

December 2, 2024

## Event Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	620		500	
Sales (Rs. m)	49,435	58,142	49,198	57,186
% Chng.	0.5	1.7		
EBITDA (Rs. m)	9,917	11,923	9,861	11,928
% Chng.	0.6	-		
EPS (Rs.)	10.6	13.5	10.5	13.5
% Chng.	0.7	-		

### Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	36,990	42,201	49,435	58,142
EBITDA (Rs. m)	5,890	7,918	9,917	11,923
Margin (%)	15.9	18.8	20.1	20.5
PAT (Rs. m)	1,880	3,328	5,302	6,734
EPS (Rs.)	3.8	6.7	10.6	13.5
Gr. (%)	27.9	77.0	59.3	27.0
DPS (Rs.)	2.3	2.3	2.3	3.5
Yield (%)	0.5	0.5	0.5	0.7
RoE (%)	6.0	8.0	13.4	15.3
RoCE (%)	9.8	11.4	16.0	18.6
EV/Sales (x)	6.9	5.7	4.8	4.1
EV/EBITDA (x)	43.3	30.2	24.1	20.0
PE (x)	132.8	75.0	47.1	37.1
P/BV (x)	5.5	6.7	6.0	5.4

### Key Data ATRD.BO | ASTERDM IN

52-W High / Low	Rs.510 / Rs.257
Sensex / Nifty	79,803 / 24,131
Market Cap	Rs.250bn/ \$ 2,956m
Shares Outstanding	500m
3M Avg. Daily Value	Rs.682.17m

### Shareholding Pattern (%)

Promoter's	41.88
Foreign	23.86
Domestic Institution	21.21
Public & Others	13.05
Promoter Pledge (Rs bn)	103.41

### Stock Performance (%)

	1M	6M	12M
Absolute	16.1	36.9	64.2
Relative	16.9	27.8	37.6

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## Getting bigger

**ASTER DM Healthcare (ASTERDM) board has approved merger with Quality care that makes them third largest healthcare chain by revenue and bed capacity in India. The deal was transacted at swap ratio of 57.3: 42.7 in favor of Aster shareholders. We believe transaction was done at 26% premium from ASTERDM relative to Quality Care despite similar pre IND AS EBITDA adjusted for minority based on FY25E, which is justified and done at fair value in our view given higher growth profile for AsterDM.**

**Our back of envelope calculation suggest ~Rs20bn EBITDA in FY27E vs Rs10.8bn in FY24 for combined entity adjusted for rental and minority. This implies 24% EBITDA CAGR over FY24-27E. The combined entity is trading at 21.5x EV/EBITDA on FY27E which is still at 10-20% discount to some of peers, which is unwarranted given higher growth profile, backing of marquee PE investors like Blackstone and combined entity scale of operations. We maintain our Buy rating with revised TP of Rs620/share, valuing 27x EV/EBITDA for combined entity.**

- Contours of the transactions:** AsterDM's board has approved a two-step merger with Quality Care India Limited (QCIL). First, AsterDM will acquire a 5% stake in QCIL from Blackstone and TPG in exchange for a 3.6% stake in AsterDM. Subsequently, QCIL will be merged into AsterDM through a scheme of amalgamation. The transaction is expected to close by Q3FY26, subject to approvals from SEBI, Shareholders, NCLT and CCI.
- AsterDM valuations at 26% premium as compared to QCIL on FY25E:** The transaction have been done at combined equity value of ~Rs400bn with swap ratio of 57.3 / 42.7 in favor of Aster shareholders. Based on our FY25E, transaction has been done at 33.5x Aster pre IND AS post minority EV/EBITDA while QCIL pre IND AS adjusted for minority stands at 26.6x EV/EBITDA. Combined entity will have minority of 15% with rental of Rs1.5bn.
- Combined entity shares at 870mn:** Post-transaction, AsterDM's outstanding shares will increase from 500mn to ~870mn shares. In merged entity, Aster promoters will own 24% stake, Blackstone will own 30.7%. As per media, Blackstone had invested Rs99bn for its stake in Care Hopsitals, KIMSHEALTH and Evercare in 2023. Based on AsterDM CMP, Blackstone value stands at Rs133bn, implying 30% return made in last 12-15 months.
- Merged entity with a strong operating metrics:** The merged entity will emerge as one of India's top three healthcare chains by revenue and bed capacity. The company will have bed capacity of 10,150 beds with a presence across 9 states and 25 cities in India. The Combined entity will have revenues of Rs73bn and EBITDA of Rs14bn with occupancy at 65% and ARPOB at Rs. 39,100 per day. Payor mix will stand at 82% cash + insurance while key therapies contributes 52%. Net cash of Rs560mn as of Q2FY25
- Bed expansion plan of ~3,521 over FY24-27E:** The merged entity aims to expand its bed capacity by ~3,521 to 13,273 beds by FY27 through a combination of brownfield and greenfield expansions. Both AsterDM and QCIL plan to add 1,900 and 1,600 beds, respectively. Of total bed expansion, 65% will be through brownfield in nature which will be margin accretive. AsterDM currently holds a cash balance of Rs10bn, sufficient to fund its expansion plans, while QCIL's capex requirements can be comfortably met through internal accruals.

## Conference Call Highlights

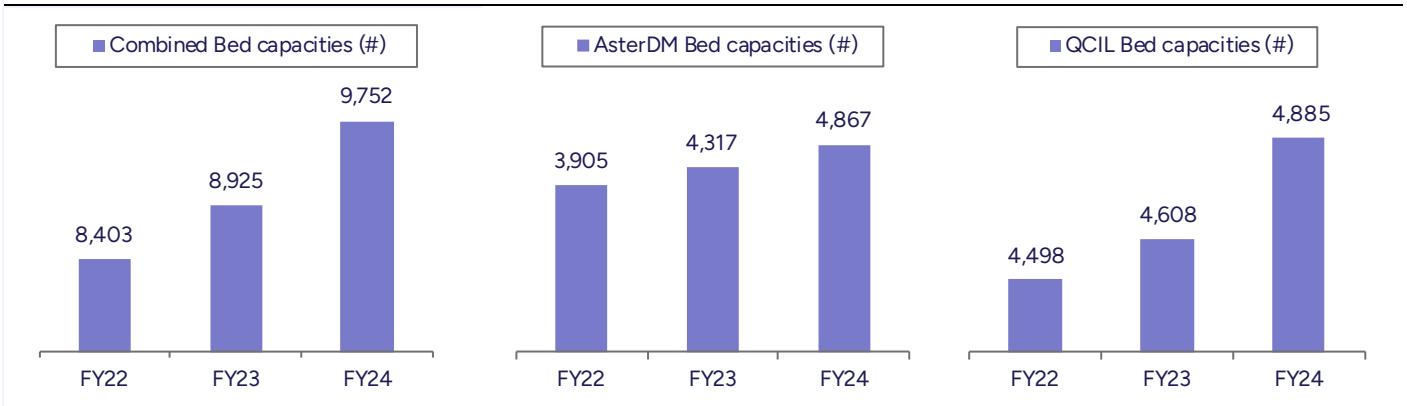
- Aster DM Quality Care Limited, A consortium of four leading healthcare brands: Aster DM, CARE Hospitals, KIMSHEALTH, and Evercare with presence in 27 cities across India and Bangladesh.
- The merged listed entity will be named Aster DM Quality Care Limited
- The merger is projected to be EPS accretive from the first full year of operations post-merger.
- Dr. Azad Moopen will retain his position as Executive Chairman and will oversee the merged entity. Mr. Varun Khanna, currently the Group Managing Director of Quality Care, will assume the role of Managing Director and Group CEO of the merged entity.
- AsterDM's promoters and Blackstone will have equal representation on the board of the merged entity, ensuring joint control. Additionally, independent directors will constitute 50% of the board.
- The Company plans to strategically expand its footprint into four new states: Madhya Pradesh, Chhattisgarh, Odisha, and Tamil Nadu which will bolster the Company's market presence, particularly in the South and Central Indian regions.
- **Margin guidance** - Management guided synergies to have a near-term EBITDA upside potential of 10-15% arising due synergies from optimizing material and manpower costs, as well as improving ARPOB through a better clinical mix. Over the next 3-4 years, the Company aims to further enhance margins to 24-25%.
- QCIL has a strong foothold in cardiology and is strategically expanding its focus into oncology to drive higher ARPOB. The Company plans to leverage its superior talent acquisition capabilities, advanced technology, and robust infrastructure to attract a larger patient base and increase occupancy rates. Recently, QCIL inaugurated its second state-of-the-art LINAC in Trivandrum to further bolster its oncology services and contribute to higher ARPOB.
- QCIL has ambitious expansion plans for its flagship hospitals in Banjara, Trivandrum, Bhubaneswar, Vizag, Hyderabad, Chattogram, and Indore. Additionally, QCIL's Bangladesh unit, currently operating at 78% occupancy, is poised for further expansion.
- QCIL's established units in Indore, Hyderabad, Aurangabad, Trivandrum, and Raipur are well-positioned for brownfield expansion and are expected to achieve breakeven within a year. Conversely, the newer units in Bhubaneswar, Vizag, Chattogram, and Nagercoil are currently in their ramp-up phase.
- QCIL's EBITDA is primarily driven by Trivandrum and Hyderabad, contributing 45-49%, followed by Kim's Kerala at 35%. The balance is contributed by the Bangladesh unit. Additionally, FY25 business operations were not impacted by unrest in Bangladesh.
- Rentals at QCIL stands at Rs440mn for FY24.

**Exhibit 1: Aster DM Quality Care Pro forma financials**

Y/e March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY24-27E CAGR (%)
Revenues	53510	61830	73140	82265	97171	117064	17.0
Post IND AS EBITDA	9720	11580	13960	16180	20633	25983	23.0
OPM (%)	18.2	18.7	19.1	19.7	21.2	22.2	
Rental	1080	1220	1370	1550	1843	2268	
Pre IND AS EBITDA	8640	10360	12590	14630	18790	23715	23.5
Pre IND AS OPM (%)	16.1	16.8	17.2	17.8	19.3	20.3	
Pre IND AS EBITDA Post minority	7344	8806	10702	12435	15971	20158	23.5
Diluted no of shares	870.8						
CMP	500						
Mkt cap	435415						
Net debt	0						
EV	435415						
EV/EBITDA	59.3	49.4	40.7	35.0	27.3	21.6	

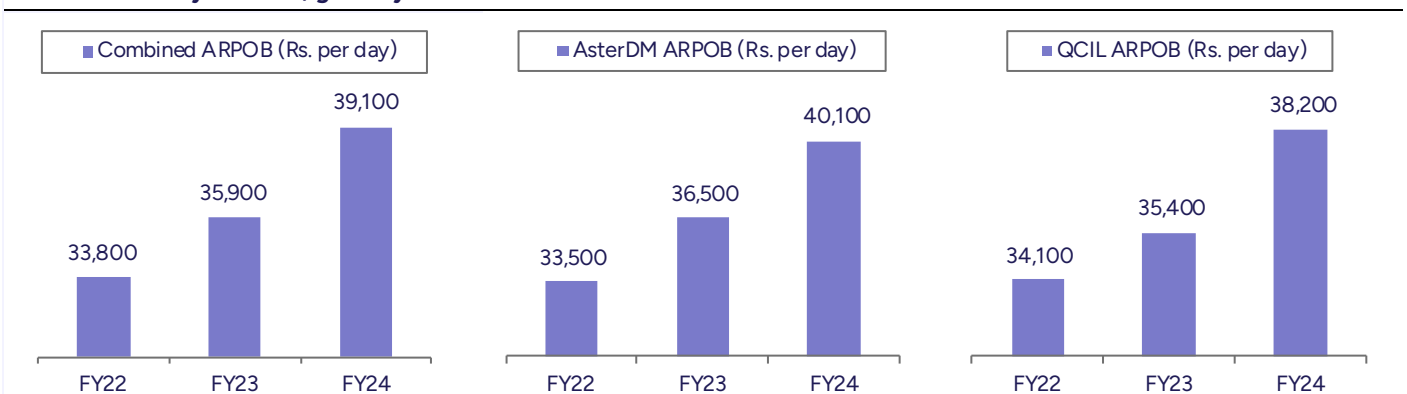
Source: Company, PL

**Exhibit 2: Combined entity will be second largest hospital chain in India in terms of bed capacity**



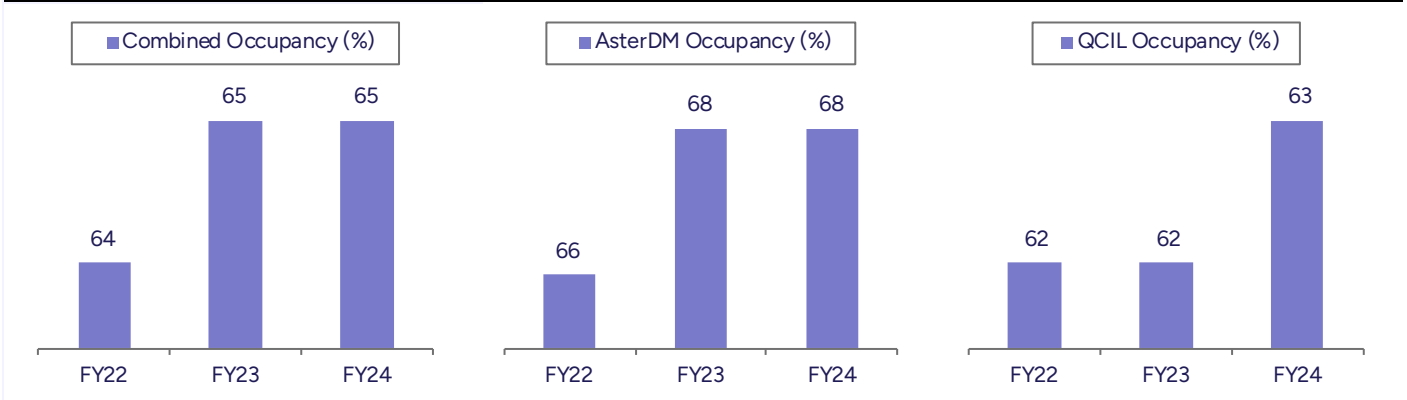
Source: Company, PL

**Exhibit 3: Healthy ARPOBs; grew by 8% CAGR over FY22-24**



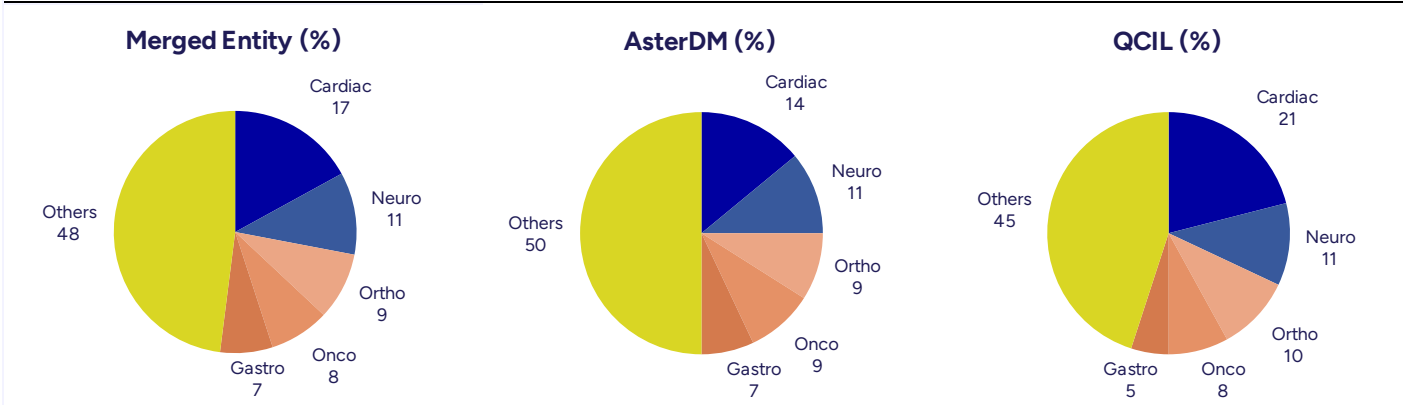
Source: Company, PL

**Exhibit 4: Scope of occupancy to improve for combined entity**



Source: Company, PL

**Exhibit 5: Top 5 therapies contributes 52% for combined entity**



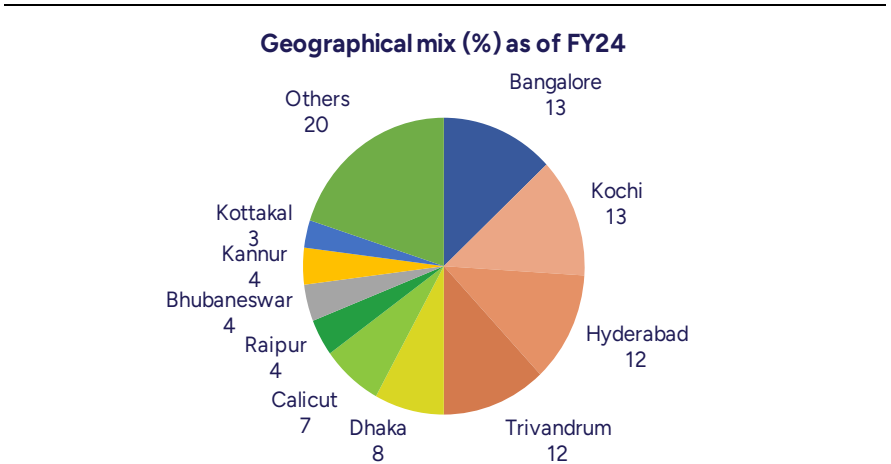
Source: Company, PL

**Exhibit 6: 35% new bed addition over FY24-27E for AsterDM + QCIL**

Bed Expansion plan	FY25	FY26	FY27	Total bed addition by FY27E
Beds addition (#)	807	971	1,743	3,521
Brownfield beds addition (#)	596	407	1289	2,292
Greenfield beds addition (#)	211	564	454	1,229

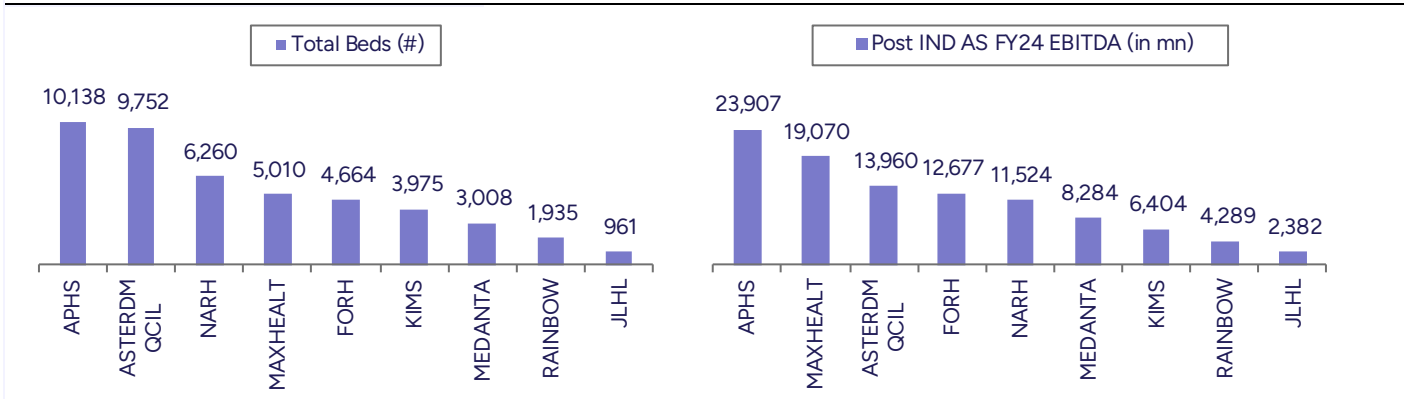
Source: Company, PL

**Exhibit 7: 65% of beds in South India for combined entity**



Source: Company, PL

**Exhibit 8: Combined entity will be second largest in terms of Bed capacity and third largest in terms of EBITDA**



Source: Company, PL

**Exhibit 9: AsterDM Quality care EBITDA growth is one of best among peers**

Peer Comparison	EV/EBITDA		Pre IND AS EBITDA CAGR (%) FY24-27E
	FY26E	FY27E	
Apollo Hospitals Enterprise Ltd	26.9	22.0	15.8
AsterDM Quality Care	27.3	21.6	23.5
Fortis Healthcare	28.7	24.5	20.9
Krishna Institute of Medical Sciences Ltd	29.9	23.9	23.1
Max Healthcare Institute	33.8	26.8	25.0
Narayana Hrudayalaya (NARH)	18.4	15.8	14.0
Jupiter Life line hospitals	26.6	23.1	20.9
Rainbow Childrens Medicare	31.3	26.1	18.7
Global Health Ltd (Medanta)	28.5	23.5	13.0

Source: Company, PL- Note APHS EBITDA growth is only hospitals

## Financials

### Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Net Revenues</b>	<b>36,990</b>	<b>42,201</b>	<b>49,435</b>	<b>58,142</b>
YoY gr. (%)	24.0	14.1	17.1	17.6
Cost of Goods Sold	9,160	10,339	11,864	13,954
Gross Profit	27,830	31,862	37,570	44,188
Margin (%)	75.2	75.5	76.0	76.0
Employee Cost	6,660	7,526	8,504	9,610
Other Expenses	15,280	16,418	19,149	22,656
<b>EBITDA</b>	<b>5,890</b>	<b>7,918</b>	<b>9,917</b>	<b>11,923</b>
YoY gr. (%)	30.0	34.4	25.3	20.2
Margin (%)	15.9	18.8	20.1	20.5
Depreciation and Amortization	2,220	2,398	2,589	2,797
<b>EBIT</b>	<b>3,670</b>	<b>5,520</b>	<b>7,328</b>	<b>9,126</b>
Margin (%)	9.9	13.1	14.8	15.7
Net Interest	1,110	1,200	1,000	900
Other Income	250	1,250	1,600	1,800
<b>Profit Before Tax</b>	<b>2,810</b>	<b>5,570</b>	<b>7,928</b>	<b>10,026</b>
Margin (%)	7.6	13.2	16.0	17.2
Total Tax	50	1,671	1,982	2,507
Effective tax rate (%)	1.8	30.0	25.0	25.0
<b>Profit after tax</b>	<b>2,760</b>	<b>3,899</b>	<b>5,946</b>	<b>7,520</b>
Minority interest	250	341	524	666
Share Profit from Associate	(110)	(110)	(120)	(120)
<b>Adjusted PAT</b>	<b>1,880</b>	<b>3,328</b>	<b>5,302</b>	<b>6,734</b>
YoY gr. (%)	27.9	77.0	59.3	27.0
Margin (%)	5.1	7.9	10.7	11.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,880</b>	<b>3,328</b>	<b>5,302</b>	<b>6,734</b>
YoY gr. (%)	27.9	77.0	59.3	27.0
Margin (%)	5.1	7.9	10.7	11.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,880	3,328	5,302	6,734
<b>Equity Shares O/s (m)</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>
<b>EPS (Rs)</b>	<b>3.8</b>	<b>6.7</b>	<b>10.6</b>	<b>13.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>23,035</b>	<b>27,357</b>	<b>31,665</b>	<b>35,958</b>
Tangibles	23,035	27,357	31,665	35,958
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>23,035</b>	<b>27,357</b>	<b>31,665</b>	<b>35,958</b>
Tangibles	23,035	27,357	31,665	35,958
Intangibles	-	-	-	-
Capital Work In Progress	1,701	1,701	1,701	1,701
Goodwill	2,641	2,641	2,641	2,641
Non-Current Investments	170	170	170	170
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	11,401	17,933	17,933	17,933
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	1,105	1,272	1,490	1,752
Trade receivables	2,334	2,775	3,250	3,823
Cash & Bank Balance	1,526	17,624	16,291	15,747
Other Current Assets	1,36,001	-	-	-
<b>Total Assets</b>	<b>1,79,913</b>	<b>71,473</b>	<b>75,142</b>	<b>79,726</b>
<b>Equity</b>				
Equity Share Capital	5,000	5,000	5,000	5,000
Other Equity	40,603	32,575	36,521	41,221
<b>Total Networkth</b>	<b>45,603</b>	<b>37,575</b>	<b>41,521</b>	<b>46,221</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,693	6,693	5,693	4,693
Provisions	-	-	-	-
Other non current liabilities	5,029	5,830	5,830	5,830
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,587	4,587	4,587	4,587
Other current liabilities	1,13,298	15,128	15,326	15,545
<b>Total Equity &amp; Liabilities</b>	<b>1,79,913</b>	<b>71,474</b>	<b>75,142</b>	<b>79,726</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	2,810	5,570	7,928	10,026
Add. Depreciation	2,220	2,398	2,589	2,797
Add. Interest	1,110	1,200	1,000	900
Less Financial Other Income	250	1,250	1,600	1,800
Add. Other	-	(110)	(120)	(120)
Op. profit before WC changes	6,140	9,058	11,397	13,603
Net Changes-WC	223	(1,400)	(495)	(617)
Direct tax	(320)	(1,671)	(1,982)	(2,507)
<b>Net cash from Op. activities</b>	<b>6,043</b>	<b>5,987</b>	<b>8,920</b>	<b>10,480</b>
Capital expenditures	(3,023)	(4,500)	(4,500)	(4,500)
Interest / Dividend Income	13	-	-	-
Others	(1,272)	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(4,282)</b>	<b>(4,500)</b>	<b>(4,500)</b>	<b>(4,500)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	723	-	(1,000)	(1,000)
Dividend paid	(1,356)	(61,106)	(1,356)	(2,034)
Interest paid	(1,110)	(1,200)	(1,000)	(900)
Others	573	76,918	(2,397)	(2,590)
<b>Net cash from Fin. activities</b>	<b>(1,170)</b>	<b>14,612</b>	<b>(5,753)</b>	<b>(6,524)</b>
<b>Net change in cash</b>	<b>591</b>	<b>16,099</b>	<b>(1,333)</b>	<b>(544)</b>
Free Cash Flow	2,638	1,487	4,420	5,980

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Per Share(Rs)</b>				
EPS	3.8	6.7	10.6	13.5
CEPS	8.2	11.5	15.8	19.1
BVPS	91.2	75.2	83.0	92.4
FCF	5.3	3.0	8.8	12.0
DPS	2.3	2.3	2.3	3.5
<b>Return Ratio(%)</b>				
RoCE	9.8	11.4	16.0	18.6
ROIC	2.1	10.3	12.5	14.3
RoE	6.0	8.0	13.4	15.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	(0.3)	(0.3)	(0.2)
Net Working Capital (Days)	(11)	(5)	1	6
<b>Valuation(x)</b>				
PER	132.8	75.0	47.1	37.1
P/B	5.5	6.7	6.0	5.4
P/CEPS	61.0	43.7	31.7	26.2
EV/EBITDA	43.3	30.2	24.1	20.0
EV/Sales	6.9	5.7	4.8	4.1
Dividend Yield (%)	0.5	0.5	0.5	0.7

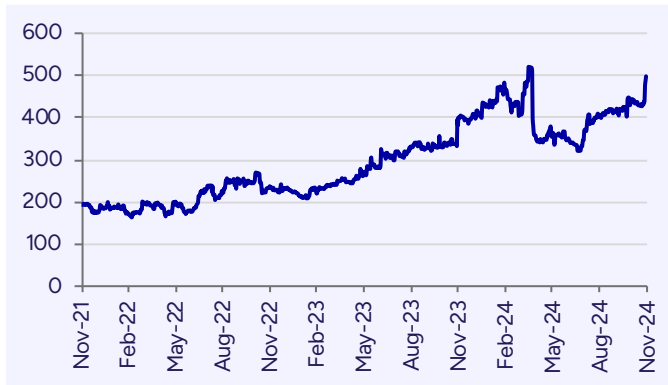
Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
<b>Net Revenue</b>	<b>9,547</b>	<b>9,736</b>	<b>10,019</b>	<b>10,864</b>
YoY gr. (%)	-	20.7	19.1	16.3
Raw Material Expenses	2,292	2,318	2,286	2,375
Gross Profit	7,255	7,418	7,733	8,490
Margin (%)	76.0	76.2	77.2	78.1
<b>EBITDA</b>	<b>1,517</b>	<b>1,583</b>	<b>1,659</b>	<b>2,227</b>
YoY gr. (%)	-	27.7	33.9	50.5
Margin (%)	15.9	16.3	16.6	20.5
Depreciation / Depletion	565	584	604	623
<b>EBIT</b>	<b>952</b>	<b>1,000</b>	<b>1,055</b>	<b>1,605</b>
Margin (%)	10.0	10.3	10.5	14.8
Net Interest	253	299	292	315
Other Income	92	41	487	352
<b>Profit before Tax</b>	<b>791</b>	<b>742</b>	<b>1,251</b>	<b>1,642</b>
Margin (%)	8.3	7.6	12.5	15.1
Total Tax	112	306	390	529
Effective tax rate (%)	14.2	41.2	31.2	32.2
<b>Profit after Tax</b>	<b>679</b>	<b>436</b>	<b>861</b>	<b>1,113</b>
Minority interest	70	90	70	89
Share Profit from Associates	(25)	(29)	(27)	(26)
<b>Adjusted PAT</b>	<b>584</b>	<b>878</b>	<b>734</b>	<b>968</b>
YoY gr. (%)	-	78.1	70.7	94.2
Margin (%)	6.1	9.0	7.3	8.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>584</b>	<b>878</b>	<b>734</b>	<b>968</b>
YoY gr. (%)	-	78.1	70.7	94.2
Margin (%)	6.1	9.0	7.3	8.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>584</b>	<b>878</b>	<b>734</b>	<b>968</b>
Avg. Shares O/s (m)	500	500	500	500
<b>EPS (Rs)</b>	<b>1.2</b>	<b>1.8</b>	<b>1.5</b>	<b>1.9</b>

Source: Company Data, PL Research

**Price Chart**



**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	24-Oct-24	BUY	500	443
2	07-Oct-24	BUY	400	412
3	01-Aug-24	BUY	400	368
4	08-Jul-24	BUY	400	340
5	30-May-24	BUY	400	365
6	08-Apr-24	BUY	515	457
7	02-Apr-24	BUY	515	408
8	12-Feb-24	BUY	500	440
9	08-Jan-24	BUY	430	417

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,000	7,410
2	Aster DM Healthcare	BUY	500	443
3	Aurobindo Pharma	Accumulate	1,475	1,286
4	Cipla	BUY	1,730	1,493
5	Divi's Laboratories	Accumulate	6,000	5,950
6	Dr. Reddy's Laboratories	Reduce	1,335	1,272
7	Eris Lifesciences	BUY	1,420	1,292
8	Fortis Healthcare	BUY	710	621
9	HealthCare Global Enterprises	BUY	535	469
10	Indoco Remedies	Accumulate	320	315
11	Ipca Laboratories	Accumulate	1,700	1,537
12	J.B. Chemicals & Pharmaceuticals	BUY	2,250	1,860
13	Jupiter Life Line Hospitals	BUY	1,660	1,482
14	Krishna Institute of Medical Sciences	BUY	675	563
15	Lupin	BUY	2,420	2,105
16	Max Healthcare Institute	BUY	1,200	1,073
17	Narayana Hrudayalaya	BUY	1,420	1,196
18	Sun Pharmaceutical Industries	BUY	2,100	1,903
19	Sunteck Realty	BUY	670	490
20	Torrent Pharmaceuticals	Accumulate	3,600	3,433
21	Zydus Lifesciences	Accumulate	1,050	949

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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