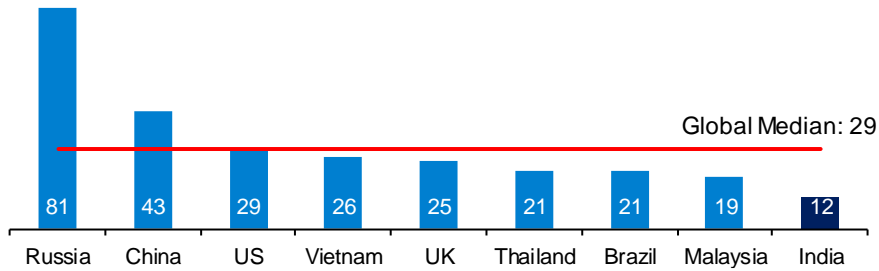
Source: CRISIL Research

Huge scope of development for Indian healthcare infrastructure

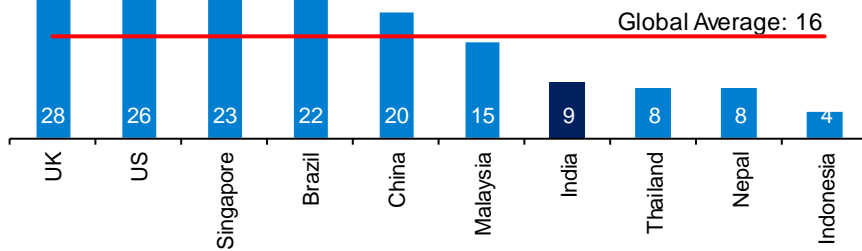
India lags behind than other developed and emerging economies in healthcare infrastructure

Deaths due to disease is higher while healthcare infrastructure is poor

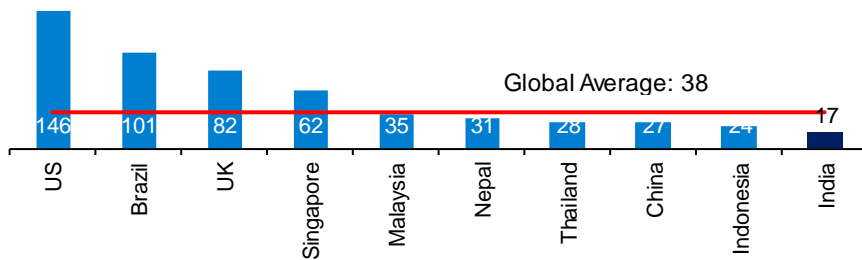
Beds per 10,000 People



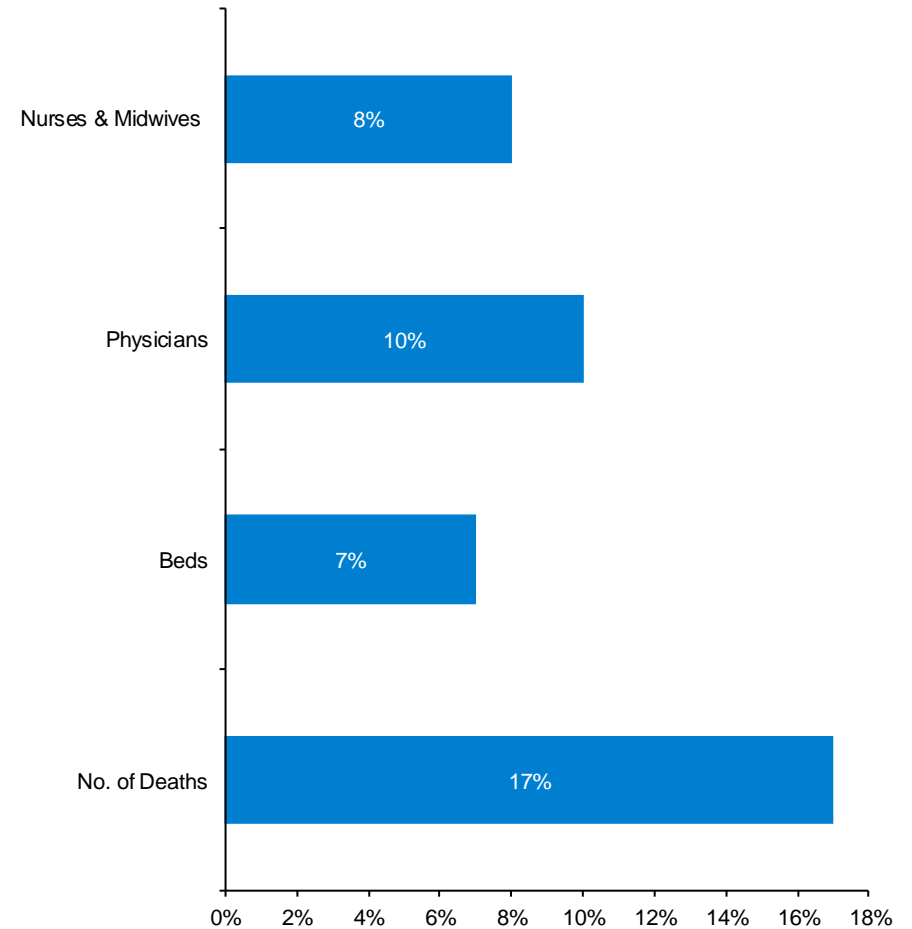
Physicians per 10,000 people



Nurses per 10,000 people



India's share as percentage to world



Source: CRISIL Research

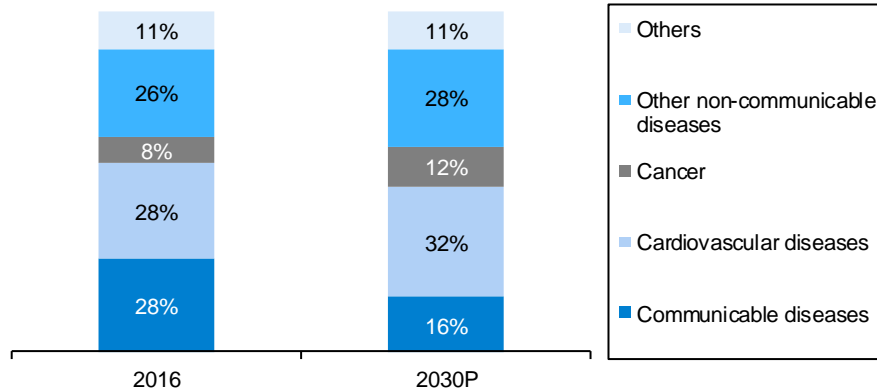
Source: CRISIL Research

Favorable demographic, consumption patterns and increasing affordability

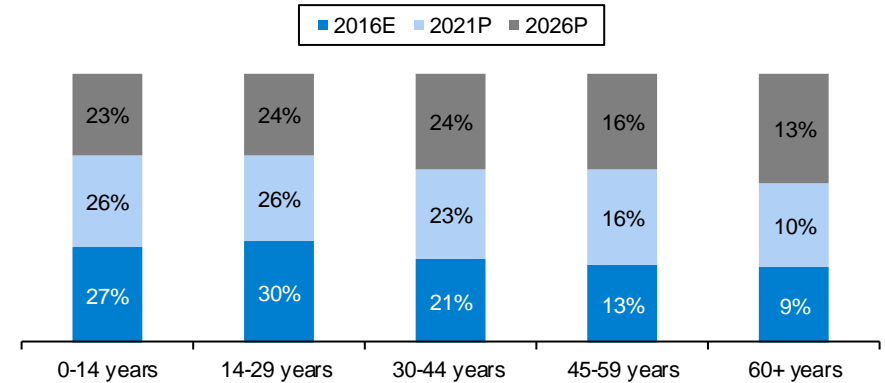
Non-communicable disease accounts for most number of deaths

Population in 60+ age group to grow faster

Causes of death in India



Population in 60+ age group to grow faster



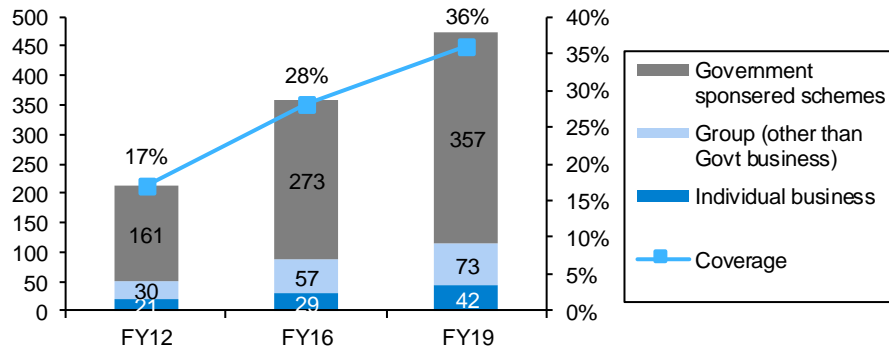
Source: CRISIL Research

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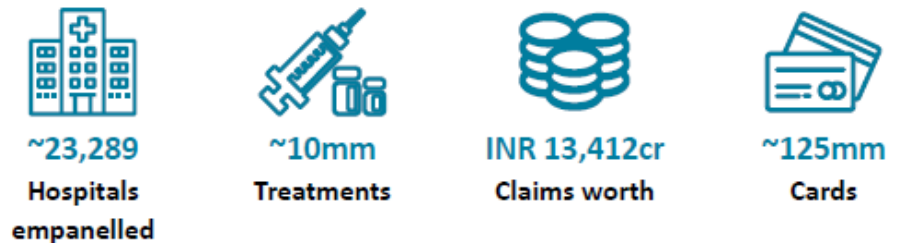
Growing health insurance penetration to propel demand

Pradhan Mantri Jan Arogya Yojana adds a demand impetus

Population-wise distribution amongst various insurance business (million)



Source: CRISIL Research



Strategic partnerships to spread awareness, technology partnership and industry partnerships

Source: CRISIL Research

Brownfield expansion to aid hospital segment

Expansion plans across hospital companies

- **APHS:** Company will continue to explore bolt on acquisitions in markets like NCR and Mumbai where it has limited presence and can also add 1000-2000 beds through brownfield expansion in hospital segment. On pharmacy side, it will continue to add 300-400 net stores annually.
- **ASTERDM:** Possible restructuring in Saudi hospital and Cayman Island capex plans, as an extension of GCC hospital business. Aster is looking to add 145 beds in Oman by end of FY22. In India – 276 beds are planned through brownfield expansion in its Whitefield hospital (Bangalore) by H1FY23 end. Further company will continue with O&M opportunities. It will also look to expand clinics under Aster Lab business.
- **FORH:** The Company has re-initiated its investment plans for bed expansion in select existing facilities such as Noida, BG Road, Anandapur, Mulund, Shalimar Bagh, FMRI, Mohali and Arcot Road which will see a cumulative addition of ~1,300 beds over FY22-25E
- **HCG:** No major capex; in phase of consolidation
- **MAXHEALT:** Planning to expand 2,300 beds (70% of current capacity) over next 5 years at existing location such as Saket complex (Delhi), Nanavati (Mumbai) and Shalimar Bagh. These are brownfield expansion at locations which are already running at optimal occupancy and capacity enhancement will be EBIDTA accretive. Further company has recently added 300 beds in NCR market (Dwarka location) on O&M model which will get commercialized in FY24.
- **NARH:** Intends to step up investments to upgrade some of existing facilities post COVID environment. Will be exploring bolt on acquisitions / greenfield in markets like Kolkata, Bangalore, MMR.
- **KIMS:** KIMS will be adding 650 beds through brownfield expansion across its Kondapur, Vizag and Anantpur units for total capex of Rs3.8bn over FY21-25E. Further company is looking to add additional 1000-1200 beds through greenfield across Chennai, Bangalore and Maharashtra regions.

Major capex expansion through brownfield

	Existing operational beds	Expansion plans	Remarks
APHS	7860	2000	Mgmt guiding for 2000 beds over next 3 years addition across NCR, Mumbai and Bangalore region through brownfield and greenfield expansion
ASTERDM	3828	1860	GCC- 295; India - 1565 bed expansion over next 3-4 years
FORH	3881	1500	Re-initiated investments plans for bed expansions in (brownfield) facilities such as Shalimar Bagh, Noida, FMRI, Mulund, Mohali and Anandpur over next 3-4 years
HCG	1702	-	No major capex; in phase of consolidation
KIMS	2590	2400	Sunhsine acquisition to add 600 beds from FY23; 1100bed addition across Chennai, Bangalore, Maharashtra through greenfield while 700 bed addition through brownfield across Kondapur, Anantpur over next 4 years
MAXHEALT	3271	3300	Out of 3300 beds- 2300 bed expansion through brownfield across Saket, Nanavati
NARH	6181	200	150-200 beds brownfield expansion over next 2 years; Cayman new facility to add 50 beds from FY24

Source: Company, PL

Ancillary business scaling up

Ancillary business scaling up

Hospital companies are scaling up ancillary business like third party diagnostics, retail pharmacy and digital business for future growth. Scaling up of these ancillary businesses and potential spin-offs could be a value unlocking opportunity.

- APHS is expected to generate ~28% of EBITDA from non-hospital segment in FY24 i.e. Pharmacy and Retail Health. It is looking to partially stake sale in pharmacy/24x7 digital business for funding growth and creating one of India's largest Omni-channel platform . Further Apollo is also scaling up its third party B2C diagnostics segment which will create significant value, going forward.
- FORH owns 57% stake in SRL- one of top 3 diagnostic chain in India. Company has been expanding aggressively with collection centres to increase its B2C share. Over last few quarters, company growth recovery has been in line with peers.
- MAXHEALT's non captive business Max Labs and Max Homecare witnessed strong traction during COVID-19. We expect the company to generate Rs1bn of EBITDA over next 2-3 years from current level of Rs300mn.

Scaling up of these ancillary businesses and potential spin-offs could be a value unlocking opportunity

Non hospital EBITDA (Rs mn)	FY22	Remarks
APHS	3,100	As losses from 24x7 comes down, we see 68% EBITDA CAGR over FY22-24E across pharmacy + AHLL format.
FORH	4,078	We see 15% EBITDA CAGR over FY22-24 adj for COVID
MAXHEALT	300	Scaling up its third party diagnostics and lab business

Source: Company, PL

Hospital Companies are making huge Digital strides



Apollo Hospital Enterprises



Aster DM Healthcare



Max Healthcare Institute



HealthCare Global Enterprises



Narayana Hrudayalaya



Fortis Healthcare



Krishna Institute of Medical Sciences

Hospital Companies are making huge Digital strides

Apollo Hospitals Enterprise:

- Apollo digital healthcare app “Apollo 24/7” agile and digitally connected to the consumer- completes 45,000 deliveries/ day in pharmacy business and carries out 5,000-6,000 daily video / tele consultations
- Best positioned to become the largest digital health platform to with 100 million targeted registered users on Apollo 24/7 in next 5 years.

Aster DM Healthcare:

- Launched OneAster in India connecting all the hospitals in Kerala and Maharashtra to a single patient engagement platform

Fortis Healthcare:

- MyFortis platform customer lifecycle management got fully integrated with other Fortis digital systems

HealthCare Global Enterprises:

- Implemented DISHA-C (Digital Information Systems & Healthcare Analytics – Clinical), an advanced platform for transitioning to Electronic Medical Record (EMR), with an intent of enhancing clinical competence and operational efficiency.

Krishna Institute of Medical Sciences:

- Embarked on a journey of digital transformation across financial, clinical, operational and patient engagement:
- Realize Phase of S4 HANA deeply integrated with Hospital Information System and other core applications
- Digital Clinical Applications have been deployed for nurses and doctors (patients records on mobile)

Max Healthcare Institute:

- Leverage brand, customer loyalty and data to build a digital ecosystem
- Online marketing activities and web-based appointments have increased the digital revenues i.e. ~11% of overall revenue along with ~20000 video consults,
- Strengthened and developed remote monitoring capabilities, particularly during lockdown, in Tri-city

Narayana Hrudayalaya:

- Integrated doctor's mobile app with ICU monitors for real-time remote patient assessment
- Implemented machine learning-based diagnosis for X Ray for smart technology-based assessment
- Launched a pilot project ie “Enhanced Doctor's Bay Management System for OP patient queue management

Key risk to our call

- **Venturing into new geography:** While we are positive on the companies strategy to venture into newer and challenging geographies as it seeks to reduce dominance of its existing footprints in the business mix, we believe it will test companies project execution and operational management capabilities. Listed firms' ability to successfully manage this geographical expansion will be a key metric to track.
- **Resource availability poses operational and financial risk:** India produces 35,000 doctors on an average each year, but the number of super specialists is well below. The hospital network includes several multi-specialty and super-specialty centers, which require highly skilled human resources. A strong brand equity has enabled listed firms to attract good doctors. However, getting super-specialist doctors for newer super-specialty units would be a challenge, given scarcity of highly qualified talent. Given the nature of service offerings, we see that as a key operational and financial risk (higher employee cost) for companies under our coverage universe.
- **Ability to successfully manage increased scale:** Companies are likely to witness significant increase in scale over the next couple of years as it ramps up new hospitals. The scale will come with its own challenges. Management's ability to successfully manage it will be critical to facilitate the next growth phase.

Valuation Summary- Only Hospitals

	FY20	FY21	FY22E	FY23E	FY24E
Revenues (Rs mn)					
APHS	57,298	50,022	81,433	88,883	1,00,550
ASTERDM (India)	16,310	16,540	24,020	26,301	29,223
HCG	10,956	10,134	14,072	15,351	16,609
FORH	37,521	31,236	43,313	48,994	54,977
KIMS	11,226	13,299	16,866	22,933	24,995
MAXHEALT	39,907	36,010	52,786	54,449	63,466
NARH (India)	26,952	20,706	29,761	32,907	35,596

EBITDA Revenues (Pre IND AS)					
APHS	9,970	6,088	17,408	19,753	23,198
ASTERDM (India)	1,830	1,640	3,723	4,363	5,166
HCG	1,122	631	1,757	2,215	2,668
FORH	4,260	2,299	6,740	8,379	10,455
KIMS	2,328	3,524	5,022	6,008	6,615
MAXHEALT	5,272	5,780	13,696	14,368	17,414
NARH (India)	2,843	(710)	3,008	4,317	5,364

Enterprise Value (Rs mn)					
APHS	4,76,916	4,64,833	4,63,007	4,56,130	4,47,213
ASTERDM (India)	42,000	39,134	38,757	37,930	36,060
HCG	37,797	34,159	33,302	32,277	31,277
FORH	1,68,723	1,66,860	1,64,348	1,58,562	1,51,322
KIMS	1,01,615	98,418	98,017	97,600	97,245
MAXHEALT	3,81,878	3,66,296	3,63,450	3,59,207	3,51,683
NARH (India)	98,276	97,316	96,260	96,456	93,060

EV/EBITDA (x)					
APHS	47.8	76.4	26.6	23.1	19.3
ASTERDM (India)	23.0	23.9	10.4	8.7	7.0
HCG	33.7	54.1	19.0	14.6	11.7
FORH	39.6	72.6	24.4	18.9	14.5
KIMS	43.7	27.9	19.5	16.2	14.7
MAXHEALT	72.4	63.4	26.5	25.0	20.2
NARH (India)	34.6	-137.2	32.0	22.3	17.3

Source: Company, PL

	FY20	FY21	FY22E	FY23E	FY24E
Operational beds					
APHS	7,491	7,409	7,860	8,400	8,800
ASTERDM (India)	2,530	2,686	2,907	3,047	3,322
HCG	1,754	1,719	1,702	1,702	1,752
FORH	3,652	3,858	3,881	4,100	4,400
KIMS	2,434	2,590	2,590	2,896	2,946
MAXHEALT	3,271	3,271	3,271	3,471	3,771
NARH (India)	5,282	5,442	5,531	5,631	5,731

EV/Bed (x)					
APHS	63.7	62.7	58.9	54.3	50.8
ASTERDM (India)	16.6	14.6	13.3	12.4	10.9
HCG	21.5	19.9	19.6	19.0	17.9
FORH	46.2	43.3	42.3	38.7	34.4
KIMS	41.7	38.0	37.8	33.7	33.0
MAXHEALT	116.7	112.0	111.1	103.5	93.3
NARH (India)	18.6	17.9	17.4	17.1	16.2

EBITDA/Bed (x)					
APHS	1.3	0.8	2.2	2.4	2.6
ASTERDM (India)	0.7	0.6	1.3	1.4	1.6
HCG	0.6	0.4	1.0	1.3	1.5
FORH	1.2	0.6	1.7	2.0	2.4
KIMS	1.0	1.4	1.9	2.1	2.2
MAXHEALT	1.6	1.8	4.2	4.1	4.6
NARH (India)	0.5	-0.1	0.5	0.8	0.9

Valuation Summary

	Revenue (Rs mn)				CAGR (%)	CAGR (%)	EBITDA (Rs mn)				CAGR (%)	CAGR (%)	PAT (Rs mn)				CAGR (%)	CAGR (%)
	FY21	FY22E	FY23E	FY24E	FY21 to FY24	FY22 to FY24	FY21	FY22E	FY23E	FY24E	FY21 to FY24	FY22 to FY24	FY21	FY22E	FY23E	FY24E	FY21 to FY24	FY22 to FY24
APHS IN	1,05,600	1,48,165	1,71,458	2,01,472	24.0	16.6	11,374	23,108	26,877	33,583	43.5	20.6	1,504	12,055	11,730	16,858	123.8	18.3
ASTERDM IN	86,080	1,01,696	1,09,996	1,22,398	12.4	9.7	10,624	14,239	15,717	17,566	18.2	11.1	1,473	4,553	5,272	6,512	64.1	19.6
FORH IN	40,301	57,474	62,397	70,122	20.3	10.5	4,044	11,058	12,037	14,633	53.5	15.0	(1,098)	2,829	5,581	7,906	-293.1	67.2
HCG IN	10,134	14,072	15,351	16,609	17.9	8.6	1,266	2,392	2,850	3,303	37.7	17.5	(1,935)	445	484	939	-178.6	45.3
KIMS IN	13,299	16,866	22,933	24,995	23.4	21.7	3,709	5,286	6,754	7,476	26.3	18.9	2,012	3,275	3,963	4,060	26.4	11.3
MAXHEALT IN	36,010	52,786	54,449	63,466	20.8	9.7	6,080	13,996	14,668	17,714	42.8	12.5	1,830	9,533	9,910	12,652	90.5	15.2
NARH IN	25,823	36,986	39,807	44,479	19.9	9.7	1,821	6,389	7,657	8,972	70.2	18.5	(143)	3,568	4,384	5,552	-438.7	24.7

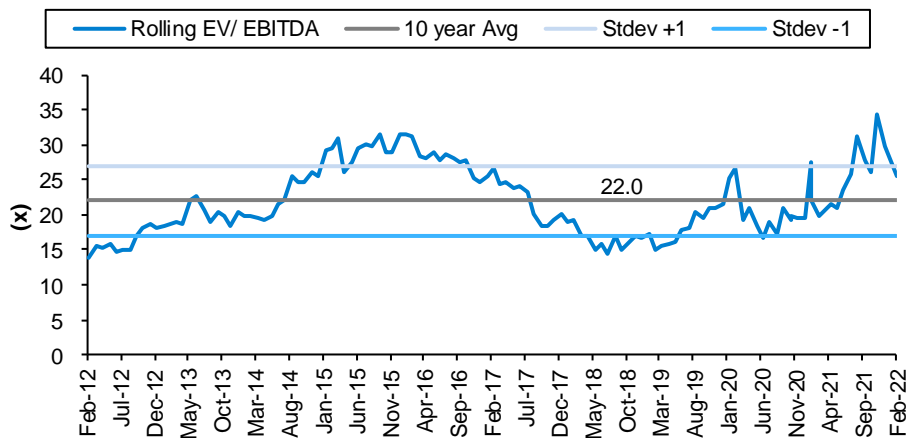
	EPS (Rs)				Net Debt/Equity (x)				ROE (%)				ROCE (%)			
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
APHS IN	6.2	63.4	81.6	117.2	0.2	0.2	0.0	-0.2	3.8	23.6	19.2	23.2	7.9	22.1	24.3	28.8
ASTERDM IN	3.5	10.0	11.4	13.9	0.6	0.5	0.4	0.3	4.4	12.6	13.1	14.5	7.4	13.3	13.9	14.9
FORH IN	(1.5)	7.8	7.4	10.5	0.1	0.1	0.0	-0.1	-1.7	4.4	8.0	10.3	1.5	10.4	10.8	12.9
HCG IN	(8.0)	(3.6)	3.5	6.8	0.5	0.2	0.0	-0.1	-35.9	5.7	5.4	9.7	-2.3	7.2	10.4	12.7
KIMS IN	25.2	40.9	49.5	50.7	-0.1	-0.1	-0.1	-0.1	27.5	29.0	25.3	21.4	29.8	34.0	33.8	32.0
MAXHEALT IN	1.9	9.8	10.2	13.1	0.1	0.0	0.0	-0.1	3.2	15.3	13.8	15.2	5.7	15.9	14.9	16.5
NARH IN	(0.7)	17.5	21.5	27.2	0.7	0.6	0.5	0.2	-1.3	27.7	26.4	26.0	-0.1	20.1	21.3	22.2

	CMP (Rs)	TP (Rs)	Mcap (Rs bn)	Rating	P/B (X)			EV/EBITDA (x)			PE (x)			Target EV/EBITDA multiple on FY24E
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
APHS IN	4,918	5,772	707	BUY	12.6	10.8	8.9	31.0	26.2	20.6	77.6	60.3	41.9	22x on Hospitals, 35x Offline Pharmacy, 30x AHLL
ASTERDM IN	167	234	83	BUY	2.2	2.0	1.7	7.2	6.4	5.5	16.8	14.6	12.0	15x India biz, 7x GCC biz
FORH IN	265	362	200	BUY	3.0	2.7	2.5	18.5	16.4	12.9	33.9	35.8	25.3	25x Diagnostic, 20x Hospitals
HCG IN	238	316	30	BUY	3.8	3.6	3.2	14.3	11.7	9.6	n/a	68.0	35.1	16x
KIMS IN	1,300	1,638	104	BUY	7.5	6.0	5.1	19.4	15.2	13.7	31.8	26.2	25.6	20x to KIMS hospital biz., 15x to Sunshine
MAXHEALT IN	370	427	358	BUY	5.4	4.7	4.0	25.7	24.3	19.6	37.6	36.2	28.3	22x on Hospitals, 30x on Labs
NARH IN	668	773	136	BUY	9.4	7.3	5.7	22.6	19.0	15.7	38.3	31.1	24.6	20x to India biz., 16x to Cayman

Source: Company, PL

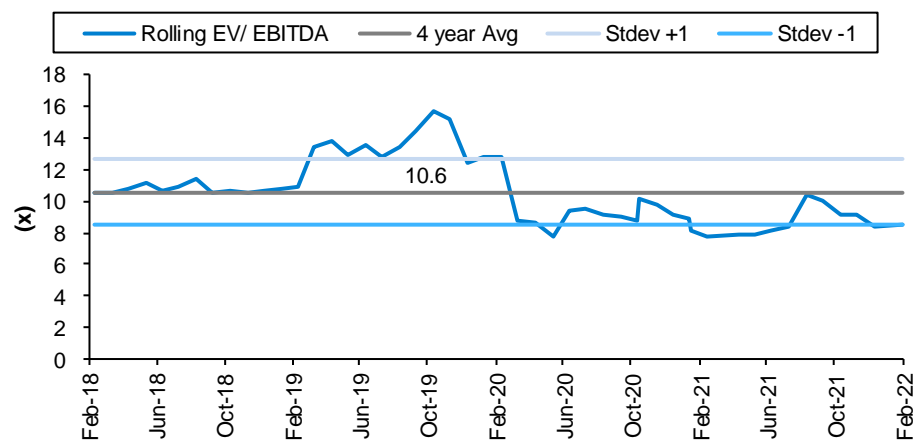
1 Year Forward EV/EBITDA Band

APHIS – Multiples have re-rated given scalability of non-hospital EBITDA



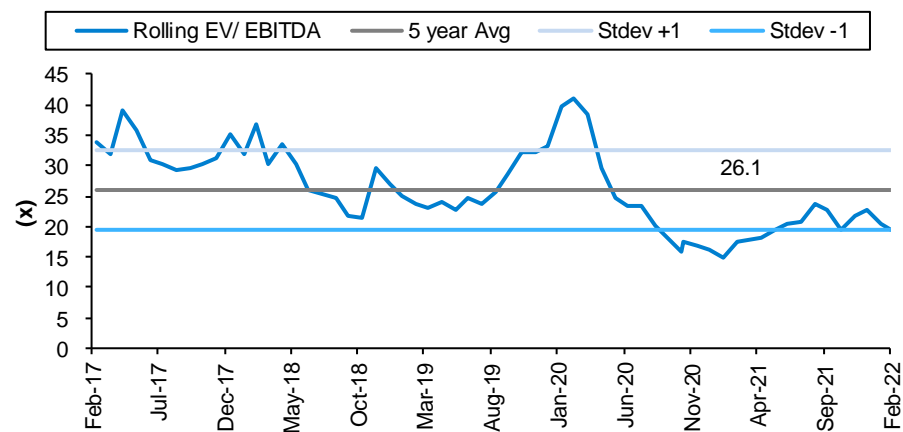
Source: Bloomberg, PL

ASTERDM- Trading below its -1STD



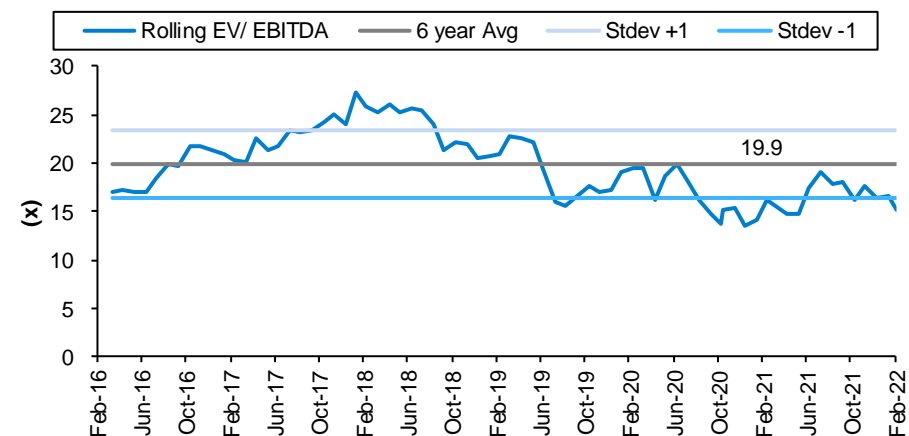
Source: Bloomberg, PL

FORH- Trading below its 5 year avg



Source: Bloomberg, PL

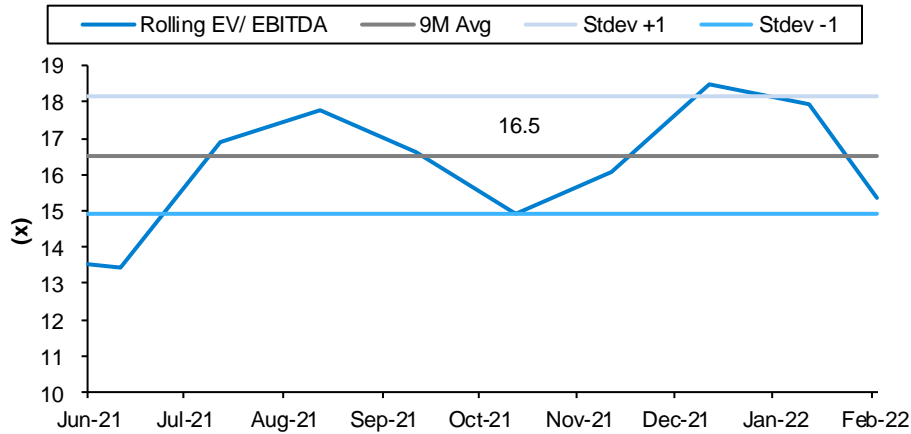
HCG- Trading below -1STD



Source: Bloomberg, PL

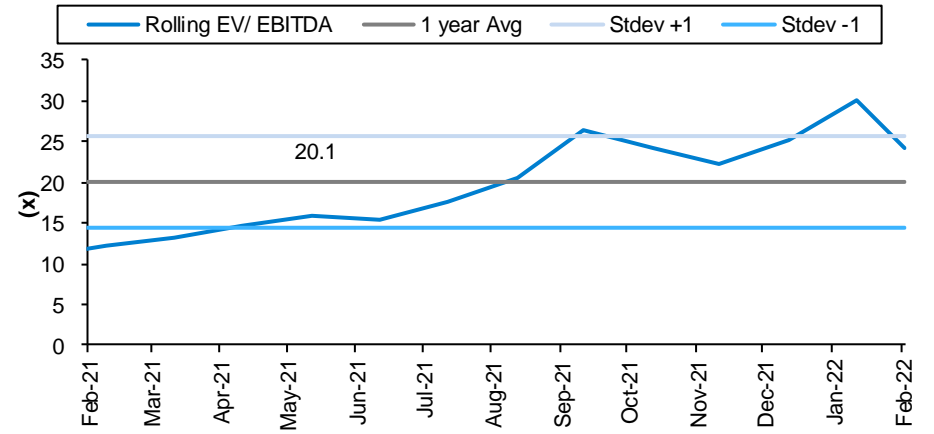
Contd...

KIMS – 1 year forward EV/EBITDA



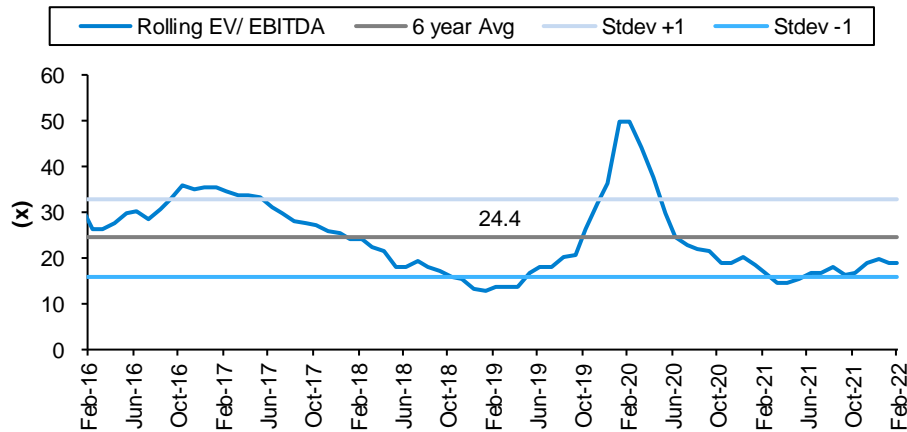
Source: Bloomberg, PL

MAXHEALT- 1 year forward EV/EBITDA



Source: Bloomberg, PL

NARH – Trading below its 6 yr avg



Source: Bloomberg, PL

Companies

Apollo Hospitals Enterprise

Rating: BUY | CMP: Rs4,918 | TP: Rs5,772 | Mcap: Rs707.1bn

We initiate coverage on Apollo hospital (APHS) with BUY rating at TP of Rs 5772 (SOTP based) as 1) the pursued expansion plan in hospital segment and 2) presence across healthcare delivery chain makes APHS an formidable player in the industry.

Largest healthcare provider: APHS is Asia's largest healthcare group in India with ~7,650 operational beds. With 44 owned hospitals and focus on clinical outcomes, It is a formidable brand in the Indian healthcare space. Further Apollo Pharmacy (SAP) is by far the largest organized pharmacy chain in India with 4,300 stores on Pan-India basis.

One of best omni-channel play: Apollo 24/7 will combine strengths of Apollo Group's offline healthcare leadership with new-age digital offerings that will address all its healthcare consumer needs. Company intends to cover more pin-codes and faster order delivery (currently within 2 hours). We expect Apollo Health Co (offline+online) to register \$1.1bn of revenues in FY24 of which 24x7 app will contribute ~\$150mn from ~\$40-50mn in FY22.

Scale up in B2C diagnostic segment: Though APHS is late entrant in diagnostic business, but has outlined extremely aggressive targets for the business – Rs10bn revenues in 3 years vs Rs4bn in FY22. Digital platform is expected to play a key role in this growth.

Multiple growth levers in place: APHS will continue to explore bolt-on acquisitions in markets like NCR and Mumbai where it has limited presence and can also add 1000-2000 beds through brownfield expansion in hospital segment. Further its digital health space foray will help APHS to cross sell its services to a larger population. Overall we expect 21% EBITDA CAGR over FY22-24E.

	Y/e March	2021	2022	2023	2024
Income Statement (Rs m)	Net Sales	1,05,600	1,48,165	1,71,458	2,01,472
	Growth (%)	-6.1	40.3	15.7	17.5
	EBITDA	11,374	23,108	26,877	33,583
	Growth (%)	-28.3	103.2	16.3	25.0
	Margin (%)	10.8	15.6	15.7	16.7
	EBIT	5,643	17,308	20,677	26,983
	Net Interest	4,492	3,800	3,700	3,400
	Other Income	450	600	700	900
	PBT	1,601	14,108	17,677	24,483
	Total Tax	847	4,515	5,657	7,345
Adj. PAT	1,504	12,055	11,730	16,858	
Growth (%)	-66.9	701.7	-2.7	43.7	
Balance Sheet (Rs m)	Gross Block	82,328	88,328	94,328	1,00,328
	Investments	13,479	13,479	13,479	13,479
	Inventories	2,495	7,408	8,573	10,074
	Trade receivables	13,312	14,816	17,146	20,147
	Cash & Bank Balance	7,244	7,156	14,855	25,958
	Equity Share Capital	719	719	719	719
	Total Netw orth	46,026	56,203	65,681	79,723
	Borrow ings	28,596	25,596	22,596	19,596
Trade payables	11,599	11,755	13,603	15,289	
Cash Flow (Rs m)	Net cash from Op. activities	12,735	11,648	22,652	26,318
	Net Cash from Inv. activities	-8,723	-3,059	-6,000	-6,000
	Net cash from Fin. activities	-1,435	-8,677	-8,953	-9,216
	Net change in cash	2,577	-88	7,699	11,103
	Free Cash Flow	9,780	5,648	16,652	20,318
Key Ratios	EPS (Rs)	6.2	63.4	81.6	117.2
	Growth (%)	-66.2	915.8	28.7	43.7
	BPVS (Rs)	320.1	390.9	456.8	554.5
	DPS (Rs)	3.4	11.4	13.7	17.1
	RoCE (%)	7.9	22.1	24.3	28.8
	RoE (%)	3.8	23.6	19.2	23.2
	Net Debt : Equity (x)	0.2	0.2	-0.0	-0.2
	Net Working Capital (Days)	14.5	25.8	25.8	27.1
	PE (x)	788.1	77.6	60.3	41.9
	P/B (x)	15.4	12.6	10.8	8.9
	EV / EBITDA (x)	63.2	31.0	26.2	20.6
	Dividend Yield (%)	0.1	0.2	0.3	0.3

Outlook and Valuation

- APHS's strong performance in past has been broad based. Company has pursued aggressive expansion in past few years which has created a strong growth platform. APHS digital foray makes it a strong omni - channel play and given strong presence in offline format makes the company more formidable player than pure play online companies. We estimate 24% revenue CAGR and 44% EBITDA CAGR over FY21-24E and 590bp margin expansion over FY21-24E.
- We value APHS on an SOTP basis. We ascribe 22x EV/EBITDA multiple to the hospital segment, 35x EV/EBITDA to offline pharmacy and 30x EV/EBITDA to AHLL. We also ascribe EV/Sales multiple of 3x to the 24/7 business and arrive at a price target of Rs5,772, an upside of 19% from the current levels. Recommend BUY rating.

Key Risk:

- Delay in break-even of 24x7 operations.
- Any major greenfield capex/inorganic expansion in hospital segment dragging profitability in near term .

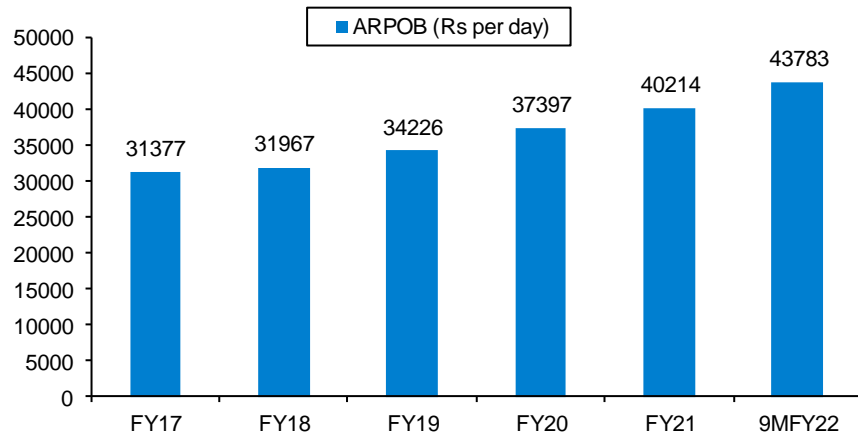
Valuation Summary

Particular	FY24
Hospital EBIDTA	22,984
Hospital tgt EV/EBDITA (x)	22
Hospital EV	505,655
SAP EBIDTA	5,905
SAP Tgt EV/EBIDTA-(x)	35
SAP EV	206,690
Apollo 24x7- 3x FY24E sales	32,850
AHLL EBIDTA	2,296
AHLL Tgt EV/EBIDTA- (x)	30
AHLL EV	68,869
Total Enterprise Value	814,064
Less net debt (FY24E)	(15,551)
Derived Mcap	829,615
No of shares (mn)	144
Target price (Rs)	5,772
CMP (Rs)	4,918
Upside (%)	17

Source: PL

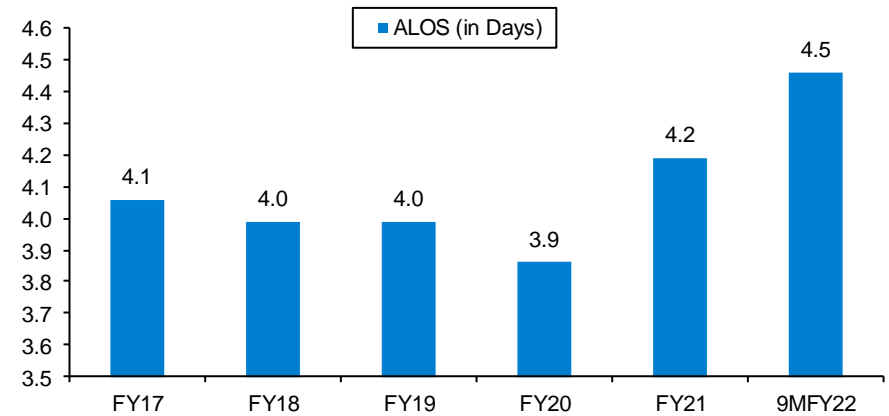
Key operating metrics

Higher ARPOB on account of change in patient/ case mix



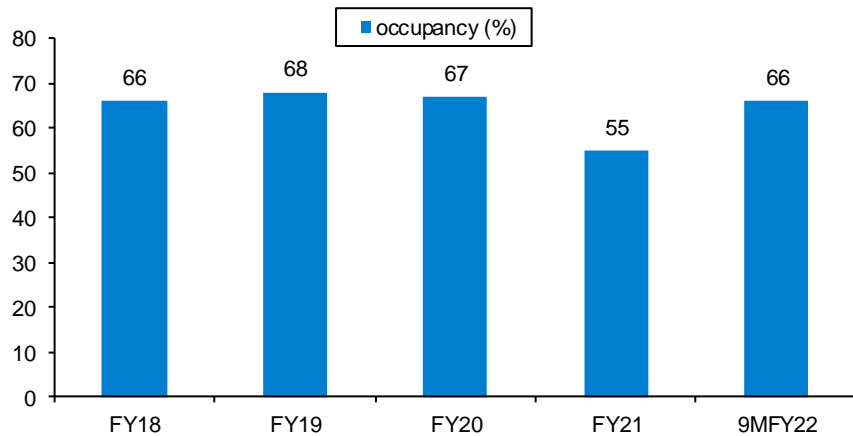
Source: Company, PL

Increased ALOS led by lockdown restrictions due to COVID



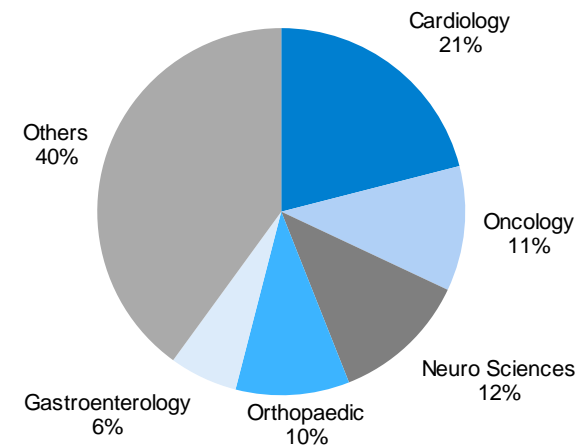
Source: Company, PL

Occupancy – Still below pre COVID levels



Source: Company, PL

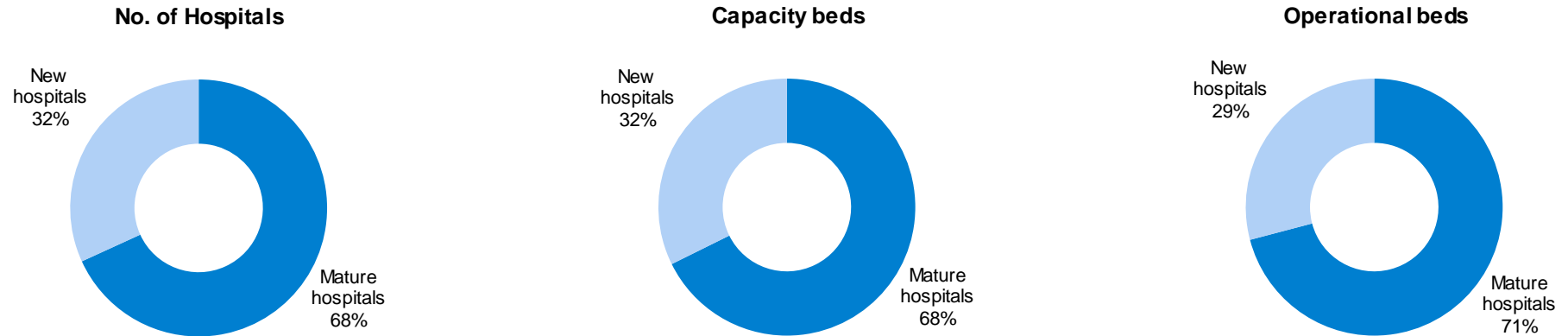
Specialty Mix- Cardiac, Oncology, Ortho and Neuro are 54% of sales



Source: Company, PL

Largest healthcare service provider

Healthy mix vintage (owned hospitals)



Source: Company, PL

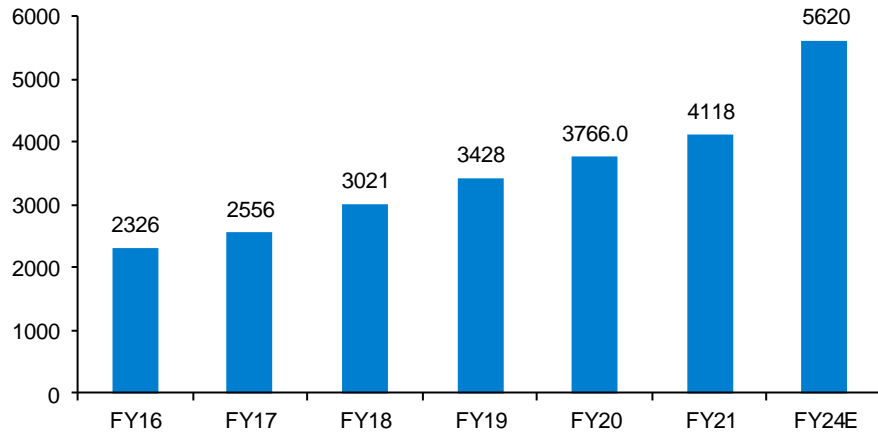
Operational Parameters

Particulars (9MFY22)	Total	Tamilnadu	AP, Telengana	Karnataka	Others	Subs/JVs/associates
No. of Operating beds	7,860	2131	1344	775	1,107	2,503
Inpatient volume	344,250	91022	50,554	41,109	56,606	104,959
Outpatient volume	2,094,137	689,482	223,115	206,246	277,529	697,765
Inpatient ALOS (days)	4.09	4.0	4.37	3.64	3.86	4.33
Bed Occupancy Rate (%)	65%	62%	60%	70%	72%	66%
Inpatient revenue (in mn)	n/a	15,939	9,608	6,022	6,423	15,821
Outpatient revenue (in mn)	n/a	4,531	2,102	1,753	1,548	4,169
ARPOB (per day)	44374	54,573	50,329	46,717	33,749	42,169
Total Net Revenue (in mn)	n/a	20,470	11,710	7,775	7,971	19,990

Source: Company, PL

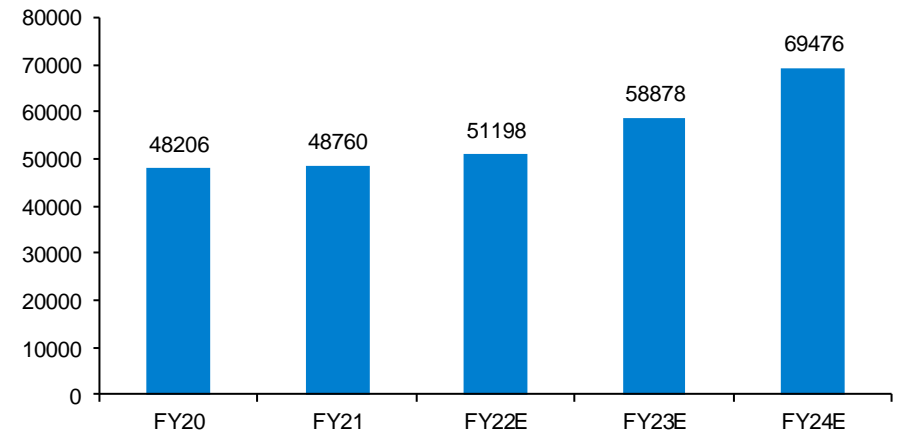
Apollo Pharmacies: India's largest organized chain

Pharmacy store ramp up- Adding 400 stores annually



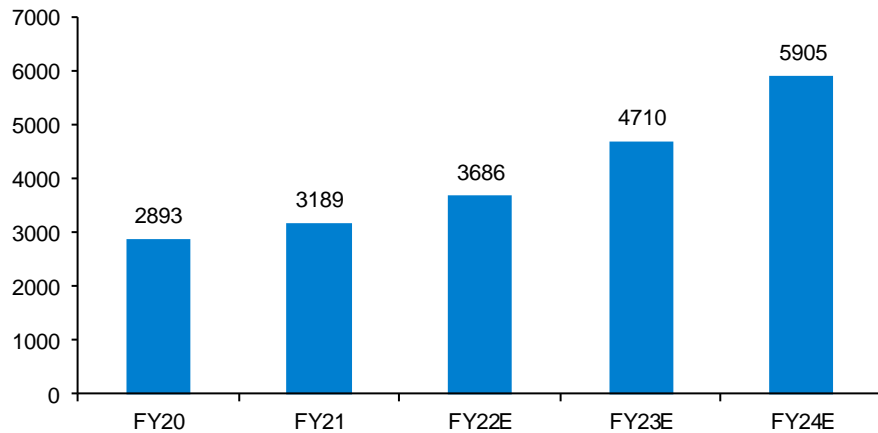
Source: Company, PL

Pharmacy – Revenue (Rs mn) to grow on store ramp up



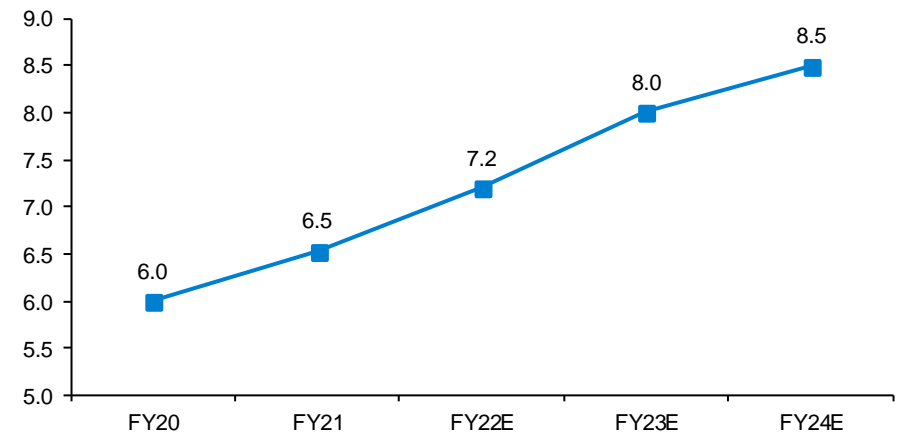
Source: Company, PL

Pharmacy – EBITDA (Rs mn) to improve via combination of online- offline efficiencies and higher share of private label products



Source: Company, PL

Increasing private label contribution to aid margins

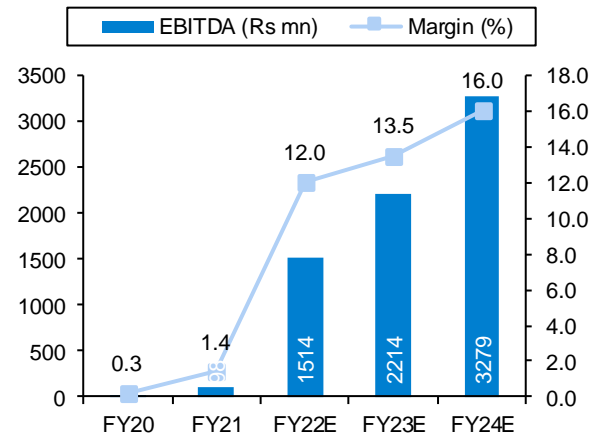
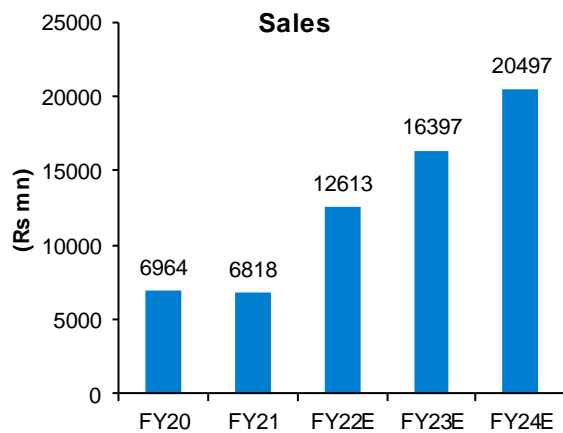


Source: Company, PL

AHLL – Profitable times ahead

- APHS has made investments in retail healthcare through its subsidiary- Apollo Health and Lifestyle, or AHLL to leverage the strong Apollo brand. AHLL is engaged in retail healthcare business encompassing primary and secondary health clinics, diagnostic labs, birthing centres, dental & dialysis centres, day surgery centres and sugar clinics.
- AHLL has shown strong revenue CAGR over 33% CAGR over FY19-22 aided by better utilization across diagnostic and spectra business.
- We expect AHLL to be one of the strongest diagnostic players in South and further strengthen its presence in East and North within the next 24 months. Expect 25-30% CAGR in diagnostic revenues over FY22-25E
- Overall we expect 47% revenue CAGR over FY21-24E with OPM of 16% in FY24 vs 1.4% in FY21.

Key Financials



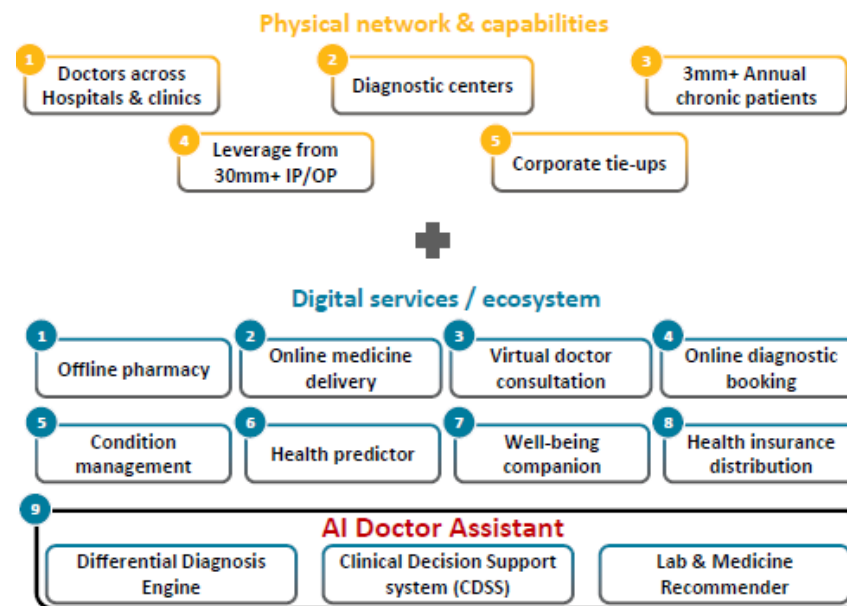
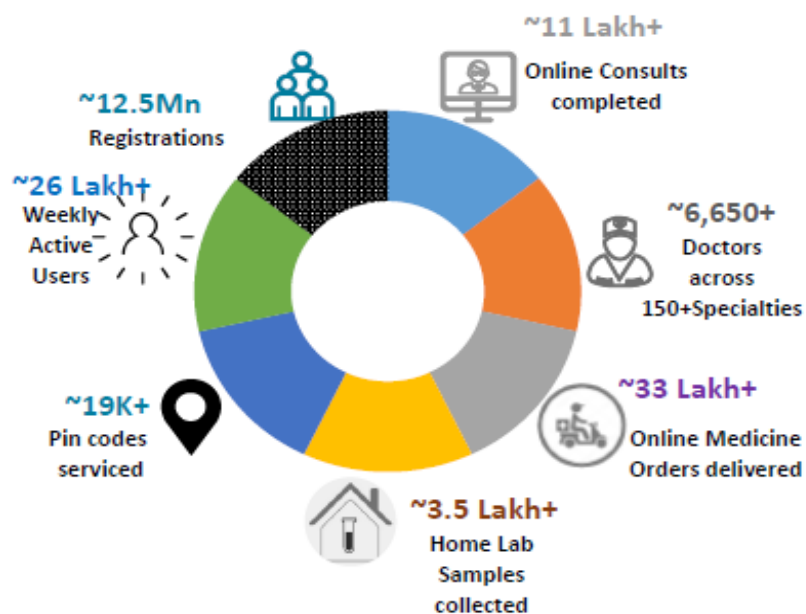
AHLL 9MF22 Revenue break-up	(Rs mn)
Diagnostics	2,818
Primary Care	2,687
Specialty Care	2,758
AHLL (Consol)	7,941

Source: Company, PL

Transformational Value Unlocking (Apollo 24/7)

- Apollo 24/7 will combine strengths of Apollo Group's offline healthcare leadership with Apollo group's new-age digital offerings, that will address all its healthcare consumer needs.
- Currently Apollo 24/7 app has 12m registered users and intends to achieve 80-100m registered users in next 5 years. Apollo cost of acquisition is less than Rs 150/user (which is currently lower than some of its peers) and intends to cover more pin-codes and faster order delivery (currently within 2 hours).
- Company is looking for strategic partnership in Apollo Healthco (offline+online) which will add significant value. We have valued Apollo Healthco at USD3.2bn. Recent partnership with Amazon will improve hyper local availability which is now at 97% at Apollo end, expected to reach at 99% with Amazon.
- We expect 24/7 online pharmacy revenues to reach to \$200mn by FY24 from ~\$40-50mn in FY22 and EBITDA break even by FY25E

Creating strong digital platform



Source: Company

Income Statement & Balance Sheet

Y/e Mar	FY21	FY22E	FY23E	FY24E	Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	1,05,600	1,48,165	1,71,458	2,01,472	Non-Current Assets				
YoY gr. (%)	(6.1)	40.3	15.7	17.5					
Cost of Goods Sold	56,842	74,082	85,729	1,00,736	Gross Block	82,328	88,328	94,328	1,00,328
Gross Profit	48,758	74,082	85,729	1,00,736	Tangibles	82,328	88,328	94,328	1,00,328
Margin (%)	46.2	50.0	50.0	50.0	Intangibles	-	-	-	-
Employee Cost	16,010	18,731	21,916	25,641	Acc: Dep / Amortization	28,187	33,987	40,187	46,787
Other Expenses	21,374	32,243	36,937	41,512	Tangibles	28,187	33,987	40,187	46,787
					Intangibles	-	-	-	-
EBITDA	11,374	23,108	26,877	33,583	Net fixed assets	54,141	54,341	54,141	53,541
YoY gr. (%)	(28.3)	103.2	16.3	25.0	Tangibles	54,141	54,341	54,141	53,541
Margin (%)	10.8	15.6	15.7	16.7	Intangibles	-	-	-	-
Depreciation and Amortization	5,731	5,800	6,200	6,600	Capital Work In Progress	2,339	2,339	2,339	2,339
					Goodwill	3,753	3,753	3,753	3,753
EBIT	5,643	17,308	20,677	26,983	Non-Current Investments	3,501	3,501	3,501	3,501
Margin (%)	5.3	11.7	12.1	13.4	Net Deferred tax assets	(2,353)	(2,353)	(2,353)	(2,353)
Net Interest	4,492	3,800	3,700	3,400	Other Non-Current Assets	9,836	9,836	9,836	9,836
Other Income	450	600	700	900					
					Current Assets				
Profit Before Tax	1,601	14,108	17,677	24,483	Investments	9,978	9,978	9,978	9,978
Margin (%)	1.5	9.5	10.3	12.2	Inventories	2,495	7,408	8,573	10,074
Total Tax	847	4,515	5,657	7,345	Trade receivables	13,312	14,816	17,146	20,147
Effective tax rate (%)	52.9	32.0	32.0	30.0	Cash & Bank Balance	7,244	7,156	14,855	25,958
					Other Current Assets	-	-	-	-
Profit after tax	754	9,594	12,020	17,138	Total Assets	1,13,917	1,21,545	1,33,380	1,49,311
Minority interest	(136)	500	300	300	Equity				
Share Profit from Associate	8	20	10	20	Equity Share Capital	719	719	719	719
					Other Equity	45,307	55,484	64,962	79,004
Adjusted PAT	1,504	12,055	11,730	16,858	Total Networth	46,026	56,203	65,681	79,723
YoY gr. (%)	(66.9)	701.7	(2.7)	43.7	Non-Current Liabilities				
Margin (%)	1.4	8.1	6.8	8.4	Long Term borrowings	28,384	25,384	22,384	19,384
Extra Ord. Income / (Exp)	(607)	(2,941)	-	-	Provisions	-	-	-	-
					Other non current liabilities	-	-	-	-
Reported PAT	897	9,114	11,730	16,858	Current Liabilities				
YoY gr. (%)	(65.0)	915.8	28.7	43.7	ST Debt / Current of LT Debt	212	212	212	212
Margin (%)	0.8	6.2	6.8	8.4	Trade payables	11,599	11,755	13,603	15,289
Other Comprehensive Income	-	-	-	-	Other current liabilities	23,344	23,639	27,149	30,351
Total Comprehensive Income	897	9,114	11,730	16,858	Total Equity & Liabilities	1,13,917	1,21,545	1,33,380	1,49,311
Equity Shares O/s (m)	144	144	144	144					
EPS (Rs)	6.2	63.4	81.6	117.2					

Cash Flow & Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	1,368	14,108	17,677	24,483
Add. Depreciation	5,731	5,800	6,200	6,600
Add. Interest	4,492	3,800	3,700	3,400
Less Financial Other Income	450	600	700	900
Add. Other	1,045	(480)	(290)	(280)
Op. profit before WC changes	12,637	23,228	27,287	34,203
Net Changes-WC	(255)	(7,065)	1,022	(539)
Direct tax	353	(4,515)	(5,657)	(7,345)
Net cash from Op. activities	12,735	11,648	22,652	26,318
Capital expenditures	3,684	(6,000)	(6,000)	(6,000)
Interest / Dividend Income	-	-	-	-
Others	(12,407)	2,941	-	-
Net Cash from Invnt. activities	(8,723)	(3,059)	(6,000)	(6,000)
Issue of share cap. / premium	11,520	-	-	-
Debt changes	(8,985)	(3,000)	(3,000)	(3,000)
Dividend paid	(383)	(1,877)	(2,253)	(2,816)
Interest paid	(4,492)	(3,800)	(3,700)	(3,400)
Others	905	-	-	-
Net cash from Fin. activities	(1,435)	(8,677)	(8,953)	(9,216)
Net change in cash	2,577	(88)	7,699	11,103
Free Cash Flow	9,780	5,648	16,652	20,318

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	6.2	63.4	81.6	117.2
CEPS	50.3	124.2	124.7	163.2
BVPS	320.1	390.9	456.8	554.5
FCF	68.0	39.3	115.8	141.3
DPS	3.4	11.4	13.7	17.1
Return Ratio(%)				
RoCE	7.9	22.1	24.3	28.8
ROIC	5.8	16.6	19.0	23.8
RoE	3.8	23.6	19.2	23.2
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.0	(0.2)
Net Working Capital (Days)	15	26	26	27
Valuation(x)				
PER	788.1	77.6	60.3	41.9
P/B	15.4	12.6	10.8	8.9
P/CEPS	97.7	39.6	39.4	30.1
EV/EBITDA	63.2	31.0	26.2	20.6
EV/Sales	6.8	4.8	4.1	3.4
Dividend Yield (%)	0.1	0.2	0.3	0.3

Aster DM Healthcare

Rating: BUY | CMP: Rs167 | TP: Rs234 | Mcap: Rs83.0bn

We are initiating coverage on Aster DM Healthcare (ASTERDM) with BUY rating and TP of Rs 234. We believe that increasing contribution from high growing India business and established GCC business offers unique business model.

Leading player in GCC: ASTERDM is one of the leading healthcare providers in Gulf Cooperation Region (GCC) with 921 operating beds, 233 pharmacies and 118 clinics as of Dec 2021. GCC revenues were impacted due to COVID led disruptions in FY21, however it has now normalized and should see pick up from H2FY22. Mandatory insurance and increasing medical tourism augurs well for GCC business.

Increasing India footprints: The company has 14 hospitals in India with 2,907 operational beds, mostly in South India, of which 946 beds were commissioned over last 4-5 years. India hospitals profitability witnessed sharp jump in 9MFY22 aided by better occupancy and higher ARPOB. We expect EBITDA CAGR of 25% over FY21-24E as benefits of operating leverage kicks in.

Capital allocation is key: ASTERDM has managed to reduce debt by Rs10bn over last 12 month, given no major capex expansion. Net debt to EBITDA has come from 2.9x in FY20 to 1.7x in FY22. Possible restructuring in Saudi hospital viability testing and revisiting of Cayman Island plans is key monitorable in the near future. In case the company intends to go ahead with Cayman unit expansion on its own, it can drag profitability.

New growth avenues: ASTERDM is foraying into diagnostics (in India), home-care (in UAE) and tele-health creates new avenues for growth over medium to long term. Further ASTERDM has also undertaken strong cost-rationalization initiatives and guided for partial sustainability of costs reduction in FY22.

	Y/e March	2021	2022	2023	2024
Income Statement (Rs m)	Net Sales	86,080	1,01,696	1,09,996	1,22,398
	Growth (%)	-0.5	18.1	8.2	11.3
	EBITDA	10,624	14,239	15,717	17,566
	Growth (%)	-15.5	34.0	10.4	11.8
	Margin (%)	12.3	14.0	14.3	14.4
	EBIT	4,448	7,907	8,809	10,004
	Net Interest	2,937	2,649	2,536	2,423
	Other Income	500	370	400	550
	PBT	2,011	5,628	6,673	8,131
	Total Tax	272	675	1,001	1,220
Adj. PAT	1,473	4,553	5,272	6,512	
Growth (%)	-46.8	209.1	15.8	23.5	
Balance Sheet (Rs m)	Gross Block	82,627	87,627	93,627	99,627
	Investments	241	241	241	241
	Inventories	8,490	10,588	12,054	13,413
	Trade receivables	20,190	25,076	27,122	30,180
	Cash & Bank Balance	2,814	3,814	5,011	8,605
	Equity Share Capital	4,970	4,970	4,970	4,970
	Total Netw orth	33,725	38,278	42,377	47,716
	Borrow ings	23,442	23,442	22,442	21,442
Cash Flow (Rs m)	Trade payables	20,273	22,847	24,109	26,827
	Net cash from Op. activities	15,187	8,279	11,506	13,640
	Net Cash from Inv. activities	-3,864	-5,000	-6,000	-6,000
	Net cash from Fin. activities	-10,280	-2,279	-4,309	-4,046
	Net change in cash	1,042	1,000	1,197	3,594
	Free Cash Flow	11,323	3,279	5,506	7,640
Key Ratios	EPS (Rs)	3.5	10.0	11.4	13.9
	Growth (%)	-48.1	184.9	14.5	21.9
	BPV S (Rs)	67.9	77.0	85.3	96.0
	DPS (Rs)	-	-	2.0	2.0
	RoCE (%)	7.4	13.3	13.9	14.9
	RoE (%)	4.4	12.6	13.1	14.5
	Net Debt : Equity (x)	0.6	0.5	0.4	0.3
	Net Working Capital (Days)	35.6	46.0	50.0	50.0
	PE (x)	47.7	16.8	14.6	12.0
	P/B (x)	2.5	2.2	2.0	1.7
	EV / EBITDA (x)	9.8	7.2	6.4	5.5
Dividend Yield (%)	-	-	1.2	1.2	

Outlook and Valuation

- ASTERDM has a unique business model with presence in India's growing healthcare industry and an established business with strong returns in GCC. We expect 25% EBITDA CAGR over FY21-24E, as margin in its India business gradually improves and new hospitals ramp-up in GCC. At current market price, the stock trades at an attractive valuation of 7.5x FY24E EV/EBITDA, which is at 25-50% discount to Indian peers. We believe such high discount reflects ASTERDM's lower contribution from India region and higher capital outlay outside India region. Such steep discount is unwarranted given stable profit trajectory going forward and reduction in leverage. We recommend Buy with TP of Rs234/share based on 15x FY24E EV/EBITDA to India business and 7x EV/EBITDA to GCC business.

Key risk

- Higher capital allocation to Cayman Island unit
- Heavy reliance on the GCC region (80% of sales).
- Any economic slowdown and change in regulations can impact profitability.

Valuation Summary

Particular	FY24
GCC	
EBIDTA (INR mn)	9,409
Target multiple (x)	7
Hospital EV – A	65,866
India	
EBITDA	5,129
Target multiple (x)	15
EV	76,935
Total EV - A + B	142,801
GCC share of EV (90%)	128,521
Less Net Debt	12,336
Derived Market cap (INR mn)	116,185
No. Of shares (mn)	497
Target price (Rs)	234
CMP (Rs)	167
Upside (%)	40

Source: PL

GCC – Key operating metrics

Capacity creation across segments

Units	FY18	FY19	FY20	FY21	9MFY22
Hospitals (India + GCC)	19	24	25	27	27
Clinics	101	114	117	115	118
Pharmacies - GCC	207	219	238	223	233
Pharmacies – India	-	-	-	8	90
Labs & PEC – India	-	-	-	13	66
Total	327	357	380	386	534

Source: Company. PL

GCC clinic business snapshot

GCC Clinics	FY20	FY21	FY22E	FY23E	FY24E
Revenues	20050	20160	24091	25055	26809
Growth (%)	0.8	0.5	19.5	4.0	7.0
EBITDA	2870	2150	3762	3550	3866
Growth (%)	n/a	-25.1	75.0	-5.6	8.9
margin (%)	14.3	10.7	15.6	14.2	14.4

Source: Company. PL

GCC Hospital business snapshot

GCC Hospitals	FY20	FY21	FY22E	FY23E	FY24E
Operational beds	908	948	921	971	1146
Occupancy	56	52	54	55	53
ARPOB (Rs/day)	165300	173200	190520	194330	198217
Revenues	29770	31690	34585	37880	43943
Growth (%)	12.1	6.4	9.1	9.5	16.0
EBITDA	4290	4410	4654	5560	6151
Growth (%)	20.2	2.8	5.5	19.5	10.6
margin (%)	14.4	13.9	13.5	14.7	14.0

Source: Company. PL

GCC pharmacies business snapshot

GCC Pharmacies	FY20	FY21	FY22E	FY23E	FY24E
Revenues	22850	20370	22000	23760	25423
Growth (%)	4.9	-10.9	8.0	8.0	7.0
EBITDA	2530	1650	1700	2012	2331
Growth (%)	n/a	-34.8	3.0	18.4	15.8
Margin (%)	11.1	8.1	7.7	8.5	9.2
No of pharmacy	238	223	233	245	260

Source: Company. PL

India hospitals segment- Increasing contribution

- ASTERDM has increased operating beds from 917 in FY14 to 2,907 in FY22, with installed bed capacity of 3,900. The company started its India operations in FY08 with Aster Aadhar Hospital at Kolhapur in Maharashtra. It currently has 14 hospitals, predominantly in South India.
- With over 400 beds to be operationalized in India by FY23, ASTERDM's India vision now envisages around 40-50% Revenue/ EBITDA contribution over the medium term by investing Rs3bn+ annually in various brownfield/ greenfield projects.
- India business grew +51% YoY in revenue and 120% YoY in EBITDA for 9MFY22 on the back of strong recovery in mature units. This was aided by higher ARPOB and better utilization levels.
- Overall we expect Revenue CAGR 21% for FY21-FY24E and EBITDA CAGR of 43% for FY21-FY24E.

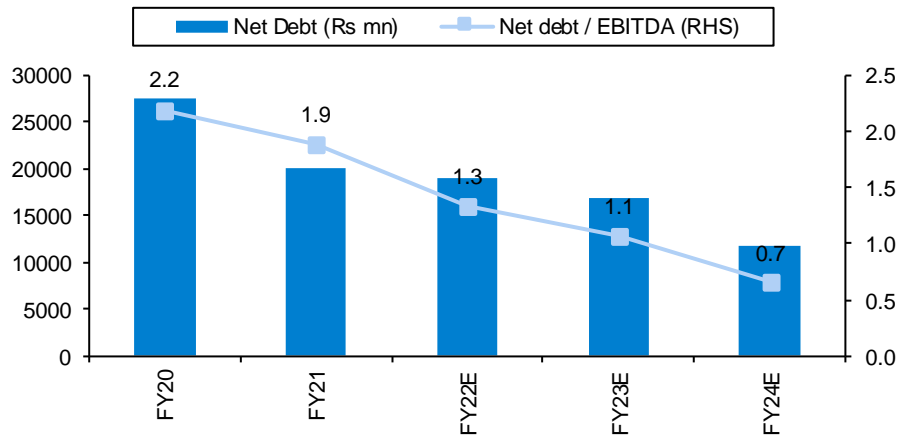
Strong ramp up in India business

India Hospitals and Clinics	FY20	FY21	FY22E	FY23E	FY24E
Operational beds	2977	2686	2907	3047	3322
Occupancy	61	56	69	68	66
ARPOB	27700	30100	32809	34778	36516
Revenues	16310	16540	24020	26301	29223
Growth (%)	24.1	1.4	45.2	9.5	11.1
EBITDA	1830	1640	3723	4363	5312
Growth (%)	n/a	-10.4	127.0	17.2	21.8
margin (%)	11.2	9.9	15.5	16.6	18.2

Source: Company. PL

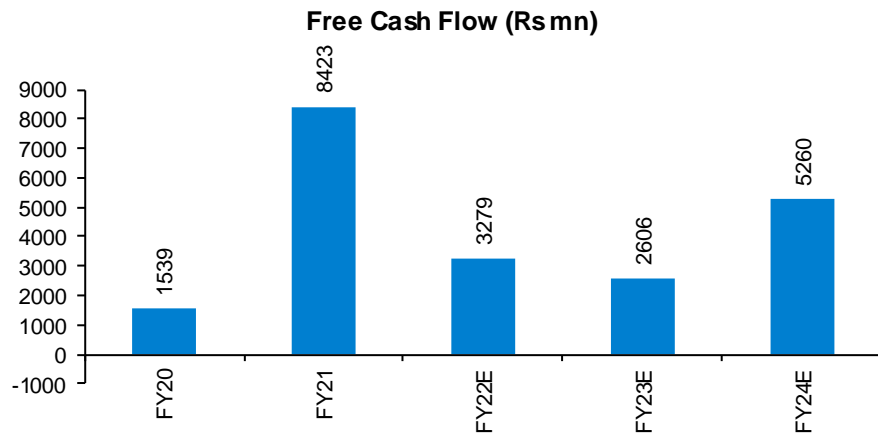
Capital allocation is key

Strong cash flows and reducing capex intensity to aid debt reduction



Source: Company, PL

Expansion & restructuring of GCC aids Free Cash Flow generation



Source: Company, PL

Hospitals: Pipeline Projects

Hospitals -GCC	Type	Planned Beds	Expected Year of Completion	Present Status	Owned / Leased/O&M
Aster Hospital Sharjah, UAE	Greenfield	80	Q1FY23	Construction	Leased
Aster Hospital Muscat, Oman	Greenfield	145	Q1FY23	Construction	Leased
Sanad Hospital, Riyadh, Saudi Arabia	Expansion	69		Under Review	Owned
Aster Hospital Doha, Qatar	Expansion	60	Q4FY24	Design	Leased
Hospitals -INDIA	Type	Planned Beds	Expected Year of Completion	Present Status	Owned / Leased/O&M
Aster Hospital - Phase 1 Trivandrum, Kerala	Greenfield	350	FY26	Design	Owned
Aster whitefield Specialty - 2 Bengaluru, Karnataka	Brownfield	275	Q2FY23	Construction	Leased
Aster KLE Bengaluru, Karnataka	Greenfield	500	FY26	Design	O&M
Aster MIMS Kasargod Kasargod, Kerala	Greenfield	200	FY25	Design	Leased
Aster Hospital Chennai, Tamil Nadu	Greenfield	500		Under Review	Leased
Aster MIMS Kannur (Phase1) Kannur Kerala	Greenfield	100	FY25	Design	Leased
Aster Mother Hospital Areekode, Kerala	Brownfield	140	Q1FY23		O&M

Source: Company, PL

Global peer valuation

Company	Price	Mkt cap (in Mn)	EPS			PE (x)			EV/EBITDA (x)			ROE (%)		
			FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Bangkok Dusit Medical (in THB)	22	348035	0.5	0.5	0.6	45.6	41.2	34.2	22.22	19.71	17.56	9.4	16	14.9
Bumrungrad Hospital PCL (in THB)	135	107269	1.5	5.1	5.8	139.5	26.6	23.4	44.03	26.1	20.15	4.4	25.1	24
Raffles Medical Group Ltd (in MYR)	7	57717	0	0.1	0.1	33.1	75.4	73.7	17.9	16.89	16.32	7.9	3.1	3.4
IHH Healthcare (in SAR)	192	19220	5.3	3.2	3.7	33.5	60.3	52.1	16.66	15.97	14.49	25	23.1	22.7
Al Hammadi Co. (in SAR)	44	5238	1.1	0.9	0.8	35.6	50.3	53	n/a	n/a	n/a	6.5	8.6	7
Middle East Healthcare Co (in SAR)	34	3116	1.1	3.5	2.1	48.4	9.6	16.1	n/a	n/a	n/a	4	n/a	11.7
Mouwasat Medical Ser. Co (in SGD)	1	2447	0	0	0	27.6	32.8	33.6	25.27	22.21	19.34	9.9	10.2	8.8
Aster DM Healthcare Ltd* (in Rs) *FY21 is actual	169	84356	3.5	10.0	11.4	60.1	16.9	14.8	9.5	7.3	6.4	4.4	12.6	13.1

Source: Bloomberg, PL

Income Statement & Balance Sheet

Y/e Mar	FY21	FY22E	FY23E	FY24E	Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	86,080	1,01,696	1,09,996	1,22,398	Non-Current Assets				
YoY gr. (%)	(0.5)	18.1	8.2	11.3					
Cost of Goods Sold	25,489	31,526	35,199	39,167	Gross Block	82,627	87,627	93,627	99,627
Gross Profit	60,591	70,170	74,797	83,231	Tangibles	82,627	87,627	93,627	99,627
Margin (%)	70.4	69.0	68.0	68.0	Intangibles	-	-	-	-
Employee Cost	27,554	27,278	28,369	29,504	Acc: Dep / Amortization	28,159	34,491	41,398	48,960
Other Expenses	22,414	28,653	30,711	36,161	Tangibles	28,159	34,491	41,398	48,960
					Intangibles	-	-	-	-
EBITDA	10,624	14,239	15,717	17,566	Net fixed assets	54,467	53,136	52,228	50,667
YoY gr. (%)	(15.5)	34.0	10.4	11.8	Tangibles	54,467	53,136	52,228	50,667
Margin (%)	12.3	14.0	14.3	14.4	Intangibles	-	-	-	-
Depreciation and Amortization	6,176	6,331	6,907	7,561	Capital Work In Progress	9,339	9,339	9,339	9,339
					Goodwill	13,022	13,022	13,022	13,022
EBIT	4,448	7,907	8,809	10,004	Non-Current Investments	241	241	241	241
Margin (%)	5.2	7.8	8.0	8.2	Net Deferred tax assets	(1,292)	(1,292)	(1,292)	(1,292)
Net Interest	2,937	2,649	2,536	2,423	Other Non-Current Assets	-	-	-	-
Other Income	500	370	400	550					
					Current Assets				
Profit Before Tax	2,011	5,628	6,673	8,131	Investments	-	-	-	-
Margin (%)	2.3	5.5	6.1	6.6	Inventories	8,490	10,588	12,054	13,413
Total Tax	272	675	1,001	1,220	Trade receivables	20,190	25,076	27,122	30,180
Effective tax rate (%)	13.5	12.0	15.0	15.0	Cash & Bank Balance	2,814	3,814	5,011	8,605
					Other Current Assets	5,015	5,266	5,529	5,805
Profit after tax	1,739	4,953	5,672	6,912	Total Assets	1,16,435	1,23,561	1,27,922	1,34,979
Minority interest	301	400	400	400	Equity				
Share Profit from Associate	35	-	-	-	Equity Share Capital	4,970	4,970	4,970	4,970
					Other Equity	28,754	33,307	37,406	42,745
Adjusted PAT	1,473	4,553	5,272	6,512	Total Networth	33,725	38,278	42,377	47,716
YoY gr. (%)	(46.8)	209.1	15.8	23.5	Non-Current Liabilities				
Margin (%)	1.7	4.5	4.8	5.3	Long Term borrowings	17,548	17,548	16,548	15,548
Extra Ord. Income / (Exp)	-	-	-	-	Provisions	-	-	-	-
					Other non current liabilities	-	-	-	-
Reported PAT	1,473	4,553	5,272	6,512	Current Liabilities				
YoY gr. (%)	(46.8)	209.1	15.8	23.5	ST Debt / Current of LT Debt	5,894	5,894	5,894	5,894
Margin (%)	1.7	4.5	4.8	5.3	Trade payables	20,273	22,847	24,109	26,827
Other Comprehensive Income	-	-	-	-	Other current liabilities	32,852	32,852	32,852	32,852
Total Comprehensive Income	1,473	4,553	5,272	6,512	Total Equity & Liabilities	1,16,435	1,23,561	1,27,922	1,34,979
Equity Shares O/s (m)	497	497	497	497					
EPS (Rs)	3.5	10.0	11.4	13.9					

Cash Flow & Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	1,511	5,258	6,273	7,581
Add. Depreciation	6,176	6,331	6,907	7,561
Add. Interest	2,937	2,649	2,536	2,423
Less Financial Other Income	500	370	400	550
Add. Other	2,716	(400)	(400)	(400)
Op. profit before WC changes	13,340	13,839	15,317	17,166
Net Changes-WC	1,958	(4,884)	(2,810)	(2,306)
Direct tax	(111)	(675)	(1,001)	(1,220)
Net cash from Op. activities	15,187	8,279	11,506	13,640
Capital expenditures	(3,864)	(5,000)	(6,000)	(6,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invnt. activities	(3,864)	(5,000)	(6,000)	(6,000)
Issue of share cap. / premium	8	-	-	-
Debt changes	(6,183)	-	(1,000)	(1,000)
Dividend paid	-	-	(1,173)	(1,173)
Interest paid	(2,937)	(2,649)	(2,536)	(2,423)
Others	(1,169)	370	400	550
Net cash from Fin. activities	(10,280)	(2,279)	(4,309)	(4,046)
Net change in cash	1,042	1,000	1,197	3,594
Free Cash Flow	11,323	3,279	5,506	7,640

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	3.5	10.0	11.4	13.9
CEPS	15.4	21.9	24.5	28.3
BVPS	67.9	77.0	85.3	96.0
FCF	22.8	6.6	11.1	15.4
DPS	-	-	2.0	2.0
Return Ratio(%)				
RoCE	7.4	13.3	13.9	14.9
ROIC	3.9	6.6	7.2	7.9
RoE	4.4	12.6	13.1	14.5
Balance Sheet				
Net Debt : Equity (x)	0.6	0.5	0.4	0.3
Net Working Capital (Days)	36	46	50	50
Valuation(x)				
PER	47.7	16.8	14.6	12.0
P/B	2.5	2.2	2.0	1.7
P/CEPS	10.9	7.6	6.8	5.9
EV/EBITDA	9.8	7.2	6.4	5.5
EV/Sales	1.2	1.0	0.9	0.8
Dividend Yield (%)	-	-	1.2	1.2

We are initiating coverage on Fortis Healthcare (FORH) with BUY rating and TP of Rs 362. We expect margins across segments to improve, given increasing volume in diagnostics business and improving product mix in hospital segment along with cost rationalization initiatives. We expect 58% EBITDA CAGR over FY21-24E

New leadership at helm: With new management on board, IHH (Malaysian company) has made significant changes in company's operations. Company has roped in Ashutosh Raghuvanshi as CEO who has over 35 years of healthcare experience (earlier CEO of Narayana Hrudayalaya Ltd). They also roped in Mr K Anand as SRL CEO who has great depth of understanding in running partner model in diagnostic segment.

Brownfield expansion to aid hospital growth: The Company has re-initiated its investment plans for bed expansion in select existing facilities such as Noida, BG Road, Anandapur, Mulund, Shalimar Bagh, FMRI, Mohali and Arcot Road which will see a cumulative addition of ~1,500 beds over FY22-26E. The bed additions will largely be brownfield expansion which will allow faster operationalization and relatively lower startup costs. This will enhance bed capacity by 30%.

Network expansion and B2C focus to drive growth in diagnostic business: The B2C:B2B revenue mix has significantly strengthened to 52:48 in 9MFY22 (FY21 at 45:55) aided by increasing collection center and DDRC-SRL JV acquisition in FY21. Company intends to double its collection center (currently at 2,232) over next 2-3 years and increase B2C focus. We expect growth diagnostic business to improve in line with peers in next 3-4 quarters.

Margin expansion across segments: FORH margins have lagged peers given legacy issues. As asset utilization further improves across segments along with likely reduction in certain overheads like legal cost, we see hospital margins at 20% and diagnostic margins at 26% by FY24E. Overall we expect EBITDA margin to expand by 180bps from 18.5% in FY22 to 20.2% in FY24.

	Y/e March	2021	2022	2023	2024
Income Statement (Rs m)	Net Sales	40,301	57,474	62,397	70,122
	Growth (%)	-13.0	42.6	8.6	12.4
	EBITDA	4,044	11,058	12,037	14,633
	Growth (%)	-33.6	173.4	8.8	21.6
	Margin (%)	10.0	19.2	19.3	20.9
	EBIT	1,138	8,007	8,842	11,275
	Net Interest	1,659	1,588	1,345	971
	Other Income	466	310	450	650
	PBT	-55	6,729	7,947	10,954
	Total Tax	995	1,749	2,066	2,848
Adj. PAT	-1,098	2,829	5,581	7,906	
Growth (%)	-289.5	-357.7	97.3	41.7	
Balance Sheet (Rs m)	Gross Block Investments	78,473	85,473	88,973	92,973
	Inventories	1,860	1,860	1,860	1,860
	Trade receivables	768	902	1,021	1,146
	Cash & Bank Balance	3,899	5,631	6,369	7,147
	Equity Share Capital	4,166	7,303	13,151	20,947
	Total Netw orth	7,550	7,550	7,550	7,550
	Borrowings	61,198	67,089	72,670	80,576
	Trade payables	12,708	12,708	11,208	9,708
Cash Flow (Rs m)	Net cash from Op. activities	-	-	-	-
	Net Cash from Inv. activities	4,855	8,664	12,194	14,266
	Net cash from Fin. activities	-1,351	-3,939	-3,500	-4,000
	Net change in cash	-1,998	-1,588	-2,845	-2,471
	Free Cash Flow	1,506	3,137	5,849	7,795
Key Ratios	EPS (Rs)	2,670	1,664	8,694	10,266
	Growth (%)	-1.5	7.8	7.4	10.5
	BPV/S (Rs)	-289.5	-636.6	-5.3	41.7
	DPS (Rs)	81.1	88.9	96.3	106.7
	RoCE (%)	-	-	-	-
	RoE (%)	1.5	10.4	10.8	12.9
	Net Debt : Equity (x)	-1.7	4.4	8.0	10.3
	Net Working Capital (Days)	0.1	0.1	-0.0	-0.1
	PE (x)	-	-	-	-
	P/B (x)	-181.9	33.9	35.8	25.3
EV / EBITDA (x)	3.3	3.0	2.7	2.5	
Dividend Yield (%)	51.5	18.5	16.4	12.9	
		-	-	-	-

Outlook and Valuation

- FORH had legacy issues, wherein they had inefficient capital structure of paying service fee to RHT till FY19. IHH had bought-out assets from RHT at market value in FY19. Resultant return ratios look depressed given creation of goodwill. Adjusted for goodwill, RoCE is at 14% in FY22.
- FORH has witnessed strong recovery across segments for past few quarters. We expect margins across segments to improve, given increasing volume in diagnostics business and improving product mix in hospital segment along with cost rationalization initiatives. We expect 58% EBITDA CAGR (20% over FY22-24E) over FY21-24E. At CMP, stock is trading at 18x EV/EBITDA on FY24E adjusted for SRL stake and rental. We Recommend Buy rating with TP of INR 362/share. We value diagnostics at 25x FY24E EV/EBITDA and hospitals at 20x FY24E EV/EBITDA. Resolution of legal issues would be a key additional trigger for re-rating.

Key risk

- Any adverse impact of ongoing legal issues.
- Delay in network and brownfield expansion across diagnostic and hospital segment.

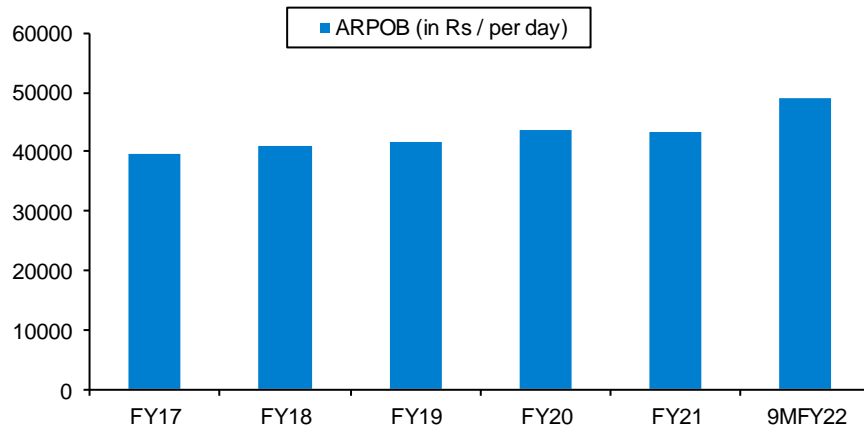
Valuation Summary

Particular	FY24
Hospitals	
EBITDA (INR mn)	10,455
Target multiple (x)	20
Hospital EV - A	209,108
Diagnostic	
EBITDA	3,738
Target multiple (x)	25
EV	93,444
Fortis stake - 57% - B	53,263
Total EV - A + B	262,371
Less Net Debt	-10,953
Derived Market cap (INR mn)	273,324
No. Of shares (mn)	755
Target price (INR)	362
CMP (Rs)	265
Upside (%)	37

Source: PL

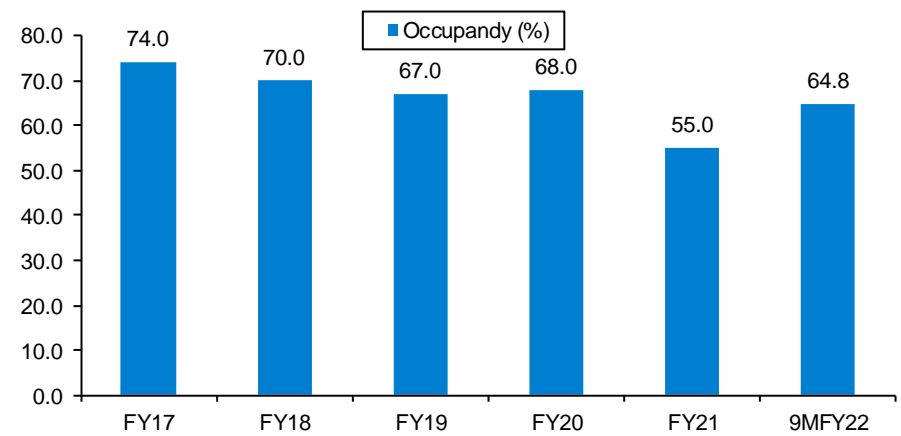
Key Operating Metrics

ARPOB- Better case and payor mix aiding ARPOB



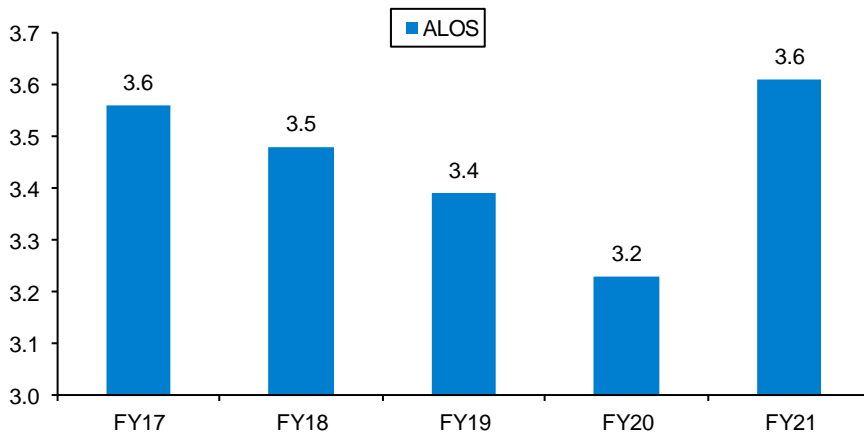
Source: Company, PL

Occupancy still below pre COVID levels



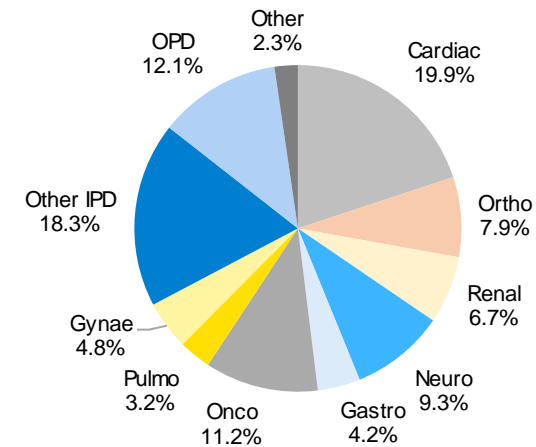
Source: Company, PL

ALOS



Source: Company, PL

Specialty Mix (Q3FY22)- Cardiac, Ortho, Renal and Neuro are 44% of sales



Source: Company, PL

FORH hospital units below 15% OPM stands reduced from 13 to 8

FY20

EBITDA	No. Of facilities	Revenue contribution	Beds	ARPOB (Rs mn)	Occupancy
>25%	3	14	456	16	73
20-25%	4	30	816	20.7	69
15-20%	4	23	770	16.4	71
10-15%	5	14	662	10.9	75
<10%	8	19	948	14.6	56
Total/Average	24	100	3652		

FY21

EBITDA	No. Of facilities	Revenue contribution	Beds	ARPOB (Rs mn)	Occupancy
>25%	7	42	1428	17.9	67
20-25%	3	19	588	20.5	65
15-20%	4	23	897	15.4	71
10-15%	3	6	220	21.2	52
<10%	6	10	674	11.7	52
Total/Average	23	100	3807		

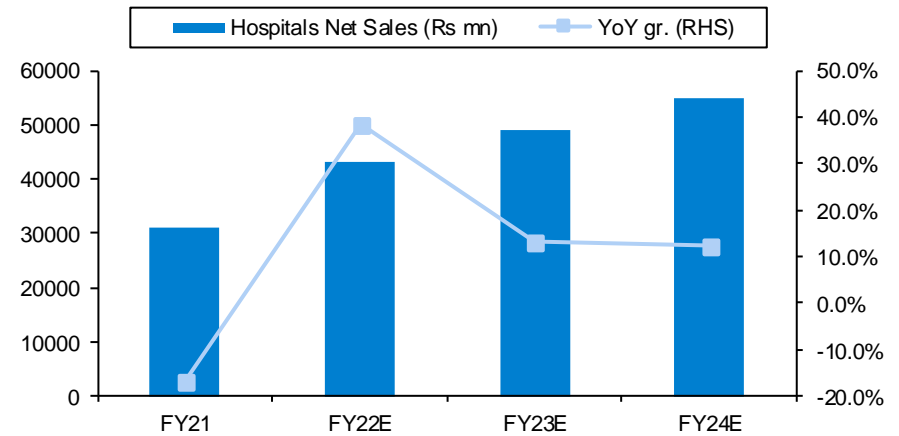
Q3FY22

EBITDA	No. Of facilities	Revenue contribution	Beds	ARPOB (Rs mn)	Occupancy
>25%	6	33	1154	19.6	68
20-25%	5	32	1091	19.8	70
15-20%	4	6	299	15.3	63
10-15%	2	11	355	21.2	66
<10%	6	18	982	15.2	57
Total/Average	23	100	3881		

Hospital segment – Improving occupancy and margin expansion to drive earnings

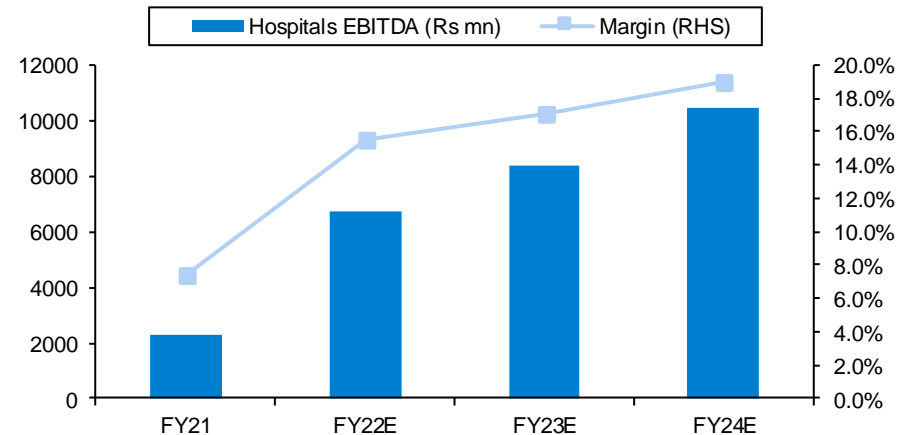
- Company enjoys occupancy at 65% currently. As non COVID business normalizes along with medical tourism, expect occupancy to inch up to 68-70%. Further ARPOB also will sustain at Rs16-18mn.
- Company intends to add 1500 beds over next 4 years. The bed additions will largely be brownfield expansion which will allow faster operationalization of beds and relatively lower startup costs. This will enhance bed capacity by 30%.
- Hospital business has seen margin recovery from 12% in FY20 to 16.7% in 9MFY22 aided by higher ARPOB, better payor mix and cost controls. Despite this improvement, company OPM in hospital still lags peers. We believe given several cost control levers to drive current 16-17% OPM to 20% margins over next 2 years aided by more profitable payer mix, there is restructuring of underperforming assets and higher ARPOB.
- Overall we expect 10% revenue CAGR and 25% EBITDA CAGR over FY22-24E

Hospital revenue – Higher ARPOB and occupancy to drive revenues



Source: Company, PL

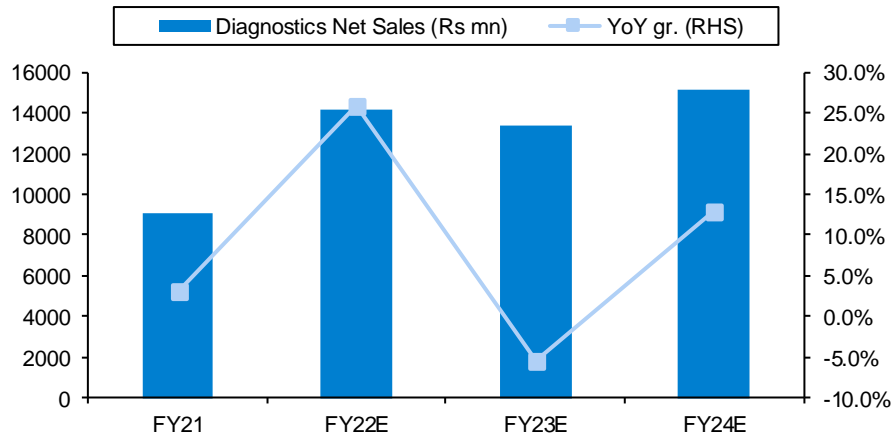
Better payor mix and cost control to drive margins



Source: Company, PL

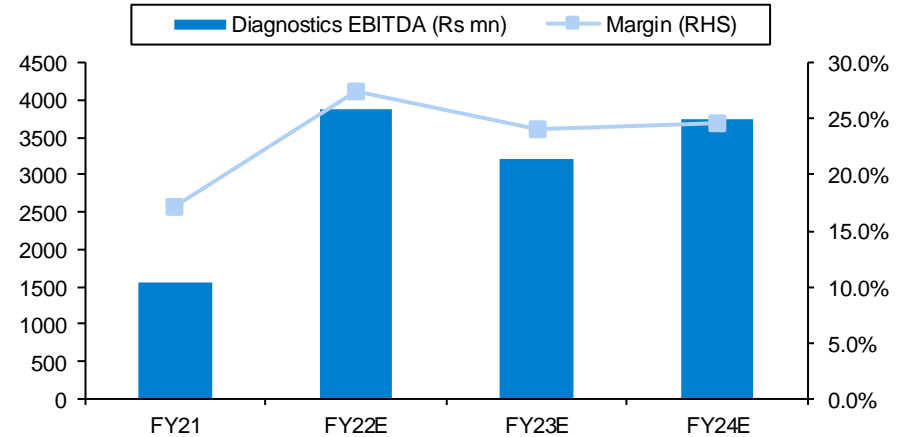
SRL- Diagnostic arm of FORH

B2C focus to aid SRL's revenue growth further



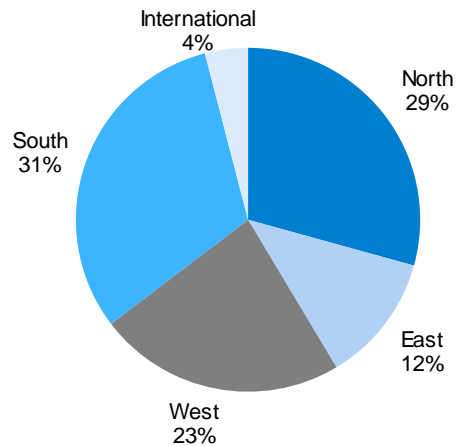
Source: Company, PL

Adj for Covid, SRL EBITDA to Grow at 15% CAGR



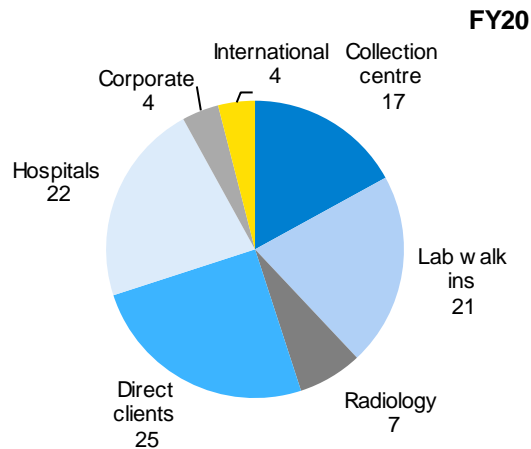
Source: Company, PL

Geographical Mix



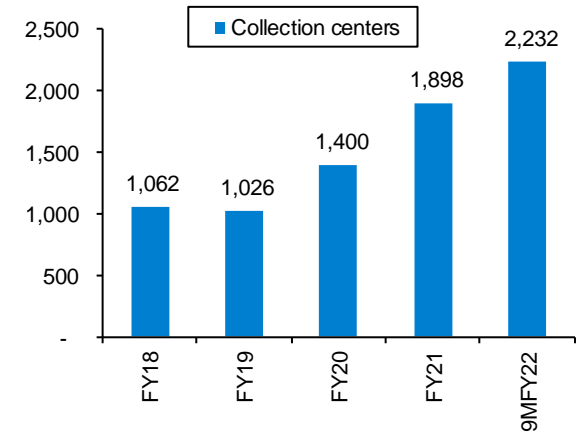
Source: Company, PL

Test Mix



Source: Company, PL

Collection Centres – Expanding aggressively



Source: Company, PL

Income Statement & Balance Sheet

Y/e Mar	FY21	FY22E	FY23E	FY24E	Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	40,301	57,474	62,397	70,122	Non-Current Assets				
YoY gr. (%)	(13.0)	42.6	8.6	12.4					
Cost of Goods Sold	9,759	11,495	12,479	14,024	Gross Block	78,473	85,473	88,973	92,973
Gross Profit	30,542	45,979	49,918	56,098	Tangibles	78,473	85,473	88,973	92,973
Margin (%)	75.8	80.0	80.0	80.0	Intangibles	-	-	-	-
Employee Cost	8,490	11,495	13,103	14,726	Acc: Dep / Amortization	27,699	30,750	33,944	37,303
Other Expenses	18,008	23,426	24,778	26,739	Tangibles	27,699	30,750	33,944	37,303
					Intangibles	-	-	-	-
EBITDA	4,044	11,058	12,037	14,633	Net fixed assets	50,774	54,723	55,028	55,670
YoY gr. (%)	(33.6)	173.4	8.8	21.6	Tangibles	50,774	54,723	55,028	55,670
Margin (%)	10.0	19.2	19.3	20.9	Intangibles	-	-	-	-
Depreciation and Amortization	2,906	3,051	3,194	3,358	Capital Work In Progress	1,649	1,649	1,649	1,649
					Goodwill	37,217	37,217	37,217	37,217
EBIT	1,138	8,007	8,842	11,275	Non-Current Investments	1,860	1,860	1,860	1,860
Margin (%)	2.8	13.9	14.2	16.1	Net Deferred tax assets	815	815	815	815
Net Interest	1,659	1,588	1,345	971	Other Non-Current Assets	-	-	-	-
Other Income	466	310	450	650					
					Current Assets				
Profit Before Tax	(55)	6,729	7,947	10,954	Investments	-	-	-	-
Margin (%)	(0.1)	11.7	12.7	15.6	Inventories	768	902	1,021	1,146
Total Tax	995	1,749	2,066	2,848	Trade receivables	3,899	5,631	6,369	7,147
Effective tax rate (%)	(1,808.4)	26.0	26.0	26.0	Cash & Bank Balance	4,166	7,303	13,151	20,947
					Other Current Assets	7,076	7,783	8,562	9,418
Profit after tax	(1,050)	4,979	5,881	8,106	Total Assets	1,11,547	1,21,207	1,28,996	1,39,192
Minority interest	536	2,380	500	400	Equity				
Share Profit from Associate	476	230	200	200	Equity Share Capital	7,550	7,550	7,550	7,550
					Other Equity	53,649	59,539	65,120	73,026
Adjusted PAT	(1,098)	2,829	5,581	7,906	Total Networth	61,198	67,089	72,670	80,576
YoY gr. (%)	(289.5)	(357.7)	97.3	41.7	Non-Current Liabilities				
Margin (%)	(2.7)	4.9	8.9	11.3	Long Term borrowings	9,677	9,677	9,677	9,677
Extra Ord. Income / (Exp)	-	-	-	-	Provisions	-	-	-	-
					Other non current liabilities	-	-	-	-
Reported PAT	(1,098)	2,829	5,581	7,906	Current Liabilities				
YoY gr. (%)	(289.5)	(357.7)	97.3	41.7	ST Debt / Current of LT Debt	3,030	3,030	1,530	30
Margin (%)	(2.7)	4.9	8.9	11.3	Trade payables	-	-	-	-
Other Comprehensive Income	-	-	-	-	Other current liabilities	26,176	27,795	31,204	34,794
Total Comprehensive Income	(1,098)	2,829	5,581	7,906	Total Equity & Liabilities	1,11,547	1,21,207	1,28,996	1,39,192
Equity Shares O/s (m)	755	755	755	755					
EPS (Rs)	(1.5)	7.8	7.4	10.5					

Cash Flow & Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	(55)	6,729	7,947	10,954
Add. Depreciation	2,906	3,051	3,194	3,358
Add. Interest	1,659	1,588	1,345	971
Less Financial Other Income	466	310	450	650
Add. Other	(3)	-	-	-
Op. profit before WC changes	4,507	11,368	12,487	15,283
Net Changes-WC	(127)	(955)	1,773	1,831
Direct tax	475	(1,749)	(2,066)	(2,848)
Net cash from Op. activities	4,855	8,664	12,194	14,266
Capital expenditures	(2,185)	(7,000)	(3,500)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	834	3,061	-	-
Net Cash from Invnt. activities	(1,351)	(3,939)	(3,500)	(4,000)
Issue of share cap. / premium	0	-	-	-
Debt changes	(832)	-	(1,500)	(1,500)
Dividend paid	-	-	-	-
Interest paid	(1,659)	(1,588)	(1,345)	(971)
Others	493	-	-	-
Net cash from Fin. activities	(1,998)	(1,588)	(2,845)	(2,471)
Net change in cash	1,506	3,137	5,849	7,795
Free Cash Flow	2,670	1,664	8,694	10,266

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	(1.5)	7.8	7.4	10.5
CEPS	2.4	7.8	11.6	14.9
BVPS	81.1	88.9	96.3	106.7
FCF	3.5	2.2	11.5	13.6
DPS	-	-	-	-
Return Ratio(%)				
RoCE	1.5	10.4	10.8	12.9
ROIC	1.1	7.0	7.6	9.5
RoE	(1.7)	4.4	8.0	10.3
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.0	(0.1)
Net Working Capital (Days)	-	-	-	-
Valuation(x)				
PER	(181.9)	33.9	35.8	25.3
P/B	3.3	3.0	2.7	2.5
P/CEPS	110.4	34.0	22.8	17.7
EV/EBITDA	51.5	18.5	16.4	12.9
EV/Sales	5.2	3.6	3.2	2.7
Dividend Yield (%)	-	-	-	-

HealthCare Global Enterprises

Rating: BUY | CMP: Rs238 | TP: Rs316 | Mcap: Rs29.8bn

We are initiating coverage on Healthcare Global Enterprises (HCG) with BUY rating and TP of Rs316. HCG is in a consolidation mode and given its reducing capex intensity, we expect profitability to improve from FY22.

Focused player: HCG business model is to provide specialty healthcare with focus on oncology and fertility incidences in India. Given that company offers one-stop solution at competitive prices makes it differentiated and scalable business model. Further company's experienced management, high-quality board and pan-India focus enhances our comfort on its long term business outlook.

Ramp-up in new centers hold key: HCG's 40% of operational beds have been commercialized over FY17- 20. Some new centers are dragging overall EBITDA and profitability as they are in ramp-up phase. Currently, the company reported INR 160mn of EBITDA loss from new centers in FY21 and has also achieved break even in H1FY22. This should start to contribute in a meaningful way over FY22-24.

Equity infusion by CVC capital was positive: In May 2020, HCG issued shares worth Rs6.5bn to Aceso Company, an investment arm of US based PE fund CVC Capital for total worth of Rs6.5bn. With this transaction, Aceso Company has become the largest shareholder with 56.7% stake. This has helped company to reduce high leverage risk. Further strategic investment by CVC will bring in more operational and financial efficiency.

Expect 39% EBITDA CAGR over FY21-24E: We estimate strong 39% EBITDA CAGR aided by steady growth in Centre of Excellence (Bengaluru), scale up in existing centres and reduction of losses from new centres.

	Y/e March	2021	2022	2023	2024
Income Statement (Rs m)	Net Sales	10,134	14,072	15,351	16,609
	Growth (%)	-7.5	38.9	9.1	8.2
	EBITDA	1,266	2,392	2,850	3,303
	Growth (%)	-26.5	88.9	19.2	15.9
	Margin (%)	12.5	17.0	18.6	19.9
	EBIT	-326	784	1,129	1,462
	Net Interest	1,192	1,000	800	600
	Other Income	170	140	170	230
	PBT	-1,349	-76	499	1,092
	Total Tax	-76	550	125	273
Adj. PAT	-1,935	445	484	939	
Growth (%)	81.4	-123.0	8.9	93.8	
Balance Sheet (Rs m)	Gross Block	18,417	19,217	20,017	20,817
	Investments	57	57	57	57
	Inventories	211	307	335	363
	Trade receivables	1,866	2,382	2,599	2,813
	Cash & Bank Balance	409	492	1,437	2,952
	Equity Share Capital	1,254	1,387	1,387	1,387
	Total Netw orth	6,972	8,751	9,235	10,174
	Borrow ings	4,132	1,832	1,832	1,832
Trade payables	1,455	2,113	2,306	2,495	
Cash Flow (Rs m)	Net cash from Op. activities	1,004	1,903	2,545	2,915
	Net Cash from Inv. activities	-1,670	-800	-800	-800
	Net cash from Fin. activities	553	-1,020	-800	-600
	Net change in cash	-113	83	945	1,515
	Free Cash Flow	650	1,103	1,745	2,115
Key Ratios	EPS (Rs)	-8.0	-3.6	3.5	6.8
	Growth (%)	-33.7	-54.7	-196.7	93.8
	BPVS (Rs)	55.6	63.1	66.6	73.4
	DPS (Rs)	-	-	-	-
	RoCE (%)	-2.3	7.2	10.4	12.7
	RoE (%)	-35.9	5.7	5.4	9.7
	Net Debt : Equity (x)	0.5	0.2	0.0	-0.1
	Net Working Capital (Days)	22.4	14.9	15.0	15.0
	PE (x)	-29.8	-65.8	68.0	35.1
	P/B (x)	4.3	3.8	3.6	3.2
	EV / EBITDA (x)	26.5	14.3	11.7	9.6
Dividend Yield (%)	-	-	-	-	

Outlook and Valuation

- HCG's asset light approach with focus on partnering has made its business model capital efficient and scalable. The company operates most of its comprehensive cancer centre (CCC) on lease/rental basis with HCG investing only in equipments. Out of 25 HCG's CCC, only four are on owned land.
- HCG is in a consolidation mode and given reducing capex intensity, we expect profitability to improve from FY22. We expect a 39% EBITDA CAGR over FY21- 24E after adjusting for IND AS. At the CMP, the stock trades at ~15x FY24E EV/EBITDA. We recommend Buy with a TP of Rs316 on 16x FY24E EV/EBITDA.

Key risk

- Delay in break-even of new cancer centres
- Retaining partnerships across its existing cancer units

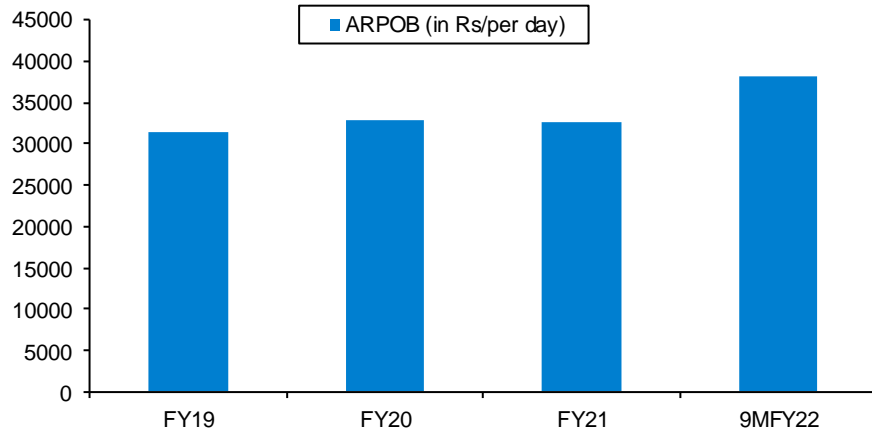
Valuation Summary

Particular	FY24
Target EV/EBIDTA multiple (Hospitals) (x)	16
EBIDTA pre IND AS	2,668
Enterprise value	42,684
Less FY24E debt	-1102
Derived Market cap	43,786
No of shares (mn)	139
Target price (Rs)	316
CMP (Rs)	238
Upside (%)	33

Source: PL

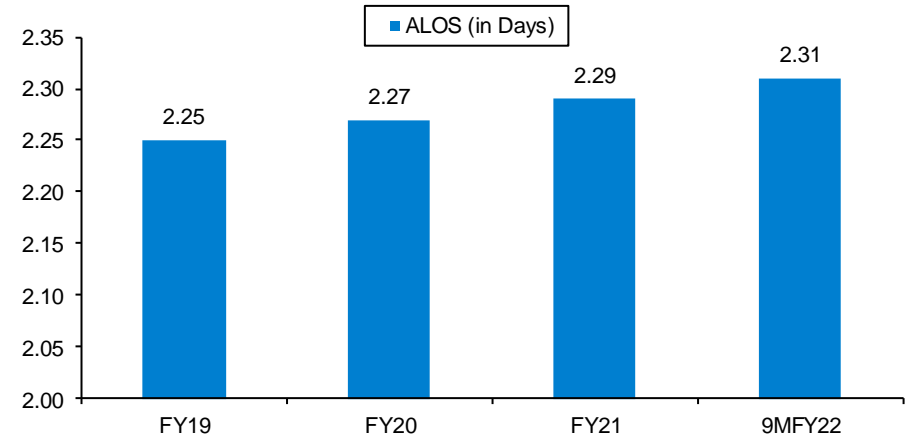
Key operating metrics

Growing ARPOB led by better case mix



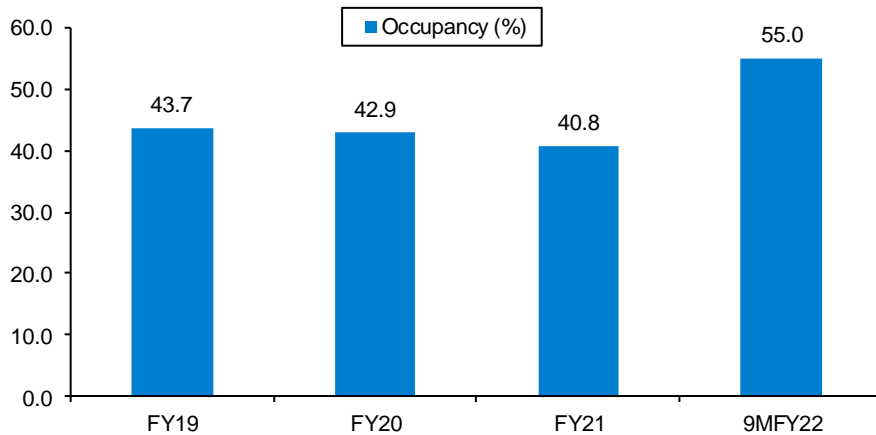
Source: Company, PL

Oncology segment enjoys lower ALOS due to higher day care procedures



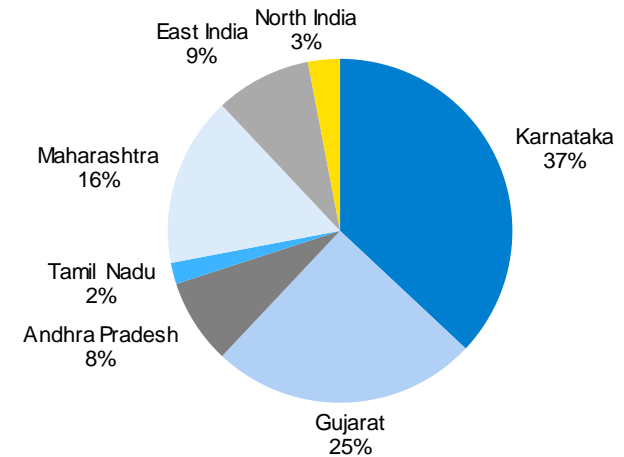
Source: Company, PL

Increasing occupancy on ease of travel restriction



Source: Company, PL

Cluster wise (9MFY22)



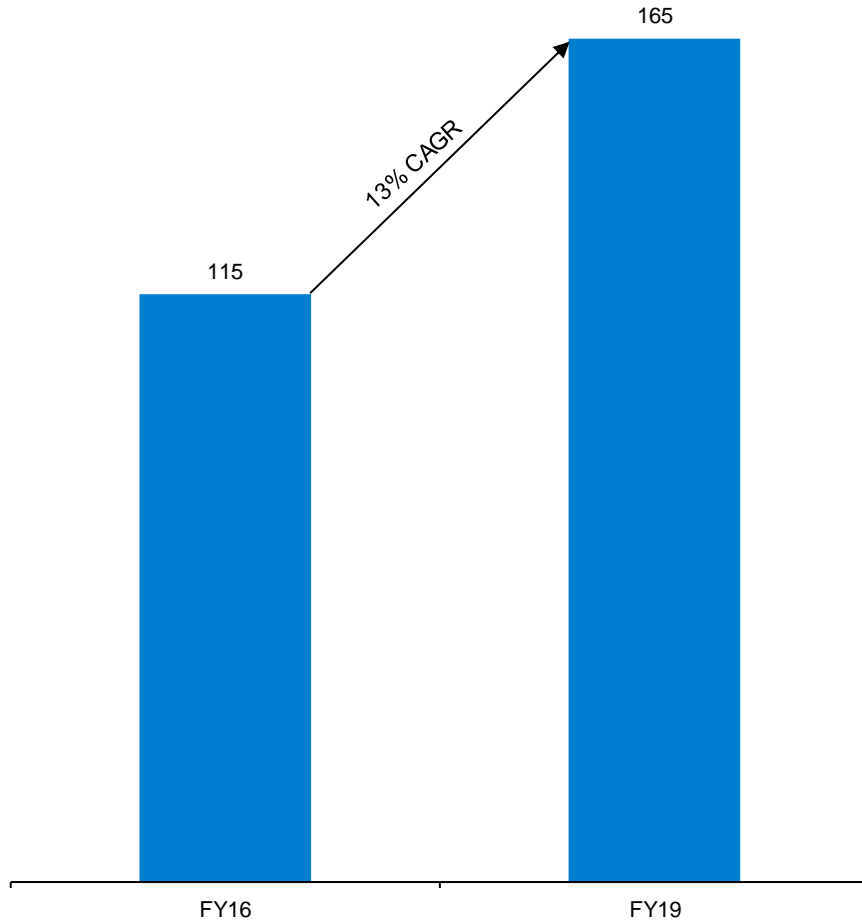
Source: Company, PL

Oncology opportunity: Growing faster than market

Cancer care market in India (INR Bn)

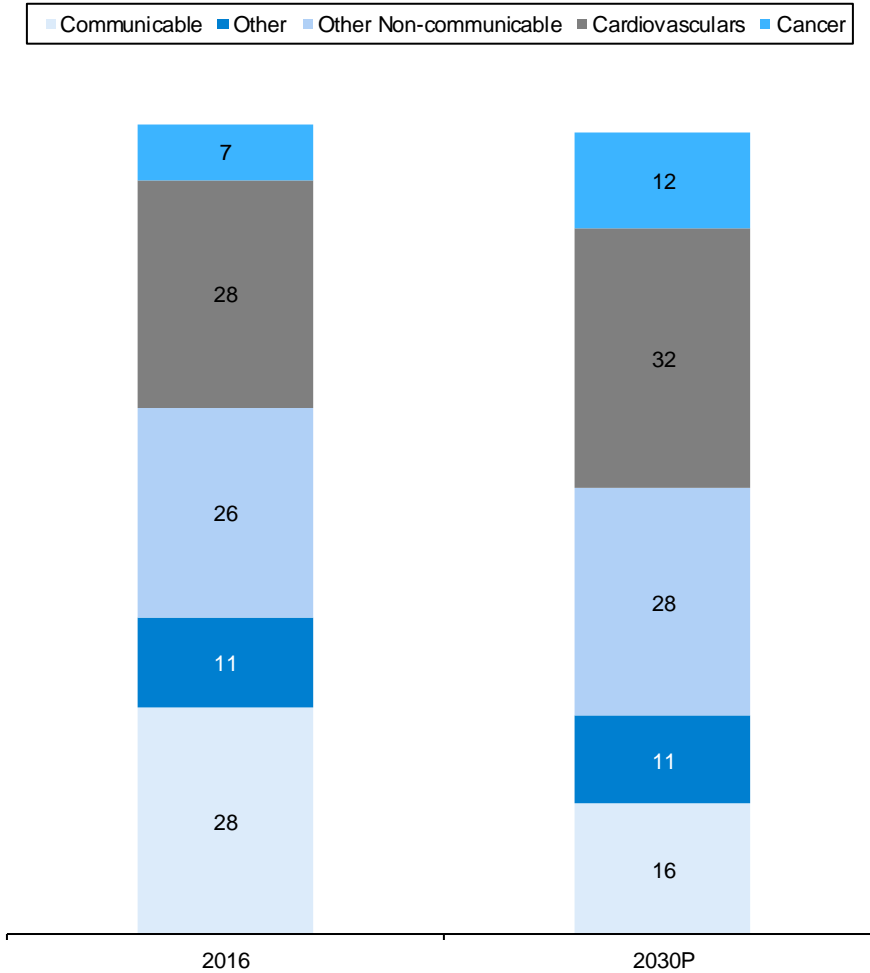
Growth in Oncology Mortality and causes of death in India

Cancer care market in India (INR Bn)



Source: Company, PL

Causes of Deaths in India



Source: Company, PL

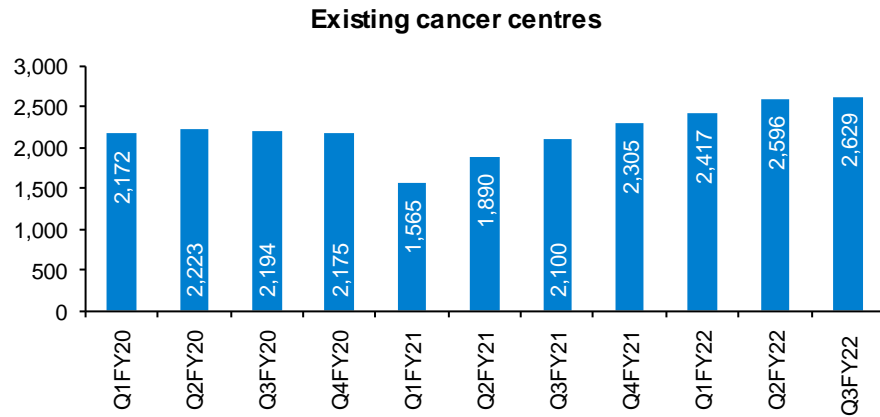
HCG Cancer centers in India

Location of the center	Commencement of Operation	Number of Beds	Number of RT- LINACs	Number of Ots	Number of PET- CT scanners
<u>Karnataka Cluster</u>					
Bengaluru - Double Road	1989	51	1	3	0
Shimoga	2003	52	1	3	0
Bengaluru, Kalinga Rao Rd	2006	225	37	7	2
Bengaluru, MS Ramaiah Nagar	2007	22	1	1	1
Hubli	2008	70	1	2	1
Gulbarga	2016	85	1	3	0
Ahmedabad	2012	101	2	5	1
Baroda	2016	69	1	3	1
Bhavnagar	2018	0	1	2	0
<u>East India Cluster</u>					
Ranchi	2008	84	1	3	0
Cuttack	2008	116	1	3	1
Kolkata	2019	88	1	2	1
<u>Maharashtra Cluster</u>					
Nasik	2007	77	1	2	1
Borivali	2017	104	1	5	1
Nagpur	2017	115	1	4	1
South Mumbai	2019	32	27	2	1
Nashik Phase II	2018	75	2	5	1
<u>Andhra Pradesh Cluster</u>					
Vijaywada	2009	705	2	4	0
Ongole	2012	196	1	29	0
Vishakhapatnam	2016	88	1	2	1
Others					
Chennai	2,012	0	1	0	0
Jaipur	2,018	45	1	2	0

Source: Company, PL

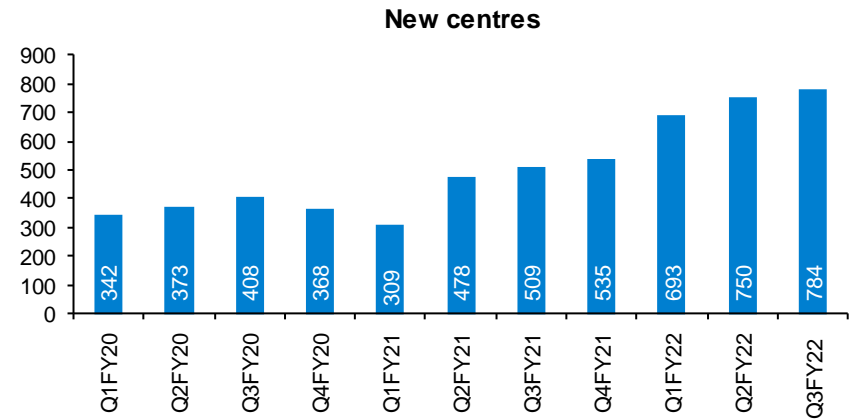
New centres ramping up

Revenue – Steady revenue growth across mature centres



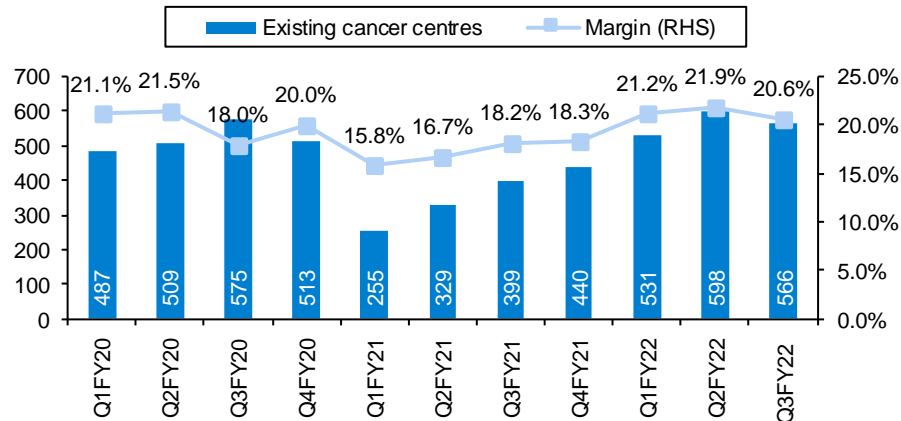
Source: Company, PL

Revenue - New centres ramping up well



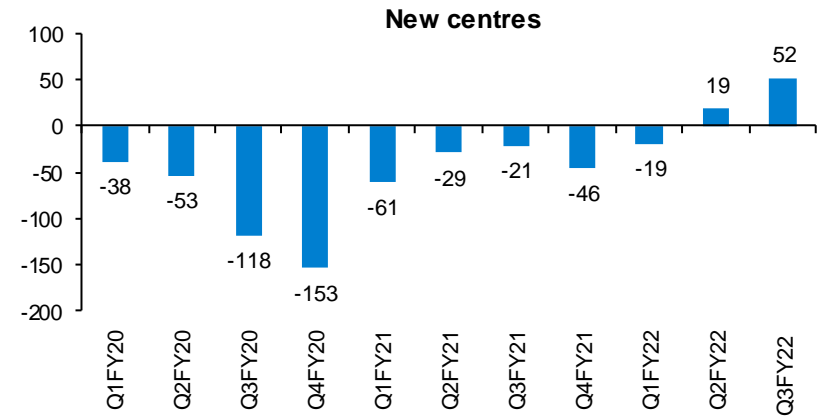
Source: Company, PL

Existing cancer centres – Steady OPM at +20%



Source: Company, PL

New centres EBITDA – Reducing losses since last 2 quarters

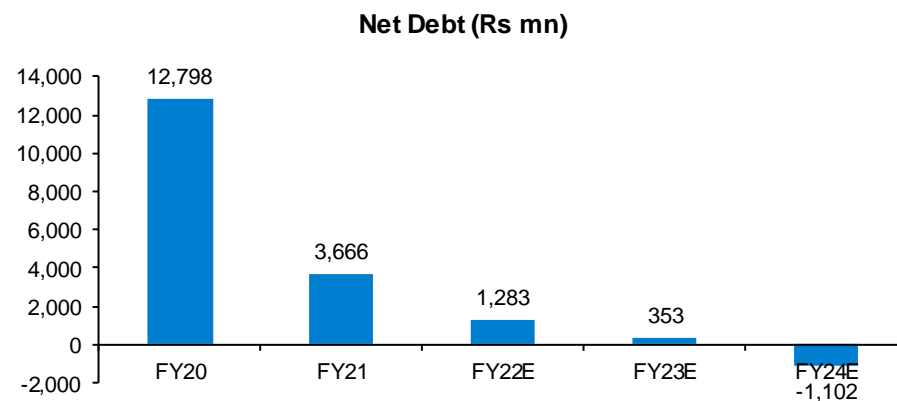


Source: Company, PL

Strong cash flow generation

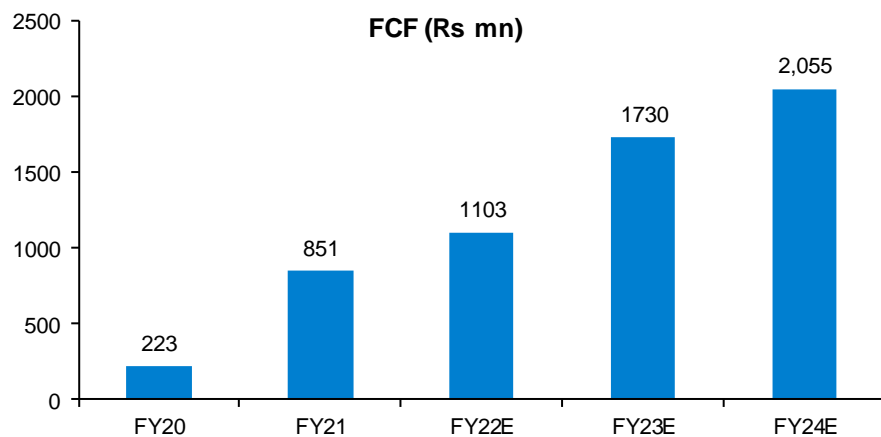
- Commercialization of operational beds and addition of new centers led to higher debts in FY19-FY20,
- The capital infusion in May'20 by US based PE fund has helped to reduce high leverage risk and bought more operational and financial efficiency in business.
- We expect further reduction in net debt going ahead.

Reduction of net debt via capita infusion in FY21 & healthy cash-flows



Source: Company, PL

Strong cash flows generating from existing hospitals



Source: Company, PL

Income Statement & Balance Sheet

Y/e Mar	FY21	FY22E	FY23E	FY24E	Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	10,134	14,072	15,351	16,609	Non-Current Assets				
YoY gr. (%)	(7.5)	38.9	9.1	8.2					
Cost of Goods Sold	2,403	3,365	3,596	3,891	Gross Block	18,417	19,217	20,017	20,817
Gross Profit	7,731	10,707	11,755	12,718	Tangibles	18,417	19,217	20,017	20,817
Margin (%)	76.3	76.1	76.6	76.6	Intangibles	-	-	-	-
Employee Cost	1,959	2,351	2,633	2,949	Acc: Dep / Amortization	5,352	6,960	8,680	10,521
Other Expenses	4,506	5,964	6,272	6,466	Tangibles	5,352	6,960	8,680	10,521
					Intangibles	-	-	-	-
EBITDA	1,266	2,392	2,850	3,303	Net fixed assets	13,066	12,258	11,337	10,296
YoY gr. (%)	(26.5)	88.9	19.2	15.9	Tangibles	13,066	12,258	11,337	10,296
Margin (%)	12.5	17.0	18.6	19.9	Intangibles	-	-	-	-
Depreciation and Amortization	1,592	1,608	1,721	1,841	Capital Work In Progress	300	300	300	300
					Goodwill	963	963	963	963
EBIT	(326)	784	1,129	1,462	Non-Current Investments	57	57	57	57
Margin (%)	(3.2)	5.6	7.4	8.8	Net Deferred tax assets	300	300	300	300
Net Interest	1,192	1,000	800	600	Other Non-Current Assets	-	-	-	-
Other Income	170	140	170	230					
					Current Assets				
Profit Before Tax	(1,349)	(76)	499	1,092	Investments	-	-	-	-
Margin (%)	(13.3)	(0.5)	3.3	6.6	Inventories	211	307	335	363
Total Tax	(76)	550	125	273	Trade receivables	1,866	2,382	2,599	2,813
Effective tax rate (%)	5.6	(721.0)	25.0	25.0	Cash & Bank Balance	409	492	1,437	2,952
					Other Current Assets	3,141	3,265	3,563	3,856
Profit after tax	(1,273)	(626)	374	819	Total Assets	20,356	20,368	20,935	21,943
Minority interest	(273)	(125)	(110)	(120)	Equity				
Share Profit from Associate	-	-	-	-	Equity Share Capital	1,254	1,387	1,387	1,387
					Other Equity	5,718	7,364	7,848	8,787
Adjusted PAT	(1,935)	445	484	939	Total Networth	6,972	8,751	9,235	10,174
YoY gr. (%)	81.4	(123.0)	8.9	93.8	Non-Current Liabilities				
Margin (%)	(19.1)	3.2	3.2	5.7	Long Term borrowings	4,132	1,832	1,832	1,832
Extra Ord. Income / (Exp)	-	-	-	-	Provisions	-	-	-	-
					Other non current liabilities	-	-	-	-
Reported PAT	(1,935)	445	484	939	Current Liabilities				
YoY gr. (%)	81.4	(123.0)	8.9	93.8	ST Debt / Current of LT Debt	-	-	-	-
Margin (%)	(19.1)	3.2	3.2	5.7	Trade payables	1,455	2,113	2,306	2,495
Other Comprehensive Income	-	-	-	-	Other current liabilities	7,586	7,586	7,586	7,586
Total Comprehensive Income	(1,935)	445	484	939	Total Equity & Liabilities	20,356	20,368	20,935	21,943
Equity Shares O/s (m)	125	139	139	139					
EPS (Rs)	(8.0)	(3.6)	3.5	6.8					

Cash Flow & Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	(1,273)	(626)	374	819
Add. Depreciation	1,592	1,608	1,721	1,841
Add. Interest	1,192	1,000	800	600
Less Financial Other Income	170	140	170	230
Add. Other	-	-	-	-
Op. profit before WC changes	1,511	1,982	2,895	3,260
Net Changes-WC	(507)	(79)	(350)	(345)
Direct tax	-	-	-	-
Net cash from Op. activities	1,004	1,903	2,545	2,915
Capital expenditures	(354)	(800)	(800)	(800)
Interest / Dividend Income	-	-	-	-
Others	(1,315)	-	-	-
Net Cash from Invt. activities	(1,670)	(800)	(800)	(800)
Issue of share cap. / premium	5,194	1,334	-	-
Debt changes	(2,428)	(2,300)	-	-
Dividend paid	-	-	-	-
Interest paid	(1,192)	(1,000)	(800)	(600)
Others	(1,022)	946	-	-
Net cash from Fin. activities	553	(1,020)	(800)	(600)
Net change in cash	(113)	83	945	1,515
Free Cash Flow	650	1,103	1,745	2,115

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	(8.0)	(3.6)	3.5	6.8
CEPS	(2.7)	14.8	15.9	20.0
BVPS	55.6	63.1	66.6	73.4
FCF	5.2	8.0	12.6	15.2
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(2.3)	7.2	10.4	12.7
ROIC	(1.6)	3.9	5.8	7.7
RoE	(35.9)	5.7	5.4	9.7
Balance Sheet				
Net Debt : Equity (x)	0.5	0.2	0.0	(0.1)
Net Working Capital (Days)	22	15	15	15
Valuation(x)				
PER	(29.8)	(65.8)	68.0	35.1
P/B	4.3	3.8	3.6	3.2
P/CEPS	(87.0)	16.1	15.0	11.9
EV/EBITDA	26.5	14.3	11.7	9.6
EV/Sales	3.3	2.4	2.2	1.9
Dividend Yield (%)	-	-	-	-

We are initiating coverage on KIMS with BUY rating and TP of Rs 1638. We believe that the recent acquisition of Sunshine as well as planned brownfield and greenfield expansion of +1500 beds over next 3-4 years will continue to aid growth momentum.

Strong regional leader in Andhra Pradesh & Telangana: KIMS is one of largest corporate healthcare groups in Andhra Pradesh and Telangana with strong brand equity. Currently, company operates nine multi-specialty hospitals in AP and Telangana region with 2,600 operational beds as of Dec 2021 which is 2x times more beds than the second largest provider in AP and Telangana.

Enjoys superior margins: KIMS enjoys healthy operating margins of +30% (highest among peers). KIMS robust cost control, low capital intensive set-up, value accretive acquisitions have ensured good profitability even in the affordable offering set-up and translates to higher likelihood of replicating success at newer locations.

Capacity addition of 1600-1800 beds over next 3-4 years: KIMS will be adding 650 beds through brownfield expansion across its Kondapur, Vizag and Anantpur units for total capex of Rs3.8bn over FY21-25E. Further company is looking to add additional 1000-1200 beds through greenfield across Chennai, Bangalore and Maharashtra regions. In some of its adjacent markets like Bangalore and Chennai, KIMS already attracts patients through its regional connect. This will help to drive growth in such markets.

Acquisition of Sunshine Hospitals is positive: KIMS has acquired a majority stake of 51.07% in Sunshine Hospitals (600 bed capacity) at a total EV of Rs 7.3bn, at 9.7x FY21 EV/EBITDA. Sunshine's current occupancy stands at 40% and KIMS expects to improve over next 2-3 years after adding more specialties. Further there will be synergies in consumables procurement and HR cost. This along with scale up in occupancy should drive margins.

	Ye March	2021	2022	2023	2024
Income Statement (Rs m)	Net Sales	13,299	16,866	22,933	24,995
	Growth (%)	18.5	26.8	36.0	9.0
	EBITDA	3,709	5,286	6,754	7,476
	Growth (%)	51.4	42.5	27.8	10.7
	Margin (%)	27.9	31.3	29.5	29.9
	EBIT	3,013	4,533	5,793	6,323
	Net Interest	325	150	120	70
	Other Income	102	150	160	150
	PBT	2,790	4,533	5,833	6,403
	Total Tax	735	1,179	1,517	1,665
Adj. PAT	2,012	3,275	3,963	4,060	
Growth (%)	68.8	62.7	21.0	2.4	
Balance Sheet (Rs m)	Gross Block	10,520	16,020	20,020	24,020
	Investments	-	-	-	-
	Inventories	241	457	622	678
	Trade receivables	1,098	1,462	1,992	2,171
	Cash & Bank Balance	2,844	2,546	2,434	1,785
	Equity Share Capital	776	800	800	800
	Total Netw orth	8,637	13,936	17,435	20,567
	Borrow ings	2,399	1,699	1,199	270
Trade payables	1,319	1,644	2,241	2,442	
Cash Flow (Rs m)	Net cash from Op. activities	4,237	4,028	5,325	5,957
	Net Cash from Inv. activities	-3,542	-5,500	-4,000	-4,000
	Net cash from Fin. activities	2,369	1,174	-620	-998
	Net change in cash	3,065	-298	705	959
	Free Cash Flow	3,293	2,028	1,325	1,957
Key Ratios	EPS (Rs)	25.2	40.9	49.5	50.7
	Growth (%)	68.8	62.7	21.0	2.4
	BPVS (Rs)	108.0	174.2	217.9	257.0
	DPS (Rs)	-	-	-	-
	RoCE (%)	29.8	34.0	33.8	32.0
	RoE (%)	27.5	29.0	25.3	21.4
	Net Debt : Equity (x)	-0.1	-0.1	-0.1	-0.1
	Net Working Capital (Days)	0.6	5.9	5.9	5.9
	PE (x)	51.7	31.8	26.2	25.6
	P/B (x)	12.0	7.5	6.0	5.1
	EV / EBITDA (x)	27.9	19.5	15.2	13.7
Dividend Yield (%)	-	-	-	-	

Outlook and Valuation

- KIMS robust cost control, low capital intensive set-up, value accretive acquisitions have ensured good profitability. EBITDA has grown at 40% CAGR over FY18-22. The recent acquisition of Sunshine is value accretive. This coupled with brownfield and greenfield expansion of +1500 beds over next 3-4 years will continue to aid growth momentum. We expect 24% EBITDA CAGR over FY21-24E with best in class return ratios at 22%/32% RoE/RoCE. At CMP, stock is trading at attractive valuations 16x EV/EBITDA (adj for IND AS) and 27x P/E on FY24E. We recommend Buy with TP of Rs1638/share based on 20x FY24E EV/EBITDA on KIMS hospital and 15x EV/EBITDA on Sunshine.

Key risk

- Company is exploring greenfield expansion in Chennai, Bangalore and Maharashtra. These are newer markets of KIMS and may take longer time for break even.
- Higher dependency to revenues from Hyderabad units. Any impact on this 2 units can impact profitability.

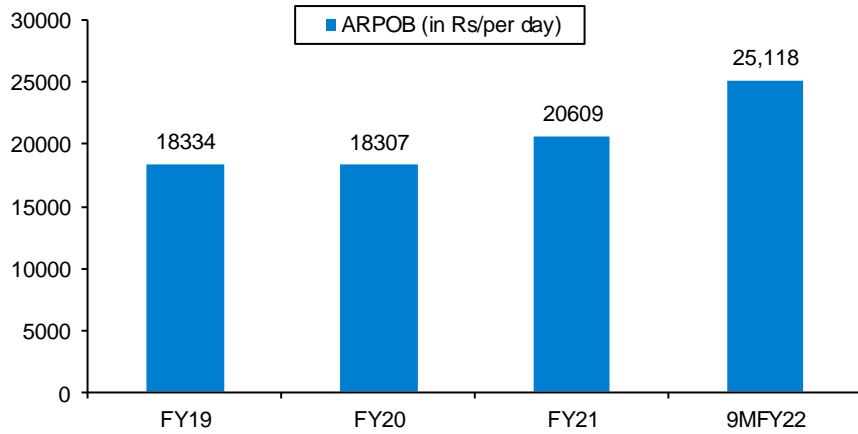
Valuation Summary

Particular	FY24
KIMS EBITDA (INR mn)	6,369
KIMS stake-95%	6,051
Target multiple (x)	20
EV	121,018
Sunshine EBITDA	1,107
Kims stake- 51%	565
Target multiple (x)	15
EV	8,469
Total EV- a+b	129,486
Less net Debt	-1,619
Derived Market cap (INR mn)	131,105
No. Of shares (mn)	80
Target price (Rs)	1,638
CMP (Rs)	1,300
Upside (%)	26

Source: PL

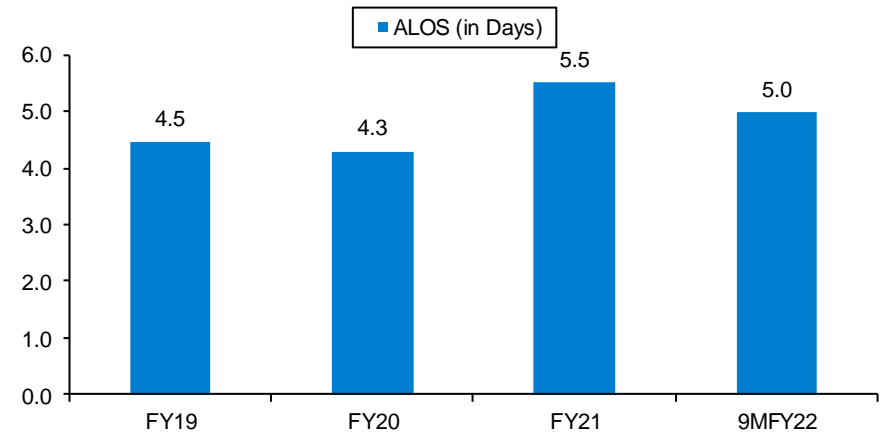
Key operating metrics

Better case mix aiding ARPOB



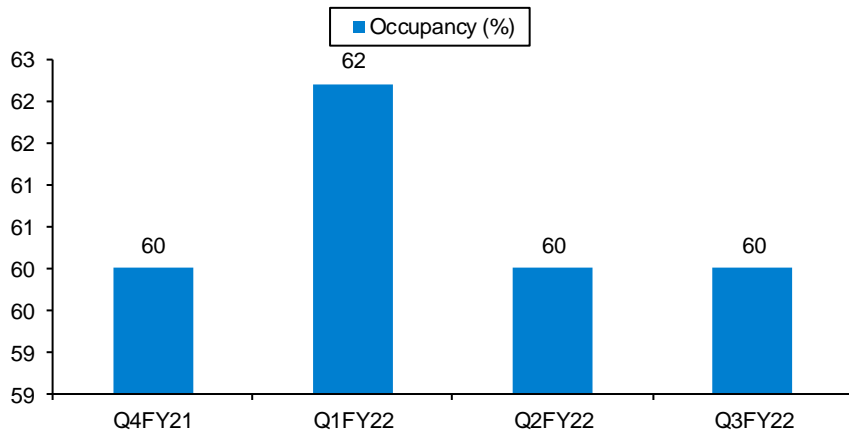
Source: Company, PL

Stabilising ALOS due to reducing COVID revenues



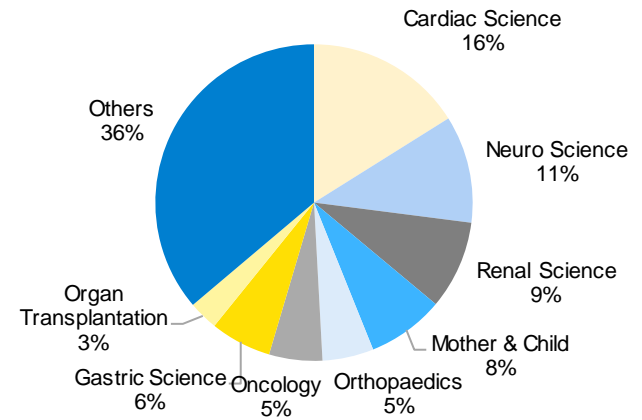
Source: Company, PL

Stable occupancy over last few quarters;



Source: Company, PL Occupancy is based on capacity beds

Specialty Mix (9MFY22)- Transplant gaining momentum



Source: Company, PL

Strong regional leader in Telangana

- KIMS Secunderabad is one of the largest private hospitals in India at a single location with ~1,000 beds capacity.
- KIMS' flagship of Secunderabad and Kondapur hospitals together accounted for ~64% and ~74% of the company's overall revenue and EBITDA in FY21
- Recently KIMS added high-end specialties such as heart & lung transplant at its flagship unit – Secunderabad which is aiding margin improvement.
- Current EBITDA margins of +35% across its Secunderabad and Kondapur unit is sustainable.

Operational parameters

	Secunderabad					Kondapur				
	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E
Bed Capacity	1,000	1,000	1,000	1,000	1,000	200	200	200	200	200
Operating beds	885	885	885	885	885	150	150	150	175	200
Revenue	5,720	6,845	9,073	9,602	9,890	1,422	1,638	1,832	2,234	2,700
EBITDA	1,598	2,433	3,312	3,505	3,610	52	419	641	782	945
Margin (%)	27.9	35.5	36.5	36.5	36.5	24.7	25.6	35.0	35.0	35.0

Source: Company, PL

Operating metrics - Mature & Acquired Hospitals in Andhra Pradesh region

- New Clinical specialties of Oncology, Vascular Surgeries and Mother & Child are planned in Ongole, Vizag and Anantapur. Addition of Beds and better occupancy are also planned in these units.
- ARPOB and ARPP of Acquired assets have enough headroom to grow to the same levels of Mature Assets.
- Further reduction of ALOS in acquired assets is possible, as we continue to optimize costs in these units.
- EBIDTA Margin of acquired assets has potential to reach at the same levels of Mature assets.

Healthy margins across units of Andhra Pradesh region

Particulars	Matured Assets				Acquired Assets			
	FY19	FY20	FY21	9MFY22	FY19	FY20	FY21	9MFY22
Bed Capacity	570	570	630	630	1034	1234	1234	1234
Occupancy %	66.6%	66.3%	65.6%	71.0%	32.5%	48.3%	62.1%	65.0%
IP Volume	33,861	36,972	30,503	23,710	24,221	46,393	41,002	40,075
ARPOB	13,558	14,961	13,608	13,978	8,705	9,727	9,881	11,911
Revenue	1,890	2,072	2,060	1,716	1,073	2,127	2,781	2,622
EBITDA	427	478	526	422	-31	116	468	569
EBITDA Margin	22.6%	23.1%	25.5%	25.0%	-2.9%	5.5%	16.8%	22.0%

Source: Company, PL

Capex plan – Adding 2x capacities over next 5 years

- Sunshine acquisition to add 600 beds from FY23. These 600 beds are spread across 3 units -Secunderabad, Gachibowli & Karimnagar
- Company intends to add 1100 new beds across Chennai, Bangalore, Maharashtra through greenfield; has already acquired land in Chennai and process of acquiring asset /land in Bangalore and Maharashtra.
- KIMS already has certain regional connect within few of these markets and already attracts patients from adjacent geographies to its existing hospitals.
- 700 bed addition through brownfield across Kondapur, Anantapur and Vizag over next 4 years. Major bed addition at Kondapur region, which is already running at optimum utilization and enjoys +35% OPM.

Region-wise expansion and capex plans

Units	Current Beds	Incremental Beds	New Departments	Approx. Capex (Rs mn)	Approx. Timeline (Starting April 2021)
Kondapur	200	500	All Specialities	3000	36-42 months
Vizag	434	50	Cancer Centre	150-200	24 months
Anantapur	250	150	Cancer Centre / Mother & Child	500-600	36-48 months
Ongole	350	-	Cancer Centre	150-200	36-42 months
Bangalore	-	350-400	All Specialities	3000-3300	36 months
Chennai	-	350-400	All Specialities	4000	36 months
Western / Central India	-	250-300	All Specialities	3000	24-36 months

Source: Company, PL

Sunshine acquisition- Value accretive

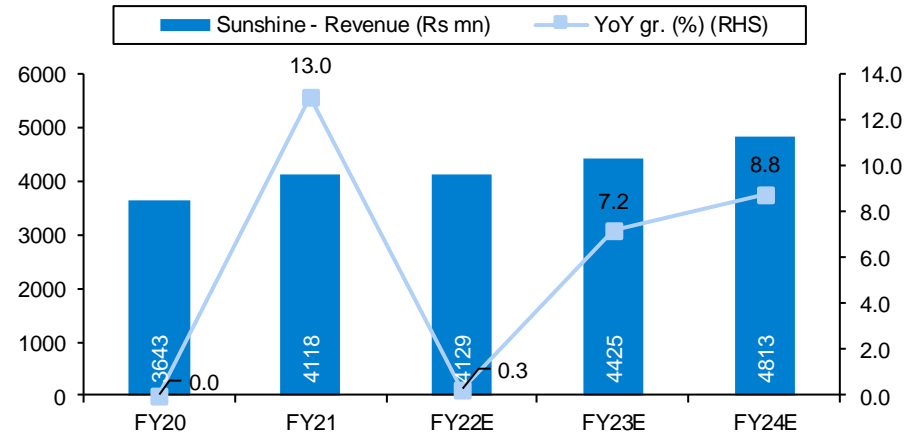
- Current occupancy level of 40% is an opportunity to scale by adding new clinical specialties and strengthening existing ones.
- Opportunity to scale EBITDA margin by enhancing revenue.
- Opportunity to optimize on consumables costs, HR cost and integrate with KIMS.

P&L Summary (Rs mn)

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Revenue	3,643	4,118	4,129	4,425	4,813
EBITDA	331	752	661	929	1107
Margin %	9%	18%	16%	21%	23%
Other Income	93	49		n/a	
Finance Cost	103	91		n/a	
Depreciation	367	236		n/a	
PBT	-47	465		n/a	
PAT	-60	364		n/a	
Operational Metrics	FY20	FY21	FY22E	FY23E	FY24E
Bed Capacity	602	602	602	602	602
Occupancy %	39.6%	39.8%	40%	43%	48%
IP Volume	21,970	17,515	-	-	-
ARPOB	22,728	26,125	26,125	27,431	28,254

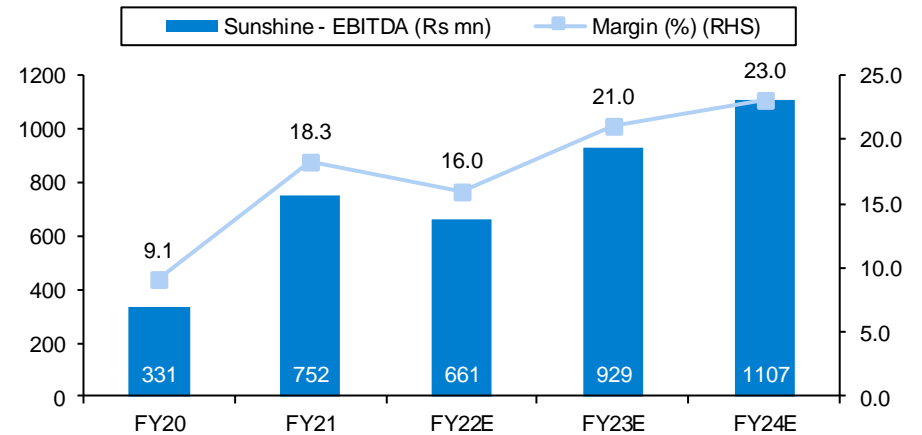
Source: Company, PL

Revenue improvement to be aided by better occupancy



Source: Company, PL

EBITDA improvement aided by better case mix and utilisation



Source: Company, PL

Income Statement & Balance Sheet

Y/e Mar	FY21	FY22E	FY23E	FY24E	Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	13,299	16,866	22,933	24,995	Non-Current Assets				
YoY gr. (%)	18.5	26.8	36.0	9.0					
Cost of Goods Sold	2,889	3,834	5,225	5,695	Gross Block	10,520	16,020	20,020	24,020
Gross Profit	10,410	13,032	17,708	19,301	Tangibles	10,520	16,020	20,020	24,020
Margin (%)	78.3	77.3	77.2	77.2	Intangibles	-	-	-	-
Employee Cost	2,202	2,422	2,665	2,878	Acc: Dep / Amortization	2,567	3,320	4,281	5,433
Other Expenses	4,499	5,323	8,289	8,947	Tangibles	2,567	3,320	4,281	5,433
					Intangibles	-	-	-	-
EBITDA	3,709	5,286	6,754	7,476	Net fixed assets	7,954	12,701	15,740	18,587
YoY gr. (%)	51.4	42.5	27.8	10.7	Tangibles	7,954	12,701	15,740	18,587
Margin (%)	27.9	31.3	29.5	29.9	Intangibles	-	-	-	-
Depreciation and Amortization	695	753	961	1,153	Capital Work In Progress	602	602	602	602
					Goodwill	848	848	848	848
EBIT	3,013	4,533	5,793	6,323	Non-Current Investments	-	-	-	-
Margin (%)	22.7	26.9	25.3	25.3	Net Deferred tax assets	(329)	(329)	(329)	(329)
Net Interest	325	150	120	70	Other Non-Current Assets	-	-	-	-
Other Income	102	150	160	150					
					Current Assets				
Profit Before Tax	2,790	4,533	5,833	6,403	Investments	-	-	-	-
Margin (%)	21.0	26.9	25.4	25.6	Inventories	241	457	622	678
Total Tax	735	1,179	1,517	1,665	Trade receivables	1,098	1,462	1,992	2,171
Effective tax rate (%)	26.4	26.0	26.0	26.0	Cash & Bank Balance	2,844	2,546	2,434	1,785
					Other Current Assets	559	615	677	744
Profit after tax	2,055	3,355	4,317	4,739	Total Assets	14,362	19,446	23,129	25,631
Minority interest	43	80	353	679	Equity				
Share Profit from Associate	-	-	-	-	Equity Share Capital	776	800	800	800
					Other Equity	7,861	13,136	16,635	19,767
Adjusted PAT	2,012	3,275	3,963	4,060	Total Networth	8,637	13,936	17,435	20,567
YoY gr. (%)	68.8	62.7	21.0	2.4	Non-Current Liabilities				
Margin (%)	15.1	19.4	17.3	16.2	Long Term borrowings	1,846	1,146	646	(282)
Extra Ord. Income / (Exp)	-	-	-	-	Provisions	-	-	-	-
					Other non current liabilities	-	-	-	-
Reported PAT	2,012	3,275	3,963	4,060	Current Liabilities				
YoY gr. (%)	68.8	62.7	21.0	2.4	ST Debt / Current of LT Debt	553	553	553	553
Margin (%)	15.1	19.4	17.3	16.2	Trade payables	1,319	1,644	2,241	2,442
Other Comprehensive Income	-	-	-	-	Other current liabilities	1,065	1,145	1,233	1,329
Total Comprehensive Income	2,012	3,275	3,963	4,060	Total Equity & Liabilities	14,362	19,446	23,129	25,631
Equity Shares O/s (m)	80	80	80	80					
EPS (Rs)	25.2	40.9	49.5	50.7					

Cash Flow & Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	2,790	4,533	5,833	6,403
Add. Depreciation	695	753	961	1,153
Add. Interest	325	150	120	70
Less Financial Other Income	102	150	160	150
Add. Other	-	-	-	-
Op. profit before WC changes	3,810	5,436	6,914	7,626
Net Changes-WC	804	(230)	(73)	(4)
Direct tax	(377)	(1,179)	(1,517)	(1,665)
Net cash from Op. activities	4,237	4,028	5,325	5,957
Capital expenditures	(1,297)	(5,500)	(4,000)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	(2,245)	-	-	-
Net Cash from Invnt. activities	(3,542)	(5,500)	(4,000)	(4,000)
Issue of share cap. / premium	950	2,000	-	-
Debt changes	(507)	(700)	(500)	(928)
Dividend paid	-	-	-	-
Interest paid	(325)	(150)	(120)	(70)
Others	2,252	24	-	-
Net cash from Fin. activities	2,369	1,174	(620)	(998)
Net change in cash	3,065	(298)	705	959
Free Cash Flow	3,293	2,028	1,325	1,957

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	25.2	40.9	49.5	50.7
CEPS	33.8	50.3	61.5	65.1
BVPS	108.0	174.2	217.9	257.0
FCF	41.2	25.3	16.6	24.5
DPS	-	-	-	-
Return Ratio(%)				
RoCE	29.8	34.0	33.8	32.0
ROIC	26.2	26.8	28.0	26.5
RoE	27.5	29.0	25.3	21.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	1	6	6	6
Valuation(x)				
PER	51.7	31.8	26.2	25.6
P/B	12.0	7.5	6.0	5.1
P/CEPS	38.4	25.8	21.1	19.9
EV/EBITDA	27.9	19.5	15.2	13.7
EV/Sales	7.8	6.1	4.5	4.1
Dividend Yield (%)	-	-	-	-

Max Healthcare Institute

Rating: BUY | CMP: Rs370 | TP: Rs427 | Mcap: Rs358.4bn

We are initiating coverage on Max Healthcare (MAXHEALT) with BUY rating and TP of Rs427. MAXHEALT's operational efficiency has been commendable in competitive markets like NCR with phenomenal growth in past two years. We believe company's expansion plan, improving payor mix and scale up in labs business will aid its growth momentum.

Brownfield expansion by ~2x over next 5 years: MAXHEALT is planning to expand 1,800 beds (65% of current capacity) over next 5 years at existing location such as Saket complex (Delhi), Nanavati (Mumbai) and Shalimar Bagh. These brownfield expansions at locations which are already running at optimal occupancy will be EBIDTA accretive from year one itself. Further company has recently acquired 300 beds in NCR market (Dwarka location) on O&M model which will get commissioned in FY24.

Best operating metrics among peers: MAXHEALT enjoys ARPOB of Rs55k/day, which is 10-40% higher than APHS, FORH and NARH given its more city centric locations. Further company enjoys occupancy at +75% vs 65% among peers. This allows them to enjoy higher operating leverage and OPM of +25% despite 20% of payee mix from institutional segment.

Strong track record of successful M&A and turnaround: MAXHEALT has strong management team at helm lead by Mr. Abhay Soi (turnaround specialist). Post-merger of Radiant with erstwhile Max, it has completely turnaround business from EBITDA of Rs3.5bn in FY19 to Rs14bn in FY22E, 1,650 bps margin expansion. We believe company under leadership of Mr Abhay Soi could continue to extend growth momentum though combination of brownfield expansion, inorganic opportunities and improving payor mix.

Strong FCF generation: MAXHEALT net debt stands at Rs 2.9bn vs Rs21bn as of FY20 end. Sharp reduction of debt was aided by strong FCF generation and Rs12bn of equity issuance in FY21. We expect company to generate Rs5-6bn of FCF annually after factoring Rs7.5bn of annual capex to fund brownfield capex.

	Y/e March	2021	2022	2023	2024
Income Statement (Rs m)	Net Sales	36,010	52,786	54,449	63,466
	Growth (%)	-	46.6	3.2	16.6
	EBITDA	6,080	13,996	14,668	17,714
	Growth (%)	-	130.2	4.8	20.8
	Margin (%)	16.9	26.5	26.9	27.9
	EBIT	3,920	11,533	11,959	14,735
	Net Interest	1,870	1,200	1,000	750
	Other Income	280	500	700	900
	PBT	2,330	10,833	11,659	14,885
	Total Tax	500	1,300	1,749	2,233
Adj. PAT	1,830	9,533	9,910	12,652	
Growth (%)	-	420.9	4.0	27.7	
Balance Sheet (Rs m)	Gross Block	34,320	38,858	43,649	48,169
	Investments	20	20	20	20
	Inventories	740	1,446	1,492	1,739
	Trade receivables	5,229	7,665	7,906	9,216
	Cash & Bank Balance	6,660	7,505	9,918	15,998
	Equity Share Capital	57,380	66,913	76,823	89,475
	Total Netw orth	57,380	66,913	76,823	89,475
	Borrow ings	11,280	9,280	7,280	5,280
Trade payables	4,242	6,219	6,415	7,477	
Cash Flow (Rs m)	Net cash from Op. activities	6,059	12,489	13,573	16,135
	Net Cash from Inv. activities	-4,744	-7,000	-7,500	-7,500
	Net cash from Fin. activities	1,239	-4,644	-3,660	-2,555
	Net change in cash	2,554	845	2,413	6,080
	Free Cash Flow	1,315	5,489	6,073	8,635
Key Ratios	EPS (Rs)	1.9	9.8	10.2	13.1
	Growth (%)	-	420.9	4.0	27.7
	BPVS (Rs)	59.2	69.1	79.3	92.3
	DPS (Rs)	-	-	-	-
	RoCE (%)	5.7	15.9	14.9	16.5
	RoE (%)	3.2	15.3	13.8	15.2
	Net Debt : Equity (x)	0.1	0.0	-0.0	-0.1
	Net Working Capital (Days)	17.5	20.0	20.0	20.0
	PE (x)	195.8	37.6	36.2	28.3
	P/B (x)	6.2	5.4	4.7	4.0
	EV / EBITDA (x)	59.7	25.7	24.3	19.6
Dividend Yield (%)	-	-	-	-	

Outlook and Valuation

- MAXHEALT operational efficiency has been commendable in competitive markets like NCR. Company's growth has been phenomenal in past two years. Given company's expansion plan, improving payor mix and scale up in labs, business will aid growth momentum in medium term.
- We expect 42% EBITDA CAGR over FY21-24E. FY22 had one-time contribution from vaccine and COVID revs. Resultant we expect moderate EBITDA growth in FY23E. We value Max on an SOTP basis. We ascribe 22x EV/EBITDA multiple to the hospital segment and 30x EV/EBITDA to lab business to arrive at a price target of Rs427, marking an upside of 15% from current levels. Recommend BUY rating.

Key risk

- Delay in new capacity addition
- Change in agreement with partnered healthcare facilities/trusts which is not in favor of MAXHEALT

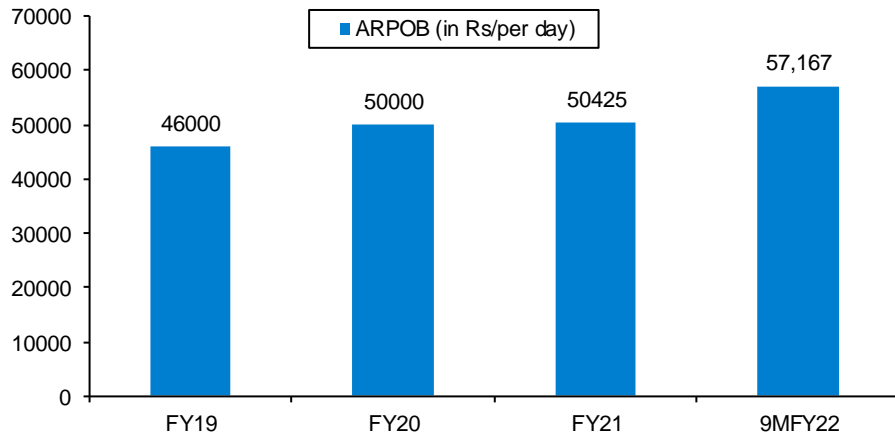
Valuation Summary

Particular	FY24
Hospitals EBITDA - Pre IND AS 116	16569
Hospital tgt EV/EBDITA	22
Hospital EV	371,153
Diagnostic EBIDTA	845
Tgt EV/EBDITA	30
Diagnostic EV	25,350
EV	396,503
Less: Net debt	-9346
Market cap	405,849
No. Of shares	960
Target price (Rs)	427
CMP (Rs)	370
Upside (%)	15

Source: PL

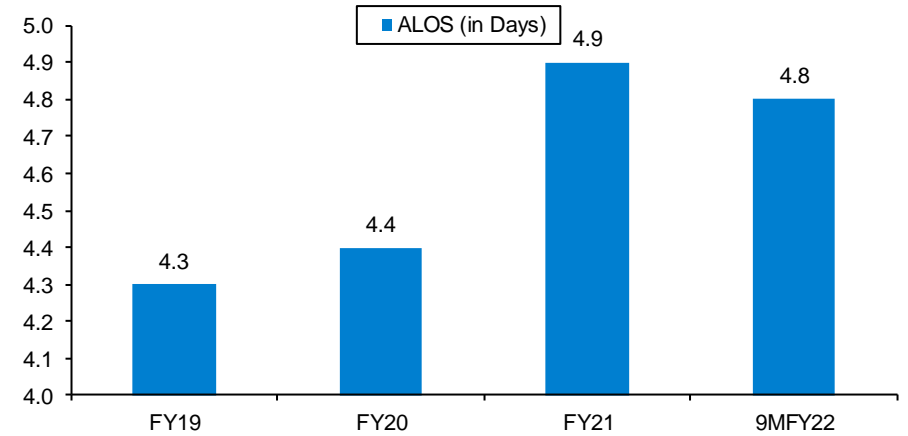
Key operating metrics

Strong ARPOB led by price hike and better case mix



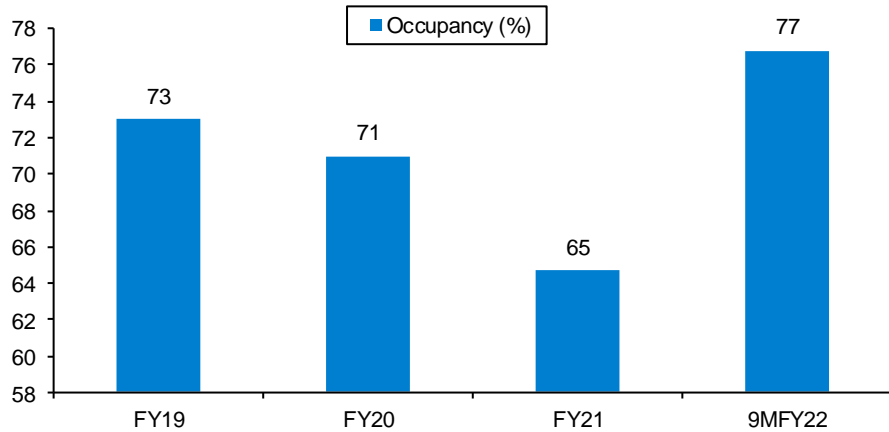
Source: Company, PL

ALOS to regain normalcy as COVID contribution reduces



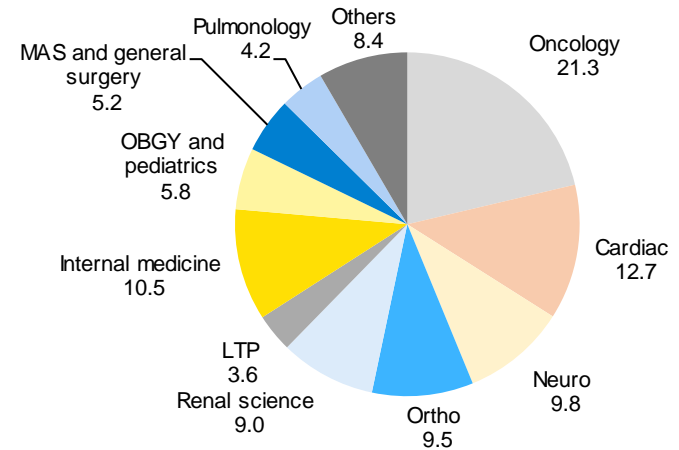
Source: Company, PL

Occupancy to remain stable at +75% till new capacities comes up



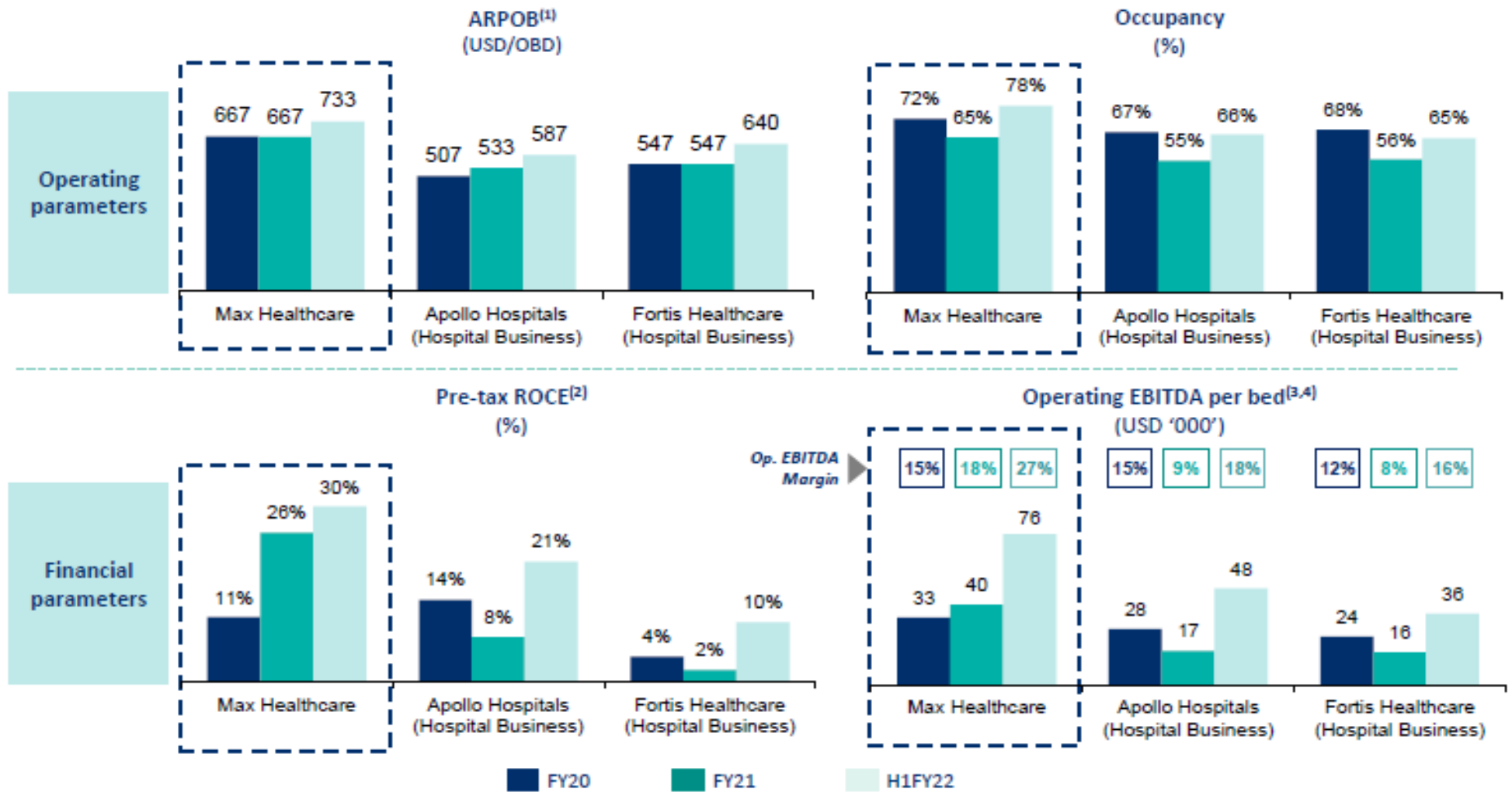
Source: Company, PL

Specialty mix (Q3FY22) Oncology, Cardiac and Neuro are 44% of sales



Source: Company, PL

Best operating metrics among peers



Source: Company, PL

Adding 2x capacities over next 4-5 years

USD Mn	#of beds	Likely construction commencement by	Likely commencement of operations	FY22	FY23	FY24	FY25	FY26	FY27	FY28 & onwards
Max Shalimar Bagh, Delhi	100	Commenced in Sep 21	H2FY24	1.1	6.7	5.7	1.5	-	-	-
Max Mohali, Punjab	190	Q4FY22	H2FY24	0.4	10.7	12.8	2.7	-	-	-
Max Smart, (Saket Complex) -1	350	Q4FY22	H1FY25	12	24	20	31.3	3.9	-	-
Nanavati Max, Mumbai -1*	329	Q4FY22	H2FY25	10	14.7	18	9.5	5.9	-	-
Vikrant Foundation, (Saket Complex)	300	Q4FY24	H1FY26	1.6	8.8	12	20.8	4.8	-	-
Max Smart, (Saket Complex) -2	250	Q2FY25	H1FY27	-	-	-	4	5.3	6.3	15.1
Nanavati Max, Mumbai – 2*	271	Q2FY25	H2FY27	-	-	-	6	10.7	17.3	3.7
Max Smart, (Saket Complex) -3	300	On or after FY28	NA	-	-	-	-	-	-	30
Max Smart, (Saket Complex) -4	200	On or after FY28	NA	-	-	-	-	-	-	36
Vikrant Foundation, (Saket Complex) -2	200	On or after FY28	NA	-	-	-	-	-	-	32
Brownfield projects				25.1	64.8	68.5	75.7	30.5	23.6	116.8
Gurugram Sector 56**	500	Q4FY23	H1FY26	-	21.3	20.7	25.3	22	-	-
Gurugram Sector 53**	500	On or after FY28	NA	-	-	-	-	-	-	89.3
Greenfield Projects					21.3	20.7	25.3	22	-	89.3

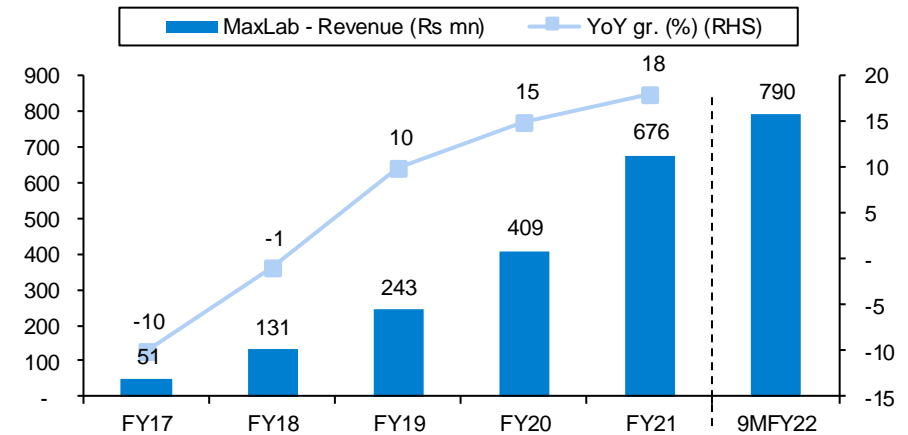
Source: Company, PL

Scaling up third party diagnostic and home lab business

- Max Labs and Max Homecare witnessed strong traction during COVID-19.
- Added 230+ collection centers in 9M'22 with total count of partner network (collection and PUPs) at 493.
- Max Labs business operates in 20 cities, mainly in north Indian states of Delhi NCR, Uttarakhand, and Punjab which offers 1,900+ test portfolio.
- As on Dec'21, company had 18 owned and more than 265 partner-run collection centers with 210 pick-up points and 25 hospital based labs.

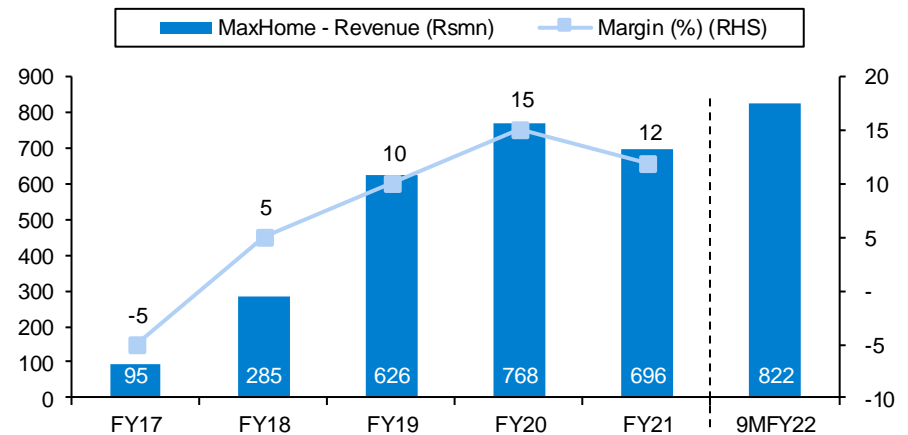
- MaxHome is a non-captive business vertical of Max Healthcare, offering more than 12 services including COVID-care at home.
- MaxHome aims to explore new service lines and extend existing offerings such as dental at home, chemotherapy at home, dialysis at home, etc.
- Company plans to build new collection centers and is partnering with local collection centers for sample collection.
- MaxHome also plans to technologically enable and automate existing customer acquisition channels to directly place home care request through online medium.

Max Labs



Source: Company, PL

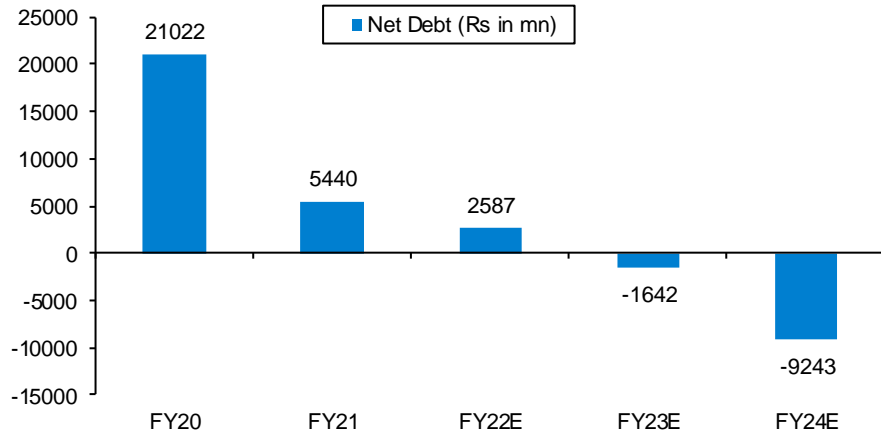
Max Home



Source: Company, PL

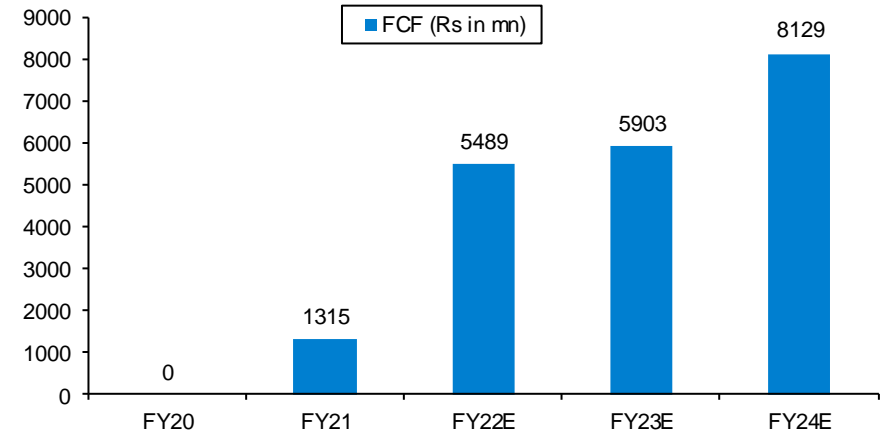
Strong FCF generation to fund growth, to turn Net cash positive by FY23

Max Health to turn net cash positive from FY23



Source: Company, PL

Rs19.5bn FCF generation over FY21-24 to aid capex plans



Source: Company, PL

Max Healthcare Institute Ltd. (Reported Financials)

Profit and loss statement (Rs mn)

Y/e March	FY19	FY20	FY21
Net sales	16,910	10,590	25,047
Other operating income	-	-	-
Total operating income	16,910	10,590	25,047
Cost of goods sold	(3,645)	(2,173)	(5,944)
Gross profit	13,266	8,417	19,103
<i>Gross margin (%)</i>	78.0	79.0	76.0
Total operating expenses	(11,714)	(7,481)	15,064
EBITDA	1,552	936	4,039
<i>EBITDA margin (%)</i>	9.0	9.0	16.0
Depreciation	(1,026)	(456)	(1,741)
EBIT	525	479	2,298
Net interest	(1,013)	(832)	(1,795)
Other income	571	481	1,147
Profit before tax	83	128	1,651
Total taxation	(149)	(1)	(459)
<i>Tax rate (%)</i>	179.0	1.0	28.0
Profit after tax	(66)	129	1,192
Minorities	-	-	-
Profit/ Loss associate co(s)	(28)	461	(231)
Adjusted net profit	(30)	590	961
<i>Adj. PAT margin (%)</i>	-	6.0	4.0
Net non-recurring items	-	-	(2,337)
Reported net profit	(30)	590	(1,376)

Cash flow statement (Rs mn)

Y/e March	FY19	FY20	FY21
Profit before tax	83	128	1,651
Depreciation & Amortisation	(1,026)	(456)	(1,741)
Chg in working capital	1,171	834	598
CF from operations	890	771	1,179
Capital expenditure	(1,157)	(901)	(1,184)
CF from investing	(165)	(26,407)	(730)
Equity raised/ (repaid)	-	-	11,792
Debt raised/ (repaid)	222	5,736	(8,327)
Dividend paid	-	-	-
CF from financing	(740)	23,531	1,913
Net chg in cash	(15)	(2,105)	2,362

Balance sheet (Rs mn)

Y/e March	FY19	FY20	FY21
Equity share capital	5,372	5,372	9,660
Other equity	4,260	20,159	46,727
Total Equity	9,632	25,532	56,387
Long term Borrowings	8,901	1,062	8,428
Short term Borrowings	737	7,274	543
Total Debt	9,637	8,336	8,971
Financial Liability (Put Option)	7	2,419	2,373
Lease Liabilities	-	145	1,700
Deferred Tax Liability	3,447	-	5,819
Provisions	173	407	602
Other non-current liabilities	96	73	2,367
Total liabilities	22,993	36,911	78,218
Gross Block	12,326	6,318	19,800
Depreciation	2,941	3,573	4,573
Net assets	9,385	2,746	15,227
Right to use assets	-	162	2,255
Capital work-in-progress	857	276	267
Goodwill	2,854	4,176	24,547
Other intangible assets	9,685	1,426	23,335
Other non current assets	1,267	1,090	2,210
Total Non-current Assets	24,047	9,875	67,841
Inventories	260	268	538
Trade Receivables	3,626	961	3,659
Cash and Other bank bal	116	1,196	6,529
Other financial assets	278	4,812	340
Other current assets	193	97	179
Total Current Assets	4,473	7,333	11,245
Trade Payables	2,916	1,796	4,357
Provisions	161	77	394
Other liabilities	7,587	953	2,476
Total current liabilities	10,664	2,826	7,227
Net current assets/(liabilities)	(6,191)	4,508	4,018
Total Assets	22,993	36,911	78,218

Source: Company, PL

We are initiating coverage on Narayana Hrudayalaya (NARH) with BUY rating and TP of Rs773. We expect EBITDA CAGR of 19% over FY22-24E with strong performance at Cayman, steady pick up in mature India hospitals and ramp-up of new hospitals.

Steady pick up in flagship hospitals: NARH's 3 flagship Hospitals (~2,100 operational beds) witnessed temporary blip in FY21/H1FY22, due to COVID-induced disruption given heavy reliance on elective surgeries and international patients. We expect recovery and normalcy in profitability from FY23 onwards. As business normalizes, we estimate mid-high single digit revenue growth with higher EBITDA growth across flagship units.

Brownfield investments to improve mix in India business: NARH intends to step up investments to upgrade some of existing facilities in post COVID environment. NARH will take benefit of recent RBI policy by borrowing at attractive rates of ~5%. The objective is to increase high end complex procedures across network which will improve overall ARPOB. Further other mature hospitals are scaling up and gaining market share.

New hospitals to achieve breakeven in FY23, EBIDTA positive in FY24: Losses at three new hospitals in India were at Rs 424mn in FY21 and Rs 85mn in 9MFY22 (sharp loss reduction led by COVID led benefits across NCR). Losses may increase in Q4 as COVID normalizes. The Dharamshila unit (Delhi) has already turned EBITDA positive. We expect Gurgaon unit to be EBIDTA positive from FY23 while SRCC Mumbai will take time. We estimate zero EBITDA in FY23E and Rs250mn EBITDA in FY24.

Cayman profitability to sustain: Cayman operations, on account of increased domestic patients flow to the facility due to overseas travel restrictions, continued its strong run with FY21 EBITDA growing at a YoY 73.6% to USD 26.2mn. This momentum continued in 9MFY22 with EBITDA of USD 29mn. NARH focused more on primary and secondary healthcare offerings during COVID environment which has worked well. We expect current profitability to sustain and expect higher growth from FY24 given expansion program through a new set-up at the Cayman Islands city center, which will offer full-fledged oncology and outpatient services.

	Y/e March	2021	2022	2023	2024
Income Statement (Rs m)	Net Sales	25,823	36,986	39,807	44,479
	Growth (%)	-17.4	43.2	7.6	11.7
	EBITDA	1,821	6,389	7,657	8,972
	Growth (%)	-56.9	250.9	19.8	17.2
	Margin (%)	7.1	17.3	19.2	20.2
	EBIT	-14	4,517	5,654	6,829
	Net Interest	760	670	750	600
	Other Income	282	300	300	350
	PBT	-492	4,147	5,204	6,579
	Total Tax	-418	539	781	987
Adj. PAT	-143	3,568	4,384	5,552	
Growth (%)	-112.0	-2,596.2	22.9	26.7	
Balance Sheet (Rs m)	Gross Block	29,386	32,846	38,861	40,861
	Investments	1,203	1,203	1,203	1,203
	Inventories	478	811	1,091	1,219
	Trade receivables	2,785	3,344	3,599	4,021
	Cash & Bank Balance	1,321	1,676	1,391	4,491
	Equity Share Capital	2,044	2,044	2,044	2,044
	Total Netw orth	11,203	14,534	18,680	23,995
	Borrow ings	9,356	9,813	10,161	8,737
Trade payables	-	-	-	-	
Cash Flow (Rs m)	Net cash from Op. activities	2,825	4,722	6,718	7,937
	Net Cash from Inv. activities	-556	-3,460	-6,015	-2,000
	Net cash from Fin. activities	-2,097	-907	-987	-2,837
	Net change in cash	173	355	-285	3,100
	Free Cash Flow	1,927	1,262	703	5,937
Key Ratios	EPS (Rs)	-0.7	17.5	21.5	27.2
	Growth (%)	-112.0	-2,596.2	22.9	26.7
	BPVS (Rs)	54.8	71.1	91.4	117.4
	DPS (Rs)	-	1.2	1.2	1.2
	RoCE (%)	-0.1	20.1	21.3	22.2
	RoE (%)	-1.3	27.7	26.4	26.0
	Net Debt : Equity (x)	0.7	0.6	0.5	0.2
	Net Working Capital (Days)	-	-	-	-
	PE (x)	-954.8	38.3	31.1	24.6
	P/B (x)	12.2	9.4	7.3	5.7
	EV / EBITDA (x)	79.4	22.6	19.0	15.7
Dividend Yield (%)	-	0.2	0.2	0.2	

Outlook and Valuation

- NARH India business got impacted most under COVID due to higher reliance on elective surgeries, international patients and company ethos of not charging much for vaccine and other COVID related revenues. Despite NARH's aggressive expansion over next 2 years aided by new Cayman unit, we expect net debt at comfortable levels and turn net cash by FY24E.
- With strong performance at Cayman, steady pick up in mature India hospitals and ramp-up at new hospitals, we expect EBITDA CAGR of 19% (21% CAGR over FY20-24E) over FY22-24E. This also would lead to superior return ratios at 25% by FY24E. At CMP, stock is trading at attractive valuations 20x EV/EBITDA (adj for IND AS) to India biz. and 16x EV/EBITDA to Cayman biz. on FY24E. We recommend Buy with TP of Rs773/share based on 20x FY24E EV/EBITDA.

Key risk

- Delay in break-even in new hospitals
- Increased competition in Cayman unit.
- Ability to expand at similar historical low cost structure

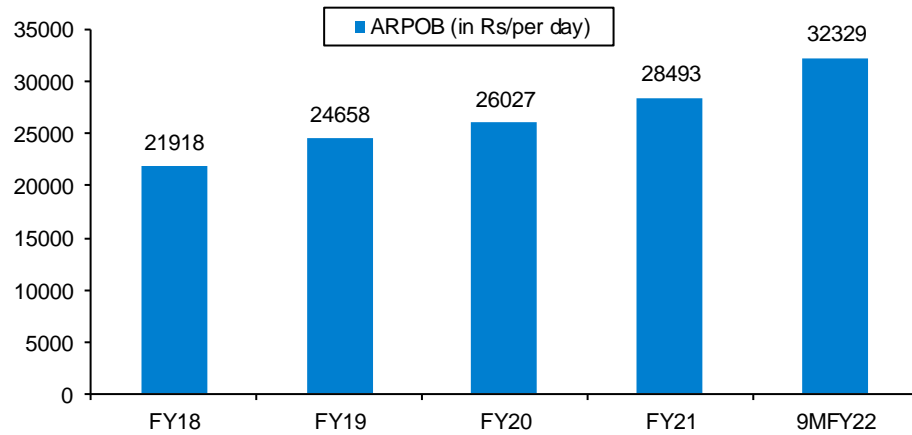
Valuation Summary

Particular	FY24
Target EV/EBIDTA multiple (India) (x)	20
Target EV/EBIDTA multiple (Cayman) (x)	16
EBIDTA pre IND AS	8,392
Total Enterprise value	155,726
Less FY24E debt	(2,245)
Derived Market cap	157,971
No of shares (mn)	204
Target price (Rs)	773
CMP (Rs)	668
Upside (%)	16

Source: PL

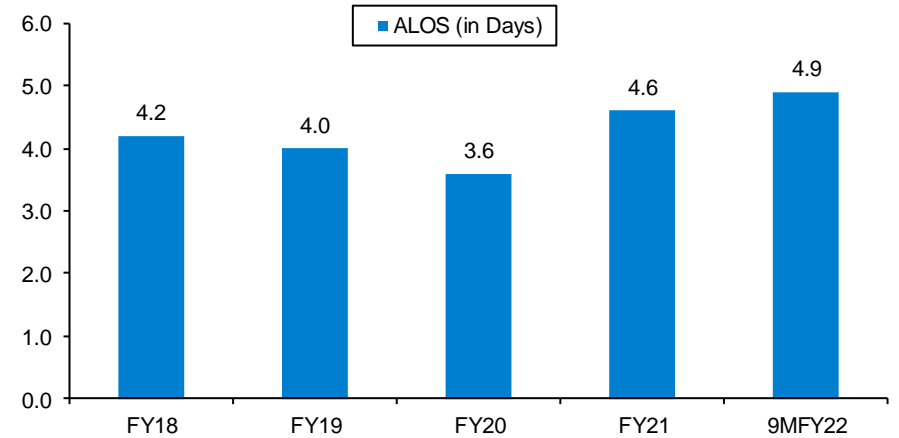
Key operating metrics

Increasing market share of matured hospitals driving higher ARPOB



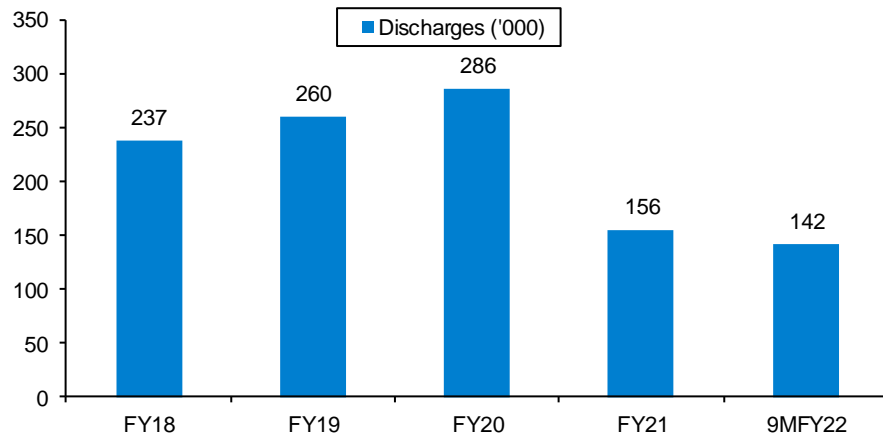
Source: Company, PL

Higher ALOS as a result of pandemic



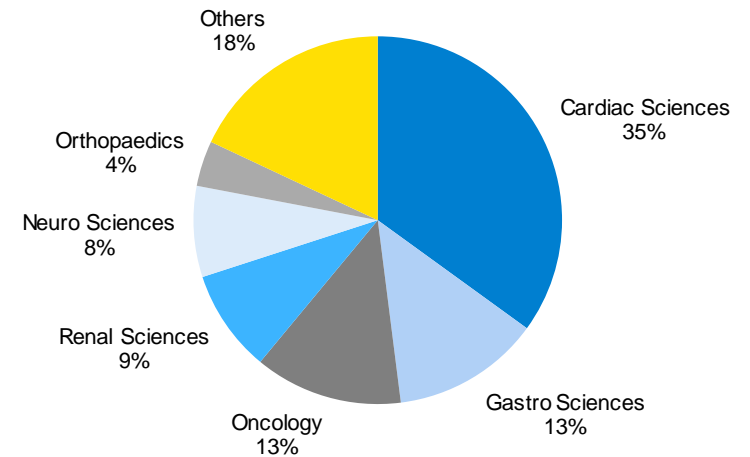
Source: Company, PL

Lower discharges due to travel restrictions resulted in long stay in Cayman



Source: Company, PL

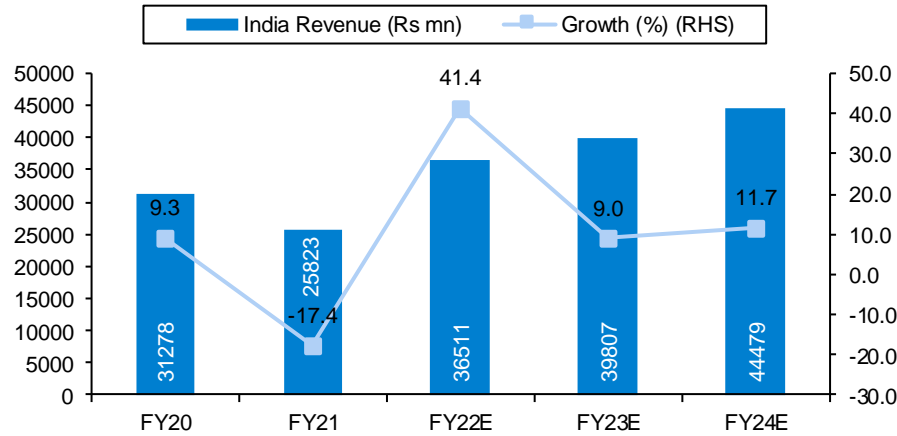
Specialty Mix – Q3FY22 – Cardiac, Gastro and Oncology are 61% of sales



Source: Company, PL

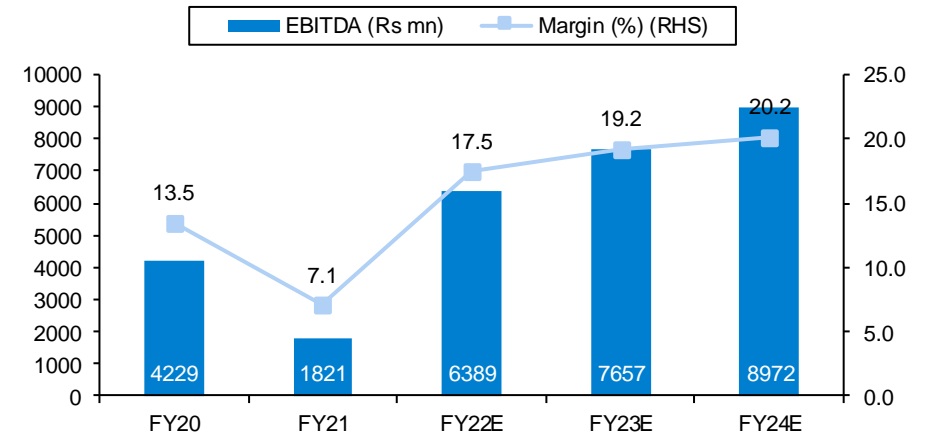
India segment - Scale up in new hospitals and better case mix in mature units to drive earnings

Revenue to grow on brownfield expansion & better case mix



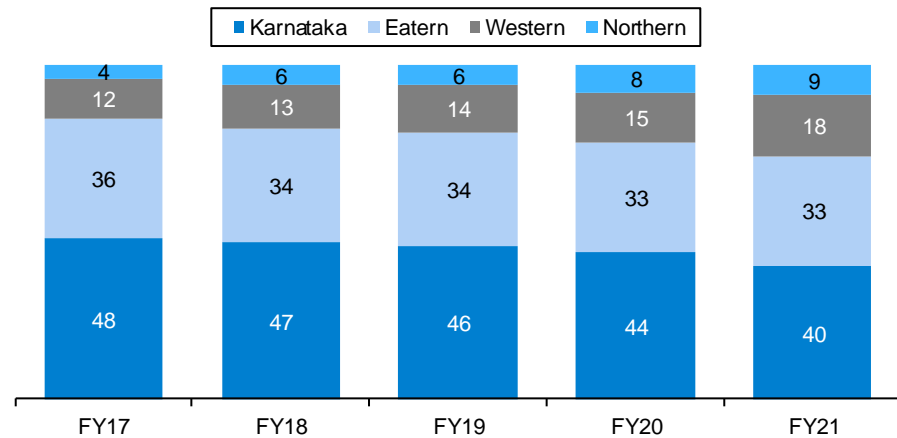
Source: Company, PL

Post Covid margins 400-650bps higher as new hospitals break-even



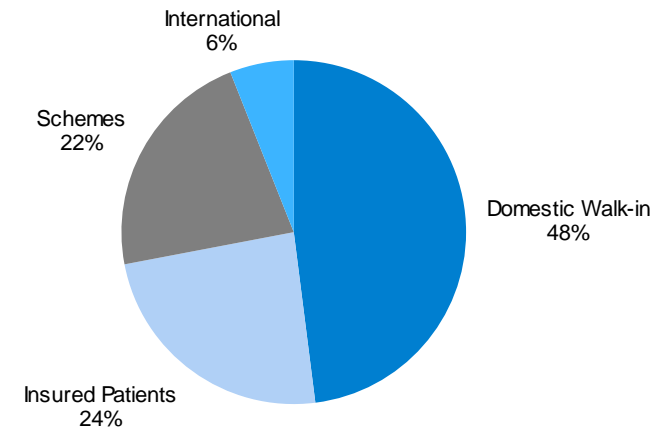
Source: Company, PL

Cluster wise Revenue (in %) – Karnataka and east are 73% of sales



Source: Company, PL

Payee Profile (in %) – Q3FY22- Domestic walk ins at 48% of sales



Source: Company, PL

Cayman - Key Financials – FY21 Margins up 1.7x since FY17

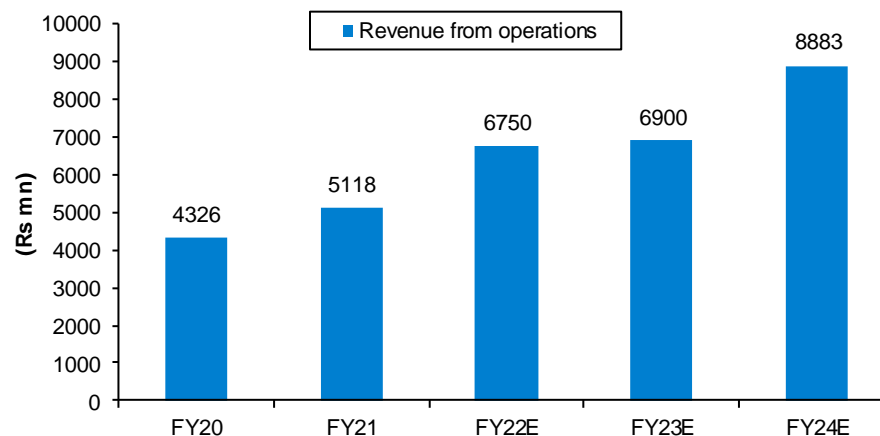
In US\$ mn	FY18	FY19	FY20	FY21
Revenue from operations	44.6	54.5	61.1	68.6
Cost of Material Consumed	8.4	10.7	12.1	11.4
Consumables	18.8%	19.7%	19.8%	16.5%
Gross Profit	36.2	43.8	49.0	57.2
Margin	81.2%	80.4%	80.2%	83.4%
Staff Cost (professional fees paid)	18.9	20.3	20.5	19.2
YoY growth		7.4%	1.0%	-6.3%
Other Expenses	12.8	14.0	13.5	12.1
YoY growth		9.4%	-3.6%	-10.4%
EBITDA	6.0	9.5	15.1	26.2
Margin	13.5%	17.4%	24.7%	38.2%
BS Financials				
Borrowings	32.0	31.1	28.2	23.1
Trade Payables	5.4	4.3	5.3	6
Gross Block	57	59.5	60	61
Trade Receivables	8.8	8.5	8.9	11.5
Inventories	3.8	3.9	2.9	3.2
Operating metrics				
Operational Bed	106	110	110	110
ARPOB (US\$ mn)	1.7	1.6	1.5	1.9
YoY growth		-5.9%	-6.3%	26.7%
In-Patients footfall	2,166	2,527	2,581	2,122
YoY growth		16.7%	2.1%	-17.8%
Out-Patients footfall	21,689	23,589	22,135	24,035
YoY growth		8.8%	-6.2%	8.6%
ALOS (in Days)	4.5	5	5.6	6.1

Source: Company, PL

Cayman profitability to sustain

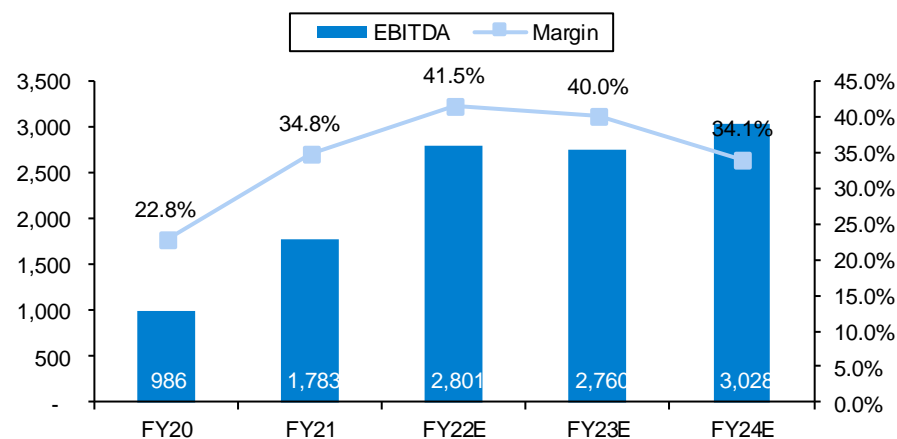
- Cayman profitability has seen sharp jump in FY21 with 74% YoY growth (USD terms) in EBIDTA. Wealthy patients, who usually go to the US, have visited NARH facilities during COVID due to lockdown and travel restrictions there. This has resulted in rise in high-end procedures, aiding in Cayman profitability.
- Company has opened standalone 3-4 primary clinics in Cayman which has also increased patient footfalls specially for some of OPD services.
- Company will be setting up new unit – which will be close to city center guided for USD80-100mn capex. The new facility should contribute meaningfully from FY24 onwards which will enhance Cayman profitability.
- Currently 85-90% of revenues across its existing unit comes from domestic population. Given unit offers quality services at prices which is 20-25% discount to some of neighboring island. Once new unit becomes operational, company will be in better position to attract medical tourism.
- Overall we expect 15% revenue CAGR growth over FY22-24E from Cayman, aided by commissioning of its radiotherapy center by end of FY23. We expect current 40% margins to sustain at existing unit.

Cayman revenue expansion on high-Networth patients & reimbursements



Source: Company, PL

Cayman – New Unit to increase EBIDTA but impact margins from FY24



Source: Company, PL

Segmental break up

- We expect steady growth in flagship hospital
- Losses from new hospital should come off as NCR units scale up
- Expect margin improvement in other mature hospitals as revenue scale up

Key business segments

Revenue (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Flagship hospitals	11,150	12,030	12,680	8,500	14,118	15,377	16,204
YoY growth %	na	7.9%	5.4%	-33.0%	66.1%	8.9%	5.4%
New Hospitals	1,058	1,828	2,638	2,420	3,510	4,347	5,023
YoY growth %	na	72.8%	44.3%	-8.2%	45.0%	23.8%	15.5%
Other mature hospitals	8,391	9,194	9,514	8,016	9,707	10,888	11,950
YoY growth %	na	9.6%	3.5%	-15.7%	21.1%	12.2%	9.8%
Cayman Island	2,877	3,817	4,326	5,118	6,750	6,900	8,883
YoY growth %	na	32.7%	13.3%	18.3%	31.9%	2.2%	28.7%
Others (Heart centres+Jammu)	1,423	1,740	2,121	1,770	2,152	2,295	2,419
YoY growth %	na	22.3%	21.9%	-16.5%	21.6%	6.7%	5.4%

EBITDA (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Flagship hospitals	3,093	3,445	3,721	670	3,299	4,284	4,746
Margin %	27.7%	28.6%	29.3%	7.9%	23.4%	27.9%	29.3%
New Hospitals	(405)	(703)	(580)	(424)	(133)	78	303
Margin %	-38.3%	-38.5%	-22.0%	-17.5%	-3.8%	1.8%	6.0%
Other mature hospitals	247	429	794	276	679	1,089	1,554
Margin %	2.9%	4.7%	8.3%	3.4%	7.0%	10.0%	13.0%
Cayman Island	387	671	986	1,783	2,801	2,760	3,028
Margin %	13.5%	17.6%	22.8%	34.8%	41.5%	40.0%	34.1%
Others (Heart centres+Jammu)	72	87	108	108	161	186	214
Margin %	5.0%	5.0%	5.1%	6.1%	7.5%	8.1%	8.8%

Source: Company, PL

Income Statement & Balance Sheet

Y/e Mar	FY21	FY22E	FY23E	FY24E	Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	25,823	36,986	39,807	44,479	Non-Current Assets				
YoY gr. (%)	(17.4)	43.2	7.6	11.7					
Cost of Goods Sold	6,779	8,877	9,554	10,675	Gross Block	29,386	32,846	38,861	40,861
Gross Profit	19,045	28,109	30,254	33,804	Tangibles	27,384	30,844	36,859	38,859
Margin (%)	73.8	76.0	76.0	76.0	Intangibles	2,002	2,002	2,002	2,002
Employee Cost	6,272	7,213	8,295	9,539	Acc: Dep / Amortization	10,358	12,230	14,233	16,376
Other Expenses	10,952	14,508	14,302	15,293	Tangibles	10,358	12,230	14,233	16,376
					Intangibles	-	-	-	-
EBITDA	1,821	6,389	7,657	8,972	Net fixed assets	19,028	20,616	24,628	24,485
YoY gr. (%)	(56.9)	250.9	19.8	17.2	Tangibles	17,026	18,614	22,626	22,482
Margin (%)	7.1	17.3	19.2	20.2	Intangibles	2,002	2,002	2,002	2,002
Depreciation and Amortization	1,835	1,872	2,003	2,143	Capital Work In Progress	199	199	199	199
					Goodwill	581	581	581	581
EBIT	(14)	4,517	5,654	6,829	Non-Current Investments	1,203	1,203	1,203	1,203
Margin (%)	(0.1)	12.2	14.2	15.4	Net Deferred tax assets	(112)	(112)	(112)	(112)
Net Interest	760	670	750	600	Other Non-Current Assets	-	-	-	-
Other Income	282	300	300	350					
					Current Assets				
Profit Before Tax	(492)	4,147	5,204	6,579	Investments	-	-	-	-
Margin (%)	(1.9)	11.2	13.1	14.8	Inventories	478	811	1,091	1,219
Total Tax	(418)	539	781	987	Trade receivables	2,785	3,344	3,599	4,021
Effective tax rate (%)	84.9	13.0	15.0	15.0	Cash & Bank Balance	1,321	1,676	1,391	4,491
					Other Current Assets	2,086	3,040	3,272	3,656
Profit after tax	(75)	3,608	4,424	5,592	Total Assets	27,700	31,488	35,982	39,873
Minority interest	-	-	-	-	Equity				
Share Profit from Associate	(68)	(40)	(40)	(40)	Equity Share Capital	2,044	2,044	2,044	2,044
					Other Equity	9,159	12,490	16,637	21,952
Adjusted PAT	(143)	3,568	4,384	5,552	Total Networth	11,203	14,534	18,680	23,995
YoY gr. (%)	(112.0)	(2,596.2)	22.9	26.7	Non-Current Liabilities				
Margin (%)	(0.6)	9.6	11.0	12.5	Long Term borrowings	5,253	5,253	5,253	3,253
Extra Ord. Income / (Exp)	-	-	-	-	Provisions	-	-	-	-
					Other non current liabilities	-	-	-	-
Reported PAT	(143)	3,568	4,384	5,552	Current Liabilities				
YoY gr. (%)	(112.0)	(2,596.2)	22.9	26.7	ST Debt / Current of LT Debt	4,103	4,560	4,908	5,484
Margin (%)	(0.6)	9.6	11.0	12.5	Trade payables	-	-	-	-
Other Comprehensive Income	-	-	-	-	Other current liabilities	4,927	4,927	4,927	4,927
Total Comprehensive Income	(143)	3,568	4,384	5,552	Total Equity & Liabilities	27,700	31,488	35,982	39,873
Equity Shares O/s (m)	204	204	204	204					
EPS (Rs)	(0.7)	17.5	21.5	27.2					

Cash Flow & Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	(492)	4,147	5,204	6,579
Add. Depreciation	1,835	1,872	2,003	2,143
Add. Interest	760	670	750	600
Less Financial Other Income	282	300	300	350
Add. Other	383	(40)	(40)	(40)
Op. profit before WC changes	2,486	6,649	7,917	9,282
Net Changes-WC	(78)	(1,388)	(419)	(358)
Direct tax	418	(539)	(781)	(987)
Net cash from Op. activities	2,825	4,722	6,718	7,937
Capital expenditures	(898)	(3,460)	(6,015)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	342	-	-	-
Net Cash from Invnt. activities	(556)	(3,460)	(6,015)	(2,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,920)	-	-	(2,000)
Dividend paid	-	(237)	(237)	(237)
Interest paid	(760)	(670)	(750)	(600)
Others	583	-	-	-
Net cash from Fin. activities	(2,097)	(907)	(987)	(2,837)
Net change in cash	173	355	(285)	3,100
Free Cash Flow	1,927	1,262	703	5,937

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	(0.7)	17.5	21.5	27.2
CEPS	8.3	26.6	31.3	37.7
BVPS	54.8	71.1	91.4	117.4
FCF	9.4	6.2	3.4	29.1
DPS	-	1.2	1.2	1.2
Return Ratio(%)				
RoCE	(0.1)	20.1	21.3	22.2
ROIC	(0.1)	15.2	16.3	19.3
RoE	(1.3)	27.7	26.4	26.0
Balance Sheet				
Net Debt : Equity (x)	0.7	0.6	0.5	0.2
Net Working Capital (Days)	-	-	-	-
Valuation(x)				
PER	(954.8)	38.3	31.1	24.6
P/B	12.2	9.4	7.3	5.7
P/CEPS	80.6	25.1	21.4	17.7
EV/EBITDA	79.4	22.6	19.0	15.7
EV/Sales	5.6	3.9	3.6	3.2
Dividend Yield (%)	-	0.2	0.2	0.2

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Hold	:	+5% to -5%
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Sell	:	< -15%
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