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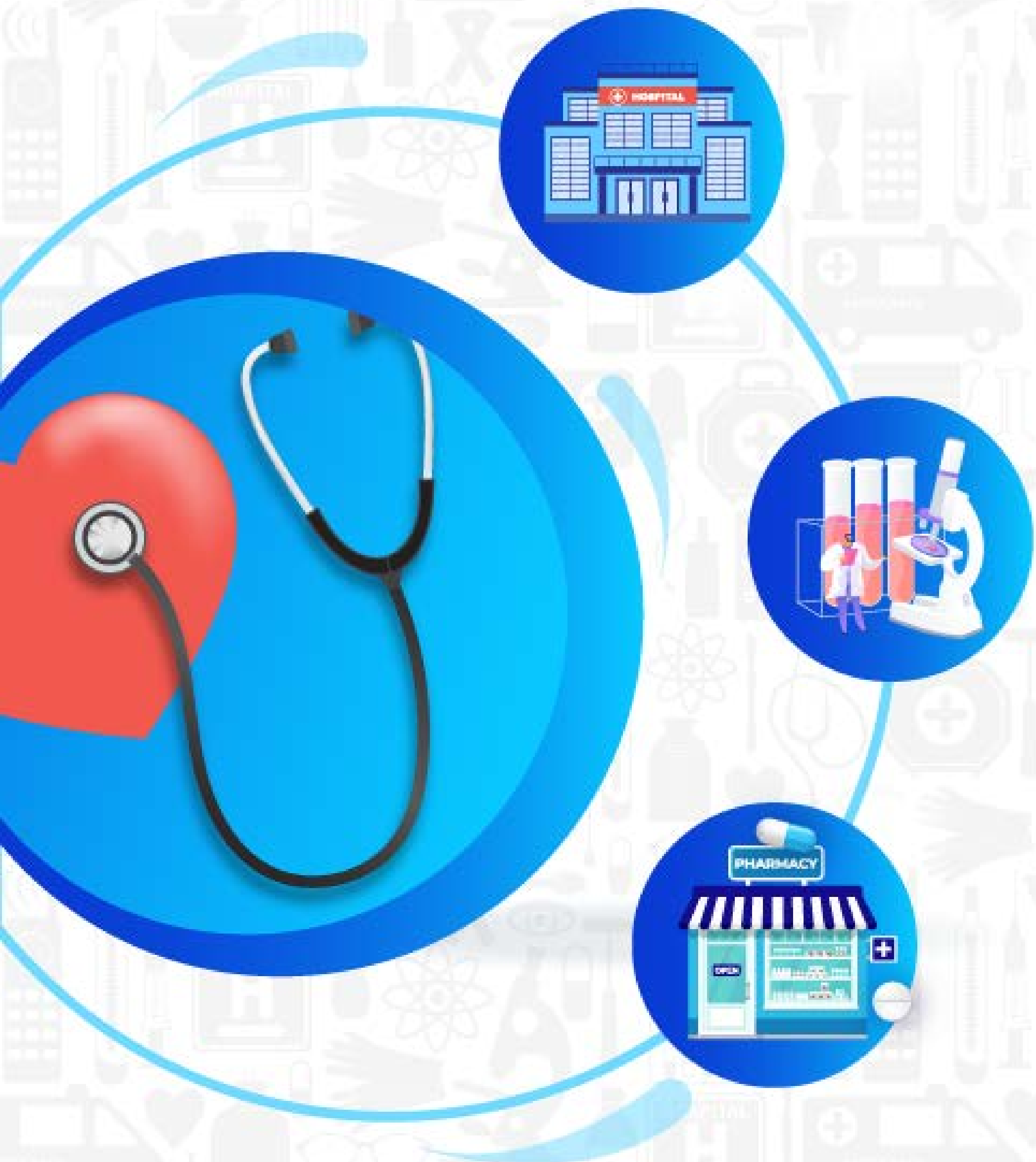
Initiating Coverage
India Healthcare



INSTITUTIONAL RESEARCH

Healthcare

Healthcare: strong position, long runway for growth

India's healthcare sector is poised for growth, with an expected steady 11-12% CAGR over the next five years, led by favourable macroeconomic factors such as healthcare infrastructure and a structural shift towards an organised market. Within this healthcare landscape: (1) the hospital segment has already undergone the CAPEX phase (added bed capacity over FY14-19). It is now in the execution phase, focusing on improving occupancy and ARPOB^, translating into a better margin. Going ahead, bed expansion and improving operating metrics will support growth/margins. (2) The Indian diagnostics market is in the recovery phase post-COVID and it is expected to see an 8-9% CAGR over the next four years. This growth will be led by volumes, price hikes in select tests, expansion of wellness services, and geographical expansion. Increasing competition and steep discounts from online peers are key challenges. (3) Retail pharmacy is poised for strong growth with an increasing market share of organised players. We are initiating coverage with a BUY rating for APHS (TP of INR 7,030) and MEDPLUS (TP of INR 850), and an ADD rating for MAXHEALTH (TP of INR 900), DLPL (TP of INR 2,700), and METROHL (TP of INR 2,010). The near-term concern persists regarding the blanket price implementation as per the Clinical Establishment Act (CEA), which may impact profitability and the CAPEX cycle.

- **India hospitals to see secular growth:** The focus shift from capex to execution phase over the last 3-4 years has led to better margin and return ratios. Going ahead, the strategic bed addition plan (targeting metro and tier 1 towns), the focus on improving occupancy, and ARPOB growth, led by better case and payor mix and cost measures will improve profitability.
- **Visible recovery in diagnostics:** After three exciting phases in the past decade for leading companies, i.e. strong growth in FY12-17, steady in FY17-20 and high COVID-led growth in FY21-22, we expect growth to normalise to 12-13% over FY23-26E on the back of geographical expansion, steady shift towards the organised sector, focus on acute illness, wellness scale-up, and select price hikes. Strong OCF/FCF and the uptick in the margin are positives.
- **Strong growth visibility in retail pharmacy:** Retail pharmacy is well-placed to see strong growth with increasing share for organised players, led by store network expansion. Going ahead, we see private label pick-up and continued store expansion to help maintain strong growth and margin improvement.
- **Outlook and valuation:** We expect a steady growth trajectory and margin improvement, which provides a positive outlook for the healthcare sector. We initiate coverage with a BUY for (1) APHS, given its steady growth (M&As, expansion) and margin improvement and (2) MEDPLUS, given strong growth and margin improvement visibility. We recommend ADD for (1) MAXHEALTH, given growth visibility; (2) DLPL, on growth recovery and steady margin; and (3) METROHL, given steady growth visibility but near-term margin pressure due to expansion.

Coverage snapshot

YE March (INR bn)	Rec.	TP (INR/share)	EPS/EBITDA^ CAGR FY24-26E	PE (x)		EV/ EBITDA (x)	
				FY25E	FY26E	FY25E	FY26E
APHS^	BUY	7,030	29	61.5	42.1	28.5	22.1
MAXHEALTH^	ADD	900	28	48.2	36.1	33.7	26.0
DLPL	ADD	2,700	15	50.4	43.9	26.5	27.9
METROHL	ADD	2,010	30	54.3	42.3	28.5	23.9
MEDPLUS^	BUY	850	33	75.6	41.9	19.6	14.6

Source: Companies, HSIE Research, Note: ^ Average revenue per occupied bed

YE March	Rec.	TP (INR/share)
APHS	BUY	7,030
MAXHEALTH	ADD	900
DLPL	ADD	2,700
METROHL	ADD	2,010
MEDPLUS	BUY	850

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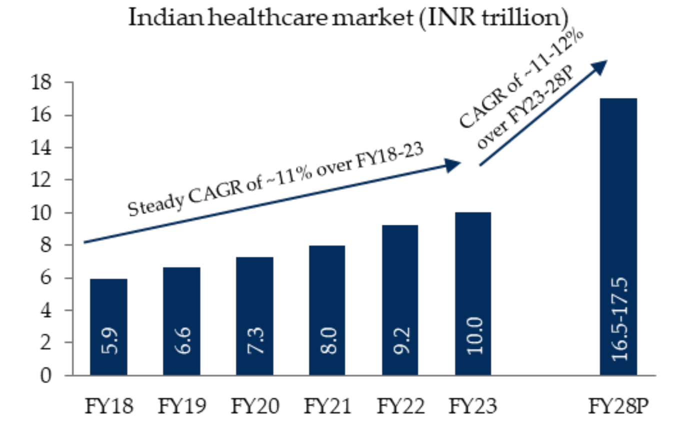
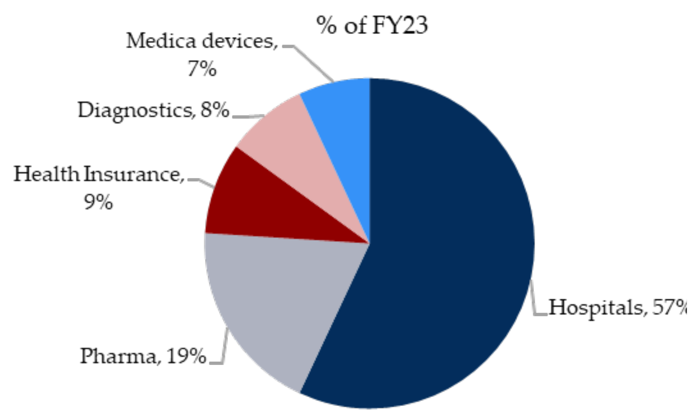
Key charts: Healthcare industry growth supported by key macro drivers

Exhibit 1: Steady growth in India healthcare market (11-12% CAGR expected over the next few years)



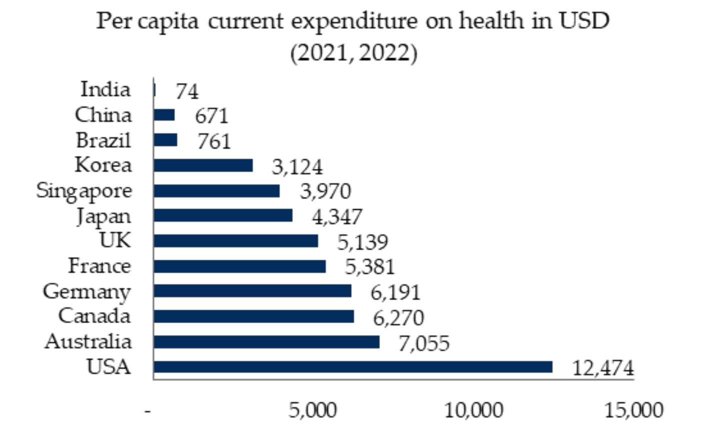
Source: Entero Healthcare RHP, Industry, CRISIL MI&A Research.

Exhibit 2: India healthcare market break-up



Source: Entero Healthcare RHP, Industry, CRISIL MI&A Research

Exhibit 3: India spends too little on healthcare



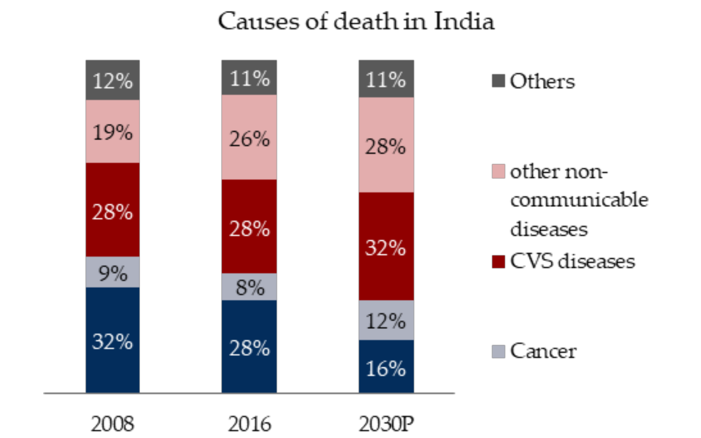
Source: GPT Healthcare RHP, Global Health Expenditure Database accessed in January 2024, CRISIL MI&A.

Exhibit 4: India lacks healthcare infrastructure compared to globe

Country	Hospital beds (per 10,000 population)	Country	Physicians (per 10,000 population)
Russia	71	Russia	38
China	43	US	36
USA	29	UK	32
Vietnam	26	China	24
UK	25	Malaysia	21
Brazil	21	Brazil	21
Malaysia	19	Nepal	9
India	**15**	Thailand	9
Bangladesh	8	Indonesia	7
		India	**7**

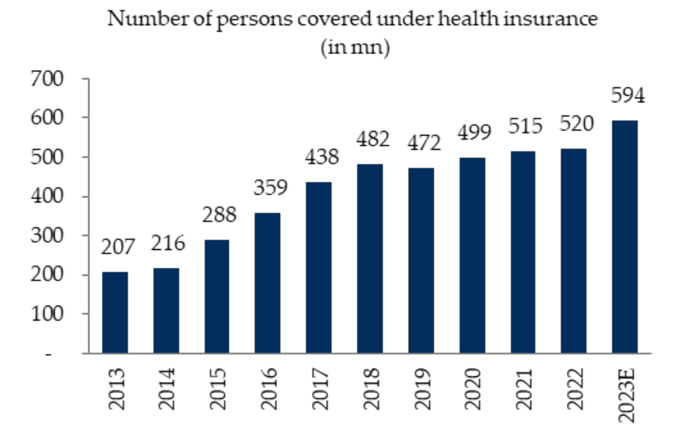
Source: GPT Healthcare RHP, World Health Organization Database, CRISIL MI&A.

Exhibit 5: Increasing disease burden towards NCDs



Source: Jupiter Hospital RHP, WHO global burden of disease, India: Health of the Nation's States, CRISIL MI&A Research

Exhibit 6: Increasing insurance coverage



Source: Medi assist RHP, IRDAI

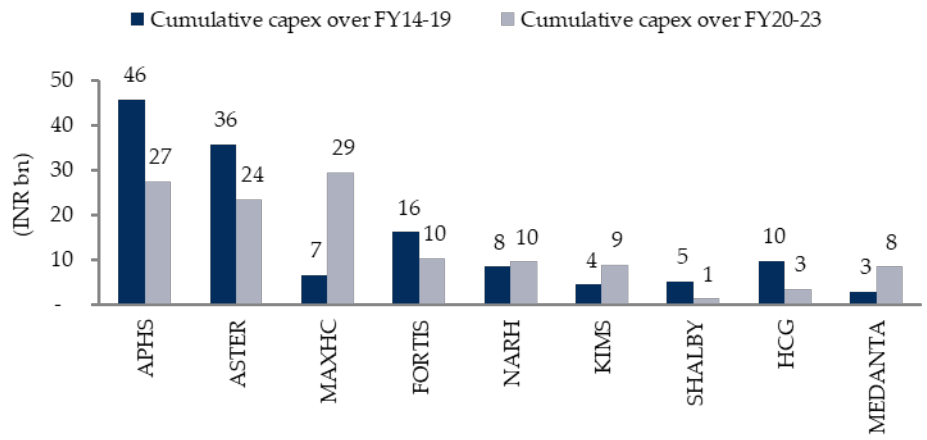
Key charts: Hospital companies, improving operating metrics

Exhibit 7: Steady growth visibility in Indian healthcare delivery market

	FY15	FY18	FY23	FY24P	FY28P	CAGR over FY18-23	CAGR over FY23-28P
IPD	1.4	1.8	4.0	4.5	6.7	17%	11%
OPD	0.8	1.1	1.7	1.8	2.5	9%	8%
India healthcare delivery market (INR bn)	2.2	2.9	5.7	6.3	9.2	14%	10%
% of total healthcare delivery							
IPD	64%	62%	70%	71%			
OPD	36%	38%	30%	29%			
India healthcare delivery market	100%	100%	100%	100%			

Source: GPT Healthcare and KIMS hospital RHP

Exhibit 8: Capex moderation in last few years



Source: Companies, HSIE Research, Bloomberg. Note: Max Healthcare and Medanta from FY17 and FY19 onwards

Exhibit 9: Steady growth in ARPOB

ARPOB (Rs/day)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR FY17-23	9MFY24
APHS	31,377	31,967	34,226	37,397	40,214	45,327	51,668	9%	57,173
ASTER	15,409	25,700	26,100	27,700	30,100	33,500	36,500	15%	39,250
MAXHC	41,892	43,946	46,400	51,100	50,800	58,500	67,400	8%	75,400
FORTIS	39,178	40,822	41,370	43,438	43,288	49,315	55,068	6%	60,274
KIMS	18,807	18,807	18,334	18,307	20,609	25,323	29,946	8%	31,186
SHALBY	32,671	31,564	31,296	30,457	27,400	31,347	34,842	1%	37,300
HCG	29,122	30,832	31,423	32,767	32,632	37,841	38,042	5%	41,500
MEDANTA	NA	NA	NA	50,166	47,731	54,547	59,098	6%	61,515

Source: Companies, HSIE Research. Note: Medanta CAGR over FY20-23

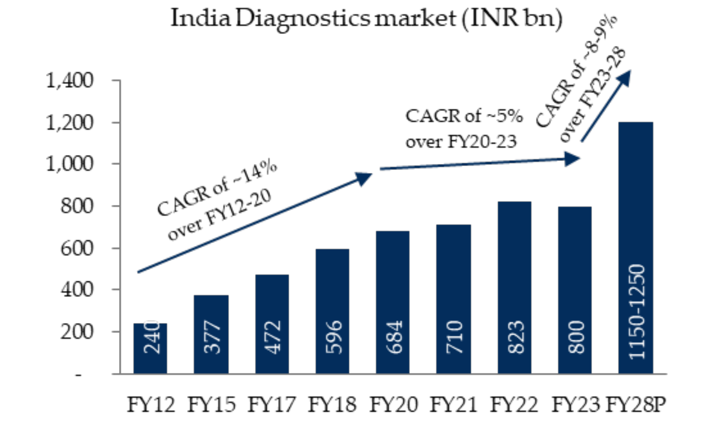
Exhibit 10: Occupancy improving post-COVID impact in FY21

Occupancy %	FY17	FY18	FY19	FY20	FY21	FY22	FY23	9MFY24
APHS	64%	66%	68%	67%	55%	63%	64%	65%
ASTER	60%	65%	63%	61%	56%	66%	68%	68%
MAXHC	72%	73%	68%	73%	65%	75%	76%	75%
FORTIS	75%	70%	67%	69%	55%	63%	67%	64%
KIMS	51%	51%	49%	56%	79%	80%	69%	73%
SHALBY	35%	29%	37%	38%	36%	46%	46%	47%
HCG	45%	47%	44%	43%	48%	58%	65%	57%
MEDANTA	NA	NA	NA	55%	52%	62%	59%	62%

Source: Companies, HSIE Research

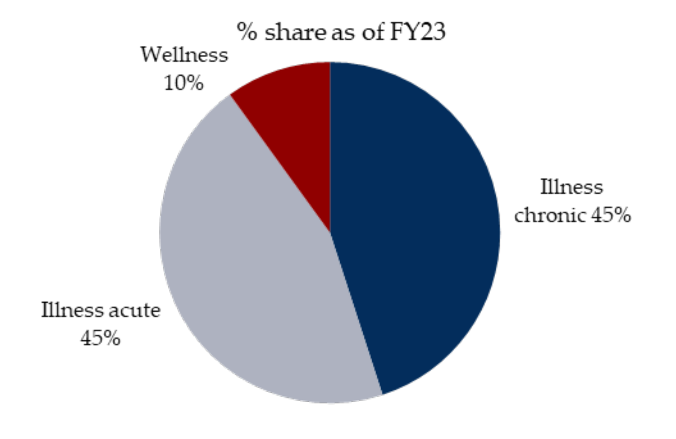
Key charts: Diagnostics to see steady growth despite online competition

Exhibit 11: Indian diagnostic market growth trend



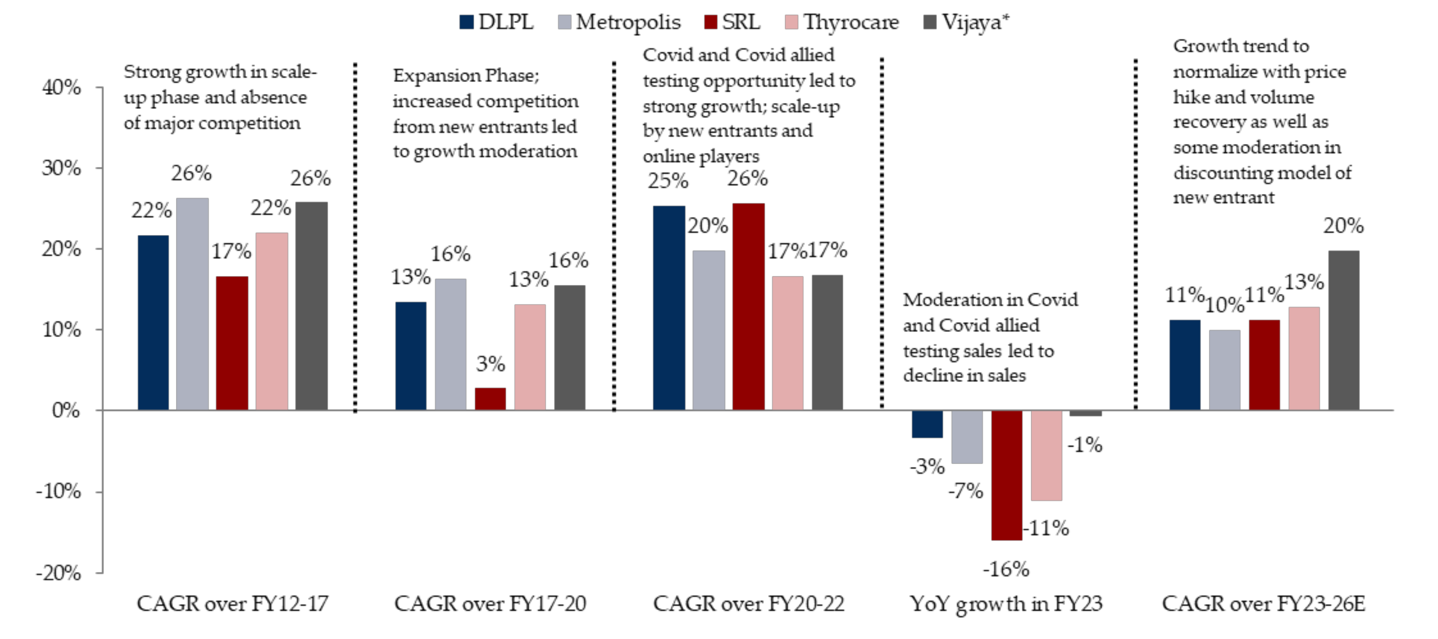
Source: Vijaya Diagnostic RHP from FY12-20, Dr Lal Path AR 2022, Entero Healthcare RHP and Agilus DRHP, Industry, CRISIL MI&A Research

Exhibit 12: Illness accounts for ~90% of pathology



Source: Agilus DRHP, Industry, CRISIL MI&A Research, HSIE Research channel checks

Exhibit 13: India diagnostic market growth phases for leading companies; to normalizing from FY24 onwards



Source: Companies, HSIE Research, Bloomberg, *Vijaya diagnostic CAGR over FY15-17

Exhibit 14: Prices for organized players has see 4-5% increased; Tata 1mg discounts remain high and intensity is increasing as focus is to capture volume share

Price in Mumbai (Rs)	Metropolis			DLPL			Agilus/ SRL			1mg (online)			Average discount %		
	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024
CBC	310	310	330	250	250	250	350	350	350	299	299	249	-1%	-1%	-20%
Glucose fasting	90	90	90	85	85	85	80	85	90	99	99	99	16%	14%	12%
Vitamin D 25	1,650	1,650	1,700	1,500	1,500	1,500	1,500	1,530	1,700	370	389	339	-76%	-75%	-79%
Vitamin B12	1,150	1,150	1,200	1,200	1,200	1,200	1,150	1,130	1,200	449	449	339	-62%	-61%	-72%
Lipid Profile	800	800	800	840	840	840	800	800	830	320	320	319	-61%	-61%	-61%
Thyroid Profile	550	550	600	550	550	550	550	530	699	320	359	289	-42%	-34%	-53%
Liver Function	1,475	1,475	1,500	800	800	800	1,000	1,000	1,100	370	399	319	-66%	-63%	-72%
Kidney Function	1,100	1,100	1,180	910	910	910	900	900	965	349	359	309	-64%	-63%	-70%

Source: Companies, HSIE Research, Note: Some tests/profiles may differ under certain brands; Peer set to calculate discount by 1mg comprises Metropolis, DLPL and SRL

Key charts: Retail pharmacy – strong growth visibility

Exhibit 15: Strong growth visibility in organized pharmacy market over the next few years

INR bn	2018	2019	2020	2021	2022	2023	2027P	CAGR over 2018-23	CAGR over 2023-27P
Pharmacy & Wellness	1,418	1,572	1,725	1,811	2,029	2,272	3,575	10%	12%
- Share of Unorganized retail	1,290	1,391	1,540	1,606	1,725	1,863	2,771	8%	10%
- Share of organized B&M	85	105	147	150	223	295	475	28%	13%
- Share of organized E-commerce	43	75	38	54	81	114	329	22%	30%
- Share of organized retail (B&M + E-comms)	128	181	185	205	304	409	804	26%	18%
Overall retail market in India	49,170	54,481	59,717	57,757	67,517	76,066	1,13,399	9%	10%
% share of Pharmacy in overall retail market in India	2.9%	2.9%	2.9%	3.1%	3.0%	3.0%	3.2%		

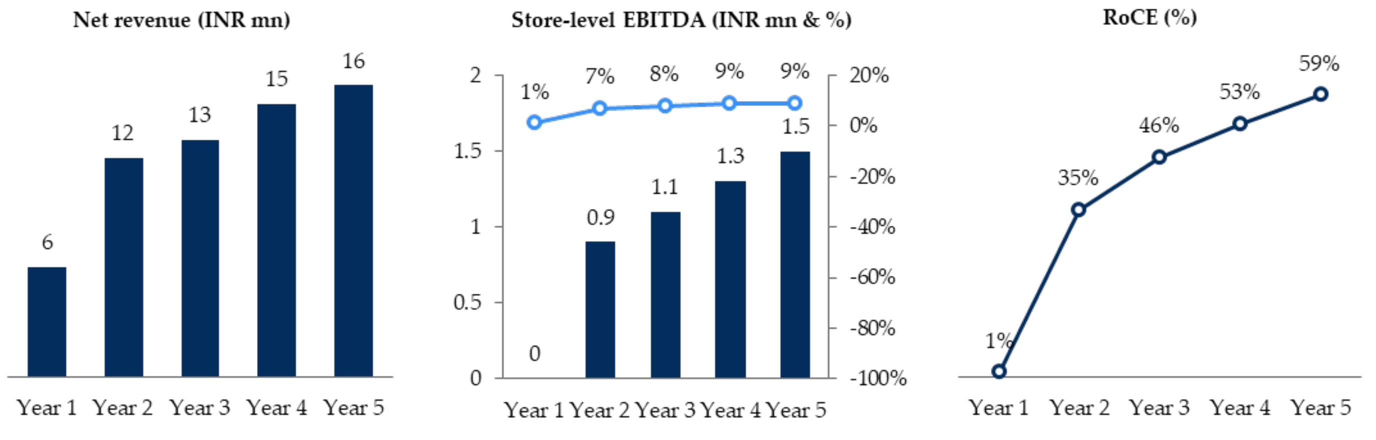
Source: Bazaar Style DRHP, Technopak Analysis, HSIE Research

Exhibit 16: Unit economics of organized vs. unorganized pharmacy stores

Heads (Share of Net Sales)	Pharmacy led Retail Chains	Independent Pharmacy
Avg. Store Size (in sq. ft.)	200-700+	150-500+
Average sales /Day** (in INR)	30,000-50,000	4-6,000
SKUs	4,000-10,000	2,000-6,000
COGS	78-83%	86-88%
Gross Margins	17-22%	12-14%
Employee Benefit Expense	3-5%	3-5%
Advertisement	0-1%	0-1%
Rent Expense	1-3%	1-3%
Other Expenses	1-2%	2-4%
Store EBITDA	9-12%	3-6%
Retail Discounts (On MRP Sales)*	0-20%	0-10%
Capex for Initial Build and Opening (in INR mn)	0.4-0.8	0.1-0.4

Source: MedPlus RHP, Technopak Analysis, , HSIE Research. Note: All values based on pharmacy revenue, *Discounts based on MRP of products retailed from pharmacy, **Based on per store metrics for major retailers.

Exhibit 17: Progress at store level sales, EBITDA/ margin, and RoCE



Source: Companies, HSIE Research

Exhibit 18: Coverage companies—valuation snapshot

Companies	MCAP (USD bn)	Rating	TP Multiple	CMP (Rs)	TP (Rs)	EPS (Rs)			EPS CAGR (%) FY23-26E	P/E (x)			EV/EBITDA (x)			RoCE (%)		
						FY24E	FY25E	FY26E		FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Aurobindo	8.1	ADD	18x	1,160	1,250	53	67	69	28	22	17	17	12	10	9	13	15	14
Dr. Reddy's	11.7	REDUCE	25x	5,840	6,050	308	316	307	13	19	18	19	12	11	12	26	21	18
Lupin	9.1	REDUCE	26x	1,662	1,600	45	51	62	94	37	33	27	21	19	16	16	17	19
Sun Pharma	44.1	BUY	31x	1,536	1,750	40	50	56	16	38	31	27	27	23	21	17	19	20
Zydus Life	12.2	ADD	26x	1,009	1,050	36	39	40	21	28	26	25	20	18	18	21	20	18
Large Cap										**33**	**27**	**25**	**22**	**19**	**18**	**18**	**19**	**19**
Alkem	7.6	ADD	27x	5,317	5,600	163	177	207	32	33	30	26	27	24	20	20	20	21
Eris Life	1.4	BUY	25x	881	1,050	30	31	42	14	29	28	21	18	12	11	15	17	17
Mankind	10.0	ADD	36x	2,092	2,360	48	55	66	24	44	38	32	33	28	24	27	26	26
Torrent Pharma	11.0	ADD	38x	2,704	2,940	47	61	77	28	58	44	35	29	25	21	22	25	29
Domestic formulation heavy										**45**	**37**	**30**	**27**	**23**	**20**	**20**	**22**	**25**
Hospitals																		
Apollo Hospitals^	10.2	BUY	26x	5,931	7,030	63	95	139	44	94	62	43	37	29	22	15	18	23
Max Healthcare^	9.9	ADD	28x	848	900	14	17	23	26	61	49	37	44	34	27	17	20	23
Hospital Avg										**79**	**56**	**40**	**40**	**32**	**24**	**16**	**19**	**23**
Pharmacy retail																		
MedPlus $	1.0	BUY	18x	703	850	4	9	17	71	159	75	42	26	20	15	7	10	13
Diagnostics																		
Dr Lal Pathlabs	2.5	ADD	48x	2,519	2,700	43	49	56	25	59	51	45	34	31	27	25	27	28
Metropolis	1.1	ADD	46x	1,868	2,010	26	34	44	16	72	55	43	34	29	24	14	17	19
Diagnostics Avg										**63**	**52**	**44**	**34**	**30**	**26**	**22**	**23**	**25**

Source: Companies, HDFC Securities, Bloomberg. Target multiples at FY26E EPS. ^ Hospital companies TP based of FY26E EV/ EBITDA. Price as of 16 May 2024. Dr Reddy's TP includes INR 220/ sh for gRevlimid. $ MedPlus TP based on FY26E EV/EBITDA on post IND-AS base; implies 30x EV/EBITDA on pre IND-AS. Diagnostics target multiples at FY26E EPS

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Companies

Executive summary

Indian healthcare sector poised for sustained growth

India healthcare, largely comprised of hospitals (~57% of total), diagnostic (8%), and retail pharmacies (pharma share ~19%), is expected to clock an 11-12% CAGR over FY23-28E, reaching INR 16.5-17.5 trillion in FY28. Key structural drivers such as an ageing population, an increased incidence of lifestyle diseases, greater healthcare awareness, technology adoption, and a growing affluent middle-class serving.

- **Hospital sector**: Post the CAPEX phase of FY14-19 to expand bed capacities, the companies are in an execution phase with a focus on improving occupancy, case and payor mix leading to steady growth in ARPOB, advanced technology to lower ALOS, and all this translated into significant expansion in EBITDA margin in the hospital business. We expect growth momentum to continue with a scope of improving occupancy across the hospital network and steady ARPOB growth. We believe the next capex phase, from FY25 onwards, will support growth but this time it is more strategic expansion with a focus on the asset-light model – which could see a marginal impact on profitability.
- **Diagnostic sector**: The overall decline in FY23 was largely due to a sharp drop in COVID-19 and COVID-19 allied testing revenues. Ex-COVID business saw growth recovery. Going ahead, we expect growth to normalize to 12-13% over FY23-26E on the back of favourable macros, geographical expansion, price hikes in select tests, volume recovery, and scale-up in the wellness/preventive care segment. Recent disruption due to increased competition from hospitals (Apollo, Aster, Max) peers, corporate (Lupin), new-aged companies, as well as aggressive discount strategies by online peers with deeper pockets (Reliance and Tata) could continue to remain key challenges for traditional companies.
- **Retail pharmacies**: The combined organised market (B&M and E-commerce) share has improved from ~9% in 2018 to 18% in 2023 and saw a CAGR of 26% over 2018-23. It is expected to sustain strong momentum with a CAGR of ~18-20%+ over 2023-27 and it could increase to ~23% by 2027.

Key challenges:

- **CEA**: The execution of blanket price implementation as per CEA or the Supreme Court's consideration of imposing CGHS rates (typically 30-60% lower than cash/private insurance rates) as the interim solution would impact sales from cash and insurance patients (which contribute 70-80% of hospital sales). This would dilute growth and margin for companies, especially at a time when the hospital sector is in a bed expansion phase.
- **Competition**: Steep discounts by online peers have already started impacting volumes and prices, especially in chronic illnesses and wellness segments. The low entry barriers will continue to pose a risk of competition increasing.

Coverage Universe

We initiate coverage with a

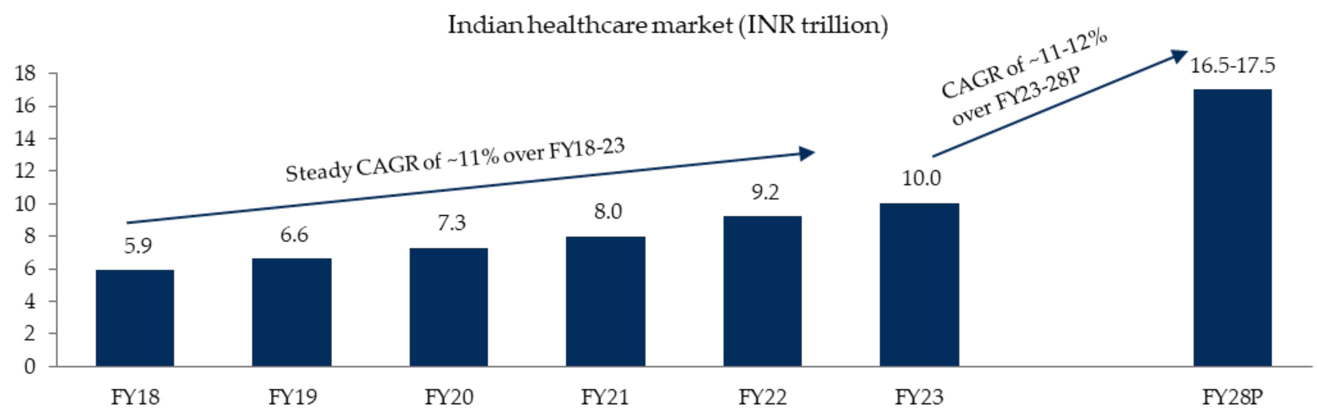
(1) **BUY** rating on APHS with a TP of INR 7,030 (26x FY26E EV/ EBITDA) and MEDPLUS with TP of INR 850 (18x FY26E EV/ EBITDA) implying pre-INDAS EV/EBITDA of 30x FY26E.

(2) **ADD** rating on MAXHEALTH with a TP of INR 900 (28x FY26E EV/EBITDA), DLPL with a TP of INR 2,700 (48x FY26E), implying EV/EBITDA of 28x FY26E, and METROHL with a TP of INR 2,010 (46x FY26E) implies EV/EBITDA of 25x FY26E.

India healthcare—long runway of steady growth ahead

The Indian healthcare industry has logged a 10-11% CAGR over FY18-23 to reach the value of ~INR 10 trillion. Despite several disruptions like GST, COVID, price caps, etc. the growth has been steady over the last few years. The industry saw some growth impact during COVID in FY21 (grew ~10% YoY to ~INR 8 trillion) and subsequently a bounce-back in FY22 (grew ~15% YoY to ~INR 9.2 trillion) and normalized growth in FY23 (grew ~15% YoY to ~INR 10 trillion). Going ahead, key structural drivers such as an ageing population, an increased incidence of lifestyle diseases, greater healthcare awareness, technology adoption, and a growing affluent middle-class serving the market are expected to aid the industry in clocking 11-12% CAGR over FY23-28E, reaching INR 16.5-17.5 trillion by FY28.

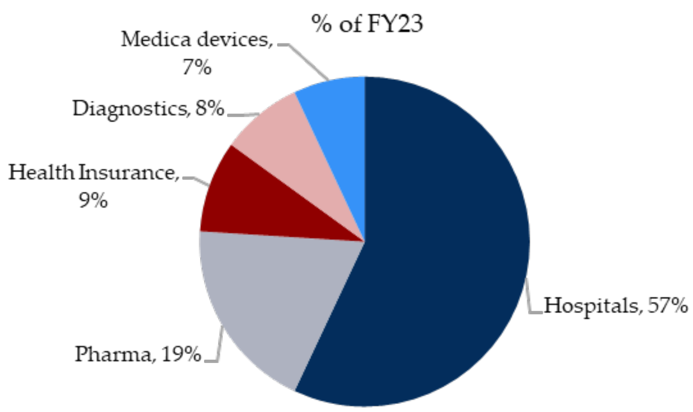
Exhibit 19: Steady growth in India healthcare market (11-12% CAGR expected over the next few years)



Source: Entero Healthcare RHP, Industry, CRISIL MI&A Research. Note: The hospitals segment encompasses the overall healthcare delivery system in India, which includes clinic/physician consultations; the medical devices segment includes medical devices and equipment, medical consumables, reagents, and implants.

The domestic healthcare industry comprises the following segments: healthcare delivery (hospital), pharmaceuticals, health insurance, medical devices, diagnostic services, medical equipment, and other support services to healthcare players.

Exhibit 20: India healthcare market break-up

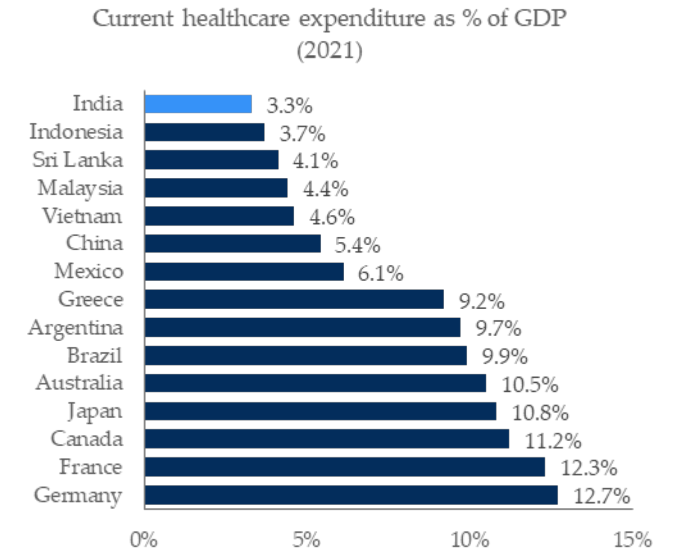


Source: Entero Healthcare RHP, Industry, CRISIL MI&A Research. Note: The hospitals segment encompasses the overall healthcare delivery system in India, which includes clinic/ physician consultations; the medical devices segment includes medical devices and equipment, medical consumables, reagents, and implants.

Macro drivers provide long-term structural growth visibility

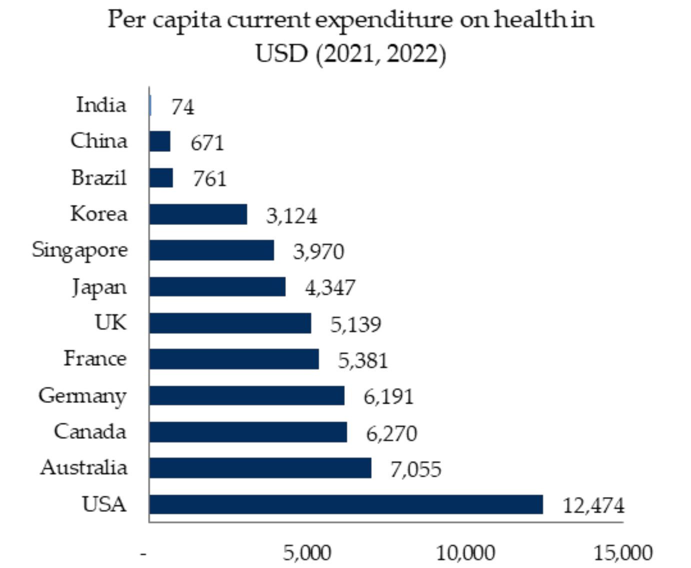
India's healthcare expenditure is significantly lower than the global average as well as that of many developing countries like Mexico, Brazil, Russia, Argentina, etc. The capital expenditure on healthcare in India has historically remained in the 2-4% range (over the past 10-15 years).

Exhibit 21: India lags peers in healthcare expenditure



Source: GPT Healthcare RHP, Global Health Expenditure Database accessed in January 2024, World Health Organization; CRISIL MI&A. Note: Latest data has been considered. Data for Canada and Germany is as of 2022, rest 2021

Exhibit 22: India spends too little on healthcare



Source: GPT Healthcare RHP, Global Health Expenditure Database accessed in January 2024, CRISIL MI&A. Note: Latest data has been considered. Data for Republic of Korea, United Kingdom, Germany, Canada, United States of America is as of 2022. Data for India, China, Brazil, Singapore, France, Australia is as of 2021

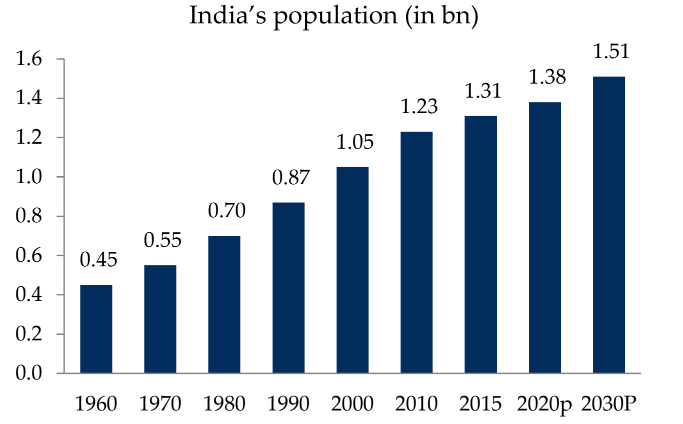
Given the untapped market opportunities and the lack of healthcare infrastructure in India, there is a huge potential for expansion for leading Indian companies.

Exhibit 23: India lacks healthcare infrastructure compared to globe

Bed densities		Healthcare personnel			
Country	**Hospital beds (per 10,000 population)**	**Country**	**Physicians (per 10,000 population)**	**Country**	**Nurses (per 10,000 population)**
Russia	71	Russia	38	US	125
China	43	US	36	UK	92
USA	29	UK	32	Russia	62
Vietnam	26	China	24	Brazil	55
UK	25	Malaysia	21	Nepal	35
Brazil	21	Brazil	21	Malaysia	34
Malaysia	19	Nepal	9	China	33
India	**15**	Thailand	9	Thailand	31
Bangladesh	8	Indonesia	7	**India**	**17**
		India	**7**	Indonesia	11

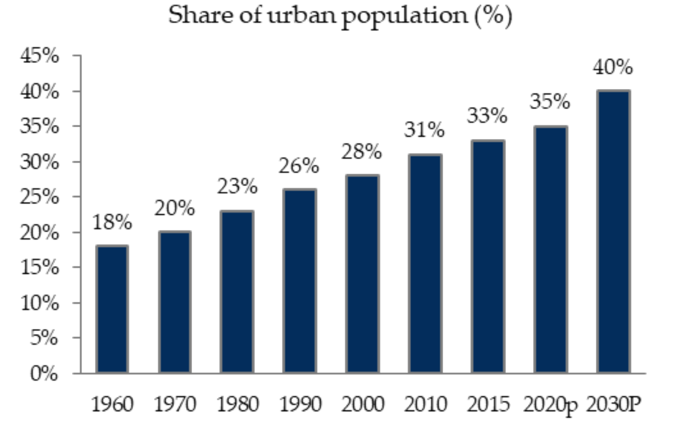
Source: GPT Healthcare RHP, World Health Organization Database, CRISIL MI&A. Note: (1) India bed density is estimated by CRISIL MI&A for FY 2022, CY2016 figure for Bangladesh, CY2017 figures for Brazil, China, Malaysia and United States, CY2018 figures for Russian Federation, CY2019 figure for UK, CY2014 for Vietnam and (2) CY21 figure for UK, Brazil, Nepal, Indonesia CY20 figures for India, China, Russia, US; CY19 figures for Malaysia, Thailand; CY19 figure for world average

Exhibit 24: Growing Indian population to expand market



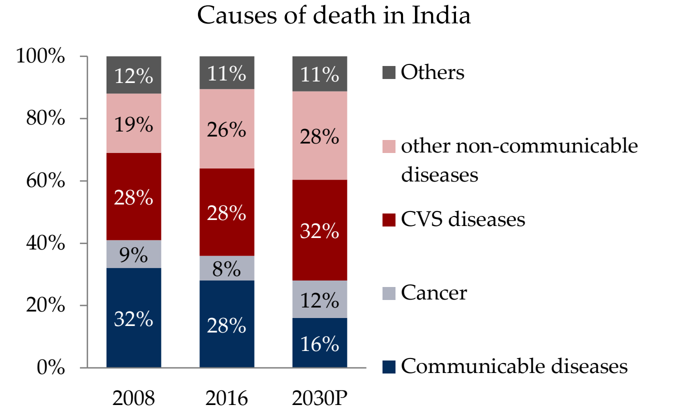
Source: Jupiter Hospital RHP, World Urbanisation Prospects: The 2018 Revision, United Nations, CRISIL Research

Exhibit 25: Increasing share of urbanisation



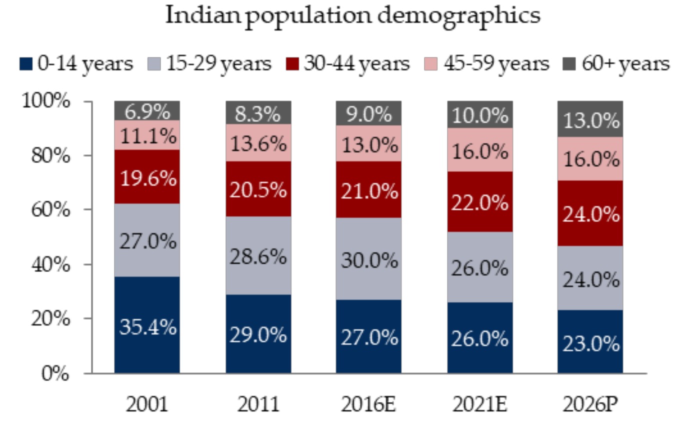
Source: Jupiter Hospital RHP, World Urbanisation Prospects: The 2018 Revision, United Nations, CRISIL Research

Exhibit 26: Increasing disease burden towards NCDs



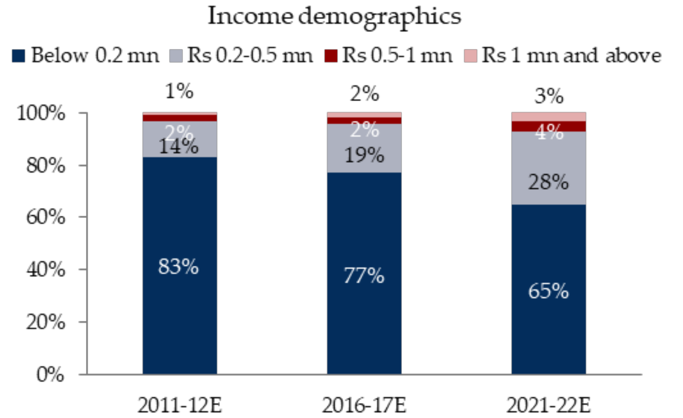
Source: Jupiter Hospital RHP, WHO global burden of disease, India: Health of the Nation's States, CRISIL MI&A Research

Exhibit 27: Favourable demography in India



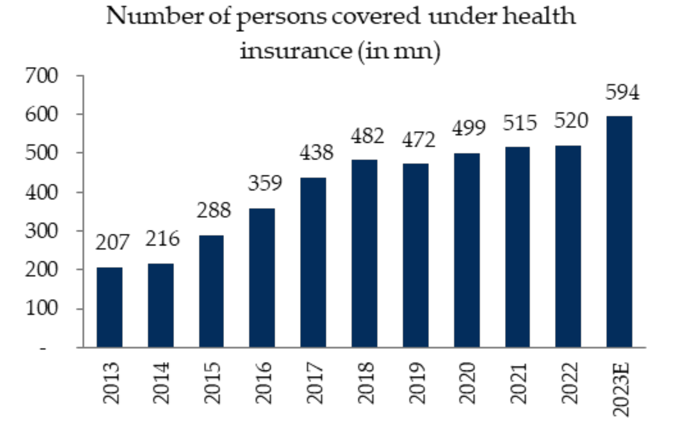
Source: Jupiter Hospital RHP, Census, CRISIL MI&A Research

Exhibit 28: Rising incomes



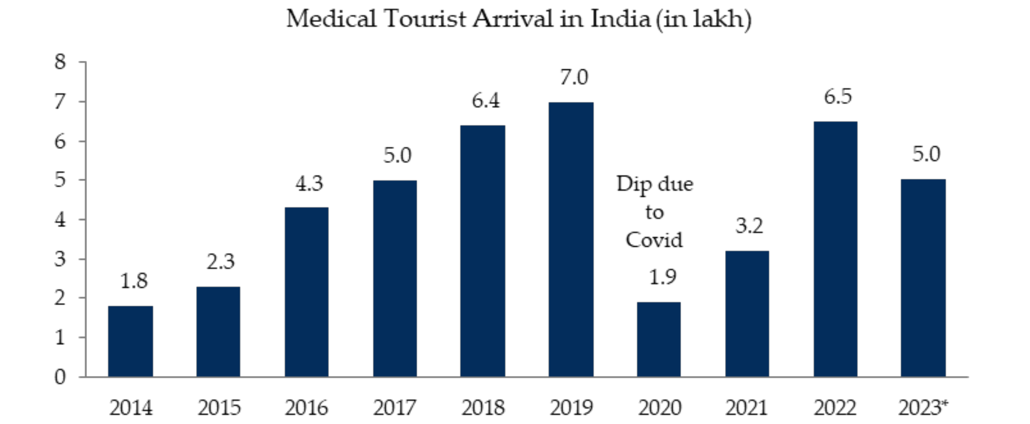
Source: Jupiter Hospital RHP, CRISIL MI&A Research

Exhibit 29: Increasing insurance coverage



Source: Medi assist RHP, IRDAI

Exhibit 30: Growth to be supported by incremental sales from medical tourism



Source: Jupiter Hospital RHP. Ministry of Tourism, PIB

Exhibit 31: Lower cost of treatment compared to other countries

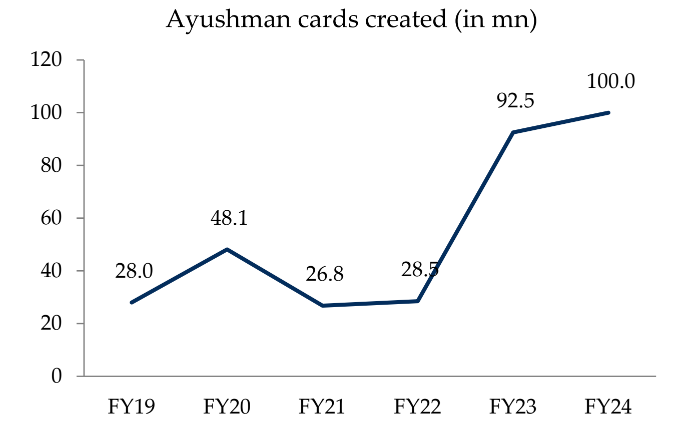
Treatment Cost Comparison

Procedures	US ($)	Korea ($)	Singapore ($)	Thailand ($)	India ($)	Average global cost ($)	India discount %
Hip replacement	50,000	14,120	12,000	7,879	7,000	21,000	-67%
Knee replacement	50,000	19,800	13,000	12,297	6,200	23,774	-74%
Heart bypass	1,44,000	28,900	18,500	15,121	5,200	51,630	-90%
Angioplasty	57,000	15,200	13,000	3,788	3,300	22,247	-85%
Heart valve replacement	1,70,000	43,500	12,500	21,212	5,500	61,803	-91%
Dental implant	2,800	4,200	1,500	3,636	1,000	3,034	-67%

Source: GPT Healthcare RHP, Source: CRISIL MI&A

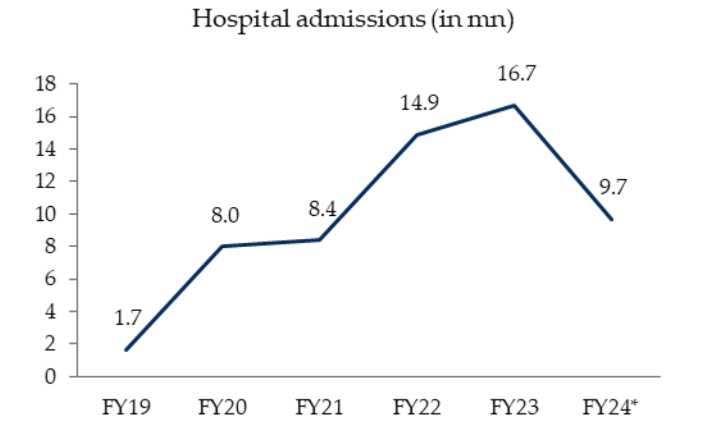
Scale-up in Pradhan Mantri Jan Arogya Yojana

Exhibit 32: Increasing coverage in last few years



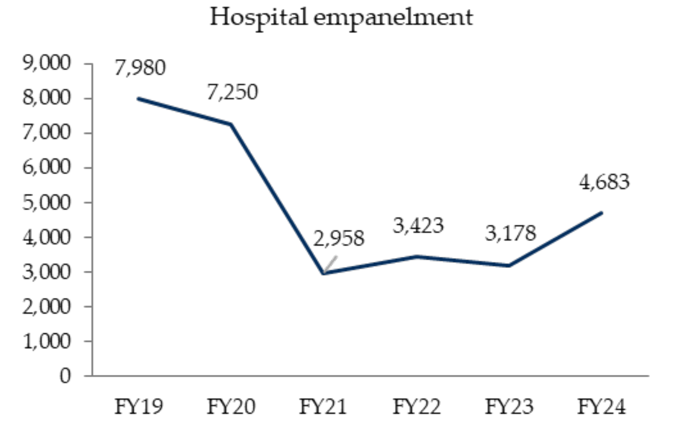
Source: PMJAY-AB updates, HSIE Research

Exhibit 33: Rising hospital admission under PMJAY



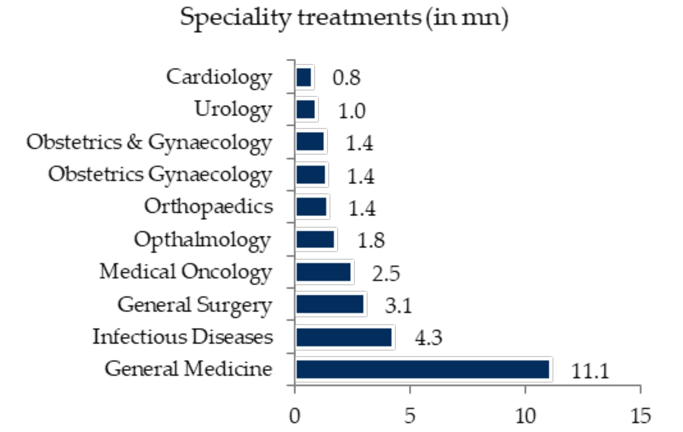
Source: PMJAY-AB updates, HSIE Research. Note: FY24 updated as of Nov'23

Exhibit 34: Hospital coverage is increasing



Source: PMJAY-AB updates, HSIE Research

Exhibit 35: Specialty mix in PMJAY



Source: PMJAY-AB updates, HSIE Research, as of 16 April 2024

Hospital segment is well-placed to see secular growth

The Indian healthcare delivery industry has posted a healthy ~14% CAGR over FY18-23 despite the momentary hiccup in FY21 due to the post-COVID spike in demand and increasing healthcare-related awareness. This growth has been driven by a strong ~17% CAGR over FY18-23 in the in-patient department (IPD; comprising ~70% of the total market in FY23) and 9% CAGR in the out-patient department (OPD; ~30% of the total market in FY23) segments.

As per the CRISIL MI&A estimates, the Indian healthcare market is expected to see a 10% CAGR between FY23-28, driven by long-term structural factors, strong fundamentals, increasing affordability, and the potential of the Ayushman Bharat scheme. Within this, IPD is expected to see a CAGR of ~11% YoY over FY23-28 while OPD will see an ~8% CAGR.

Exhibit 36: Steady growth visibility in Indian healthcare delivery market

	FY15	FY18	FY23	FY24P	FY28P	CAGR over FY18-23	CAGR over FY18-24P	CAGR over FY23-28P
IPD	1.4	1.8	4.0	4.5	6.7	17%	16%	11%
OPD	0.8	1.1	1.7	1.8	2.5	9%	9%	8%
India healthcare delivery market (INR bn)	2.2	2.9	5.7	6.3	9.2	14%	14%	10%
% of total healthcare delivery								
IPD	64%	62%	70%	71%	73%			
OPD	36%	38%	30%	29%	27%			
India healthcare delivery market	100%	100%	100%	100%	100%			

Source: GPT Healthcare and KIMS hospital RHP, Note: According to CRISIL Research out-patients are those who are not required to stay at the hospital overnight. It includes consultancy, day surgeries at eye care centres, and diagnostics, and excludes pharmaceuticals purchased from standalone outlets

With long-term structural factors supporting growth, renewed impetus from PMJAY and government focus shifting to the healthcare sector, the Indian healthcare delivery market is expected to see a CAGR of 9-11% over FY23-28, from INR 5.7 trillion in FY23 to INR 9.2-9.3 trillion in FY28. The other contributors to demand that are more structural are the increase in lifestyle-related ailments, increasing medical tourism, rising incomes and changing demography. Given lower capital expenditure from the government and lack of infrastructure, the private sector is where there could be accelerated growth over the next few years.

Exhibit 37: Private sector hospitals to see steady growth

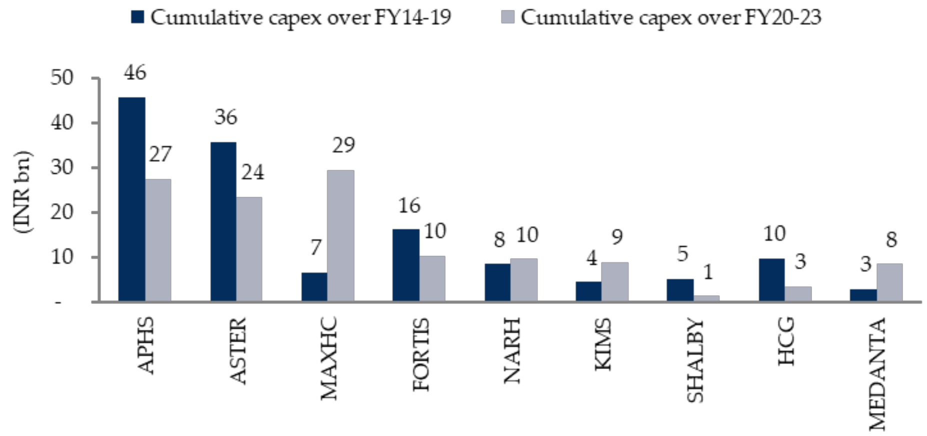
INR bn	FY18	FY23	FY24P	FY28P	CAGR over FY18-23	CAGR over FY18-24P	CAGR over FY23-28P
Private hospitals	1.9	3.8	4.2	6.3	15%	15%	11%
Government hospitals	1.0	1.9	2.1	2.9	13%	12%	8%
Total market	2.9	5.7	6.3	9.2	14%	14%	10%
% of total							
Private hospitals	64%	66%	67%	69%			
Government hospitals	36%	34%	33%	31%			
India healthcare delivery market (INR bn)	100%	100%	100%	100%			

Source: GPT Healthcare RHP, CRISIL MI&A

Hospitals—heavy capex cycle in past, in execution phase for last 2-3 years

The hospital sector had a heavy capex cycle over FY14-19 (~INR 135 bn spending by select companies) to expand bed capacity across the existing network as well as multiple greenfield expansions – with a large number of bed additions over the same period. The capex cycle was largely debt-funded and it had an impact on the overall profitability of the companies during FY14-19. By the end of FY19, aggressive expansion for most of the companies was completed and the focus shifted more on capex moderation and execution of the capex to improve profitability.

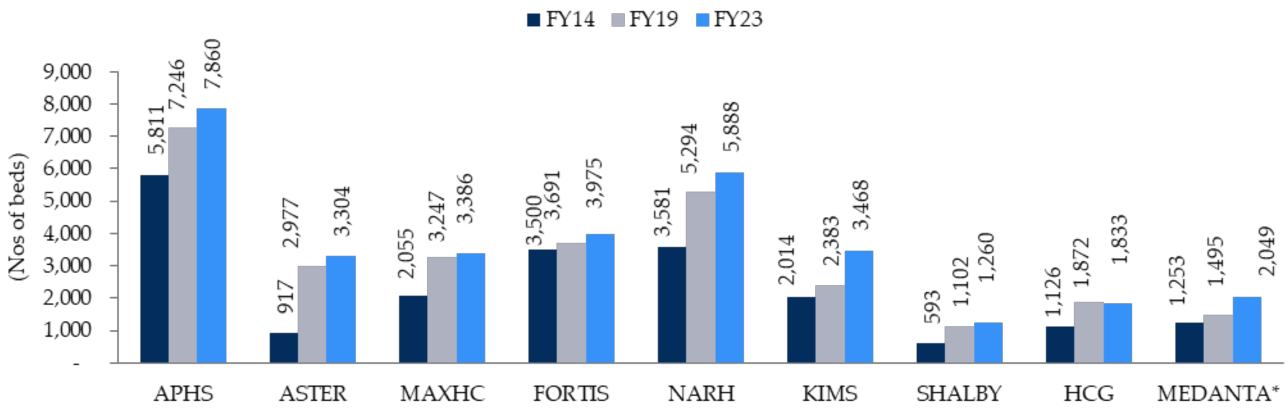
Exhibit 38: Capex moderation in last few years



Source: Companies, HSIE Research, Bloomberg. Note: Max Healthcare and Medanta from FY17 and FY19 onwards

Most of the leading companies like Apollo Hospital, Aster DM, Max Healthcare, Narayana, Medanta, etc. have added a significant bed capacity over FY14-19 (total addition for select companies was ~8,300+ beds). However, from FY20 onwards, with capex moderation, the expansion phase has slowed down with ~3,000+ bed capacity expansion as leading companies' focus has shifted toward execution.

Exhibit 39: Aggressive expansion over FY14-19 and with capex moderation bed addition was modest over FY20-23



Source: Companies, HSIE Research, Bloomberg. Note: Medanta assumed ~80% occupancy for FY14-19 on exiting beds and gradual improvement in occupancy for new hospital addition in FY14, FY15, and FY19.

Focus shifted to execution for leading companies

Exhibit 40: Strong revenue growth over FY19-23

Hospital sales (INR mn)	FY14	FY19	CAGR over FY14-19	FY20	FY21	FY22	FY23	CAGR over FY19-23	9M'23	9M'24	YoY growth %
APHS	28,843	51,426	12%	57,297	50,022	79,891	86,768	14%	64,823	73,045	13%
ASTER	2,821	13,140	36%	16,310	16,220	22,170	26,340	19%	21,790	27,210	25%
MAXHC	9,193	35,747	31%	39,498	35,361	48,320	57,610	13%	43,530	50,500	16%
FORTIS	27,951	35,269	5%	37,535	31,240	42,642	51070	10%	37,568	41,962	12%
NARH	10,951	24,798	18%	26,940	20,706	29,655	36,424	10%	26,931	30,014	11%
KIMS	3,510	9,180	21%	11,226	13,299	16,508	21,977	24%	16,427	18,736	14%
SHALBY	2,576	4,623	12%	4,869	4,309	6,989	8,049	15%	6,193	7,040	14%
HCG	4,487	9,760	17%	10,923	10,092	13,948	16,914	15%	12,526	14,175	13%
MEDANTA*	NA	14,558	5%	14,730	14,467	21,666	26,942	17%	20,273	25,137	24%

Source: Companies, HSIE Research, Bloomberg. Note: Medanta CAGR over FY15-19

Exhibit 41: Execution led EBITDA growth over FY19-23

Hospital EBITDA (INR mn)	FY14	FY19	CAGR over FY14-19	FY20	FY21	FY22	FY23	CAGR over FY19-23	9M'23	9M'24	YoY growth %
APHS	6,305	9,204	8%	10,750	6,925	18,032	21,331	23%	15,985	17,627	10%
ASTER	541	1,440	22%	2,061	2,000	4,210	5,420	39%	3,420	4,530	32%
MAXHC	299	3,498	63%	5,556	5,578	12,078	15,723	46%	11,990	14,060	17%
FORTIS	3,110	2,349	-5%	4,501	2,539	6,571	8621	38%	6,410	7,249	13%
NARH	1,201	2,370	15%	3,395	199	3,581	6,666	30%	4,895	5,593	14%
KIMS	639	810	5%	2,450	3,709	5,158	6,040	65%	4,618	4,907	6%
SHALBY	615	824	6%	818	880	1,205	1,275	12%	1,244	1,526	23%
HCG	422	1,226	24%	1,689	1,224	2,356	3,000	25%	2,273	2,455	8%
MEDANTA*	NA	1,677	-11%	1,704	1,914	4,505	6,205	39%	4,856	6,670	37%

Source: Companies, HSIE Research, Bloomberg. Note: Medanta CAGR over FY15-19

Exhibit 42: Margin expansion for leading companies

Hospital EBITDA margin (%)	FY14	FY19	Change over FY14-19	FY20	FY21	FY22	FY23	Change over FY19-23	9M'23	9M'24	YoY Change
APHS	21.9%	17.9%	-396 bps	18.8%	13.8%	22.6%	24.6%	669 bps	24.7%	24.1%	-53 bps
ASTER	19.2%	11.0%	-822 bps	12.6%	12.3%	19.0%	20.6%	962 bps	15.7%	16.6%	95 bps
MAXHC	3.3%	9.8%	653 bps	14.1%	15.8%	25.0%	27.3%	1751 bps	27.5%	27.8%	30 bps
FORTIS	11.1%	6.7%	-447 bps	12.0%	8.1%	15.4%	16.9%	1022 bps	17.1%	17.3%	21 bps
NARH	11.0%	9.6%	-141 bps	12.6%	1.0%	12.1%	18.3%	874 bps	18.2%	18.6%	46 bps
KIMS	18.2%	8.8%	-939 bps	21.8%	27.9%	31.2%	27.5%	1866 bps	28.1%	26.2%	-192 bps
SHALBY	23.9%	17.8%	-603 bps	16.8%	20.4%	17.2%	15.8%	-199 bps	20.1%	21.7%	159 bps
HCG	9.4%	12.6%	316 bps	15.5%	12.1%	16.9%	17.7%	517 bps	18.1%	17.3%	-83 bps
MEDANTA*	NA	11.5%	-1060 bps	11.6%	13.2%	20.8%	23.0%	1151 bps	24.0%	26.5%	258 bps

Source: Companies, HSIE Research, Bloomberg. Note: Medanta margin change over FY15-19

Overall performance has been led by improvement across the operating metrics in the last few years for all leading companies.

Exhibit 43: Steady growth in ARPOB

ARPOB (Rs/day)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR FY17-23	9MFY24
APHS	31,377	31,967	34,226	37,397	40,214	45,327	51,668	9%	57,173
ASTER	15,409	25,700	26,100	27,700	30,100	33,500	36,500	15%	39,250
MAXHC	41,892	43,946	46,400	51,100	50,800	58,500	67,400	8%	75,400
FORTIS	39,178	40,822	41,370	43,438	43,288	49,315	55,068	6%	60,274
KIMS	18,807	18,807	18,334	18,307	20,609	25,323	29,946	8%	31,186
SHALBY	32,671	31,564	31,296	30,457	27,400	31,347	34,842	1%	37,300
HCG	29,122	30,832	31,423	32,767	32,632	37,841	38,042	5%	41,500
MEDANTA	NA	NA	NA	50,166	47,731	54,547	59,098	6%	61,515

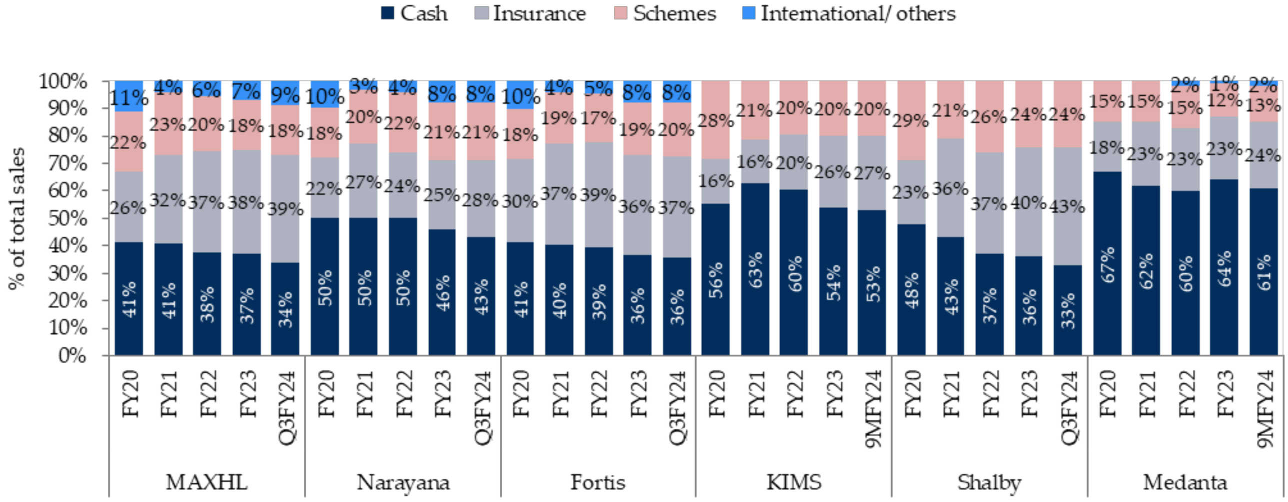
Source: Companies, HSIE Research. Note: Medanta CAGR over FY20-23

Exhibit 44: Occupancy improving post-COVID impact in FY21

Occupancy %	FY17	FY18	FY19	FY20	FY21	FY22	FY23	9MFY24
APHS	64%	66%	68%	67%	55%	63%	64%	65%
ASTER	60%	65%	63%	61%	56%	66%	68%	68%
MAXHC	72%	73%	68%	73%	65%	75%	76%	75%
FORTIS	75%	70%	67%	69%	55%	63%	67%	64%
KIMS	51%	51%	49%	56%	79%	80%	69%	73%
SHALBY	35%	29%	37%	38%	36%	46%	46%	47%
HCG	45%	47%	44%	43%	48%	58%	65%	57%
MEDANTA	NA	NA	NA	55%	52%	62%	59%	62%

Source: Companies, HSIE Research

Exhibit 45: Focus on improving payor mix towards cash and insurance led to ARPOB growth



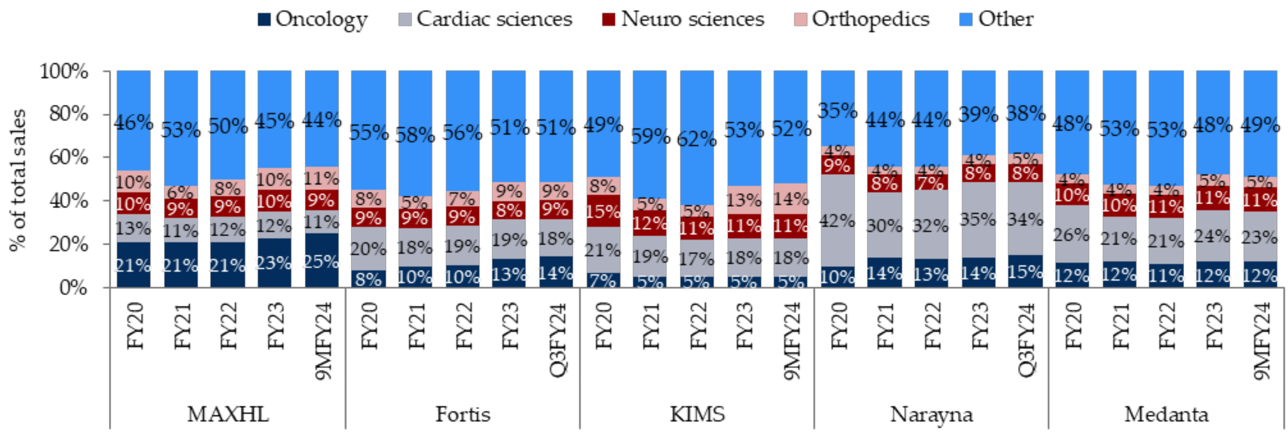
Source: Companies, HSIE Research

Exhibit 46: Steady reduction in ALOS

ALOS (Days)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	9MFY24
APHS	4.1	4.0	4.0	3.9	4.2	4.0	3.4	3.3
ASTER	4.6	3.5	3.6	3.5	3.9	3.7	3.4	3.4
MAXHC	3.3	4.2	4.4	4.3	5.2	4.7	4.3	4.1
FORTIS	3.6	3.5	3.4	3.2	3.6	3.7	3.7	3.7
NARH	4.0	4.2	3.9	3.5	4.6	4.8	4.5	4.5
KIMS	4.5	4.5	4.5	4.3	5.5	4.8	4.1	4.1
SHALBY	4.0	3.7	4.2	4.2	5.4	4.6	3.9	3.9
HCG	2.9	2.4	2.3	2.3	2.3	2.3	2.2	2.2
Medanta	NA	NA	NA	3.5	3.9	3.8	3.3	3.2

Source: Companies, HSIE Research, Average length of stays in hospitals

Exhibit 47: Specialty mix improving over the last few years



Source: Companies, HSIE Research

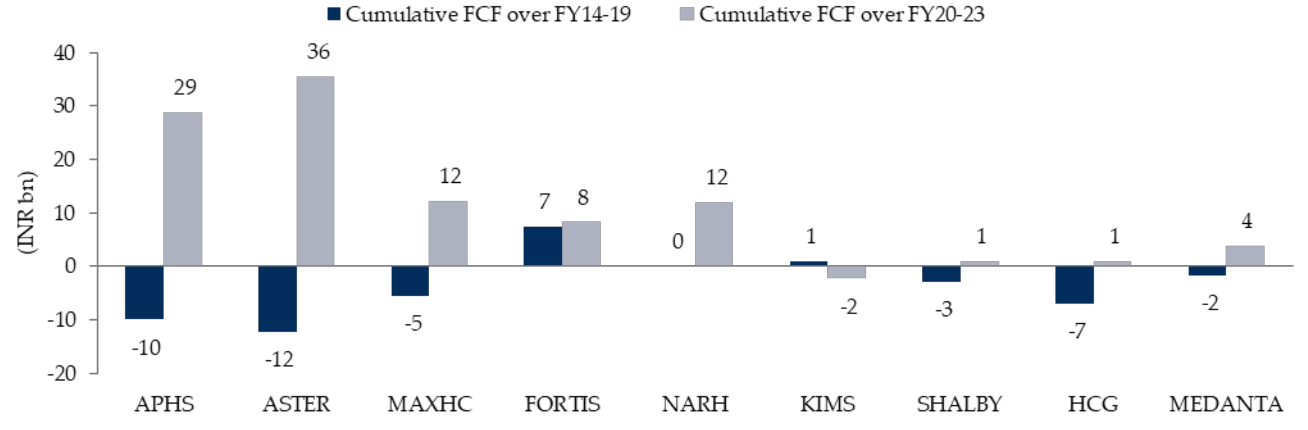
Exhibit 48: EBITDA per operating beds saw strong growth

Hospital EBITDA per bed (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR over FY17-23
APHS	1.6	1.6	1.9	2.1	1.7	3.6	4.2	18%
ASTER	0.1	0.6	0.8	1.3	1.3	2.2	2.4	74%
MAXHC	1.0	0.7	1.6	2.4	2.6	4.9	6.1	36%
FORTIS	2.1	0.5	0.9	1.8	1.2	2.6	3.2	7%
KIMS	1.1	0.6	0.7	1.7	1.8	2.5	2.5	14%
SHALBY	2.6	2.9	2.0	1.8	2.1	2.1	2.2	-3%
HCG	1.7	1.6	1.5	1.9	1.5	2.4	2.5	6%
MEDANTA	NA	NA	NA	2.0	2.4	4.1	5.1	36%

Source: Companies, HSIE Research

Overall improvement in performance, increasing EBITDA, and capex moderation have helped the leading companies to strengthen their balance sheets and improve operating cash and free cash flow generation in the last few years.

Exhibit 49: FCF improving for the leading companies post capex moderation



Source: Companies, HSIE Research, Bloomberg

Next phase of capex over the next few years could secure long-term growth

Unlike in the past (over FY14-19), the next phase of the expansion plan seems like strategic expansion in the untapped market (largely targeting metro/ tier 1 cities) and focus more on brownfield or asset-light models as well as M&As (given strong cash generation of the last few years).

Exhibit 50: Next phase of expansion by leading companies

Companies	Capex plan
Apollo Hospital	- Plan to add ~2,200+ beds over next 3-4 years with capex outlay of ~INR 34.35 bn to be spend over the same period - Additional capex for brownfield expansion as well as debottlenecking at existing hospitals.
Max Healthcare	- Plan to add ~2,500+ beds over next 3-4 years with capex outlay of ~INR 36 bn to be spend over the same period - Recently acquired two hospitals (1) Sahara Hospital, Lucknow - bed capacity 550 for INR 9.4 bn and (2) Alexis Hospital, Nagpur - bed capacity 340 for INR 3.72 bn. Also, acquired land parcel in Lucknow for greenfield hospital.
Aster DM	- Plan to add ~1,800+ beds over next 3-4 years with capex outlay of ~INR 15-25 bn to be spend over the same period. The expansion is largely south focus across Kerala, Karnataka (Bangalore), and Andhra Pradesh
KIMS	- Plan to add ~1,700+ beds over next 2-3 years with capex outlay of ~INR 11.6-13.6 bn to be spend over the same period. The expansion in Nashik (~300 beds), Thane (300 beds), Bangalore (415 beds), expansion at exisiting hospitals such as Anantapur (200 beds) and Kondapur (~500 beds).
Fortis	- Planned bed capacity addition of ~2,200 beds till FY28. The majority of beds to be added at units located at Shalimar Bagh, FMRI, Mohali, Noida, Anandpur, BG Road and Amritsar
Narayana	- Expansion plan for its Health city in Bangalore and in Calcutta, Brownfield expansion for Delhi, Bombay, Mysore, Raipur base hospitals
Medanta	- Planned bed addition of ~800-1,300 beds in next two-three years from existing hospitals (including Noida). ~770 beds i.e. ~60% of the planned bed addition will be at existing hospitals; resulting in lower capex / bed - Plan to build 300 beds including 100+ critical care beds at Indore under O&M arrangement, expected to start in FY24

Source: Companies, HSIE Research, Bloomberg

Strong cash generation in the last few years has enabled leading healthcare sector companies to accelerate growth through M&A. Going ahead, the companies are looking to expand their geographical presence and deepen their penetration into existing regions through M&As.

Exhibit 51: Key M&A in hospital space

Date	Company	Target company	Consideration (USD mn)	Comments
11-Nov-20	Apollo Hospitals	Apollo Multispeciality Hospitals, Kolkata	55	Apollo hospital acquired its balance stake 50% stake in Apollo Gleneagles (700 bed capacity) from IHH.
15-Mar-21	Max Healthcare	Saket City Hospitals	64	Max Healthcare has acquired balance 51% stake in the Saket City hospital from BK Modi group.
05-Apr-21	Max Healthcare	Crosslay Remedies Ltd	11	Max Healthcare has acquired balance ~17% stake in the Crosslay Remedies from its PE partner KKR.
15-May-21	Shalby Ltd	Certain assets/Consensus Orthopedics Inc	11	Consensus designs and manufactures orthopedic implants and instruments with sales predominantly in the US.
27-Oct-21	KIMS	Sarvejana Healthcare	48	Sarvejana Healthcare (Sunshine Hospitals) chain – 3 hospitals at Secunderabad, Gachibowli, and Karimnagar with total capacity of 650+ beds
29-Jul-22	CARE Hospitals	United Ciigma Hospitals Healthcare Pvt Ltd	50	CIIGMA will allow CARE to expand its network in Maharashtra to three cities, Aurangabad, Pune and Nagpur with total bed capacity of 300+
08-Aug-22	Apollo Hospitals	Non functional hospital infrastructure/Gurugram	57	A potential of 650+ beds over 7 lakh square feet, from Nayati Healthcare and Research NCR Private Limited (Nayati)
29-Aug-22	KIMS	Spanv Medisearch Lifesciences Pvt Ltd	13	KIMS acquired majority stake (51%) in SPANV Medisearch Lifesciences, Nagpur with total bed capacity of 300+.
14-Oct-22	Manipal Group	Amri Hospitals Ltd	482	Manipal group has acquired ~84% stake in AMRI hospital from Emami group with bed capacity 1,200+.
07-Apr-23	Temasek Holdings Pte Ltd	Manipal Health Enterprises Pvt Ltd	1,952	Temasek increased its stake to 59% by acquiring additional ~41% stake in Manipal Health Enterprises.
13-Apr-23	Max Healthcare	Eqova Healthcare Pvt Ltd	8	Acquired O&M rights in Eqova Healthcare with potential bed capacity of ~400+ in Patparganj, Delhi, owned by Nirogi Charitable and Medical Research Trust
20-Apr-23	Fortis Healthcare Ltd	Medeor Hospital Ltd	27	Fortis hospital has acquired Medeor Hospital Manesa with a potential bed capacity addition of ~350+.
28-Nov-23	Fajr Capital, Alpha GCC	Aster DM Healthcare FZC	903	As part of restructuring, Aster DM has divested its GCC business to Fajr Capital.
09-Feb-24	Max Healthcare	Alexis Multi-Speciality Hospital Pvt Ltd	50	Max Healthcare has acquired ~99.9% stake in Alexis Multi Speciality in Nagpur with bed capacity of ~200.
12-Feb-24	Yatharth Hospital	Pristine Infracon	14	Yatharth has acquired 100% stake in Asian Fidelis hospital in Haryana with bed capacity of ~200.
07-Mar-24	Max Healthcare	Alexis Multi-Speciality Hospital Pvt Ltd	72	Max Healthcare has acquired 100% stake in Starlit Medical Centre Private - Sahara Hospital in Lucknow with bed capacity of ~250.
12-Mar-24	Shalby Ltd	Healers Hospital Pvt Ltd	13	Shalby has acquired 100% stake in Healers Hospital.
26-Apr-24	Advent International	Apollo HealthCo Ltd	252	Advent to invest in compulsory convertible instruments over 2 tranches to secure 12.1% stake in the merged entity (Apollo HealthCo and Keimed); transaction is expected to get complete over next 3 years
29-Apr-24	Manipal Group	Medica Synergie	168	Manipal Hospitals signed a binding agreement to acquire an 87% stake in Kolkata-based hospital chain Medica Synergie

Source: Companies, HSIE Research, Bloomberg

Blanket implementation of Clinical Establishment Act difficult but is an overhang

The Clinical Establishment Act (CEA) 2010 was implemented in 2012. The Act requires all clinical establishments to register themselves and provides a set of standard treatment guidelines for common diseases and conditions. CEA 2010 has been adopted by 12 state Governments and 7 Union Territories such as Arunachal Pradesh, Himachal Pradesh, Mizoram, Sikkim, Haryana, Rajasthan, UP, etc. On the other hand, 18 states/UTs have not adopted the CEA 2010 and have implemented their own form of CEAs such as the Punjab Clinical Establishments Act, Gujarat Clinical Establishments Act, and Karnataka Private Medical Establishment Act, etc.

Overhang started with a petition to determine the treatment rate as per CEA 2010

An NGO called Veterans Forum for Transparency in Public Life had filed a Public Interest Litigation (PIL) before the Supreme Court of India directing the Central government of India (Union of India) to determine the rate of fee chargeable from the patients in terms of Rule 9 of the Clinical Establishment (Central Government) Rules, 2012.

As per Rule 9 of the Clinical Establishment (Central Government) Rules 2012, the conditions for the registration and continuation of clinical establishment (CE) are given below:

- Every CE shall display the rates charged for each type of service provided and facilities available, for the benefit of the patient at a conspicuous place in the local language as well as in English.
- The CEs shall charge the rates for each type of procedure and service within the range of rates determined and issued by the central government from time to time, in consultation with the state governments.
- The CEs shall ensure compliance with the Standard Treatment Guidelines as may be determined and issued by the central government or the state government.
- The CEs shall maintain and provide Electronic Medical Records or Electronic Health Records of every patient, as may be determined and issued by the central government or the state government as the case may be, from time to time.
- Every CE shall maintain information and statistics following all other applicable laws for the time being in force and the rules made thereunder.

Supreme Court guides central government to come up with proposal for rates

The Supreme Court has dismissed the central government's response that because of the provisions of Rule 9 of the Rules of 2012, the rates cannot be determined by the central government unless there is a response from the State Governments/Union Territories. The Supreme Court has directed the Health Secretary to hold meetings with his state counterparts and come up with a concrete proposal by the next date of hearing. Importantly, the Supreme Court has said it will consider the NGO's suggestion that the Central Government Health Scheme (CGHS) rates be used as an interim measure if the central government does not come up with a concrete proposal in the given timelines.

Dilemma around blanket price implementation of CEA

To fix a blanket price for the same treatment across different hospitals and states would be a very difficult task as multiple stakeholders need to get involved to determine the price. Moreover, in India healthcare is always a State subject and the central government will find it very difficult to implement a blanket rate as well as healthcare ecosystem is skewed towards private hospitals which will be a big resistance for the central government. Interaction with the companies and some TV interviews highlight that implementing CEA would be like a single price for procedures that penalise high-quality care (hospitals with high-end equipment like CART, robotics) compared to hospitals with minimal infrastructure for the same producers.

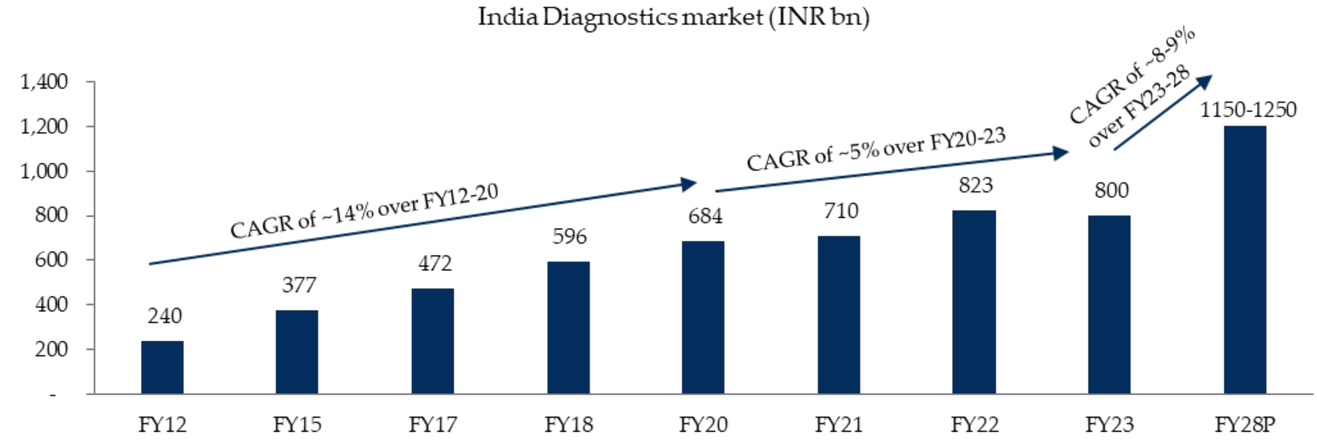
The execution of the Supreme Court notice would impact sales from cash and insurance patients for the companies, which contribute 70-80% of hospital sales (cash and insurance share is at ~30-40% each). This would dilute the growth and margin for the companies, especially at a time when the hospital sector is in the bed expansion phase. Moreover, an interim solution of the application of CGHS rates (typically 30-60% lower than cash/private insurance rates) would lead to rethinking of the leading companies for their investments in a sector that is already short in terms of healthcare infrastructure. In our view, the litigation is still in the early stage and it may see some counter-petition from the private sector. Hence, uncertainty around price, future investment and profitability will be a key overhang in the near term.

Diagnostics: Muted in FY20-23, some improvement from FY24

Diagnostics play a key role in the management of health and the prevention, evaluation, and treatment of disease. It has a role in every step of the healthcare value chain, from wellness testing to detection of disease right up to post-treatment monitoring and management.

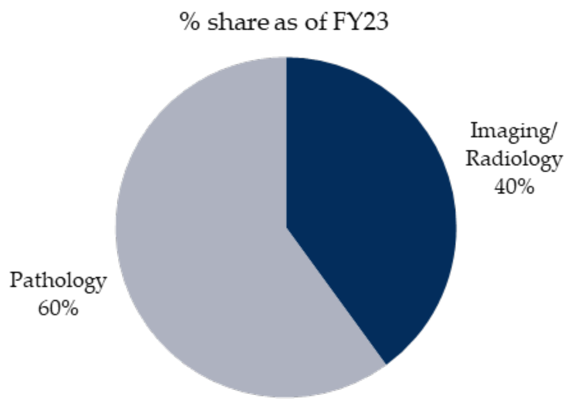
We see steady growth ahead for the industry in the light of favourable macro factors such as low healthcare spending, increasing burden of non-communicable diseases, ageing population etc. These factors assume significance in the context of a highly fragmented diagnostic market—India's organized market share is ~16-20%, which includes pan-India players like Dr Lal PathLabs, Metropolis, SRL, Thyrocare, and some regional players like Vijaya, Neuberg, Suraksha, etc.

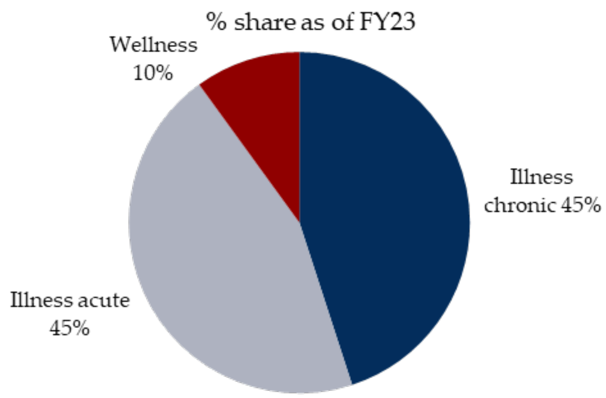
Exhibit 52: Indian diagnostic market had strong growth over FY12-20, impacted by Covid and increased competition over FY20-23 and expected to see steady growth over next 3-5 years



Source: Vijaya Diagnostic RHP from FY12-20, Dr Lal Path AR 2022, Entero Healthcare RHP and Agilus DRHP, Industry, CRISIL MI&A Research

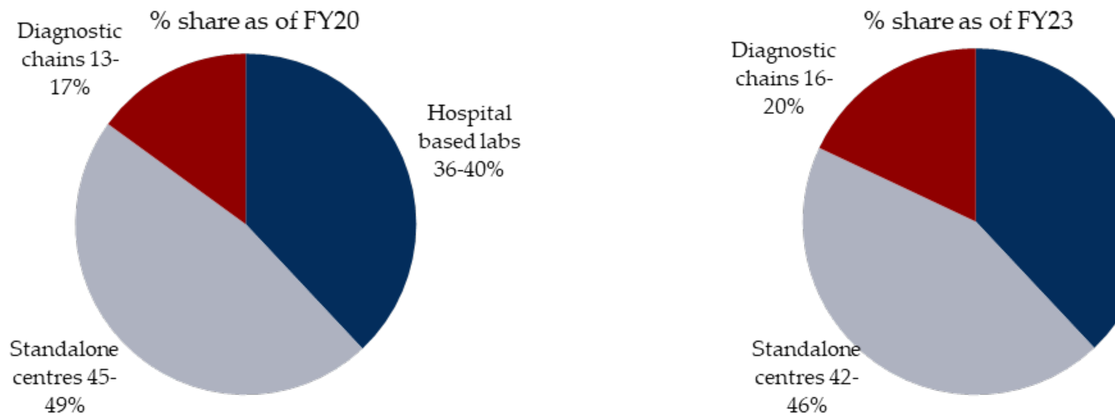
Exhibit 53: Pathology accounts for ~60% of diagnostics, ~90% of which comes from illness market





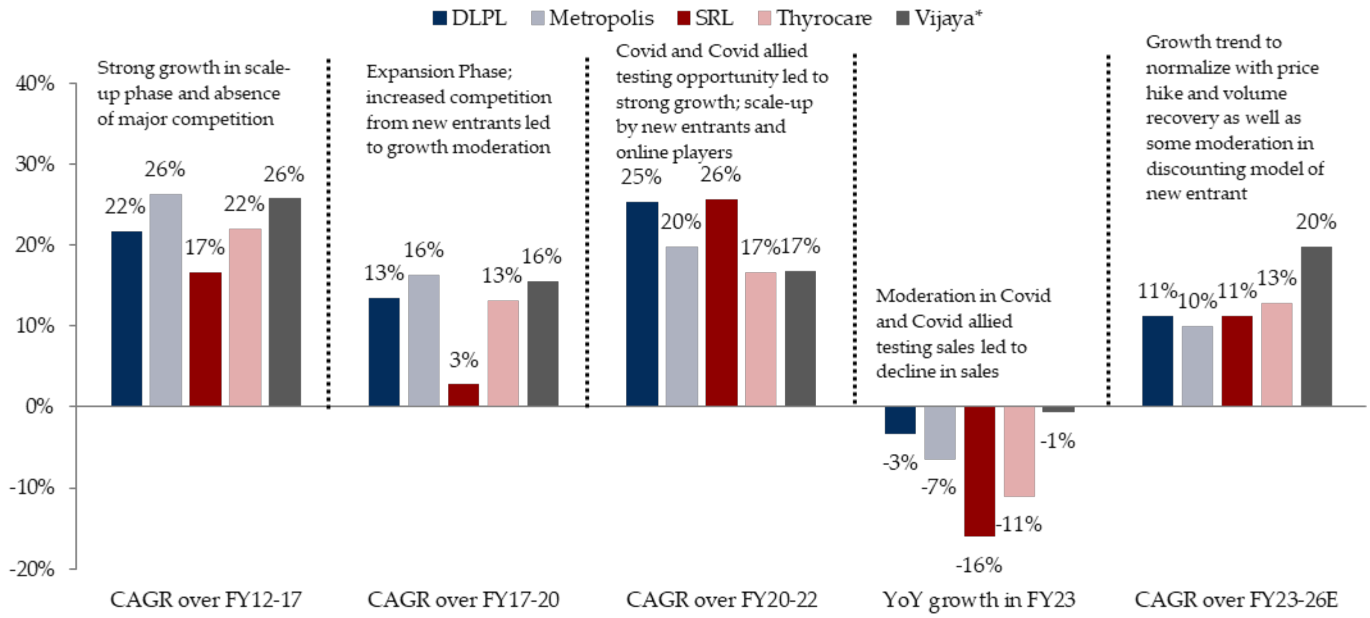
Source: Agilus DRHP, Industry, CRISIL MI&A Research, HSIE Research channel checks

Exhibit 54: Indian diagnostic market is highly fragmented but organized diagnostic chains share improving



Source: Agilus DRHP, Industry, CRISIL MI&A Research, HSIE Research

Exhibit 55: India diagnostic market growth phases for leading companies; to normalizing from FY24 onwards



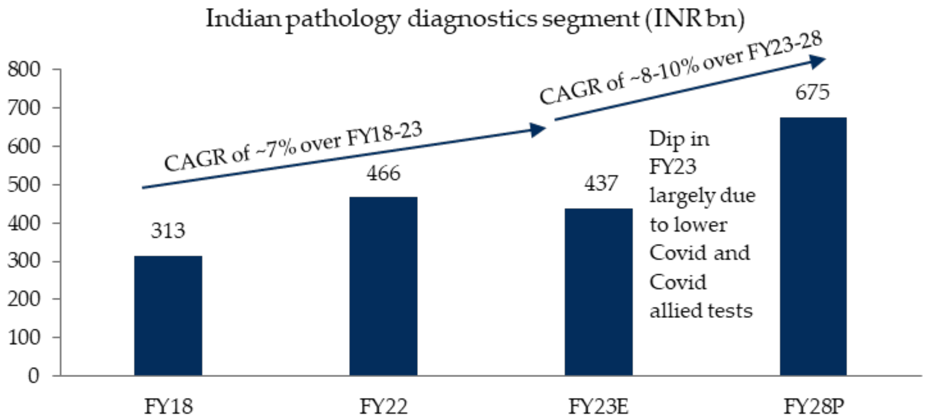
Source: Companies, HSIE Research, Bloomberg, *Vijaya diagnostic CAGR over FY15-17

Key growth phases of diagnostics business in India: Entering a normalizing Phase 4

- **Phase 1 – FY12-17**: High growth phase. This phase was led by increasing demand and scale-up from a low base.
- **Phase 2 – FY17-20**: Focus shifted to deeper and wider penetration. Growth was led by deeper penetration in existing markets and expansion into newer geographies. Regional as well as organized new age regional players (like Neuberg and Redcliffe) entered the market.
- **Phase 3 – FY20-22**: Covid-led spurt in the growth. The pandemic impact during Q4FY20 and Q1FY21 (due to lockdown) was followed by the strong opportunity from Covid (RT-PCR) and allied testing (D-dimer, IL-6 etc.). This phase saw major structural changes like consumer awareness of health (demand for wellness packages), accessibility (online/ home collection) and focus on quality (accuracy, consumer service experience and better TAT).
  - Structural changes coupled with attractive financial dynamics in the diagnostic industry triggered a rise in conventional and innovative competition including the online aggregator model (collection of samples only), e-diagnostics (e-pharmacy players diversified into diagnostics), large pharma as well as non-pharma corporates like Lupin, Adani, Reliance, and Torrent as well as new-age players like Neuberg and Redcliff.

- **Phase 4 – FY23-26E**: The overall decline in FY23 was largely due to a sharp drop in COVID-19 and COVID-19 allied testing revenues. Ex-COVID business saw growth recovery. Going ahead, we expect growth to normalize to 12-13% over FY23-26E on the back of favourable macros, geographical expansion, price hikes, and volume recovery. Other factors such as strengthening of brand equity (focus on quality, consumer experience, accuracy, and lower TAT), and ramp-up in wellness and B2B segment could support growth as well as help improve margin.

Exhibit 56: India pathology diagnostic market to see steady growth



Source: Agilus DRHP, Industry, CRISIL MI&A Research

Geographical expansion to enhance footprint

Over the last few years, most companies have expanded their presence by densifying existing markets to strengthen their presence in targeted regions/ states. The focus on local markets within regions provides better access and helps in creating brand equity. Leading companies are going in for core market proliferation and choosing the M&A route for quick access to patient bases in new markets. Moreso, with a strong OCF/FCF generating mode, the leading companies are looking to expand their footprints via M&As (selective and disciplined overvaluation).

Exhibit 57: Key M&A in diagnostic space

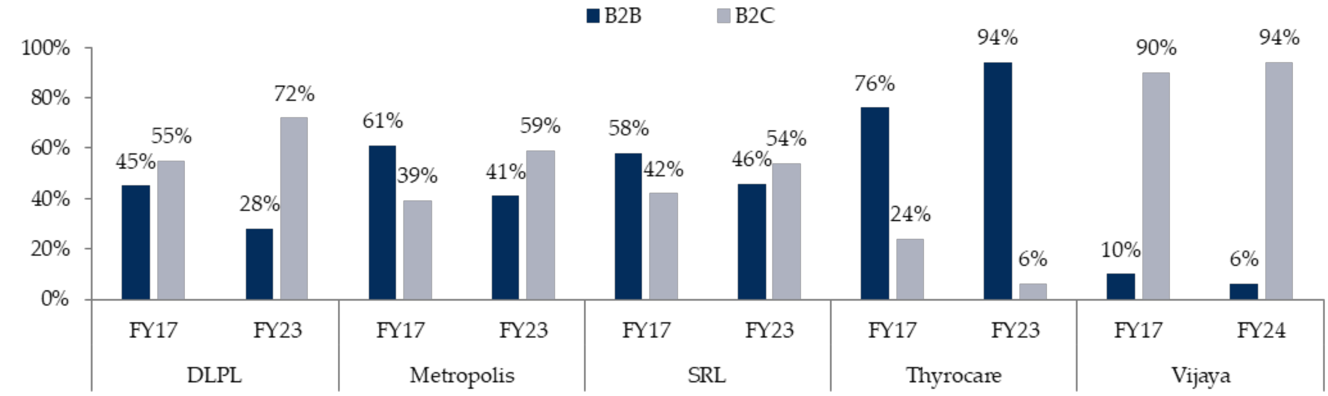
Date	Company	Target company	Consideration (USD mn)	Comments
19-Aug-20	Reliance Retail	Netmeds	84	Reliance Retail Venture (subsidiary of Reliance Industries), acquired a majority stake in pharma marketplace Netmeds.
16-Jan-20	Metropolis Healthcare Ltd	Shraddha Diagnostic	1	Metropolis acquired Ahmedabad-based Shraddha Diagnostics to expand presence in Gujrat.
06-Nov-20	Dr Lal PathLabs Ltd	ChanRe Diagnostic	2	Dr Lal Pathlabs acquired Karnataka -based ChanRe Diagnostic to exapnd presence in South India.
17-Jan-21	Metropolis Healthcare Ltd	Hitech Diagnostic	87	Metropolis acquired Chennai based Hitech Labs to expand its presence in South India.
05-Feb-21	Fortis Healthcare Ltd	DDRC SRL Diagnostics	48	SRL labs acquired balance 50% stake in the DDRC, in Kerala.
25-Jun-21	API Holdings	Thyrocare Technologies	598	API holding acquired stake in Thyrocare to create presence in diagnostic space.
10-Jun-21	Tata Digital	1MG Technologies	157	Tata Digital (subsidiary of Tata Sons), acquired a majority stake in digital health company 1MG Technologies.
26-Oct-21	Dr Lal PathLabs Ltd	Suburban Diagnostics	123	Dr Lal Pathlabs acquired Mumbai based Suburban diagnostic to expand its presence in West India.
11-Apr-23	SRL Ltd	Lifeline Laboratory	N/A	SRL acquired Lifeline labs to strengthen its position in Delhi-NCR region.
27-Sep-23	Redcliffe Lifetech Pvt Ltd	Medicentre Sonography & Clinical Lab	N/A	Redcliffe acquired Medicentre to expand in radiology business.

Source: Companies, HSIE Research, Bloomberg

Focus on increasing B2C business

The B2B model helps enter newer geographies and non-core markets. It allows for a rapid increase in volumes through samples collected from hospitals, nursing homes and other such establishments. The B2C model is the most preferred by diagnostic players, calling for substantial investment in brand building and sustainability.

Exhibit 58: B2C share increasing for most of the leading companies

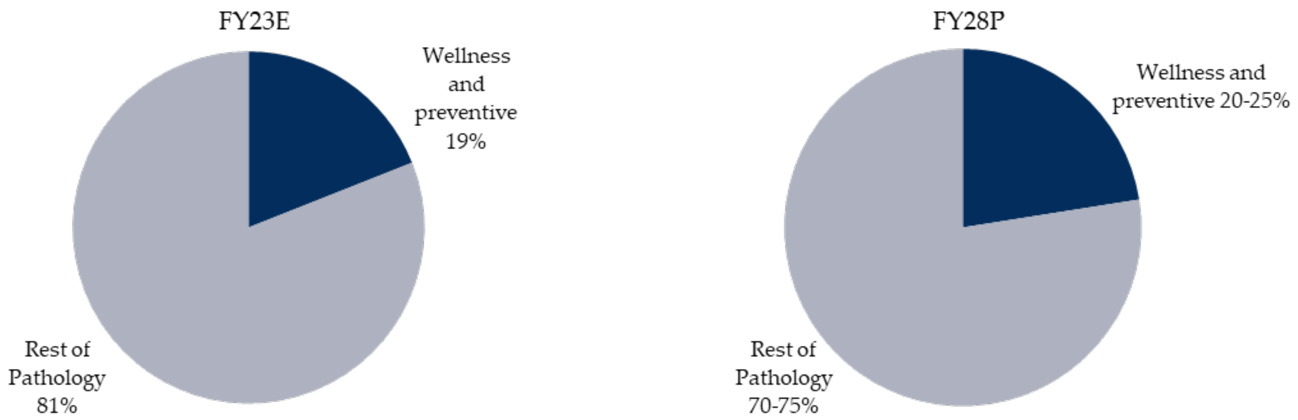


Source: Companies, HSIE Research, Agilus DRHP, Industry, CRISIL MI&A Research

Focus shifting towards wellness and preventive care

Post-COVID, consumers are more attentive to health and well-being, giving rise to bundled test offerings as well as home collection and online bookings. Leading companies have seen significant jumps in their wellness and home collection business as they responded to changing consumer preferences.

Exhibit 59: Share of preventive and wellness segment in India pathology diagnostic market to increase over FY23-28

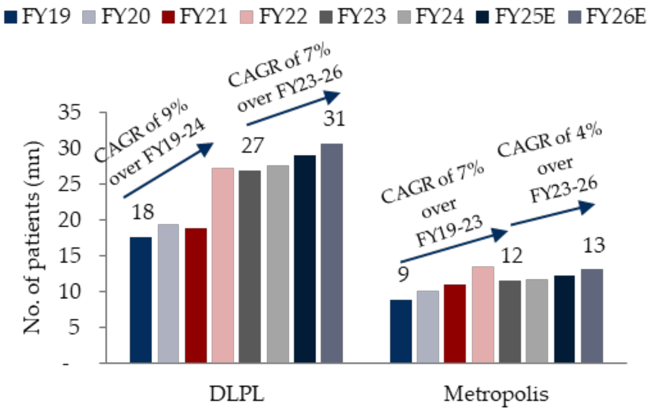


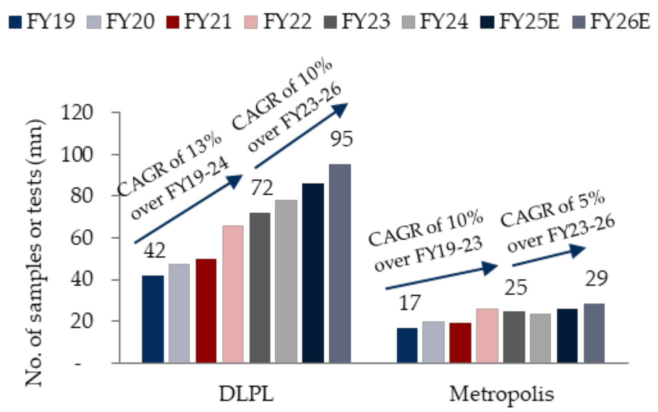
Source: Agilus DRHP, Industry, CRISIL MI&A Research, HSIE Research

High-end testing and wellness help improve volume and realisation

The overall market is expected to normalize and with a structural shift towards organized players, the volume growth is expected to improve gradually over the next few years. This coupled with the focus on high-end specialty and semi-specialty testing, targeting the acute illness market, and pushing for wellness packages as well as price hikes in select test portfolios will help improve realization per patient as well as per sample or test over the next few years.

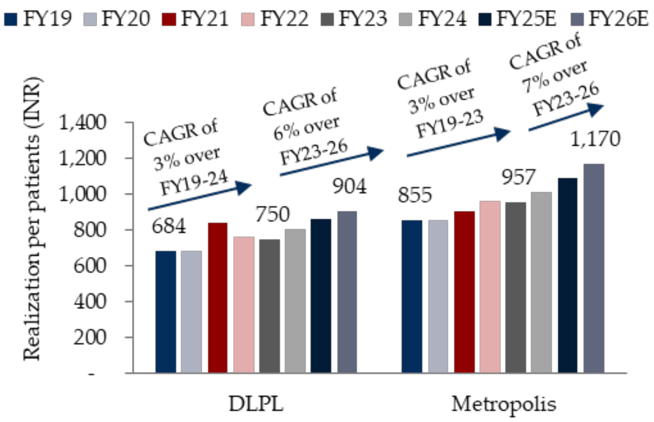
Exhibit 60: Leading companies to see gradually pick-up in patient and test volume

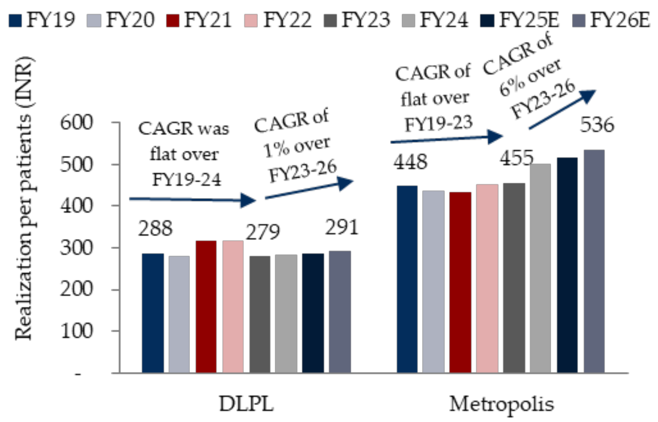




Source: Companies, HSIE Research

Exhibit 61: Select price hike, focus on wellness and change in text mix to help improve realization





Source: Companies, HSIE Research

Diagnostics: attractive industry dynamics led to increasing competition

Over the last 3-5 years, India's diagnostic industry has seen new entrants like corporate chains, both from within and outside the healthcare domain. These companies have been attracted by the dynamics of the industry such as strong cash generation, low entry barriers, low capital investments and superior RoCE. Moreover, the hospital-based diagnostic business has also been scaled up over the last few years by leading players like Apollo Hospital, Max Healthcare, Aster DM, etc. which has intensified the competition over the last few years.

Exhibit 62: Increasing number of online and PE backed companies in the India diagnostic market

Pure diagnostic	Hospital Labs	Other corporates	Online players	PE backed
Dr Lal Pathlabs (1949)	Apollo diagnostic (2015)	Lupin (2022)	Tata 1mg (2015)	Neuberg (2017)
Agilus (1996)	Aster DM (2020)	Pathkind (2016)	Netmeds (2015)	Redcliffe (2018)
Metropolis (2000)	Max Labs (2020)	MedPlus (2018)	Healthians (2015)	Orange Health (2020)
Thyrocare (2000)			Practo (2008)	Atulaya (2008)
Vijaya (2009)			MediBuddy (2000)	Medall (1994)

Source: Companies, HSIE Research, Bloomberg

Online players are relying on high discounts to capture volumes and market share, and many have paid dearly. The cost of customer acquisition (payout for search engines and other related costs) has led to heavy cash burnouts.

Most of the new entrants are focusing on opportunities in the routine chronic testing space and bundling tests through packages (wellness) at disruptive pricing and are largely focused on metros and Class I cities. However, in the last few quarters, the offline/traditional companies are increasing the price of select test portfolios where the competitive intensity is low to support overall growth.

Exhibit 63: Prices for organized players has see 4-5% increased; Tata 1mg discounts remain high and intensity is increasing as focus is to capture volume share

Price in Mumbai (Rs)	Metropolis			DLPL			Agilus/ SRL			1mg (online)			Average discount %		
	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024
CBC	310	310	330	250	250	250	350	350	350	299	299	249	-1%	-1%	-20%
Glucose fasting	90	90	90	85	85	85	80	85	90	99	99	99	16%	14%	12%
Vitamin D 25	1,650	1,650	1,700	1,500	1,500	1,500	1,500	1,530	1,700	370	389	339	-76%	-75%	-79%
Vitamin B12	1,150	1,150	1,200	1,200	1,200	1,200	1,150	1,130	1,200	449	449	339	-62%	-61%	-72%
Lipid Profile	800	800	800	840	840	840	800	800	830	320	320	319	-61%	-61%	-61%
Thyroid Profile	550	550	600	550	550	550	550	530	699	320	359	289	-42%	-34%	-53%
Liver Function	1,475	1,475	1,500	800	800	800	1,000	1,000	1,100	370	399	319	-66%	-63%	-72%
Kidney Function	1,100	1,100	1,180	910	910	910	900	900	965	349	359	309	-64%	-63%	-70%

Source: Companies, HSIE Research, Note: Some tests/profiles may differ under certain brands; Peer set to calculate discount by 1mg comprises Metropolis, DLPL and SRL

Retail pharmacies: industry tailwinds to drive strong growth

The overall retail market in India saw a steady 9% CAGR over 2018-23 and was valued at INR 76,066 bn in 2023. It is expected to register a CAGR of 10% to INR 1,13,399 bn by 2027. Within the retail market, the retail pharmacy and wellness categories were ~3% of India's retail market at INR 2,272 bn in 2023, reflecting a CAGR of ~10% over 2018-23 and is expected to see a CAGR of steady ~12% to reach INR 3,575 bn by 2027. With faster than industry growth, pharmacy business share in the overall retail market is expected to improve from 3% in 2023 to 3.2% in 2027.

- In India's retail pharmacy and wellness market, a large chunk of share is with the unorganized retail chains (contributes ~82% of the overall market).
- Interestingly, over the last 5-6 years, the share of organized retail categories such as the B&M model and e-commerce (online) is on the rise.
- Organized B&M model share has improved from ~6% in 2018 to 13% in 2023 and was valued at INR 295 bn in 2023 from INR 85 bn in 2018, registering a strong CAGR of 28% over 2018-23. This category is expected to sustain steady growth momentum with a CAGR of ~13%+ over 2023-27 to reach a value of ~INR 475 bn in 2027 and its share could increase to ~13.5-14% by 2027.
- Organized e-commerce (online) share has improved from ~3% in 2018 to 5% in 2023 and was valued at INR 114 bn in 2023 from INR 43 bn earlier, registering a healthy CAGR of 22% over 2018-23. This category is expected to see strong growth momentum with a CAGR of ~30%+ over 2023-27 to reach the value of ~INR 329 bn in 2027 and its share could increase to ~9-9.5% by 2027.
- Combined organized market (B&M and e-commerce) share has improved from ~9% in 2018 to 18% in 2023 and was valued at INR 409 bn in 2023 from INR 128 bn in 2018, registering a strong CAGR of 26% over 2018-23. This is expected to sustain strong growth momentum with a CAGR of ~18-20%+ over 2023-27 to reach ~INR 804 bn in 2027 and its share could increase at ~23% by 2027.

Exhibit 64: Strong growth visibility in organized pharmacy market over the next few years

INR bn	2018	2019	2020	2021	2022	2023	2027P	CAGR over 2018-23	CAGR over 2023-27P
Pharmacy & Wellness	1,418	1,572	1,725	1,811	2,029	2,272	3,575	10%	12%
- Share of Unorganized retail	1,290	1,391	1,540	1,606	1,725	1,863	2,771	8%	10%
- Share of organized B&M	85	105	147	150	223	295	475	28%	13%
- Share of organized E-commerce	43	75	38	54	81	114	329	22%	30%
- Share of organized retail (B&M + E-comms)	128	181	185	205	304	409	804	26%	18%
Overall retail market in India	49,170	54,481	59,717	57,757	67,517	76,066	1,13,399	9%	10%
% share of Pharmacy in overall retail market in India	2.9%	2.9%	2.9%	3.1%	3.0%	3.0%	3.2%		

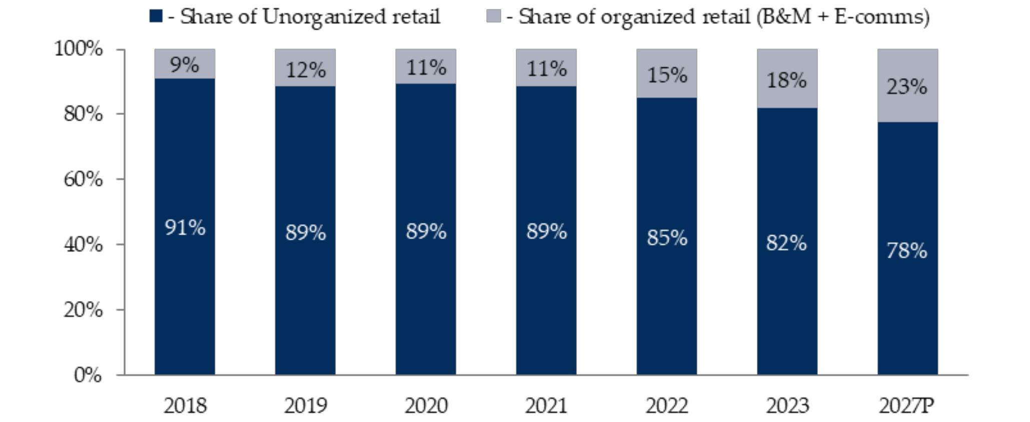
Source: Bazaar Style DRHP, Technopak Analysis, HSIE Research

Exhibit 65: Strong growth in organized B&M model show strong growth post COVID impact in 2021, online category surged during COVID and continues to maintain strong momentum

YoY growth	2019	2020	2021	2022	2023
Pharmacy & Wellness	11%	10%	5%	12%	12%
- Share of Unorganized retail	8%	11%	4%	7%	8%
- Share of organized B&M	24%	39%	3%	48%	32%
- Share of organized E-commerce	77%	-50%	43%	49%	40%
- Share of organized retail (B&M + E-comms)	42%	2%	11%	49%	34%

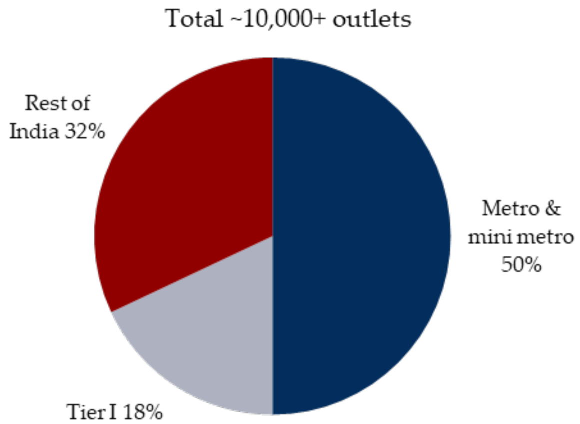
Source: Bazaar Style DRHP, Technopak Analysis, HSIE Research

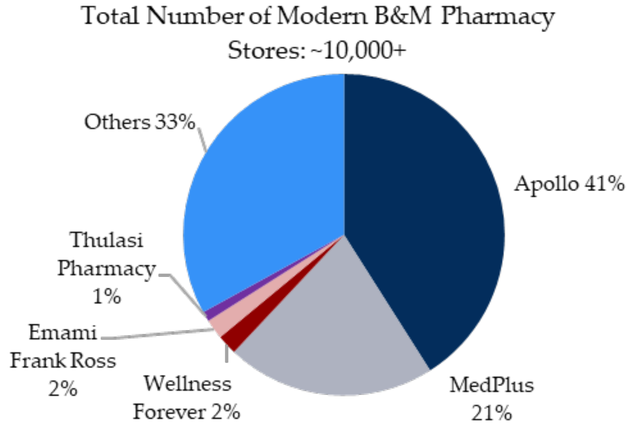
Exhibit 66: Share of organized retail pharmacy category is on rise



Source: Bazaar Style DRHP, Technopak Analysis, HSIE Research

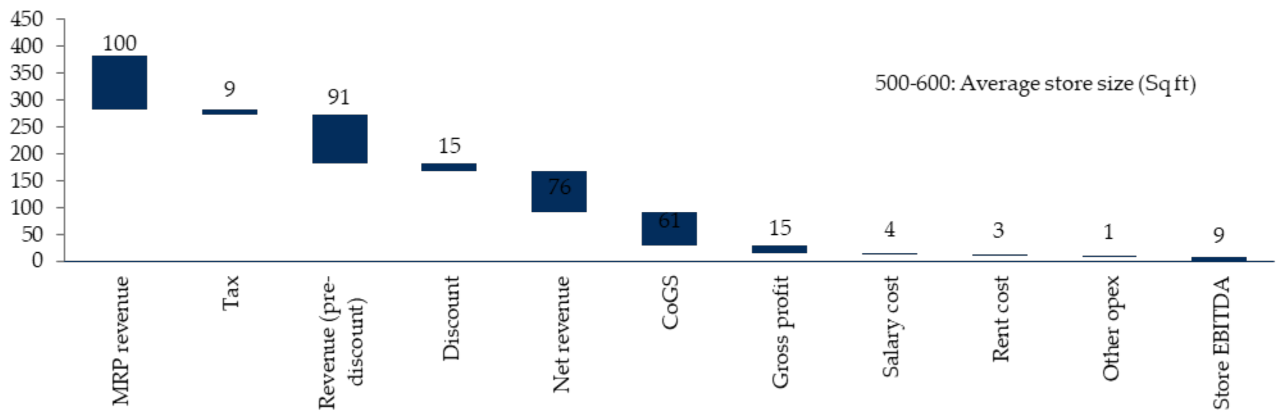
Exhibit 67: Organized players are largely metro and tier-1 focused, Apollo largest and MedPlus 2nd largest player





Source: MedPlus RHP, Technopak Analysis, HSIE Research

Exhibit 68: Store level unit economics



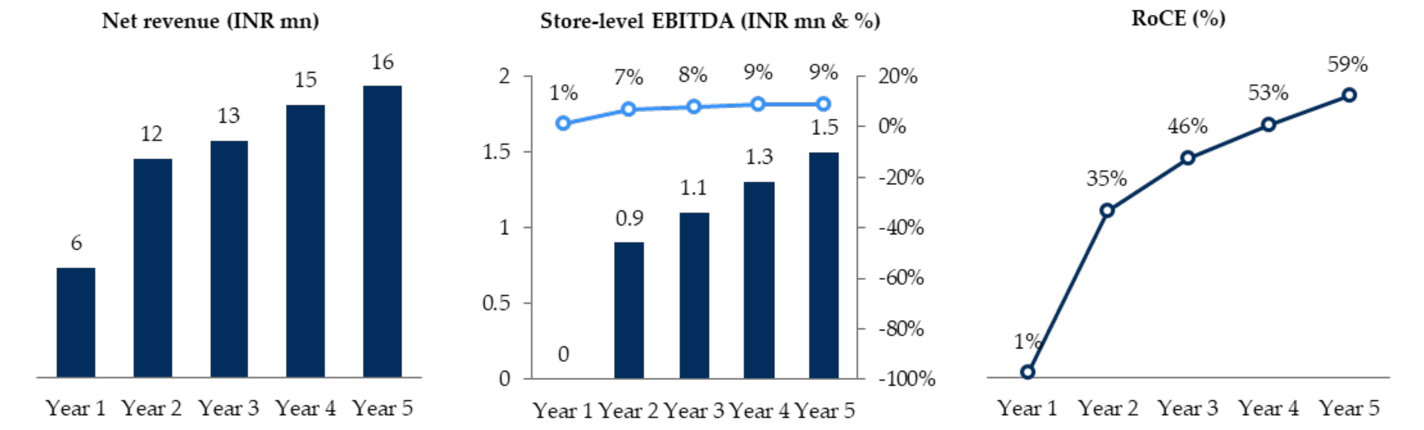
Source: Companies, HSIE Research

Exhibit 69: Unit economics of organized vs. unorganized pharmacy stores

Heads (Share of Net Sales)	Pharmacy led Retail Chains	Independent Pharmacy
Avg. Store Size (in sq. ft.)	200-700+	150-500+
Average sales /Day** (in INR)	30,000-50,000	4-6,000
SKUs	4,000-10,000	2,000-6,000
COGS	78-83%	86-88%
Gross Margins	17-22%	12-14%
Employee Benefit Expense	3-5%	3-5%
Advertisement	0-1%	0-1%
Rent Expense	1-3%	1-3%
Other Expenses	1-2%	2-4%
Store EBITDA	9-12%	3-6%
Retail Discounts (On MRP Sales)*	0-20%	0-10%
Capex for Initial Build and Opening (in INR mn)	0.4-0.8	0.1-0.4

Source: MedPlus RHP, Technopak Analysis, , HSIE Research. Note: All values based on pharmacy revenue, *Discounts based on MRP of products retailed from pharmacy, **Based on per store metrics for major retailers.

Exhibit 70: Progress at store level sales, EBITDA/ margin, and RoCE



Source: Companies, HSIE Research

Exhibit 71: Peer comparison

Peer revenues and other comparison	FY20	FY21	FY22	FY23	9MFY24
Revenues (INR mn)					
Apollo Pharmacy	48,206	56,103	67,679	82,380	73,069
MedPlus	28,511	30,546	37,589	45,097	40,778
YoY growth					
Apollo Pharmacy	24%	16%	21%	22%	21%
MedPlus	27%	7%	23%	20%	25%
EBITDA (INR mn)					
Apollo Pharmacy	2,893	3,591	4,439	6,120	5,480
MedPlus	1,660	2,167	2,855	2,838	2,604
EBITDA margin (%)					
Apollo Pharmacy	6.0%	6.4%	6.6%	7.4%	7.5%
MedPlus	5.8%	7.1%	7.6%	6.3%	6.4%
Number of stores					
Apollo Pharmacy	3,766	4,118	4,529	5,541	5,790
MedPlus	1,775	2,081	2,748	3,822	4,233
Revenue per store (INR mn)					
Apollo Pharmacy	12.8	13.6	14.9	14.9	12.6
MedPlus	16.1	14.7	13.7	11.8	9.6
EBITDA per store (INR mn)					
Apollo Pharmacy	0.8	0.9	1.0	1.1	0.9
MedPlus	0.9	1.0	1.0	0.7	0.6
Private label sales (%)					
Apollo Pharmacy	8.0%	10.0%	11.7%	14.2%	16.3%
MedPlus	5.7%	10.4%	12.7%	13.6%	13.9%

Source: Companies, HSIE Research. Note: Assumed 7.5% margin for Apollo Pharmacy in 9MFY24

Exhibit 72: Peer comparison of traditional and online companies

	Store count	Offline	Online	Other business
Apollo Pharmacy	5,790	Yes	Yes, through Apollo 24/7 app	Apollo 24/7 app integrated to provide services across online medicine order, lab test booking, hospital bed booking, consultation etc.
MedPlus	4,233	Yes	Yes, through MedPlus app	Diversified into pathology and radiology business.
Wellness forever	400+	Yes	Yes, through app	No
API Holdings	100	Yes, though franchisee model	Yes, PharmEasy app	PharmEasy app integrated to provide services across online medicine order, lab testing through acquisition of Thyrocare, doctor consultation etc.
Tata 1mg	50+	Yes, though franchisee model	Yes, through app	1mg app integrated to provide services across online medicine order, diagnostic lab testing, and doctor consultation etc.
NetMeds	1,000	Yes	Yes, through app	Netmeds app integrated to provide services across online medicine order, diagnostic lab testing, and doctor consultation etc.

Source: Companies, HSIE Research

Exhibit 73: Coverage companies—valuation snapshot

Companies	MCAP (USD bn)	Rating	TP Multiple	CMP (Rs)	TP (Rs)	EPS (Rs)			EPS CAGR (%) FY23-26E	P/E (x)			EV/EBITDA (x)			RoCE (%)		
						FY24E	FY25E	FY26E		FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Aurobindo	8.1	ADD	18x	1,160	1,250	53	67	69	28	22	17	17	12	10	9	13	15	14
Dr. Reddy's	11.7	REDUCE	25x	5,840	6,050	308	316	307	13	19	18	19	12	11	12	26	21	18
Lupin	9.1	REDUCE	26x	1,662	1,600	45	51	62	94	37	33	27	21	19	16	16	17	19
Sun Pharma	44.1	BUY	31x	1,536	1,750	40	50	56	16	38	31	27	27	23	21	17	19	20
Zydus Life	12.2	ADD	26x	1,009	1,050	36	39	40	21	28	26	25	20	18	18	21	20	18
Large Cap										**33**	**27**	**25**	**22**	**19**	**18**	**18**	**19**	**19**
Alkem	7.6	ADD	27x	5,317	5,600	163	177	207	32	33	30	26	27	24	20	20	20	21
Eris Life	1.4	BUY	25x	881	1,050	30	31	42	14	29	28	21	18	12	11	15	17	17
Mankind	10.0	ADD	36x	2,092	2,360	48	55	66	24	44	38	32	33	28	24	27	26	26
Torrent Pharma	11.0	ADD	38x	2,704	2,940	47	61	77	28	58	44	35	29	25	21	22	25	29
Domestic formulation heavy										**45**	**37**	**30**	**27**	**23**	**20**	**20**	**22**	**25**
Hospitals																		
Apollo Hospitals^	10.2	BUY	26x	5,931	7,030	63	95	139	44	94	62	43	37	29	22	15	18	23
Max Healthcare^	9.9	ADD	28x	848	900	14	17	23	26	61	49	37	44	34	27	17	20	23
Hospital Avg										**79**	**56**	**40**	**40**	**32**	**24**	**16**	**19**	**23**
Pharmacy retail																		
MedPlus $	1.0	BUY	18x	703	850	4	9	17	71	159	75	42	26	20	15	7	10	13
Diagnostics																		
Dr Lal Pathlabs	2.5	ADD	48x	2,519	2,700	43	49	56	25	59	51	45	34	31	27	25	27	28
Metropolis	1.1	ADD	46x	1,868	2,010	26	34	44	16	72	55	43	34	29	24	14	17	19
Diagnostics Avg										**63**	**52**	**44**	**34**	**30**	**26**	**22**	**23**	**25**

Source: Companies, HDFC Securities, Bloomberg. Target multiples at FY26E EPS. ^ Hospital companies TP based of FY26E EV/ EBITDA. Price as of 16 May 2024. Dr Reddy's TP includes INR 220/ sh for gRevlimid. $ MedPlus TP based on FY26E EV/EBITDA on post IND-AS base; implies 30x EV/EBITDA on pre IND-AS. Diagnostics target multiples at FY26E EPS

Exhibit 74: BSE Healthcare outperformed Sensex by 9/33% in past 6/12 month

Companies	Price (Rs)	Absolute performance (%)					
		1 month	3 months	6 months	1 year	3 years	5 years
Pharmaceuticals							
Alembic	970	0%	-3%	30%	73%	3%	84%
Alkem	5,318	12%	-2%	22%	56%	78%	214%
Aurobindo	1,160	4%	12%	19%	81%	16%	73%
Biocon	306	16%	7%	32%	24%	-21%	17%
Cipla	1,421	3%	-1%	15%	54%	61%	161%
Divis	3,931	4%	5%	11%	20%	-3%	141%
Dr Reddy's	5,850	-3%	-7%	6%	30%	11%	113%
Eris Lifesciences	881	2%	-1%	-3%	40%	24%	44%
Gland	1,780	2%	-11%	10%	31%	N.A	N.A
Glenmark	1,005	-5%	15%	30%	65%	66%	73%
IPCA	1,288	-4%	4%	20%	86%	18%	180%
Lupin	1,663	3%	3%	39%	110%	40%	121%
Mankind	2,093	-8%	-5%	12%	54%	NA	NA
Natco Pharma	999	1%	-3%	29%	60%	9%	92%
Piramal Pharma	149	5%	11%	28%	NA	NA	NA
Sun Pharma	1,536	0%	2%	29%	63%	124%	276%
Syngene	687	-3%	-10%	-5%	-1%	20%	132%
Torrent	2,700	6%	2%	32%	66%	95%	228%
Zydus Lifesciences	1,009	7%	13%	60%	96%	65%	304%
Healthcare services							
Apollo	5,932	-6%	-10%	11%	30%	88%	420%
Aster DM	350	-13%	-3%	35%	78%	128%	173%
Max Health	849	4%	-2%	38%	67%	N.A.	N.A.
Medplus	704	2%	3%	-13%	-1%	N.A.	N.A.
DLPL	2,522	8%	2%	-6%	24%	-8%	137%
Metropolis	1,868	7%	5%	16%	43%	-19%	N.A.
BSE HC	**35,411**	**1%**	**0%**	**21%**	**53%**	**47%**	**168%**
Sensex	**73,664**	**1%**	**2%**	**12%**	**20%**	**49%**	**94%**

Source: HSIE Research, Bloomberg, Price as of 16 May 2024

Companies

Apollo Hospitals Enterprise

Sector leader with steady growth/margin visibility

Apollo Hospitals (APHS) has established itself as the largest Indian private hospital chain, boasting 9,469 total beds (7,911 are operational). The company has a comprehensive presence across the healthcare value chain, including hospitals (53% of sales), HealthCo (comprising pharmacy distribution and online services; 40%), and Apollo Health & Lifestyle (AHLL, retail health and diagnostics; 7%). After capex phase over FY14-19, APHS has improved performance in hospital business led by improving operating metrics (increased occupancy, growth in ARPOB), resulted in 650+ bps margin expansion over FY19-23 to 24.6% in FY23 (24.1% in 9M'24). Its HealthCo business supported by distribution and retail pharmacy stores (largest organized chain in India) and online platform Apollo 24/7. Going ahead, we expect the hospitals to see steady growth with headroom to increase occupancy, steady growth in ARPOB on improving case/ payor mix, and bed capacity expansion of 2,280+ over FY25-27 provide long-term growth visibility. HealthCo to see strong scale-up led by healthy growth in offline and scale-up in Apollo 24/7 business with expected cost reduction to improve the margin. HealthCo to sale 16.9% stake to Advent (global PE fund; investing INR 24.75 bn, implies HealthCo EV at INR 145 bn; ~USD 1.8 bn). APHS to merge Keimed to streamline procurement and address related party hangover – expected timeline to complete the transactions by FY27. AHLL to see strong growth on network expansion. One steady sales growth, margin expansion and improving return ratios visibility, we initiate coverage with a BUY rating and a TP of INR 7,030, based on a 26x blended FY26E EV/EBITDA.

Hospitals: Steady growth and margin visibility: After capex phase over FY14-19, APHS has improved its EBITDA margin for the hospital business (53% of sales) on back of 11% CAGR over FY19-23 in ARPOB (led by case mix, payor mix, improving ALOS and price hike) and improving maturity profile in new hospitals. The hospital business is expected to see steady growth led by headroom to increase occupancy (~65% in 9MFY24) and steady growth in ARPOB (~INR 56,823/bed) on back of improving case/ payor mix. Medium-to-long term growth is pegged on planned bed addition of 2,280+ over FY25-27 (capex of ~INR 34.35 bn) largely metro/ tier 1 focus (in Bangalore, Hyderabad, Chennai, Gurgaon). The margin is expected remain steady as drag from new hospitals to be offset by better operating metrics and cost controls.

HealthCo: Strong growth, margin to inch-up: HealthCo includes offline pharmacy distribution, retail pharmacy and Apollo 24/7. APHS has spent ~INR 15.4 bn over FY21-9MFY24 which has led to EBITDA loss in last 2 years. APHS expects cost to moderate to support the margin improvement. APHS expects offline pharmacy sales to grow at 20% and online business GMV (led by back-end, service fees across services) to see strong over next few years (INR 16.4 bn in FY23; INR 20 bn in 9MFY24). APHS had a value discovery for HealthCo with 16.9% stake implies EV of INR 145 bn. Also, merger of Keimed in HealthCo will address related party hangover.

Strong growth visibility for Retail health/diagnostics: AHLL business is expected to see strong growth over the next few years largely led by network expansion in its diagnostic business and gradual improvement in primary/ specialty care business.

Outlook and valuation: We expect APHS to see 17/25% sales/EBITDA CAGRs over FY23-26E and margin improvement to ~14.8% in FY26 (from ~12.3% in FY23 and 12.4% in 9MFY24). We initiate coverage with BUY rating and assign (1) EV/E of 26x to hospital, (2) EV/E of 16x to offline pharmacy, (3) EV/E of 23x to AHLL, and (4) 1x EV/ sales for Apollo 24/7 sales to arrive at SoTP of Rs 7,030 (blended 26x FY25E EV/E).

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	112	106	147	166	191	223	267
EBITDA	16	11	22	20	24	31	40
APAT	3	1	9	7	9	14	20
Diluted EPS (INR)	23	8	65	47	63	95	139
P/E (x)	263.0	754.5	90.8	126.8	94.4	62.4	42.7
EV / EBITDA (x)	56.9	77.3	40.4	43.4	37.1	28.7	22.1
RoCE (%)	10	6	16	13	15	18	23

Source: Company, HSIE Research

BUY

CMP *(as on 16 May 2024)*	**INR 5,932**
Target Price	**INR 7,030**
NIFTY	**22,404**

KEY STOCK DATA

Bloomberg code	APHS IN
No. of Shares (mn)	144
MCap (INR bn) / ($ mn)	853/10,220
6m avg traded value (INR mn)	2,952
52 Week high / low	INR 6,874/4,410

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.1)	11.1	30.2
Relative (%)	(11.8)	(0.5)	11.3

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	29.33	29.33
FIs & Local MFs	18.87	19.55
FPIs	46.25	45.63
Public & Others	5.55	5.49
Pledged Shares	16.09	16.09

Source : BSE

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Exhibit 1: Revenue and EBITDA assumptions

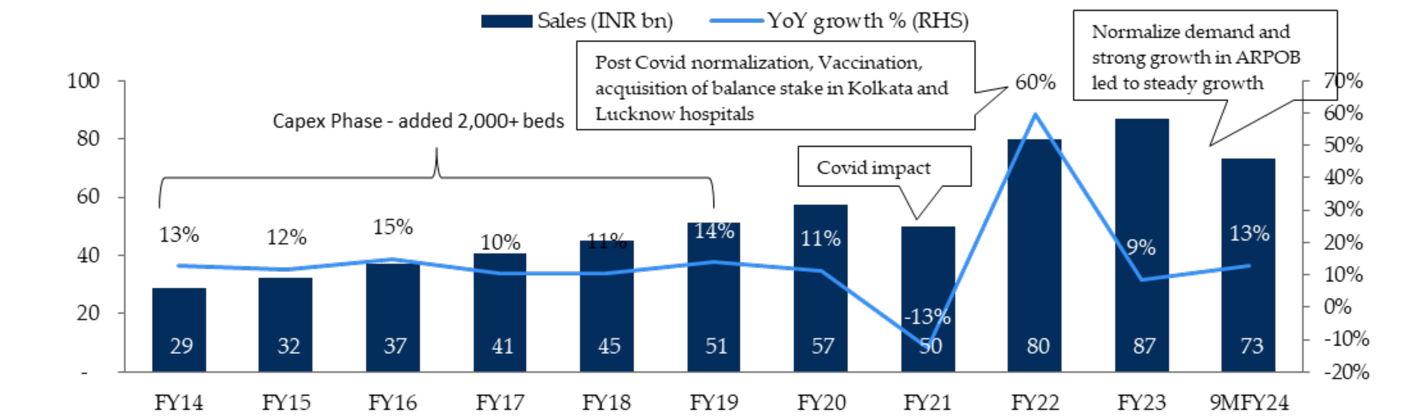
INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Hospital services	45,157	51,426	57,297	50,022	79,891	86,768	98,085	1,11,089	1,31,566
YoY growth	11%	14%	11%	-13%	60%	9%	13%	13%	18%
% of sales	55%	53%	51%	47%	54%	52%	51%	50%	49%
Hospital EBITDA	7,598	9,204	10,750	6,925	18,032	21,331	23,737	26,896	31,832
YoY growth	7%	21%	17%	-36%	160%	18%	11%	13%	18%
EBITDA margin %	16.8%	17.9%	18.8%	13.8%	22.6%	24.6%	24.2%	24.2%	24.2%
Offline pharmacy distribution	32,689	38,860	48,206	48,760	53,610	59,951	69,543	83,452	1,00,142
YoY growth	17%	19%	24%	1%	10%	12%	16%	20%	20%
% of sales	40%	40%	43%	46%	37%	36%	37%	37%	38%
Offline pharmacy distribution EBITDA	1,480	2,031	4,452	3,932	4,089	4,742	5,216	6,509	8,011
EBITDA margin %	4.5%	5.2%	9.2%	8.1%	7.6%	7.9%	7.5%	7.8%	8.0%
Online pharmacy distribution and Apollo 24/7						7,094	9,222	11,989	15,586
YoY growth							30%	30%	30%
% of sales						4%	5%	5%	6%
Online business EBITDA before Apollo 24/7 spend						594	1,014	1,559	2,338
EBITDA margin %						8.4%	11.0%	13.0%	15.0%
% of total EBITDA						-10%	-2%	6%	13%
Apollo 24/7 spending	-	-	-	252	2,236	6,574	6,245	5,309	4,512
% of HealthCo sales				0.5%	4.2%	9.8%	7.9%	5.6%	3.9%
ESOPs	-	-	-	-	-	779	866	477	463
% of HealthCo sales						1.2%	1.1%	0.5%	0.4%
Online business EBITDA after Apollo 24/7 spend	-	-	-	(252)	(2,236)	(6,759)	(6,097)	(4,227)	(2,637)
Apollo HealthCo (Digital Health & Pharmacy Distribution)	32,689	38,860	48,206	48,760	53,610	67,045	78,765	95,441	1,15,728
YoY growth	17%	19%	24%	1%	10%	25%	17%	21%	21%
% of sales	40%	40%	43%	46%	37%	40%	41%	43%	43%
Apollo HealthCo EBITDA	1,480	2,031	4,452	3,680	1,853	(2,017)	(882)	2,282	5,374
YoY growth	20%	37%	119%	-17%	-50%	-209%	-56%	-359%	135%
EBITDA margin %	4.5%	5.2%	9.2%	7.5%	3.5%	-3.0%	-1.1%	2.4%	4.6%
Retail Health and Diagnostics	4,589	5,888	6,964	6,818	13,125	12,311	13,665	16,398	19,678
YoY growth	19%	28%	18%	-2%	93%	-6%	11%	20%	20%
% of sales	6%	6%	6%	6%	9%	7%	7%	7%	7%
Retail Health and Diagnostics EBITDA	(1,146)	(599)	671	768	1,966	1,182	1,121	1,525	2,420
YoY growth	NA	NA	L/P	14%	156%	-40%	-5%	36%	59%
EBITDA margin %	-25.0%	-10.2%	9.6%	11.3%	15.0%	9.6%	8.2%	9.3%	12.3%
Total sales	82,435	96,174	1,12,468	1,05,600	1,46,626	1,66,125	1,90,515	2,22,928	2,66,971
YoY growth	14%	17%	17%	-6%	39%	13%	15%	17%	20%
EBITDA	7,932	10,636	15,873	11,373	21,851	20,496	23,976	30,703	39,627
YoY growth	9%	34%	49%	-28%	92%	-6%	17%	28%	29%
EBITDA margin %	9.6%	11.1%	14.1%	10.8%	14.9%	12.3%	12.6%	13.8%	14.8%

Source: Company, HSIE Research. Note: APHS spin-off its retail pharmacy business in Sep'21.

Hospital business – visibility for steady growth and margin

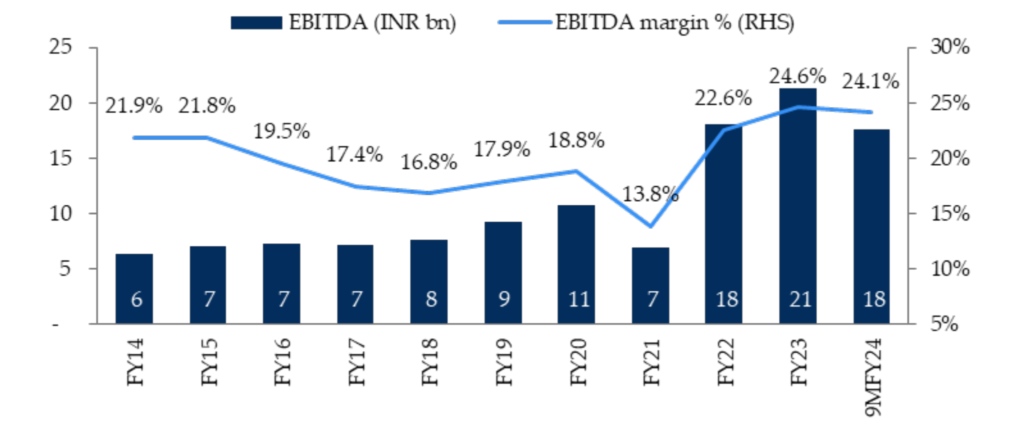
APHS is the largest Indian private hospital chain with ~9,469 total bed capacity (across 45 owned hospital and 6 managed hospitals) and operational bed capacity of ~7,911 as of Dec'23. APHS's hospital business saw steady CAGR of ~13% in the last decade (FY14-23) and was at 14% over FY19-23 with EBITDA CAGR of 15% over FY19-23 and was at 23% over FY19-23 and EBITDA margin expanded to 24.6% in FY23 from 21.9% in FY14 and 17.9% in FY19.

Exhibit 2: Steady growth in hospital business



Source: Company, HSIE Research

Exhibit 3: Steady EBITDA growth and improvement in margin



Source: Company, HSIE Research

The growth was led by expansion phase as it added ~2,000+ beds over FY14-23, steady occupancy and 10-11% CAGR in ARPOB. Moreso, hospital business growth was steady at ~13% with EBITDA growth of 10% and margin expansion steady margin at 24.1% in 9MFY24.

Exhibit 4: Operating metrics highlights, steady occupancy and growing ARPOB with reduction in ALOS

Total Hospital	FY18	FY19	FY20	FY21	FY22	FY23	9MFY24	CAGR over FY18-23
No. of Operating beds	7,111	7,246	7,491	7,409	7,875	7,860	7,911	NA
Inpatient volume	4,27,661	4,51,894	4,78,032	3,52,624	4,60,152	5,40,881	4,27,866	5%
% YoY growth	7%	6%	6%	-26%	30%	18%	5%	
Outpatient volume	14,34,685	15,52,841	16,27,514	11,60,247	25,14,365	18,79,171	14,42,877	6%
% YoY growth	2%	8%	5%	-29%	117%	-25%	2%	
Inpatient ALOS (days)	3.99	3.99	3.86	4.19	3.96	3.41	3.30	NA
Bed Occupancy Rate (%)	66%	68%	67%	55%	63%	64%	65%	NA
ARPOB (Rs /day)	31,967	34,226	37,397	40,214	45,327	51,668	56,823	10%
% YoY growth	2%	7%	9%	8%	13%	14%	11%	
Inpatient revenue (Rs mn)	43,560	49,260	54,896	48,982	70,135	76,017	64,547	12%
% YoY growth	6%	13%	11%	-11%	43%	8%	14%	
Outpatient revenue (Rs mn)	10,636	12,240	13,571	9,913	18,011	18,878	15,905	12%
% YoY growth	11%	15%	11%	-27%	82%	5%	12%	
Net Revenue (Rs mn)	54,196	61,500	68,467	58,895	88,146	94,895	80,452	12%
% YoY growth	7%	13%	11%	-14%	50%	8%	14%	
Adj for holding structure in Subs/JVs/ass	9,039	10,074	11,170	8,873	8,255	8,127	7,407	
% of total sales	17%	16%	16%	15%	9%	9%	9%	
Total reported hospital sales	**45,157**	**51,426**	**57,297**	**50,022**	**79,891**	**86,768**	**73,045**	**14%**
% YoY growth	**11%**	**14%**	**11%**	**-13%**	**60%**	**9%**	**13%**	
Hospital EBITDA	**7,598**	**9,204**	**10,750**	**6,925**	**18,032**	**21,331**	**17,627**	**23%**
% YoY growth	**7%**	**21%**	**17%**	**-36%**	**160%**	**18%**	**10%**	
EBITDA margin	**16.8%**	**17.9%**	**18.8%**	**13.8%**	**22.6%**	**24.6%**	**24.1%**	**776 bps**

Source: Company, HSIE Research.

Exhibit 5: Hospital mix

	Q2FY24	Q3FY24
Metros		
No. of Operating beds	4,570	4,543
Bed Occupancy Rate (%)	66%	67%
ARPOB (Rs /day)	69,472	69,292
RoCE %	29%	28%
Non-Metros		
No. of Operating beds	3,195	3,368
Bed Occupancy Rate (%)	63%	62%
ARPOB (Rs /day)	40,100	39,230
RoCE %	23%	23%

Source: Company, HSIE Research

Going ahead, APHS sees headroom to improve occupancy and ARPOB with surgical cases increase and international patients flow normalize. It will also continue to focus on centers of excellence, case mix, and payer mix as levers for revenue and EBITDA growth. It expects occupancy to increase to ~70% over the next few years for its existing operating beds (~65% in 9MFY24). It expects its cost optimization plan to help reduce costs by 150-200 bps over next 18-24 months.

APHS has a calibrated plan to add 2,300+ beds over FY24-27 with a capex outlay of ~INR 34.5 bn, largely in the metros and tier I cities (Bangalore, Hyderabad, Gurgaon, Chennai, Kolkata) given the steeper profitability growth potential. Hospitals revenue is expected to grow in the double digits over the next 2-3 years, led by bed additions, increasing occupancy (to 70+% in the next few years), and mid-single-digit growth in ARPOBs. Moreso, APHS continues to evaluate bolt-on-acquisitions in select Tier-1 cites and Metros as well as a greenfield/ brownfield addition in both Mumbai and Bangalore under active consideration.

Exhibit 6: APHS capex outlay over FY25-27 to support long-term growth

Project	Nature	Total beds	Census Beds	Balance cost (INR mn)	Expected commissioning
FY25 commissioning					
Gachibowli, Hyderabad	Greenfield, asset light	375	300	3,700	Q4FY25
Bangalore Extension	Brownfield	150	110	1,500	Q4FY25
Sonarpur Kolkata	Hospital asset acquisition	220	180	2,400	Q4FY25
Royal Mudhol Pune	Hospital asset acquisition	425	350	6,750	Commissioning now planned for end of Q4FY25 with 200 beds Phase 1, along with structural readiness for additional 150 beds to accelerate full operationalization by end FY26
Sub-total		**1,170**	**940**	**14,350**	
FY26 commissioning					
Gurgaon	Hospital asset acquisition	550	420	5,500	Q2FY26
SSPM & Mysore expansion	Brownfield	140	125	1,500	Mysore H1FY26; SSPM H2FY26
Sub-total		**690**	**545**	**7,000**	
FY27 commissioning					
OMR Medcity	Greenfield	600	500	7,250	H2FY27
Varanasi	Greenfield	400	300	5,750	H2FY27
Sub-total		**1,000**	**800**	**13,000**	
Overall capex		**2,860**	**2,285**	**34,350**	

Source: Company, HSIE Research

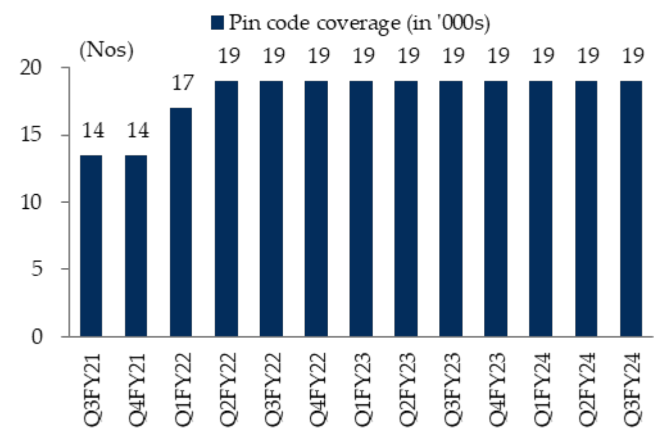
Apollo HealthCo – focus on scale-up and building capabilities

APHS has demerged its retail pharmacy in Sep'21 and reduced stake to 25.50%. In Mar'22, APHS completed reorganization of businesses – (1) offline pharmacy, (2) retail pharmacy, and (3) Apollo 24/7 platform including brand, Apollo Pharmacy brand and private label brands into Apollo HealthCo through slump sale (~INR 12.9 bn).

HealthCo (100% subsidiary) combines the strength of Apollo Group's offline healthcare leadership with the new-age digital offerings to address the healthcare needs of consumers. The channel that connects all of this intricately through its digital platform Apollo 24/7 – offers virtual consults, pharmacy, delivery, and diagnostics.

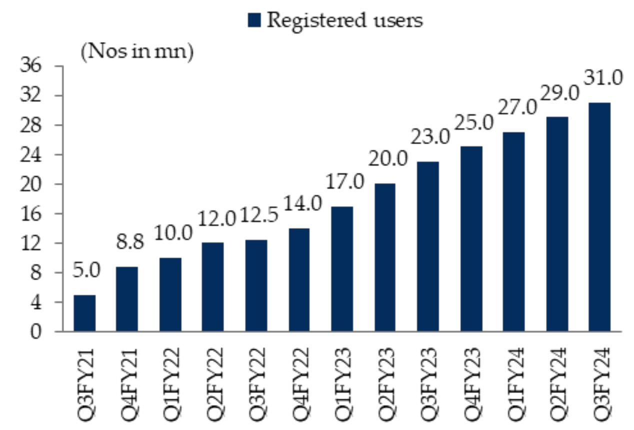
Apollo 24/7 digital healthcare platform has demonstrated the capability of delivering medicines in 2 hours in over 19,000+ pin codes combined with the highest availability of medicines. Apollo 24/7 continues to scale rapidly and aspires for 100 mn registered users in 5 years (vs ~31 mn as of Dec'23).

Exhibit 7: Expanding pin code coverage



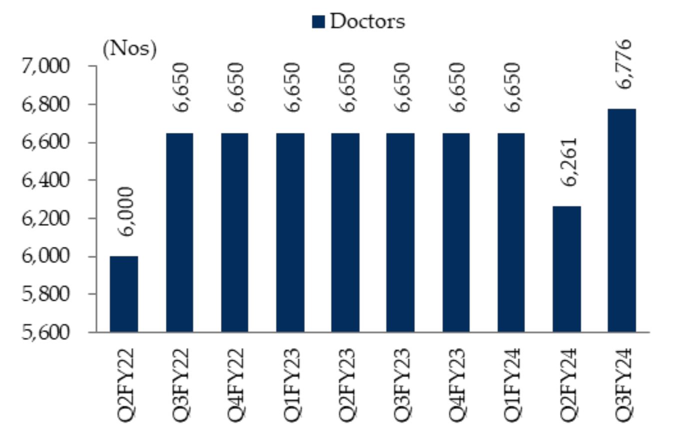
Source: Company, HSIE Research

Exhibit 8: Increasing user registration



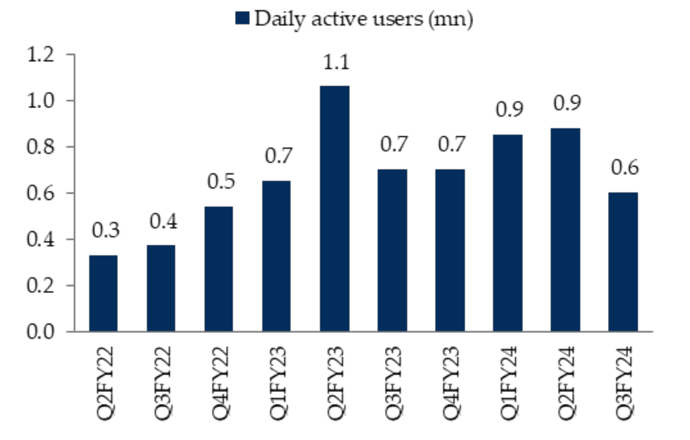
Source: Company, HSIE Research

Exhibit 9: Doctor coverage to support consultation



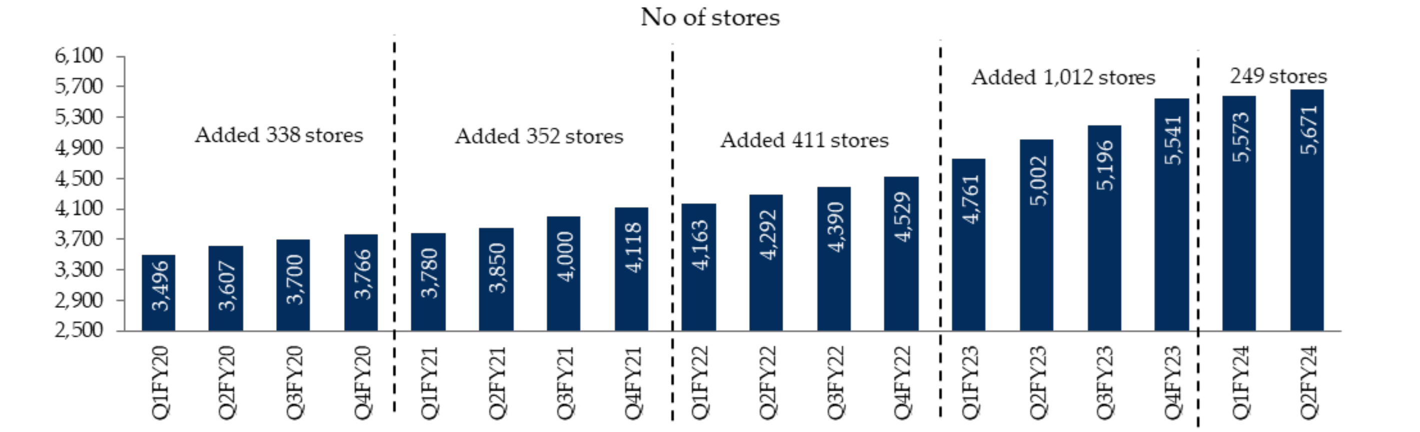
Source: Company, HSIE Research

Exhibit 10: Daily user volume steady



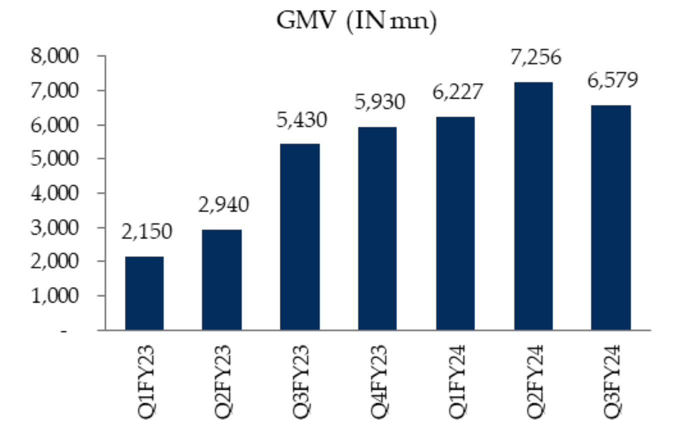
Source: Company, HSIE Research

Exhibit 11: Store addition over the last few years



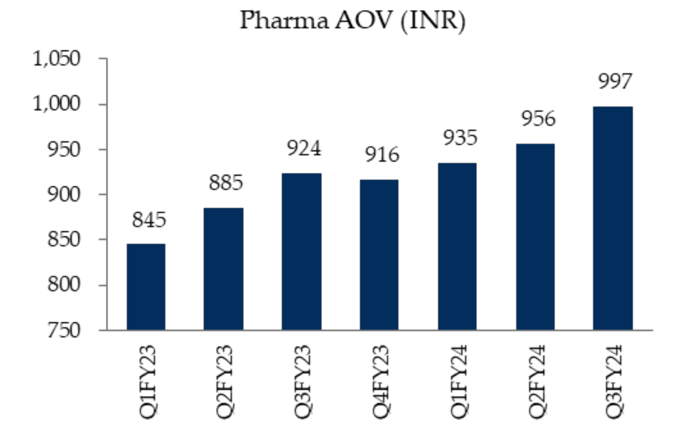
Source: Company, HSIE Research

Exhibit 12: GMV saw strong growth



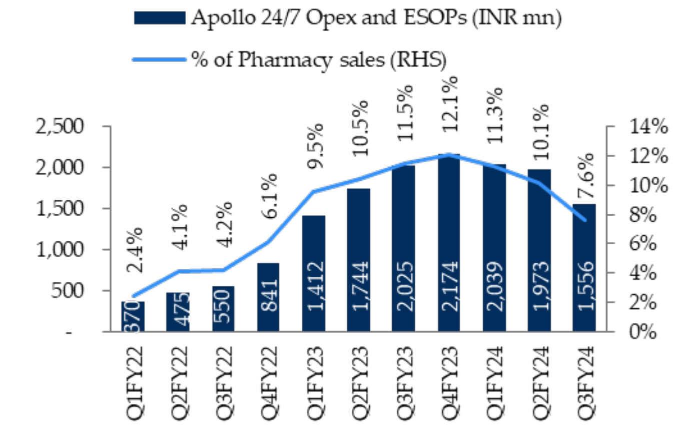
Source: Company, HSIE Research

Exhibit 13: Average order value increasing



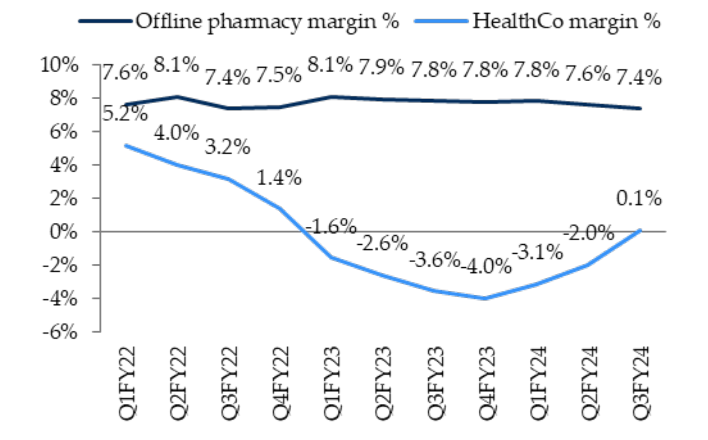
Source: Company, HSIE Research

Exhibit 14: Apollo 24/7 operating spend declining



Source: Company, HSIE Research

Exhibit 15: HealthCo margin breakeven in Q3FY24



Source: Company, HSIE Research

Exhibit 16: HealthCo to see steady growth and reduction in operating cost to support margin

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Offline pharmacy distribution	32,689	38,860	48,206	48,760	53,610	59,951	69,543	83,452	1,00,142
YoY growth		19%	24%	1%	10%	12%	16%	20%	20%
% of sales	40%	40%	43%	46%	37%	36%	37%	37%	38%
Offline pharmacy distribution EBITDA	1,480	2,031	4,452	3,932	4,089	4,742	5,216	6,509	8,011
EBITDA margin %	4.5%	5.2%	9.2%	8.1%	7.6%	7.9%	7.5%	7.8%	8.0%
GMV						16,450	27,143	36,642	49,467
YoY growth							65%	35%	35%
Online pharmacy distribution and Apollo 24/7	-	-	-	-	-	7,094	9,222	11,989	15,586
YoY growth							30%	30%	30%
% of sales						4%	5%	5%	6%
% Conversion GMV to Sales						43%	34%	33%	32%
Online business EBITDA before Apollo 24/7 spend	-	-	-	-	-	594	1,014	1,559	2,338
EBITDA margin %						8.4%	11.0%	13.0%	15.0%
% of total EBITDA						0%	0%	0%	0%
Apollo 24/7 spending	-	-	-	252	2,236	6,574	6,245	5,309	4,512
% of HealthCo sales				0.5%	4.2%	9.8%	7.9%	5.6%	3.9%
ESOPs	-	-	-	-	-	779	866	477	463
% of HealthCo sales						1.2%	1.1%	0.5%	0.4%
Online business EBITDA after Apollo 24/7 spend	-	-	-	(252)	(2,236)	(6,759)	(6,097)	(4,227)	(2,637)
Apollo HealthCo (Digital Health & Pharmacy Distribution)	32,689	38,860	48,206	48,760	53,610	67,045	78,765	95,441	1,15,728
YoY growth		19%	24%	1%	10%	25%	17%	21%	21%
% of sales	40%	40%	43%	46%	37%	40%	41%	43%	43%
Apollo HealthCo EBITDA	1,480	2,031	4,452	3,680	1,853	(2,017)	(882)	2,282	5,374
YoY growth		37%	119%	-17%	-50%	P/L	NA	L/P	135%
EBITDA margin %	4.5%	5.2%	9.2%	7.5%	3.5%	-3.0%	-1.1%	2.4%	4.6%

Source: Company, HSIE Research

Value discovery in HealthCo

In Apr'24, HealthCo has announced a deal with multiple business purpose: (1) To raise INR 24.75 bn (~USD 300 mn) from Advent for 16.9% at 24x FY24 EBITDA ex-24x7 costs, (2) AHL's acquisition of 11.1% Keimed stake for INR 7.25 bn (22x FY24 EBITDA) and (3) merger with Keimed.

Exhibit 17: APHS pharmacy/ digital business key events and timelines

Period	Segregation Pharmacy/ Digital business	Expected timeline	Stake sale to Advent International	Expected timeline	HealthCo investment in Keimed
Nov-18	Board of Apollo Hospitals approved Scheme of Arrangement for the divestment of the front-end portion of the standalone pharmacy business in favour of Apollo Pharmacies Limited	Apr-24	Advent International to infuse INR 24.75 bn in HealthCo for 16.9% stake	Apr-24	Proposed merger of Keimed in HealthCo
Oct-19	Received no objection letters from NSE and BSE. Also obtained approvals from the Competition Commission of India (CCI)	Jul-24	Advent invests INR 17.32 bn for AHL's CCPS shares (~12.5% stake in HealthCo) - 1st tranche: Class A CCPS for INR 14.85 bn and Class B CCPS INR 2.47 bn	Jul-24	HealthCo to pay INR 1.25 bn to Ms. Shobana Kamineni (Promoter Keimed) for 1.96% stake in Keimed
Jan-20	Launched digital platform under Apollo 24/7 App; new direct-to-patient M-Health platform, a fully integrated offering	Jul-25	Advent invests INR 7.4 bn for CCPS (4.3% stake) - Class B CCPS	Jul-25	HealthCo to pay INR 5 bn to Ms. Shobana Kamineni (Promoter Keimed) for additional 7.7% stake in Keimed
Aug-20	Approval from National Company Law Tribunal (NCLT) for Scheme of Arrangement			Oct-25	Initiation of the merger process between HealthCo and Keimed. Agreed swap ratio for proposed merger is capped at 0.81 (subject to change on account of any bonus issue, ESOP issuance and AHEL capitalizing a part of its receivables) shares of HealthCo for every 1 share of Keimed
Sep-20	Segregated Retail Pharmacy business with effect from September 1, 2020. The equity interest is reduced to 25.50%.			Jan-27	Expected completion of merger: AHPS to hold at least 59.2% stake of surviving entity HealthCo - 56.7% excluding economic interest from 18% Keimed holding by Family Health Plan Insurance (FHPL) in which APHS has 49%, Advent: 12.1%, ESOPs of 3.0% and Keimed's shareholders: maximum of 25.7%.
Jun-21	Apollo Board approved the proposal for the transfer of Pharmacy Distribution business and Apollo 24x7 online digital healthcare platform to Apollo HealthCo Limited				
Jan-22	HealthCo: Apollo Pharmacy's (retail stores/ warehouse; backend) tie-up with Amazon (online platform; front end) to list its pharmacy products.				

Source: Company, HSIE Research

End use of Funds

- **Growth capital for HealthCO of INR 8.6 bn –** to provide HealthCo with further impetus to strengthen its position in the industry and unlock greater business opportunities.
- **Retirement of INR 8.9 bn of the INR 12.9 bn slump sale consideration due to APHS**; APHS to convert the balance due of INR 4 bn into equity in HealthCo at same as Advent's valuation.
- **Acquisition of 11.1% Equity interest in Keimed** for INR 7.25 bn.

Keimed overview

Keimed has established itself as India's largest pharma distributor with >2x the scale of the nearest competitor in a highly fragmented industry with 70,000+ distributors.

Exhibit 18: Keimed business overview

Unmatched Scale	High Quality Customer Base	Preferred Sales Partner	State-of-the-art Infrastructure	Trusted Manufacturer Relationships	Experienced Management
Revenues of INR 10.34 bn (*YTD 9MDec' 23 annualised) with 5% market share Pan-India.	Deepest network in India covering 18 states and presence across all key markets	Go-to partner for launch of new formulations. Offers widest assortment of SKUs compared to peers	With primary focus on safety and quality, has built a robust cold chain and supply infrastructure to ensure 24 hrs PanIndia delivery	Direct relationship with most manufacturers Single largest customer for all major pharma companies	Led by a group of industry veterans with decades of relevant experience
~15% Market share in core regions	70,000+ high performing pharmacies serviced	45,000+ SKUs	96 Distribution centres	300+ Manufacturers	~6,000 Employees

Source: Company, HSIE Research

Combined entity integration synergies and strategies

- Integrated business model will help drive several synergies such as (1) faster expansion in Tier 2/ 3 markets by leveraging on existing infrastructure, (2) broader channel for HealthCo private label push, and (3) end-to-end supply chain capabilities with wide scale of product selection.
- Keimed's vast network and library of historical data combined with HealthCo's digital capabilities to feed into digital analytics engine creating more reliable data analytics.
- APHS targets to achieve EBITDA breakeven for its digital business in next 6-8 quarters.
- Proposed integration to enable higher margin realisation through supply chain efficiencies.

Exhibit 19: Keimed financial performance

	FY21	FY22	FY23	CAGR over FY21-23	9MFY23	9MFY24
Revenue (INR mn)	59,360	76,230	93,650	26%	69,040	77,560
YoY growth %		28%	23%			12%
EBITDA (INR mn)	2140	2820	3390	26%	2430	2620
EBITDA margin %	3.6%	3.7%	3.6%		3.5%	3.4%
RoCE %			18%			
RoE %			19%			

Source: Company, HSIE Research

Exhibit 20: Proforma estimates for merger of HealthCo and Keimed

INR mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Offline pharmacy distribution	53,610	59,951	69,543	83,452	1,00,142	1,20,171
YoY growth	10%	12%	16%	20%	20%	20%
Offline pharmacy distribution EBITDA	4,089	4,742	5,216	6,509	8,011	9,734
EBITDA margin %	7.6%	7.9%	7.5%	7.8%	8.0%	8.1%
Online pharmacy distribution and Apollo 24/7	-	7,094	9,222	11,989	15,586	20,729
YoY growth			30%	30%	30%	33%
% of sales						
Online business EBITDA before Apollo 24/7 spend	-	594	1,014	1,559	2,338	3,317
EBITDA margin %		8.4%	11.0%	13.0%	15.0%	16.0%
Apollo 24/7 spending	2,236	6,574	6,245	5,309	4,512	3,790
YoY growth		194%	-5%	-15%	-15%	-16%
ESOPs	-	779	866	477	463	417
YoY growth			11%	-45%	-3%	-10%
Online business EBITDA after Apollo 24/7 spend	(2,236)	(5,980)	(5,231)	(3,750)	(2,174)	(474)
Keimed revenue	76,230	93,650	1,04,888	1,20,621	1,38,714	1,59,522
YoY growth		23%	12%	15%	15%	15%
Intersegment assumed at 45% of sales	34,304	42,143	47,200	54,280	62,421	71,785
Net sales	41,927	51,508	57,688	66,342	76,293	87,737
YoY growth		23%	12%	15%	15%	15%
Keimed EBITDA on net sales	1,551	1,865	2,077	2,587	3,204	3,948
EBITDA margin %	3.7%	3.6%	3.6%	3.9%	4.2%	4.5%
Apollo HealthCo	95,537	1,18,553	1,36,454	1,61,782	1,92,021	2,28,636
YoY growth		24%	15%	19%	19%	19%
Apollo HealthCo EBITDA	3,404	627	2,062	5,347	9,041	13,208
YoY growth		-82%	229%	159%	69%	46%
EBITDA margin %	3.6%	0.5%	1.5%	3.3%	4.7%	5.8%

Source: Company, HSIE Research

Retail Health and diagnostic business to see strong growth

APHS's retail health and diagnostic business operated under Apollo Health and Lifestyle (AHLL). In Oct'16, APHS entered into a put option agreement with International Finance Corporation (IFC) to form AHLL, currently APHS holds ~68.84%. AHLL operates across Clinics services (primary and daycare), Diagnostics business, Sugar/Dental/Dialysis centre and in-patient services through Cradles and Spectra (largely speciality care) as well as it has IVF centres. APHS has witnessed strong growth momentum over the last few years and expected to maintain strong growth momentum over the next few years largely led by scale-up in its primary and specialty care as well as network expansion largely in diagnostic business.

Exhibit 21: AHLL business performance over the last few quarters

Segment (INR mn)	Metrics	Q4FY19	Q4FY20	Q4FY21	Q4FY22	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	YoY (%)
Diagnostics	Revenue	245	275	495	1,087	940	1,031	1,075	1,239	1,122	19	-9	2,795	3,436	23
	EBITDA	(28)	26	69	173	51	50	75	149	112	120	-25	238	336	41
	EBITDA margin %	-11.4%	9.5%	13.9%	15.9%	5.4%	4.8%	7.0%	12.0%	10.0%	456 bps	-204 bps	8.5%	9.8%	126 bps
Primary Care	Revenue	518	532	602	793	870	850	847	958	913	5	-5	2,601	2,718	4
	EBITDA	(27)	77	124	158	103	162	103	204	111	8	-46	304	418	38
	EBITDA margin %	-5.2%	14.5%	20.6%	19.9%	11.8%	19.1%	12.2%	21.3%	12.2%	32 bps	-914 bps	11.7%	15.4%	369 bps
Specialty Care	Revenue	901	968	1,104	1,360	1,479	1,379	1,430	1,537	1,523	3	-1	4,306	4,490	4
	EBITDA	1	138	195	140	222	188	206	152	193	-13	27	715	551	-23
	EBITDA margin %	0.1%	14.3%	17.7%	10.3%	15.0%	13.6%	14.4%	9.9%	12.7%	-234 bps	278 bps	16.6%	12.3%	-433 bps
Total	**Revenue**	**1,554**	**1,673**	**2,105**	**3,089**	**3,114**	**3,084**	**3,188**	**3,542**	**3,377**	**8**	**-5**	**9,227**	**10,107**	**10**
	EBITDA	**(116)**	**164**	**305**	**371**	**255**	**256**	**232**	**318**	**259**	**2**	**-19**	**926**	**809**	**-13**
	EBITDA margin %	**-7.5%**	**9.8%**	**14.5%**	**12.0%**	**8.2%**	**8.3%**	**7.3%**	**9.0%**	**7.7%**	**-52 bps**	**-131 bps**	**10.0%**	**8.0%**	**-203 bps**

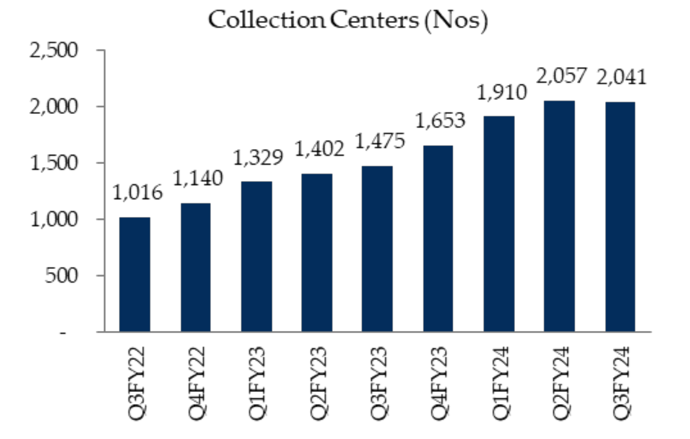
Source: Company, HSIE Research

Exhibit 22: AHLL continue to expand network and improving operating metrics

Segment	Metrics	Q4FY19	Q4FY20	Q4FY21	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Clinics	Network	99	148	191	254	268	291	341	343	350	327	286		
	Footfalls/Day	2,059	2,229	1,806	2,894	3,400	3,361	2,819	2,833	2,258	2,681	2,643	-6	-1
	Gross ARPP (Rs.)	1,637	1,715	1,954	1,484	1,276	1,548	1,842	1,844	2,060	2,051	2,091	14	2
Diagnostics	Network	523	650	796	1,228	1,419	1,499	1,570	1,750	2,012	2,165	2,142		
	Footfalls/Day	3,645	5,075	9,010	14,847	10,218	13,043	11,506	12,410	14,106	15,943	14,753	28	-7
	Gross ARPP (Rs.)	548	549	642	798	733	776	776	795	744	753	731	-6	-3
Sugar	Network	27	25	22	29	52	53	55	58	65	66	70		
	Footfalls/Day	540	542	438	391	478	481	457	444	472	528	481	5	-9
	Gross ARPP (Rs.)	2,199	2,377	2,829	2,864	3,229	3,317	2,950	2,860	3,035	3,163	2,879	-2	-9
Dental	Network	69	64	62	95	97	104	114	129	133	142	152		
	Footfalls/Day	114	162	152	160	200	226	190	226	223	242	212	12	-12
	Gross ARPP (Rs.)	10,286	6,696	6,651	6,641	5,749	5,287	6,298	5,043	6,208	6,538	6,343	1	-3
Dialysis	Network	23	42	69	90	95	109	111	111	119	126	129		
	Footfalls/Day	294	602	1,061	1,358	1,504	1,625	1,718	1,749	1,850	1,938	1,998	16	3
	Gross ARPP (Rs.)	1,576	1,373	1,475	1,529	1,574	1,637	1,598	1,598	1,618	1,616	1,627	2	1
Cradles (IP)	Network	12	12	8	8	8	8	10	9	10	11	11		
	Footfalls/Day	46	51	36	34	44	45	52	48	46	57	57	10	0
	Gross ARPP (Rs.)	71,105	74,819	95,096	96,520	1,00,288	1,01,163	1,05,953	1,11,048	1,06,989	1,01,568	1,05,108	-1	3
IVF	Network	-	-	11	15	15	15	17	17	17	17	17		
	Footfalls/Day	-	-	20	27	28	28	31	36	39	45	41	32	-9
	Gross ARPP (Rs.)	-	-	36,908	39,989	38,726	39,443	40,541	42,127	37,047	41,058	41,214	2	0
Spectra (IP)	Network	12	12	11	11	11	11	11	11	11	11	11		
	Footfalls/Day	74	80	67	66	94	91	73	65	72	75	74	1	-1
	Gross ARPP (Rs.)	74,876	78,849	1,03,198	1,06,769	1,02,472	96,312	1,05,636	1,11,611	1,05,941	97,149	96,178	-9	-1

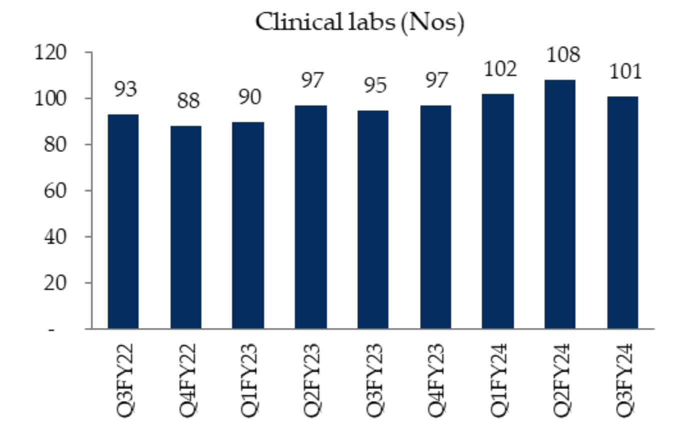
Source: Company, HSIE Research

Exhibit 23: Expanding collection center to expand reach



Source: Company, HSIE Research

Exhibit 24: Lab network increasing to support network



Source: Company, HSIE Research

Outlook and valuation

We expect the hospitals business of APHS to see steady growth with headroom to increase occupancy, steady growth in ARPOB on improving case/ payor mix, and bed capacity expansion of 2,280+ over FY25-27 provide long-term growth visibility. Its HealthCo business to see strong scale-up led by healthy growth in offline and scale-up in Apollo 24/7 business with expected cost reduction to improve the margin. HealthCo to sale 16.9% stake to Advent (global PE fund; investing INR 24.75 bn, implies HealthCo EV at INR 145 bn; ~USD 1.8 bn). APHS to merge Keimed to streamline procurement and address related party hangover. RHD to see strong growth on network expansion.

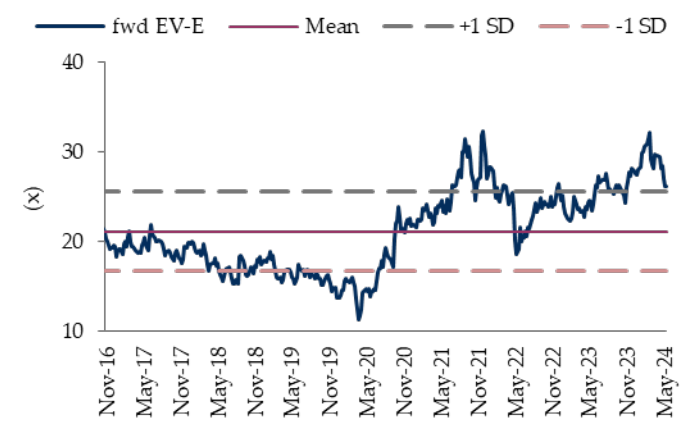
We expect APHS to see 17/25% sales/EBITDA CAGRs over FY23-26E and margin improvement to ~14.8% in FY23 (from ~12.3% in FY23 and 12.4% in 9MFY24). We initiate coverage with BUY rating and assign (1) EV/E of 26x to hospital, (2) EV/E of 16x to offline pharmacy, (3) EV/E of 23x to RHD, and (4) 1x EV/ sales for Apollo 24/7 sales to arrive at SoTP of Rs 7,030 (blended 26x FY25E EV/E).

Exhibit 25: SoTP valuation snapshot

SOTP valuation	FY26E		
	EBITDA (INR mn)	Multiple (x)	EV (INR mn)
Hospitals EBITDA	31,832	26	8,27,636
Offline pharmacy EBITDA	8,011	16	1,28,182
AHLL EBITDA	2,420	23	55,669
Total EBITDA	**39,627**	**26**	**10,11,487**
Online and Apollo 24/7 sales	15,586	1	15,586
Total EV (INR mn)			**10,27,072**
Less: Net Debt (INR mn)			16,119
Equity Value (INR mn)			**10,10,953**
TP (INR/ sh)			**7,030**

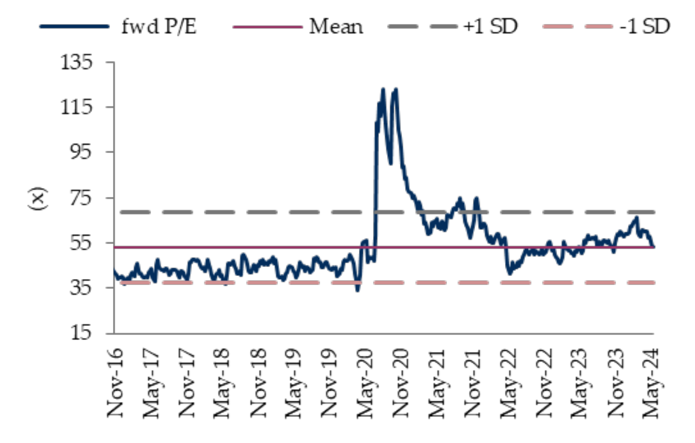
Source: Company, HSIE Research

Exhibit 26: EV/ EBITDA chart



Source: Bloomberg, HSIE Research

Exhibit 27: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**95,939**	**1,11,467**	**1,04,680**	**1,45,362**	**1,64,448**	**1,90,515**	**2,22,928**	**2,66,971**
Other operating income	235	1,001	920	1,264	1,677	0	0	0
Total operating income	**96,174**	**1,12,468**	**1,05,600**	**1,46,626**	**1,66,125**	**1,90,515**	**2,22,928**	**2,66,971**
Cost of goods sold	-46,609	-54,989	-56,842	-75,735	-85,743	-97,353	-1,13,470	-1,35,621
Gross profit	49,565	57,479	48,758	70,891	80,382	93,162	1,09,458	1,31,350
Gross margin (%)	51.5	51.1	46.2	48.3	48.4	48.9	49.1	49.2
Total operating expenses	-38,929	-41,606	-37,384	-49,040	-59,886	-69,187	-78,754	-91,723
EBITDA	**10,636**	**15,873**	**11,374**	**21,851**	**20,496**	**23,976**	**30,703**	**39,627**
EBITDA margin (%)	11.1	14.1	10.8	14.9	12.3	12.6	13.8	14.8
Depreciation	-3,955	-6,197	-5,731	-6,007	-6,154	-6,764	-7,355	-7,947
EBIT	**6,681**	**9,676**	**5,643**	**15,844**	**14,342**	**17,211**	**23,348**	**31,680**
Net interest	-3,270	-5,328	-4,492	-3,786	-3,808	-4,318	-3,826	-3,442
Other income	314	270	450	782	903	1,071	1,078	1,222
Profit before tax	**3,725**	**6,601**	**2,207**	**15,781**	**11,437**	**13,983**	**20,600**	**29,460**
Total taxation	-1,734	-2,252	-847	-4,770	-2,562	-4,614	-6,592	-9,133
Tax rate (%)	47	34	38	30	22	33	32	31
Profit after tax	1,991	4,349	1,360	11,011	8,875	9,368	14,008	20,328
Minorities	359	231	136	-528	-252	-455	-478	-502
Profit/ Loss associate co(s)	10	-31	8	73	-432	130	143	157
Adjusted net profit	**2,360**	**3,243**	**1,130**	**9,393**	**6,725**	**9,031**	**13,674**	**19,983**
Adj. PAT margin (%)	2	3	1	6	4	5	6	7
Net non-recurring items	0	1,306	373	1,163	1,466	12	0	0
Reported net profit	**2,360**	**4,549**	**1,504**	**10,556**	**8,191**	**9,043**	**13,674**	**19,983**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	696	696	719	719	719	719	719	719
Reserves & surplus	32,639	32,695	45,306	55,514	61,255	67,310	76,837	91,096
Net worth	34,690	34,697	48,024	59,030	65,313	71,823	81,827	96,589
Borrowing	34,503	53,746	41,598	40,681	43,324	49,071	45,014	40,972
Other non-current liabilities	7,962	8,018	8,512	11,512	10,811	10,779	11,068	11,367
Total liabilities	**91,831**	**1,13,383**	**1,14,167**	**1,32,693**	**1,44,278**	**1,61,444**	**1,73,215**	**1,90,837**
Gross fixed assets	62,533	98,760	92,372	1,07,779	1,14,873	1,26,438	1,38,773	1,52,823
Less: Depreciation	-16,244	-27,960	-28,395	-34,269	-39,574	-46,338	-53,693	-61,640
Net fixed assets	46,289	70,800	63,977	73,510	75,299	80,100	85,080	91,183
Add: Capital WIP	8,218	2,356	2,339	455	6,099	7,626	4,126	4,126
Total fixed assets	54,507	73,156	66,316	73,965	81,398	87,726	89,206	95,309
Total Investment	4,681	4,400	13,480	8,208	5,777	8,566	8,567	8,568
Inventory	5,848	7,378	2,495	4,319	3,901	4,763	5,573	6,674
Debtors	10,232	10,272	13,311	17,647	22,342	26,460	30,343	36,338
Cash & bank	3,469	4,668	7,244	9,240	7,758	10,349	15,645	19,229
Loans & advances	188	301	232	121	140	125	136	149
Current liabilities	14,676	16,922	16,033	21,470	24,830	29,771	35,306	41,910
Total current assets	24,588	28,288	28,055	37,974	43,500	50,666	60,738	72,027
Net current assets	9,912	11,365	12,022	16,504	18,670	20,895	25,432	30,117
Other non-current assets	4,593	4,078	2,563	3,147	3,745	4,375	4,594	4,823
Total assets	**91,831**	**1,13,384**	**1,14,167**	**1,32,693**	**1,44,278**	**1,61,444**	**1,73,215**	**1,90,837**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	3,725	6,601	2,207	15,781	11,437	13,983	20,600	29,460
Depreciation & Amortisation	-3,955	-6,197	-5,731	-6,007	-6,154	-6,764	-7,355	-7,947
Chg in working capital	-460	-703	-720	-3,594	-4,500	-297	830	-1,031
CF from operations	**9,052**	**12,929**	**12,647**	**16,960**	**13,767**	**19,430**	**25,292**	**29,817**
Capital expenditure	-7,699	-5,130	-2,995	-7,582	-11,784	-11,565	-12,335	-14,050
CF from investing	**-7,106**	**-2,888**	**-8,634**	**-8,472**	**-8,706**	**-9,788**	**-15,834**	**-14,049**
Equity raised/ (repaid)	0	0	11,520	0	45	0	0	0
Debt raised/ (repaid)	2,348	-1,860	-9,858	-4,931	-1,283	453	-5,142	-5,158
Dividend paid	-837	-1,555	-381	-437	-2,552	-2,261	-3,418	-4,996
CF from financing	**-2,147**	**-9,095**	**-3,402**	**-7,916**	**-6,330**	**-1,808**	**-8,561**	**-10,154**
Net chg in cash	-201	945	611	572	-1,269	7,834	897	5,614

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (Rs)	16.4	22.5	7.9	65.3	46.8	62.8	95.1	139.0
CEPS (Rs)	43.9	74.7	50.3	115.2	99.8	109.9	146.2	194.2
DPS (Rs)	5.8	10.8	2.6	3.0	17.7	15.7	23.8	34.7
Dividend payout ratio (%)	35.5	34.2	25.3	4.1	31.2	25.0	25.0	25.0
GROWTH								
Net sales (%)	16.7	16.2	(6.1)	38.9	13.1	15.9	17.0	19.8
EBITDA (%)	34.1	49.2	(28.3)	92.1	(6.2)	17.0	28.1	29.1
Adj net profit (%)	101.0	37.4	(65.1)	730.9	(28.4)	34.3	51.4	46.1
FDEPS (%)	101.0	37.4	(65.1)	730.9	(28.4)	34.3	51.4	46.1
PERFORMANCE								
RoE (%)	7.2	9.7	2.8	18.4	11.4	13.9	18.8	23.6
RoCE (%)	9.2	10.3	6.3	15.9	13.2	14.6	18.1	22.9
EFFICIENCY								
Asset turnover (x)	1.6	1.4	1.1	1.5	1.5	1.6	1.7	1.8
Sales/ total assets (x)	1.1	1.1	0.9	1.2	1.2	1.2	1.3	1.5
Working capital/ sales (x)	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.0
Receivable days	39	34	46	44	50	51	50	50
Inventory days	25	28	10	13	10	10	11	11
Payable days	30	34	45	48	48	51	52	52
FINANCIAL STABILITY								
Total debt/ equity (x)	1.0	1.5	1.0	0.8	0.7	0.7	0.6	0.5
Net debt/ equity (x)	0.9	1.4	0.6	0.5	0.5	0.5	0.3	0.2
Current ratio (x)	1.7	1.7	1.7	1.8	1.8	1.7	1.7	1.7
Interest cover (x)	2.0	1.8	1.3	4.2	3.8	4.0	6.1	9.2
VALUATION								
PE (x)	361.4	263.0	754.5	90.8	126.8	94.4	62.4	42.7
EV/ EBITDA (x)	83.2	56.9	77.3	40.4	43.4	37.1	28.7	22.1
EV/ Net sales (x)	9.2	8.1	8.4	6.1	5.4	4.7	4.0	3.3
PB (x)	25.6	25.5	18.5	15.2	13.8	12.5	11.0	9.3
Dividend yield (%)	0.1	0.2	0.0	0.1	0.3	0.3	0.4	0.6
Free cash flow yield (%)	0.2	0.9	1.1	1.1	0.2	0.9	1.5	1.8

Source: Company, HSIE Research

Max Healthcare Institute

Strong execution in past; expansion-led growth ahead

Max Healthcare (MAXHEALTH) is the second-largest private hospital chain in terms of sales and the fifth-largest by operating bed capacities. Its strong presence in metros (~82% bed-share in Delhi NCR and Mumbai) has led to industry-leading operating parameters (occupancy and ARPOB). Following a management change and merger with Mr. Abhay Soi-led Radiant in 2020, the company underwent a significant turnaround, evidenced by the rise in EBITDA margin from 8.3% in FY19 to 26.7% in FY23 (holding steady at ~26.6% in 9MFY24). This transformation was led by stringent cost controls, enhanced occupancy rates, ARPOB growth, and an improved case/payor mix, resulting in improved return ratios. Going ahead, while the existing hospital business, operating at a 75-77% occupancy level, may have limited scope for volume growth, sustained ARPOB growth through continuous enhancement in case mix and payor mix (skewing towards cash/insurance) is expected to fuel growth and maintain margins at around 28%. Its expansion plans for the next five years will drive the next leg of growth; this plan envisages the addition of ~800 beds in FY25 and 1,100 in FY26. It will primarily focus on metros and encompass both brownfield and greenfield expansions. Further, the recent acquisitions of operational hospitals, Sahara Hospital in Lucknow (250-bed capacity) and Alexis Hospital in Nagpur (200-bed capacity), are poised to support growth. Additionally, Max Lab, the company's diagnostics business, is expected to witness robust scaling up in the coming years. Given the visible growth trajectory, improving return ratios, robust balance sheet, and ample FCF, we initiate coverage with an ADD recommendation and a TP of INR 900, based on a 28x blended FY26E EV/EBITDA. A key risk factor to consider is any delay in capex execution.

Strong execution led to best-in-class operating metrics and margin: With primarily focused on metros, MAXHEALTH experienced a significant turnaround under new management led by Mr. Abhay Soi. Its EBITDA margin surged from 8.3% in FY19 to 26.7% in FY23 (at ~26.6% in 9MFY24), driven by consistent enhancements in ARPOB (achieving a 10% CAGR over FY19-23 and up 14% YoY in 9MFY24 to INR 75,400/day) and occupancy (improved by ~600 bps to ~74% in 9MFY24 from ~68% in FY19). This growth was underpinned by improvements in case mix (towards specialties such as oncology, cardiac, and neuro) and payor mix (reduced institutional bed share to 28.8% in 9MFY24 from ~36.5% in FY20 and value share to ~18% in 9MFY24 from ~22% in FY20). Consequently, EBITDA per bed witnessed a robust 44% CAGR over FY19-23.

Existing network, limited growth visibility; expansion is key: The existing hospitals business with 75-77% occupancy level will have limited room for volume growth. Sales growth driver would be a steady ARPOB growth on improving case and payor mix with the margin to sustain at ~28%. We believe capex outlay (~ INR 44.4+ bn) for 2,550+ beds over the next 3-5 years will drive the next leg of growth (800+ in FY25 and 1,100+ in FY26)—largely in metros, brownfield, and some greenfield expansions. It has recently acquired Sahara Hospital in Lucknow (250-bed capacity) and Alexis Hospital in Nagpur (200) which will support growth. It has acquired a land parcel in Lucknow (for INR 1.67 bn) to build a hospital with ~500+ bed capacity for long-term growth.

Outlook and valuation: We expect MAXHEALTH to see 25/25% sales/EBITDA CAGRs over FY23-26E and margin to remain steady at ~27% in FY25-26. We initiate coverage with an ADD rating and assign (1) EV/E of 28x to hospitals and (2) EV/E of 23x to Max Lab, to arrive at SoTP of Rs 900 (blended 28x FY26E EV/E).

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	40	36	52	59	68	88	114
EBITDA	5	3	13	16	19	24	31
APAT	2	1	9	11	13	17	22
Diluted EPS (INR)	1.7	1.4	9.1	11.6	13.8	17.2	23.0
P/E (x)	486.6	601.7	92.7	73.4	61.4	49.2	36.9
EV / EBITDA (x)	159.8	289.1	64.1	52.1	43.8	34.5	26.3
RoCE (%)	6	1	14	16	17	20	23

Source: Company, HSIE Research

ADD

CMP *(as on 16 May 2024)*	INR 849
Target Price	INR 900
NIFTY	22,404

KEY STOCK DATA	
Bloomberg code	MAXHEALT IN
No. of Shares (mn)	972
MCap (INR bn) / ($ mn)	825/9,888
6m avg traded value (INR mn)	2,057
52 Week high / low	INR 910/502

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.9)	38.0	67.2
Relative (%)	(3.6)	26.3	48.3

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	23.75	23.75
FIs & Local MFs	11.57	14.96
FPIs	60.69	57.33
Public & Others	3.99	3.96
Pledged Shares	-	-

Source : BSE

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Exhibit 1: Revenue and EBITDA assumptions

INR mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operational beds (Nos)	3,233	3,250	3,271	3,386	3,829	5,044	6,227
Occupancy (%)	73%	65%	75%	74%	67%	63%	64%
ARPOB (Rs/Day)	51,100	50,800	58,500	67,393	75,154	77,444	80,481
YoY growth	10%	-1%	15%	15%	12%	3%	4%
Hospital net sales	39,498	35,361	48,320	57,610	66,996	86,612	1,11,768
YoY growth	59%	-10%	37%	19%	16%	29%	29%
% of sales	99%	98%	93%	98%	98%	98%	98%
Hospital EBITDA	5,556	5,578	12,078	15,723	18,663	23,638	30,597
YoY growth	59%	0%	117%	30%	19%	27%	29%
EBITDA margin %	14.1%	15.8%	25.0%	27.3%	27.9%	27.3%	27.4%
Max Labs	409	659	1,030	1,120	1,434	1,835	2,349
YoY growth	68%	61%	56%	9%	28%	28%	28%
% of sales	1%	2%	2%	2%	2%	2%	2%
Max Labs EBITDA	15	67	12	-33	108	156	235
YoY growth	L/P	343%	-82%	P/L	L/P	45%	51%
EBITDA margin %	3.7%	10.1%	1.2%	-2.9%	7.5%	8.5%	10.0%
Vaccination sales	-	-	2,360	20	-	-	-
% of sales			5%	0%			
Vaccination EBITDA	-	-	850	0	-	-	-
EBITDA margin %			36.0%	2.0%			
Total revenues	39,907	36,020	51,710	58,750	68,429	88,447	1,14,117
YoY growth	11%	-10%	44%	14%	16%	29%	29%
EBITDA	5,571	5,645	12,940	15,690	18,771	23,794	30,832
YoY growth	60%	1%	129%	21%	20%	27%	30%
EBITDA margin	**14.0%**	**15.7%**	**25.0%**	**26.7%**	**27.4%**	**26.9%**	**27.0%**

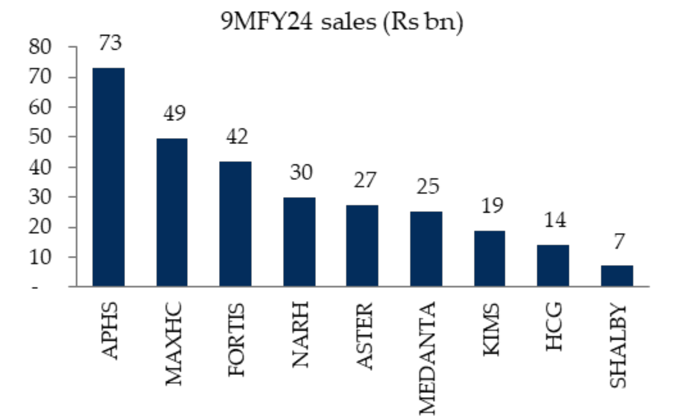
Source: Company, HSIE Research. Merger of Radiant and Max Healthcare effective from August 2020.

Hospital business—strong positioning in the Indian hospital industry

MAXHEALTH is the second-largest private hospital chain by sales (at INR 57.6 bn) and fifth-largest by operating bed capacities of 3,386. Its strong presence in metros (~82% bed-share largely in Delhi NCR and Mumbai) has led to industry-leading operating parameters (occupancy and ARPOB). It operates 17 healthcare facilities with a total capacity of 3,500+ beds. MAXHEALTH focuses on providing tertiary and quaternary care services. It enjoys industry-leading ARPOBs and occupancies, given that ~82% of its beds are located in metros/tier-1 cities. Besides this, it also operates home care and diagnostic business under Max@Home and Max Lab. Its operational footprint mainly comprises metro cities like Delhi NCR and Mumbai.

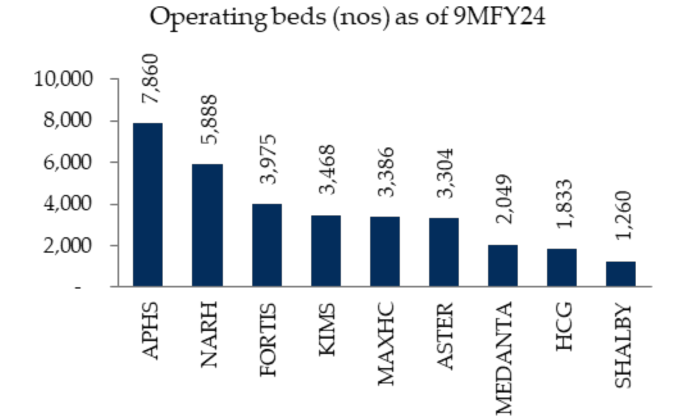
MAXHEALTH was founded by Analjeet Singh and as an entity of Max India, Max Healthcare commenced operations in 2000 at Panchsheel Park, South Delhi. Over the past two decades, the company has strengthened its presence across north India with facilities in Delhi NCR, Punjab, and Uttarakhand. In 2020, Radiant Life Care Pvt. Ltd, promoted by Abhay Soi and KKR, acquired a 49.7% stake in the erstwhile Max Healthcare and amalgamated it with Radiant assets to form Max Healthcare Institute Ltd (MHIL). After the arrangement, the combined entity got listed on the stock exchanges in Aug’20. With the addition of Radiant group assets - BL Kapur (Delhi) and Nanavati (Mumbai) - Max further strengthened its footprint in Delhi and gained access to Mumbai’s healthcare market.

Exhibit 2: 2nd largest by hospital revenues



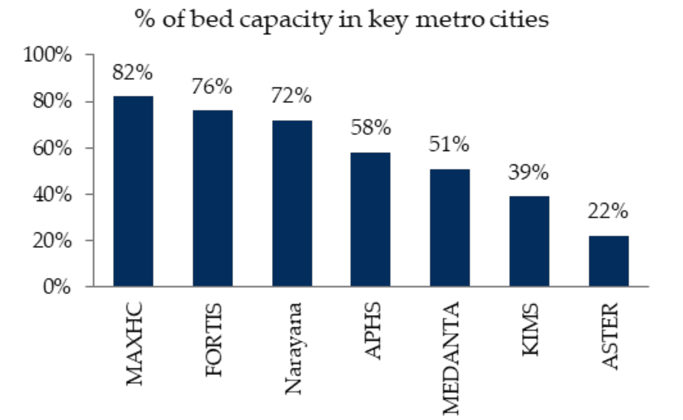
Source: Companies, HSIE Research

Exhibit 3: 5th largest in-terms of operating beds



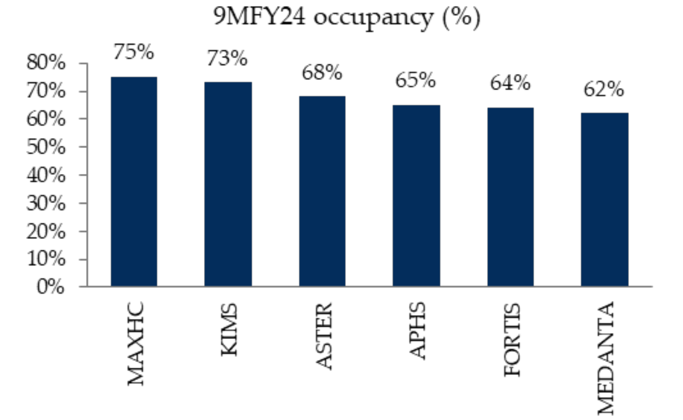
Source: Companies, HSIE Research

Exhibit 4: MAXHEALTH metro focus…



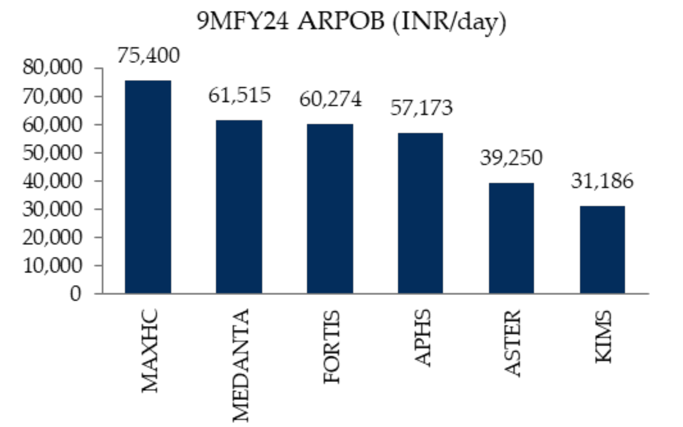
Source: Companies, HSIE Research

Exhibit 5: …led to higher occupancy…



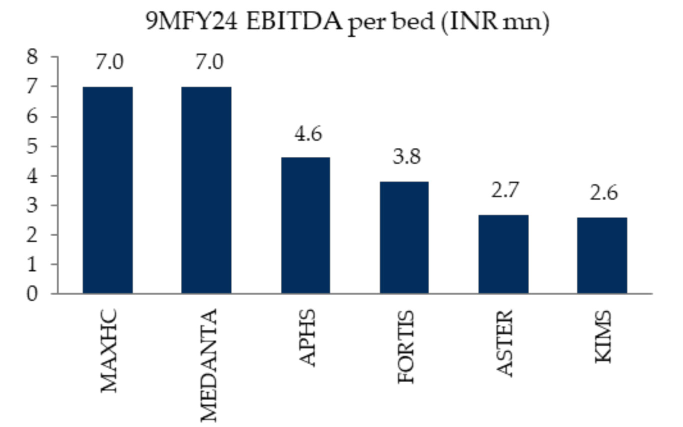
Source: Companies, HSIE Research

Exhibit 6: …as well as sector leading ARPOB…



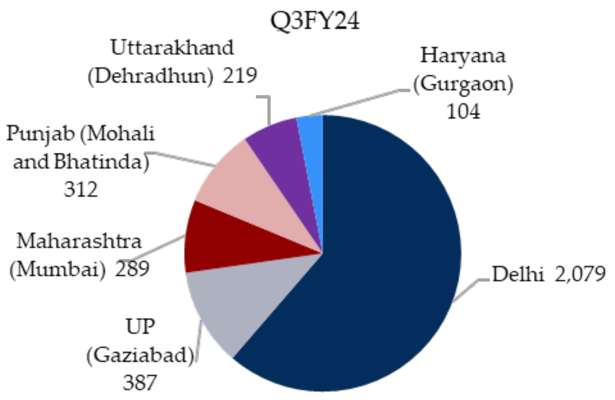
Source: Companies, HSIE Research

Exhibit 7: …and EBITDA per bed



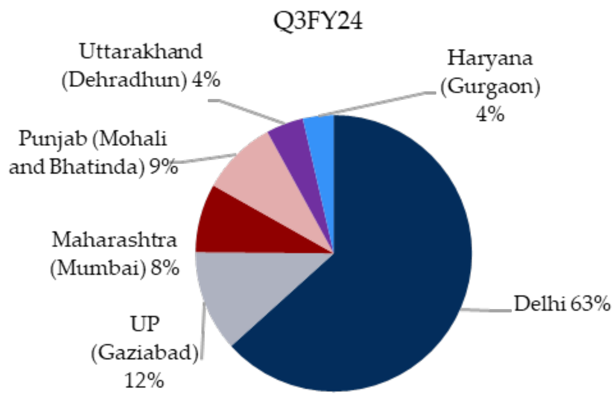
Source: Companies, HSIE Research

Exhibit 8: Hospital bed region split



Source: Companies, HSIE Research

Exhibit 9: Hospital revenue region split



Source: Companies, HSIE Research

Hospital business—strong execution led to margin expansion

MAXHEALTH's EBITDA margin has improved to 26.7% in FY23 from 8.3% in FY19. This was driven by cost optimization, steady sales growth, improving occupancy and strong growth in ARPOB. The margin improvement was largely driven by ~INR 3.3 bn impact on EBITDA, which was led by structural cost initiatives as well as merger synergies, with ~INR 1.4 bn flowing in EBITDA in FY20, ~INR 730 mn flowing in EBITDA in FY21 and the balance in FY22. Further, this was coupled with significant growth in high-end tertiary and quaternary procedures with the hiring of new senior clinical teams and deployment of the latest medical technology across its network.

Exhibit 10: Margin improvement over the last few years

INR mn	FY19	FY20	FY21	FY22	FY23	Q1FY24	Q2FY24	Q3FY24
Revenues	35,990	39,907	36,020	51,710	58,750	16,220	17,190	16,820
Gross profit	27,712	30,950	26,292	38,210	44,830	12,180	13,120	12,910
Gross margin	77.0%	77.6%	73.0%	73.9%	76.3%	75.1%	76.3%	76.8%
Staff costs	9,357	8,865	9,499	11,020	12,070	3,330	3,460	3,370
% of sales	26.0%	22.2%	26.4%	21.3%	20.5%	20.5%	20.1%	20.0%
Other expenses	15,365	16,919	13,918	14,250	17,070	4,750	5,010	4,930
% of sales	42.7%	42.4%	38.6%	27.6%	29.1%	29.3%	29.1%	29.3%
EBITDA	2,990	5,166	2,875	12,940	15,690	4,100	4,650	4,610
EBITDA margin %	8.3%	12.9%	8.0%	25.0%	26.7%	25.3%	27.1%	27.4%
Occupancy %	68%	73%	65%	75%	74%	74%	77%	73%
ARPOB (INR/ day)	46,400	51,100	50,800	58,500	67,391	74,800	74,600	76,800

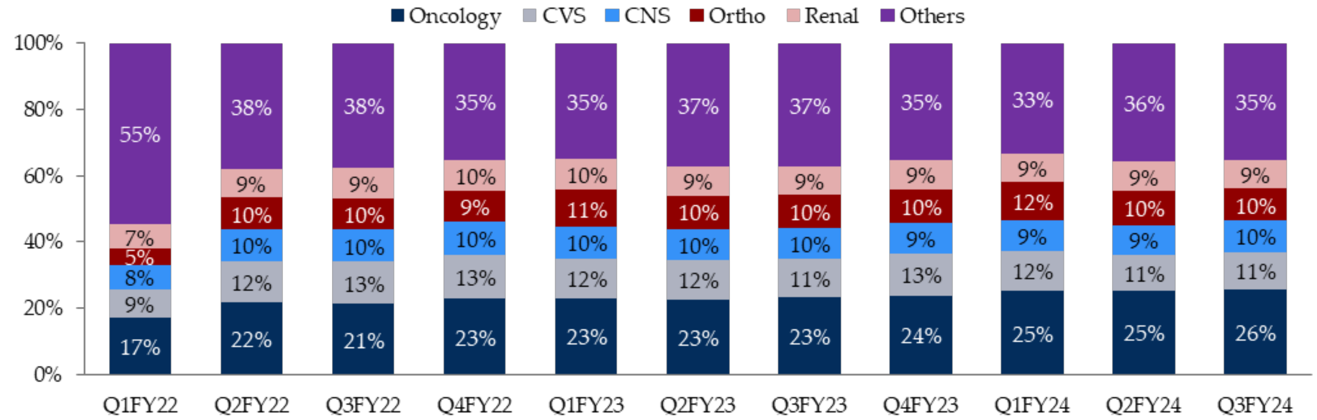
Source: Company, HSIE Research.

Multiple growth drivers

Focus on improving case mix with an increase in tower specialties

MAXHEALTH is focusing on investing in medical technology, attracting skilled physicians and surgeons, and developing expertise in tertiary care areas. This will help it add sophisticated procedures and thereby improve the case mix. Its focus on high-end treatments across tower specialties (onco, neuro, cardiac, etc.) with advanced medical technology like advanced robotics provides high precision and enables minimal invasive surgery.

Exhibit 11: Improving case mix – tower specialties oncology, cardiac, Neuro is increasing

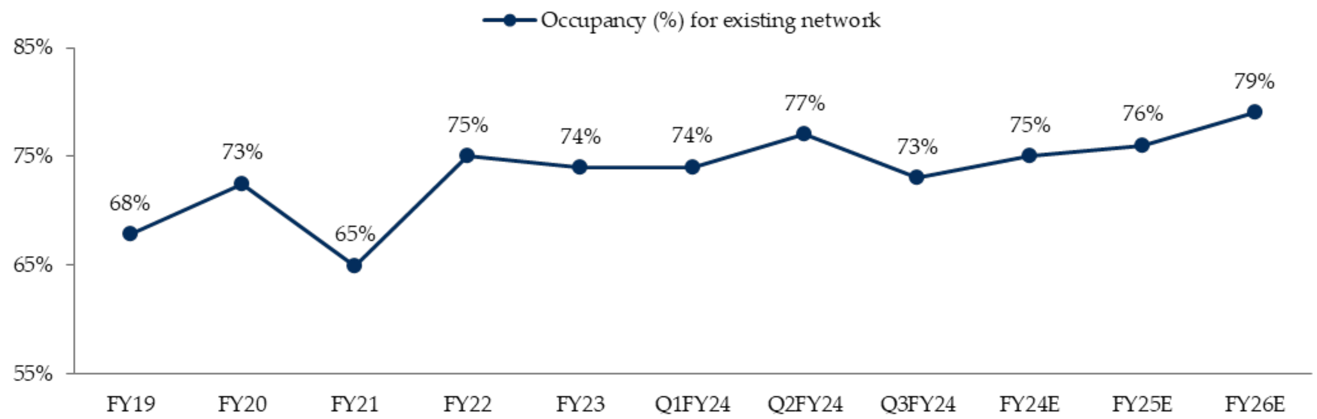


Source: Company, HSIE Research

Limited headroom to increase occupancy

MAXHEALTH has limited scope to increase its occupancy across the network as it has already reached 75-76% level. It has marginal volume growth visibility with 100-200 bps expansion in occupancy in the existing network. Post-COVID normalization from Q4FY21, the occupancy has improved significantly.

Exhibit 12: Marginal improvement in occupancy

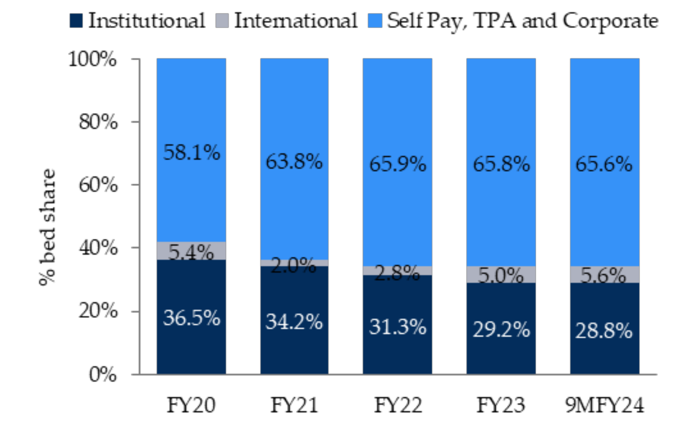


Source: Company, HSIE Research

Focus on improving payor mix to drive ARPOB

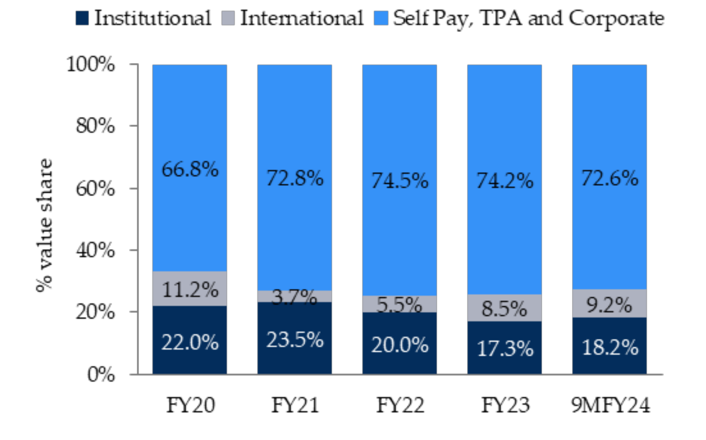
The company intends to improve its channel mix by improving its share of international, cash walk-in and private and public insured patients who have procured insurance coverage from third-party insurance providers as these patients tend to provide higher average revenue per patient for similar procedures compared to central as well as state government and local body patients due to tariff differences.

Exhibit 13: Reducing institutional bed share as well as…



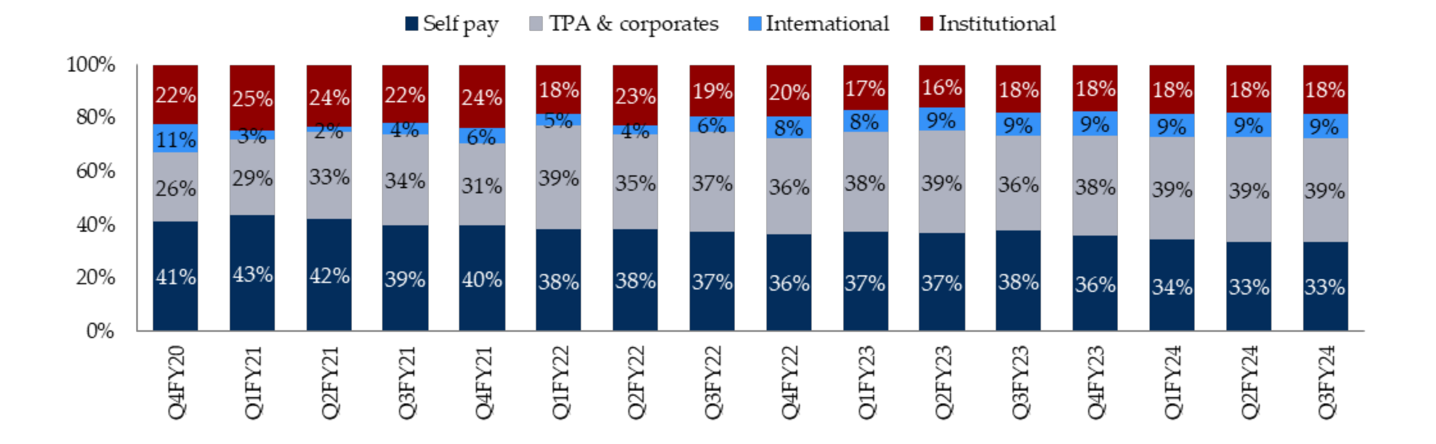
Source: Companies, HSIE Research

Exhibit 14: …value share over the last few years



Source: Companies, HSIE Research

Exhibit 15: Non- institutional value share increasing since last few years

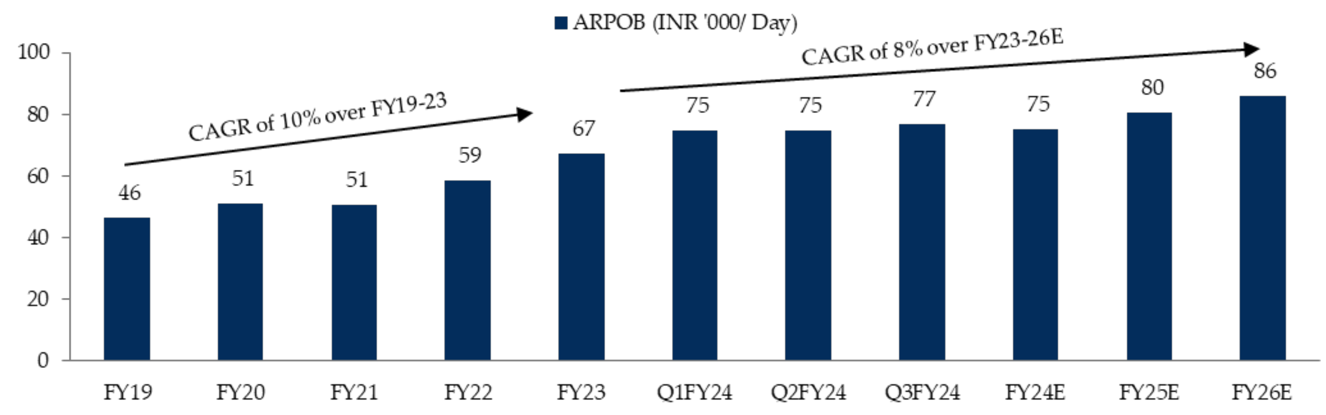


Source: Company, HSIE Research

Over the last few years, the company has successfully reduced its institutional payor share (which is at a 40-50% discount to cash and insurance payor) by reducing bed share to 28.8% as of 9MFY24 from 36.5% in FY20 and similarly value share has gone down to 18.2% in 9MFY24 from 22% in FY22.

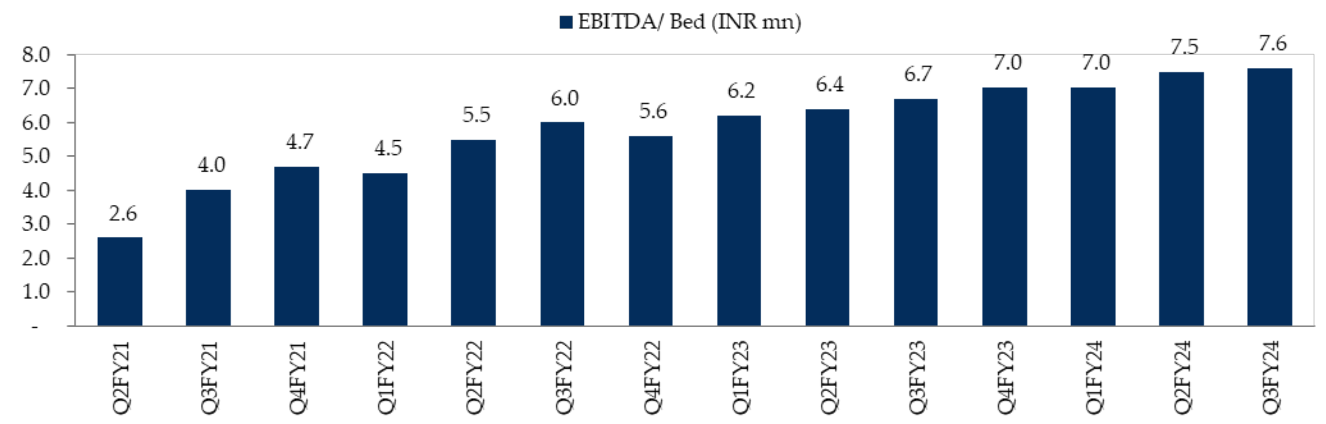
Moreover, the company has recently taken a tariff hike in the institutional segment. This coupled with a better case mix as well as an annual price hike supported the APPOB growth over the last few years. With a focus on improving the payor mix and case mix to drive ARPOB growth, the EBITDA per bed for the company is also improving, coupled with the overall improvement in RoCE.

Exhibit 16: Steady growth in ARPOB to continue for existing hospitals



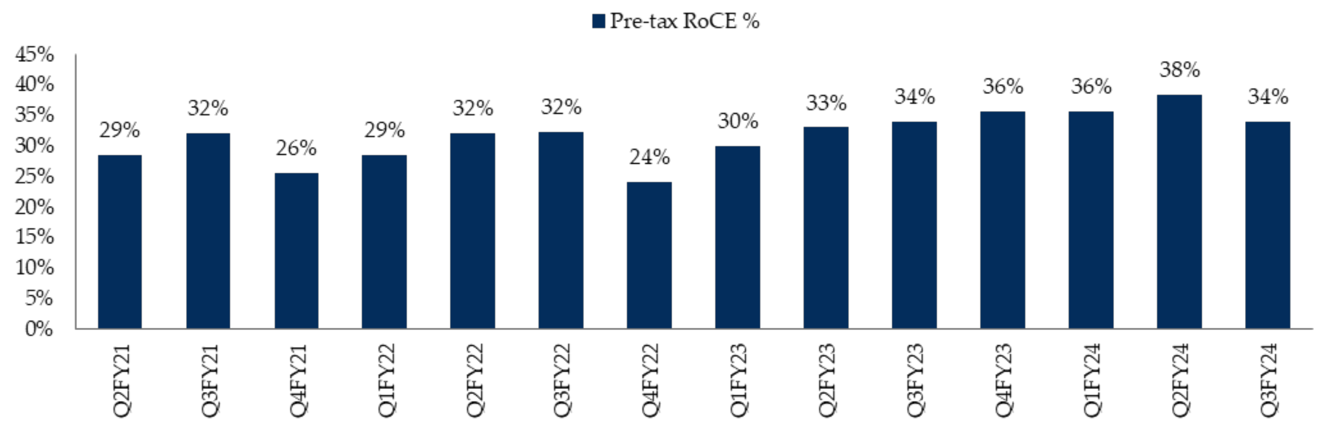
Source: Company, HSIE Research

Exhibit 17: EBITDA per bed is improving



Source: Company, HSIE Research

Exhibit 18: Return ratios improved post Covid and now steady

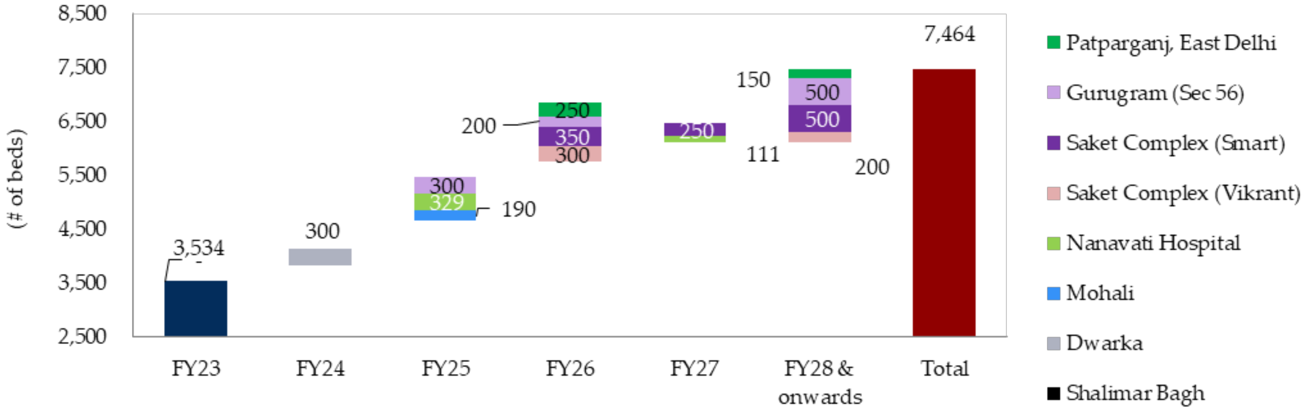


Source: Company, HSIE Research. Note: Based on quarterly EBIT annualized; capital employed excludes (a) impact of Purchase price allocation at the time of merger with Radiant, (b) acquisition of ET Planner in Q2FY22 and (c) FDRs. Depreciation for EBIT has been considered based on normalized routine capex.

Capex outlay for the next leg of growth

MAHHEALTH's existing hospital business with a 75-77% occupancy level will have limited headroom for volume growth. Also, it has an existing valuable land bank which will enable it to add beds through brownfield and greenfield expansion and in Oct'21, it purchased a land parcel admeasuring ~ 5.26 acres in Gurugram's (Haryana) Sector 56. Accordingly, the company has outlaid its capex plan of ~ INR 44.4+ bn to add 2,550+ bed capacities over the next 3-5 years to drive the next leg of growth (800+ in FY25 and 1,100+ in FY26). The expansion is with a strategic focus on metros (like Delhi NCR and Mumbai), through brownfield (Saket, Vikrant, Mohali, Mumbai) as well as some greenfield expansions (South West Delhi—Dwarka—and Gurgaon).

Exhibit 19: Capacity expansion for long-term growth



Source: Company, HSIE Research. Note: *160 beds need to be demolished before commencement of Phase 2 | ** No. of beds may vary slightly subject to configuration of ward beds | # Values are estimated based on EPC model of contracting and will be firmed as each project's execution gains momentum | ## Currently, the land parcel at Sector-53 is under litigation with HSVP. May impact 500 beds potential assumed FY28 onwards | ^Includes 122 beds added at Max Shalimar Bagh -92 beds (added in March 2023) at the new oncology tower and 30 beds (added in June 2023) through internal reconfiguration | & Beds shown under FY28 & onwards only indicate the expansion potential. However, no plans have been formalized yet for such expansion.

Hospital-wise update:

- **Dwarka—300 beds:** Application of OC has been submitted in October 2023. Lift installation and other finishing work are in progress. All key functional heads are in place and middle-level staff is being recruited. Expected commissioning by end of Q4FY24, subject to developer obtaining the OC.
- **Mohali—190 beds**: All statutory approvals to start the construction have been received. Design development is under finalization and base raft concrete activities have started. The project is largely on schedule.
- **Nanavati—329 beds in Phase I**: Basement and ground-level structures have been completed. Steel fabrication above the ground floor has begun. The project is largely on schedule.
- **Sector 56, Gurugram—300 beds in Phase I**: Approval for structural drawings has been received in Jan 2024. Design development is ongoing and RCC works have commenced. The project is largely on schedule.
- **Saket Complex (Max Smart)–350 beds in Phase I**: Tree transplantation work is underway, with 159 trees transplanted and a balance of 316 trees in process. Existing structures have been demolished as per plan and shoring work for sewage and water treatment plants is ongoing. Barring the initial delay of 6-7 months, the project is on schedule.
- **Saket Complex (Vikrant) –300 beds in Phase I**: Building plans have been resubmitted to the Municipal Corporation of Delhi (MCD) post their initial review. Dues for water and sewer infra charges have been paid, while Forest NOC has also been applied. Tender documents are under review for floating to the contractors. The project is largely on schedule.

MAXHEALTH has recently acquired Sahara Hospital in Lucknow (250-bed capacity) and Alexis Hospital in Nagpur (200) to support growth. It has acquired a land parcel in Lucknow (for INR 1.67 bn) and is planning a greenfield hospital with ~500+ bed capacity for long-term growth.

- **Sahara Hospital, Lucknow:** The hospital has ~550 beds (250 beds operational beds). It is located in the high-income catchment area of Gomti Nagar. It has the potential for further ramp-up via augmentation of clinical programs. The revenue run rate was at ~INR 2 bn with an EBITDA margin in the range of ~20%. This hospital has an ample expansion scope, with the option to set up a medical college on the unused land parcel.
- **Alexis Hospital, Nagpur**: The hospital has a bed capacity of ~200 operational beds. Strategic location in the affluent area of Mankapur (North Nagpur) which attracts patients from MP and Chhattisgarh. It has a run-rate revenue of ~INR 1.5 bn and EBITDA of ~INR 250 mn, which implies an EBITDA margin of ~16.6%. This hospital has a potential for further ramp-up via augmentation of clinical programs and can be expanded by ~140 beds due to FAR availability and internal reconfiguration.

Exhibit 20: Capex estimates over the next 3-5 years

Capex (Rs mn)	FY24E	FY25E	FY26E	FY27E
Muthoot Hospital at Dwarka, Delhi in Q4FY24	1,800	-	-	-
Max Mohali, Punjab in Q1FY25	750	1,530	-	-
Max Nanavati Hospital, Mumbai 1 in H2FY25	800	1,800	1,520	2,040
Gurugram (Sec 56) in H2FY25	1,200	3,500	3,000	300
Saket Complex (Max Smart) in H2FY26	550	5,150	3,800	100
Saket Complex (Vikrant) in H2FY26	500	1,900	2,400	-
Eqova Healthcare at Patparganj, Delhi in H2FY26	580	370	3,050	-
Sahara Hospital, Lucknow (Acquired asset)	9,400	-	-	-
Alexis Hospital, Nagpur (Acquired asset)	3,720	-	-	-
Land parcel in Lucknow	835	835	-	-
Regular capex	200	200	200	200
Total	**20,335**	**15,285**	**13,970**	**2,640**

Source: Company, HSIE Research

Exhibit 21: Hospital business estimates

	FY23	FY24	FY25E	FY26E
Existing network				
Number of operating beds	3,291	3,291	3,556	3,635
Occupancy (%)	76%	75%	76%	79%
ARPOB (Rs/ day)	67,400	75,151	80,412	86,040
Healthcare services	57,572	64,886	76,021	86,436
YoY growth	19%	13%	17%	14%
Healthcare services EBITDA	15,713	17,973	21,590	24,634
YoY growth	30%	14%	20%	14%
% margin	27.3%	27.7%	28.4%	28.5%
New hospitals				
Number of operating beds	95	100	1,038	2,142
Occupancy (%)	2%	80%	27%	40%
ARPOB (Rs/ day)	58,000	64,670	64,147	67,171
Healthcare services	38	1,813	6,324	19,987
YoY growth	NA	NA	249%	216%
Healthcare services EBITDA	9	634	908	4,450
YoY growth	NA	NA	43%	390%
% margin	25.0%	35.0%	14.4%	22.3%
Total hospital				
Number of operating beds	3,386	3,829	5,044	6,227
Occupancy (%)	74%	67%	63%	64%
ARPOB (Rs/ day)	67,393	75,154	77,444	80,481
Healthcare services	57,610	66,996	86,612	1,11,768
YoY growth	19%	16%	29%	29%
Healthcare services EBITDA	15,723	18,663	23,638	30,597
YoY growth	30%	19%	27%	29%
% margin	27.3%	27.9%	27.3%	27.4%

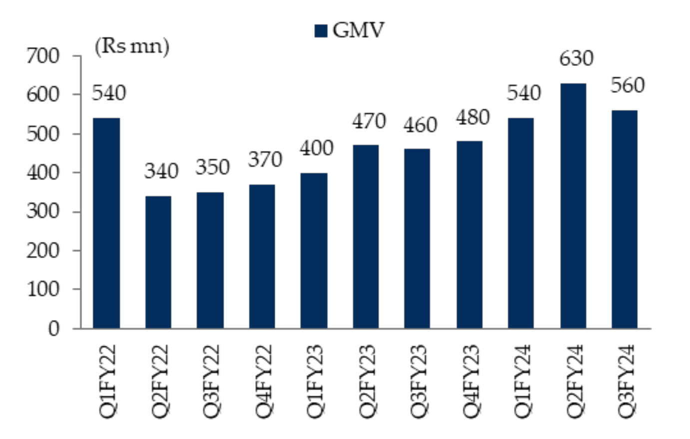
Source: Company, HSIE Research

Scaling up diagnostic business under Max Labs

MAXHEALTH is focusing on scaling up its MaxLab business to provide healthcare services outside the healthcare facilities. For MaxLab, its initial focus is to deepen and widen its presence in the cities wherein MAXHEALTH already has a presence through network facilities. In the long term, it plans to expand into new cities and grow the business by opening new collection centres, partnering with local collection centres for sample collection and signing new hospital lab management contracts.

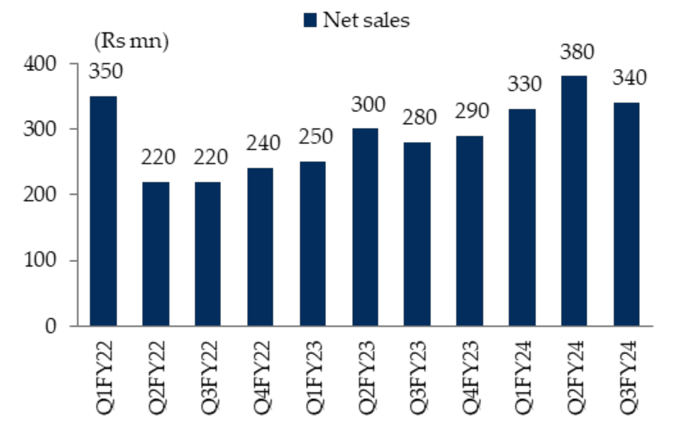
Over the last few years, the company has expanded its presence across the key cities (now present in 41 cities as of Q3FY24 from 14 cities in Q1FY22) largely through hospital-based lab and collection centre expansion.

Exhibit 22: Steady growth in GMV



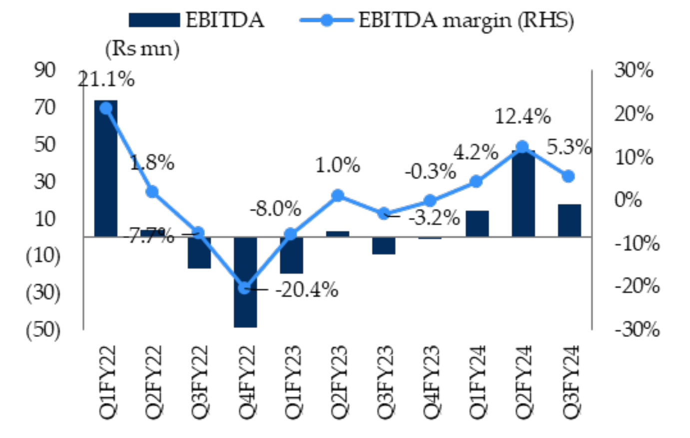
Source: Company, HSIE Research

Exhibit 23: Net sales saw strong growth



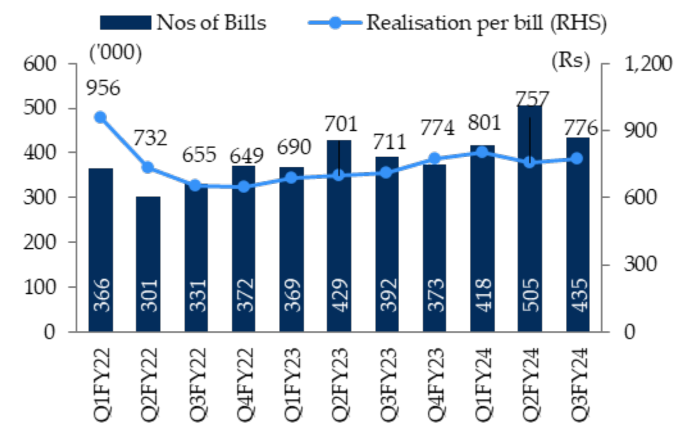
Source: Company, HSIE Research

Exhibit 24: EBITDA and margin improving



Source: Company, HSIE Research

Exhibit 25: Volume increasing and realization steady



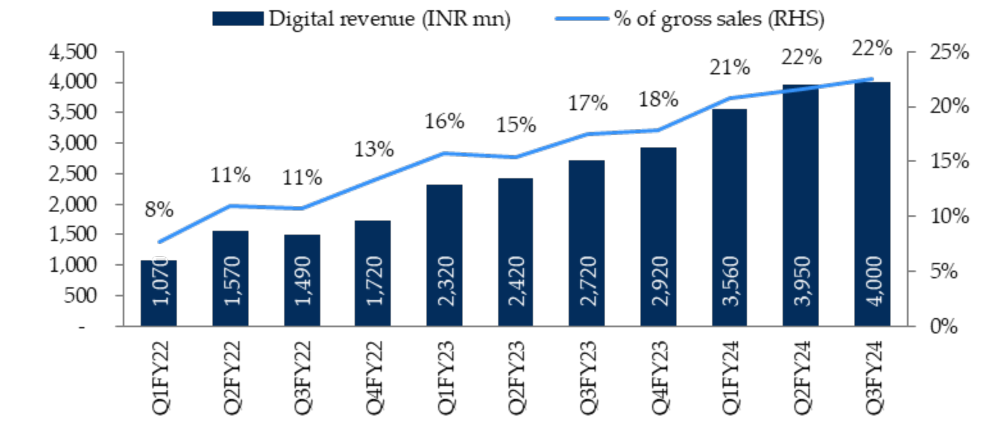
Source: Company, HSIE Research

Exhibit 26: Expanding diagnostic network to expand reach

Nos	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Partnered collection center	145	220	265	300	350	410	380	400	430	435	525
Company owned	9	13	18	25	26	23	23	23	22	23	23
Phlebotomist	120	135	160	155	155	190	200	200	170	170	160
PUP	165	200	210	210	240	240	230	250	270	275	275
Hospital based Lab	17	19	25	28	36	38	40	43	45	44	44
Cities of operations	14	20	24	25	30	34	34	34	36	36	41

Source: Company, HSIE Research.

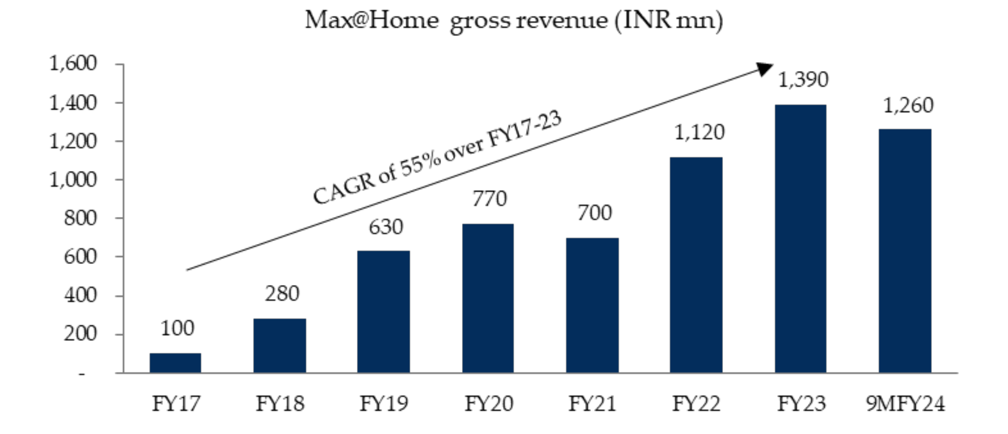
Exhibit 27: Digital revenues share increasing



Source: Company, HSIE Research

It has an asset-light service called Max@Home through which it provides services across critical care, nursing care, patient attendants, X-ray at home, ECG/Holterat home, dialysis, physiotherapy, medical rooms, doctor visits, pathology, pharmacy, etc. Over the last few years, Max@Home has seen strong scale-up, registering ~56% CAGR over FY17-23 to reach gross revenues of INR 1.39 bn.

Exhibit 28: Strong scale-up in Max@Home



Source: Company, HSIE Research

Outlook and valuation

We believe the company's existing hospital business with 75-77% occupancy level has limited room for further volume growth. However, continuous improvement in case mix and payor mix (skewing towards cash/insurance) will lead to steady ARPOB growth (~INR 75,400/day) which will drive growth and hold the margin steady at ~28%. We believe its expansion plans for the next five years will drive its next leg of growth (to add 800+ beds in FY25 and 1,100 in FY26), which will largely focus on metros and will comprise brownfield expansion and some greenfield ones. Also, recently acquired operational hospitals Sahara Hospital in Lucknow (250-bed capacity) and Alexis Hospital in Nagpur (200) will support its future growth. Its diagnostics business, Max Lab, will see a strong scale-up over the next few years. Delay in capex execution is a key risk.

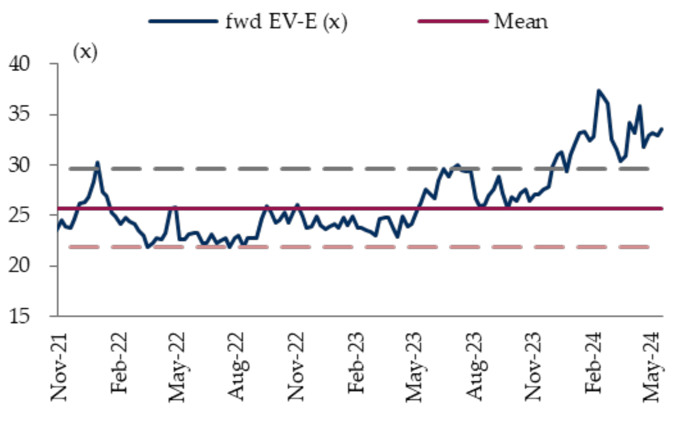
We expect MAXHEALTH to see 25/25% sales/EBITDA CAGRs over FY23-26E and expect its margin to remain steady at ~27% in FY25-26. We initiate coverage with an ADD rating and assign (1) EV/E of 28x to hospitals and (2) EV/E of 23x to Max Lab, to arrive at SoTP of INR 900 (blended 28x FY26E EV/E).

Exhibit 29: SoTP valuation snapshot

SOTP valuation	FY26E		
	EBITDA (INR mn)	**Multiple (x)**	**EV (INR mn)**
Hospitals EBITDA	30,597	28	8,56,727
Labs EBITDA	235	23	5,402
Total EBITDA	**30,832**	**28**	**8,62,129**
Less: Net Debt (INR mn)			(11,976)
Equity Value (INR mn)			8,74,105
TP (INR/ sh)			**900**

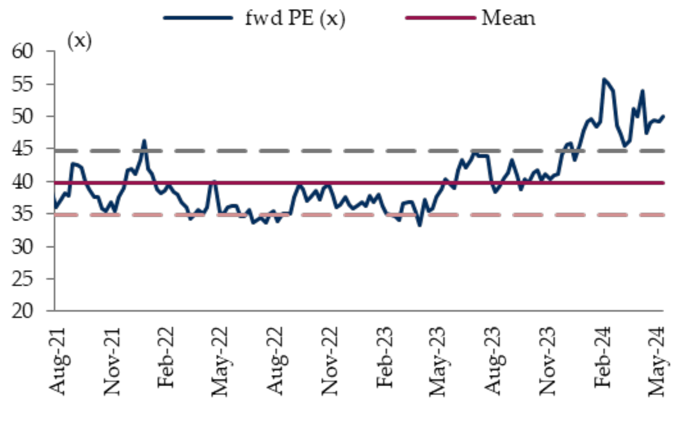
Source: Company, HSIE Research

Exhibit 30: EV/ EBITDA chart



Source: Bloomberg, HSIE Research

Exhibit 31: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**35,990**	**39,907**	**36,020**	**51,710**	**58,750**	**68,429**	**88,447**	**1,14,117**
Other operating income	0	0	0	0	0	0	0	0
Total operating income	**35,990**	**39,907**	**36,020**	**51,710**	**58,750**	**68,429**	**88,447**	**1,14,117**
Cost of goods sold	-8,278	-8,957	-9,728	-13,500	-13,920	-16,149	-20,785	-26,703
Gross profit	27,712	30,950	26,292	38,210	44,830	52,280	67,662	87,413
Gross margin (%)	77	78	73	74	76	76	77	77
Total operating expenses	-24,722	-25,784	-23,417	-25,270	-29,140	-33,509	-43,867	-56,581
EBITDA	**2,990**	**5,166**	**2,875**	**12,940**	**15,690**	**18,771**	**23,794**	**30,832**
EBITDA margin (%)	8.3	12.9	8.0	25.0	26.7	27.4	26.9	27.0
Depreciation	-1,860	-2,067	-2,150	-2,480	-2,600	-3,197	-3,544	-4,075
EBIT	**1,130**	**3,099**	**725**	**10,460**	**13,090**	**15,573**	**20,250**	**26,757**
Net interest	-1,550	-2,166	-1,883	-1,120	-390	-40	-8	-8
Other income	0	325	280	470	290	353	197	515
Profit before tax	**-420**	**1,258**	**-878**	**9,810**	**12,990**	**15,886**	**20,439**	**27,264**
Total taxation	-180	-29	-523	-1,430	-290	-3,018	-3,883	-5,180
Tax rate (%)	-43	2	-60	15	2	19	19	19
Profit after tax	-600	1,287	-1,401	8,380	13,280	12,867	16,556	22,084
Minorities	0	0	0	0	0	0	0	0
Profit/ Loss associate co(s)	0	0	0	0	0	0	0	0
Adjusted net profit	**-118**	**1,692**	**1,369**	**8,880**	**11,220**	**13,415**	**16,733**	**22,312**
Adj. PAT margin (%)	-0	4	4	17	19	20	19	20
Net non-recurring items	-482	-405	-2,770	-500	2,060	-547	-177	-228
Reported net profit	**-600**	**1,287**	**-1,401**	**8,380**	**13,280**	**12,867**	**16,556**	**22,084**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	9,045	9,045	9,660	9,696	9,709	9,709	9,709	9,709
Reserves & surplus	9,256	24,815	47,721	57,484	70,991	82,572	97,472	1,17,347
Net worth	18,301	33,860	57,380	67,180	80,700	92,281	1,07,181	1,27,056
Borrowing	21,824	27,570	14,080	12,590	9,710	8,093	1,582	1,666
Other non-current liabilities	179	0	1,580	1,850	500	175	179	182
Total liabilities	**52,649**	**63,880**	**77,320**	**85,870**	**94,310**	**1,04,951**	**1,14,481**	**1,36,148**
Gross fixed assets	28,270	34,130	43,467	53,127	57,647	77,982	93,267	1,07,237
Less: Depreciation	-4,930	-6,997	-9,147	-11,627	-14,227	-17,425	-20,969	-25,044
Net fixed assets	23,340	27,132	34,320	41,500	43,420	60,558	72,299	82,194
Add: Capital WIP	1,578	1,578	0	0	0	0	0	0
Total fixed assets	24,918	28,710	34,320	41,500	43,420	60,558	72,299	82,194
Total Investment	0	21,380	20	20	20	20	20	20
Inventory	577	940	740	830	1,040	1,331	1,720	2,219
Debtors	3,696	2,605	4,691	4,900	4,340	6,083	7,616	9,827
Cash & bank	6,496	4,110	6,660	6,150	15,650	9,093	5,057	13,621
Loans & advances	4,793	0	0	0	0	0	0	0
Current liabilities	12,345	2,450	4,280	4,250	4,400	4,752	5,896	7,608
Total current assets	17,710	9,201	18,931	17,140	28,920	26,368	24,354	35,130
Net current assets	5,365	6,751	14,651	12,890	24,520	21,616	18,458	27,522
Other non-current assets	111	0	0	0	0	0	0	0
Total assets	**52,649**	**63,880**	**77,320**	**85,870**	**94,310**	**1,04,951**	**1,14,481**	**1,36,148**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	-420	1,258	-878	9,810	12,990	15,886	20,439	27,264
Depreciation & Amortisation	-1,860	-2,067	-2,150	-2,480	-2,600	-3,197	-3,544	-4,075
Chg in working capital	-2,514	-749	6,820	-1,640	780	616	-683	-1,500
CF from operations	**296**	**4,771**	**9,452**	**10,340**	**17,050**	**16,722**	**19,424**	**24,667**
Capital expenditure	-5,782	-5,859	-9,338	-9,660	-4,520	-20,335	-15,285	-13,970
CF from investing	**-7,106**	**-2,888**	**-8,634**	**-8,472**	**-8,706**	**-20,335**	**-15,285**	**-13,970**
Equity raised/ (repaid)	-3,673	0	-615	-37	-13	0	0	0
Debt raised/ (repaid)	9,331	3,830	-12,570	-1,570	-1,620	-1,783	-6,688	-104
Dividend paid	0	-257	-140	-838	-1,328	-1,287	-1,656	-2,208
CF from financing	**-2,147**	**-9,095**	**-3,402**	**-7,916**	**-6,330**	**-3,070**	**-8,344**	**-2,312**
Net chg in cash	-8,957	-7,212	-2,584	-6,048	2,014	-6,684	-4,205	8,385

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (Rs)	(0.1)	1.7	1.4	9.1	11.6	13.8	17.2	23.0
CEPS (Rs)	1.3	3.5	0.8	11.2	16.4	16.5	20.7	26.9
DPS (Rs)	0.0	0.3	0.1	0.9	1.4	1.3	1.7	2.3
Dividend payout ratio (%)	0.0	20.0	(10.0)	10.0	10.0	10.0	10.0	10.0
GROWTH								
Net sales (%)	38.7	10.9	(9.7)	43.6	13.6	16.5	29.3	29.0
EBITDA (%)	34.8	72.8	(44.4)	350.1	21.3	19.6	26.8	29.6
Adj net profit (%)	(113.6)	(1,531.0)	(19.1)	548.8	26.4	19.6	24.7	33.3
FDEPS (%)	(113.6)	(1,531.0)	(19.1)	548.8	26.4	19.6	24.7	33.3
PERFORMANCE								
RoE (%)	(0.8)	5.0	3.0	14.3	15.2	15.5	16.8	19.1
RoCE (%)	3.6	5.6	1.5	14.1	15.6	16.8	19.6	23.0
EFFICIENCY								
Asset turnover (x)	1.4	1.3	0.9	1.1	1.1	1.0	1.0	1.1
Sales/ total assets (x)	0.8	0.7	0.5	0.6	0.7	0.7	0.8	0.9
Working capital/ sales (x)	(0.0)	0.0	0.1	0.1	0.1	0.2	0.1	0.1
Receivable days	37	24	48	35	27	32	31	31
Inventory days	6	10	8	8	9	10	10	10
Payable days	75	26	47	40	37	35	33	33
FINANCIAL STABILITY								
Total debt/ equity (x)	1.5	1.1	0.3	0.2	0.1	0.1	0.0	0.0
Net debt/ equity (x)	1.1	0.1	0.2	0.1	(0.1)	(0.0)	(0.0)	(0.1)
Current ratio (x)	1.4	3.8	4.4	4.0	6.6	5.5	4.1	4.6
Interest cover (x)	0.7	1.4	0.4	9.3	33.6	384.8	2,560.4	3,213.1
VALUATION								
PE (x)	(6,963.6)	486.6	601.7	92.7	73.4	61.4	49.2	36.9
EV/ EBITDA (x)	280.6	159.8	289.1	64.1	52.1	43.8	34.5	26.3
EV/ Net sales (x)	23.3	20.7	23.1	16.1	13.9	12.0	9.3	7.1
PB (x)	45.0	24.3	14.4	12.3	10.2	8.9	7.7	6.5
Dividend yield (%)	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.3
Free cash flow yield (%)	(0.7)	(0.1)	0.0	0.1	1.5	(0.4)	0.5	1.3

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Dr. Lal Pathlabs

Steady growth, margin to sustain industry leadership

Dr Lal Pathlabs (DLPL) is the largest diagnostic chain in India with Delhi NCR as its core market. Over the last 15+ years, DLPL has expanded its presence outside of its core market (North contributes ~62% of sales) into the East region (organic expansion), West through M&A of Suburban Diagnostics (in Nov'21 at ~INR 9.7 bn) and the South (organic). While DLPL had a strong run over FY20-22 (clocked 25% CAGR), led by Covid and allied tests, core business (ex-Covid had 13% CAGR), tapering Covid sales led to revenue and margin decline in FY23 (core business ex-Suburban grew 10% YoY). Going ahead, we expect DLPL to maintain steady growth (recovery of ~10% YoY in FY24; ex-Covid at ~13% YoY). This growth trajectory will be propelled by a strategic emphasis on expanding its footprint in key markets, including Tier 3 and Tier 4 towns in the North, aimed at reducing dependency on the Delhi-NCR (~6% CAGR over FY19-24). Additionally, DLPL aims to penetrate untapped markets in the East while enhancing its presence in the West through scaling up in Suburban. Organic expansion and M&As in South region, contributing to the overall widening of DLPL's market reach. Furthermore, DLPL plans to broaden its specialized test menu, expand its network of collection centres and labs, and bolster its wellness initiatives, all to augment its B2C business. Additionally, a tangible decrease in price pressure and strategic price hikes selectively within its test portfolios could serve as a growth catalyst. The gradual improvement in realization, increasing share of speciality and Swasthfit, and cost optimization could help sustain the margin at ~27% (FY24 was at 27.4%). Given steady growth and margin, strong OCF/FCF (which will enable M&A) and improving return ratios, we initiate coverage with an ADD and a TP of INR 2,700, based on a 48x FY26E EPS (discount to its average PE of 49x).

Strong execution led to leadership: DLPL is the largest player in India's diagnostic with a differentiated positioning by having the largest network, a focus on quality/accuracy, and a wider test menu. DLPL leads in north India (contributes ~62% of sales and Delhi NCR contributes ~31%). As of FY24, it has a pan-India presence with a global national lab (Delhi), regional reference labs (Kolkata, Mumbai, Bangalore), 280 clinical labs, 5,762 PSCs^, and 11,619 PUPs^, backed by a test portfolio of 4,857.

Delhi NCR plateauing, expanding other regions: Delhi NCR has been a key contributor to growth, driving ~31% of sales and seeing 9% CAGR over FY17-20 and 10%/21% in FY21/22, fuelled by Covid. It is now a saturated market for DLPL (flat CAGR over FY22-24). DLPL's regional de-risking strategy focuses on deepening its presence in core markets of North (Tier 3/4 towns and newer markets such as UP/ Punjab), East (expansion in untapped market of Kolkata/Bihar), widening in the West regions through scaling-up in the Suburban (Mumbai, Pune, and Goa), and South region (in Bangalore/Hyderabad). Also, DLPL is expanding its specialized test menu/ collection centres/ labs and bolstering its wellness initiatives over the next few years.

Outlook and valuation: DLPL's remarkable trend in the past (CAGR of 27% over FY11-16, 15% over FY16-20) has slowed down due to increasing competition and price pressure; accordingly, we expect the company to see 11/15/25% sales/EBITDA/PAT CAGRs over FY23-26E. We see gradual improvement in realization (select test price hike), increasing share of speciality/Swasthfit, and cost controls to help margin sustain at ~27% in FY25-26. We initiate coverage with an ADD and a TP of INR 2,700, based on a 48x FY26E EPS (discount to average PE of 49x), which implies 28x EV/EBITDA.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	13	16	21	20	22	25	28
EBITDA	3.4	4.4	5.6	4.9	6.1	6.7	7.5
APAT	2.3	2.9	3.4	2.4	3.6	4.1	4.7
Diluted EPS (INR)	27.1	34.9	41.3	28.6	42.8	49.1	56.3
P/E (x)	93.1	72.2	61.0	88.1	58.8	51.3	44.8
EV / EBITDA (x)	59.5	46.4	37.3	42.2	33.4	30.0	26.4
RoCE (%)	28	31	29	18	25	27	28

Source: Company, HSIE Research, ^ patient service centres, *pick-up points

ADD

CMP *(as on 16 May 2024)*	INR 2,522
Target Price	INR 2,700
NIFTY	22,404

KEY STOCK DATA	
Bloomberg code	DLPL IN
No. of Shares (mn)	83
MCap (INR bn) / ($ mn)	210/2,523
6m avg traded value (INR mn)	647
52 Week high / low	INR 2,767/1,916

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	2.0	(5.9)	24.0
Relative (%)	0.3	(17.6)	5.1

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	54.6	54.6
FIs & Local MFs	9.56	9.69
FPIs	25.35	26.15
Public & Others	10.49	9.56
Pledged Shares	-	-

Source : BSE

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Exhibit 1: Revenue and EBITDA assumptions

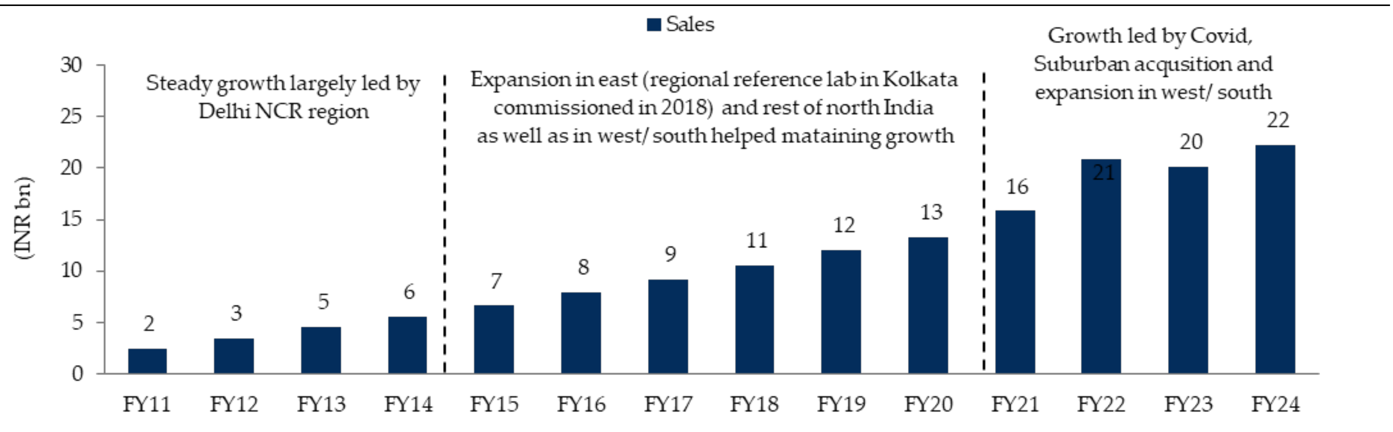
INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
No. of samples (mn)	34.7	41.8	47.7	49.7	66.0	72.3	78.2	86.4	95.4
YoY growth	18%	20%	14%	4%	33%	10%	8%	10%	10%
Revenue per sample (Rs)	304.6	287.9	278.9	318.2	316.3	279.0	284.7	287.9	291.0
YoY growth	-2%	-5%	-3%	14%	-1%	-12%	2%	1%	1%
No. of patients (mn)	15.2	17.6	19.4	18.8	27.3	26.9	27.6	29.0	30.7
YoY growth	14%	16%	10%	-3%	45%	-1%	3%	5%	6%
Revenue per patients (Rs)	695.3	683.8	685.8	840.7	764.6	749.8	806.7	858.0	903.9
YoY growth	1%	-2%	0%	23%	-9%	-2%	8%	6%	5%
Sample/ Patients	2.3	2.4	2.5	2.6	2.4	2.7	2.8	3.0	3.1
YoY growth	4%	4%	4%	7%	-9%	11%	5%	5%	4%
Total revenue	**10,569**	**12,034**	**13,304**	**15,813**	**20,874**	**20,169**	**22,266**	**24,866**	**27,767**
YoY growth	16%	14%	11%	19%	32%	-3%	10%	12%	12%
- Includes Covid revenues				3,230	3,960	630	254	150	150
% of sales				20%	19%	3%	1%	1%	1%
Gross profit	**8,309**	**9,411**	**10,317**	**11,840**	**15,851**	**15,697**	**17,752**	**19,743**	**22,074**
Gross margin	78.6%	78.2%	77.5%	74.9%	75.9%	77.8%	79.7%	79.4%	79.5%
EBITDA	**2,640**	**2,936**	**3,436**	**4,363**	**5,607**	**4,899**	**6,093**	**6,714**	**7,525**
YoY growth	11%	11%	17%	27%	29%	-13%	24%	10%	12%
EBITDA margin	**25.0%**	**24.4%**	**25.8%**	**27.6%**	**26.9%**	**24.3%**	**27.4%**	**27.0%**	**27.1%**
PAT	**1,707**	**1,992**	**2,259**	**2,916**	**3,448**	**2,389**	**3,577**	**4,098**	**4,697**
YoY growth	10%	17%	13%	29%	18%	-31%	50%	15%	15%
PAT margin	**16.2%**	**16.5%**	**17.0%**	**18.4%**	**16.5%**	**11.8%**	**16.1%**	**16.5%**	**16.9%**

Source: Company, HSIE Research.

DLPL is the largest player in the Indian diagnostics market

DLPL is the oldest (started in 1949 in Delhi) and the largest organized diagnostic chain in India. It has been able to create a differentiated positioning as it was a pioneer in bringing new lab tests to the market with a wider test menu, focus on doctors' network across Delhi NCR, consumer experience, accurate clinical outcome, and quality testing. Steady revenue growth in the last decade led by organic (geographical expansion in rest of north, east, west, and south) and inorganic opportunities (multiple M&As including Suburban Diagnostics for expanding presence in the west – Mumbai, Pune, and Goa), and Covid-led growth for FY21 and FY22. While FY23 growth was muted largely due to tapering in Covid and Covid allied test revenue, FY24 saw growth recovery led by normalization in core business and some support from price growth.

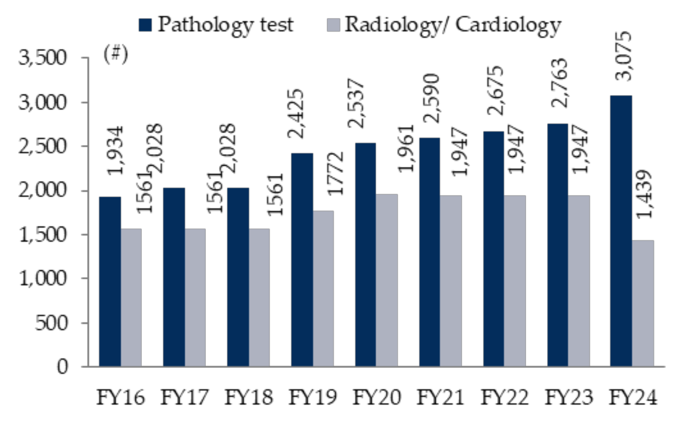
Exhibit 2: Growth trend in DLPL



Source: Company, HSIE Research

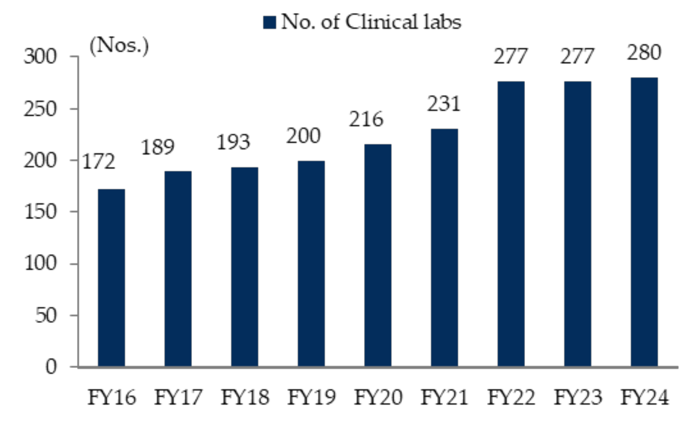
DLPL has created a pan-India presence with a national lab in Delhi, and regional reference labs in Kolkata, Mumbai, and Bangalore. As of FY23, DLPL has 280 clinical labs (including 40+ labs of Suburban), 5,762 patient service centres (200+ PSC of Suburban) 11,619 pick-up points (1,000+ PUP of Suburban), a catalogue of 343 test panels, 3,075 pathology tests and 1,439 radiology/cardiology tests. It has also invested in tech – an app for online booking, report generation, and home collection with AI-based algorithms.

Exhibit 3: Expanding test portfolio



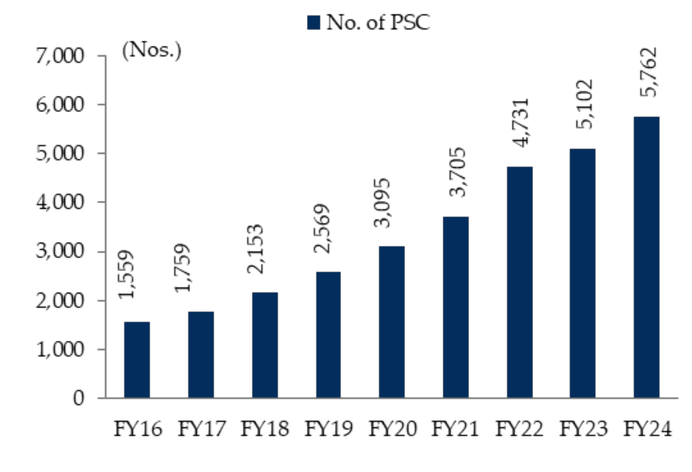
Source: Company, HSIE Research

Exhibit 4: Expanded clinical lab



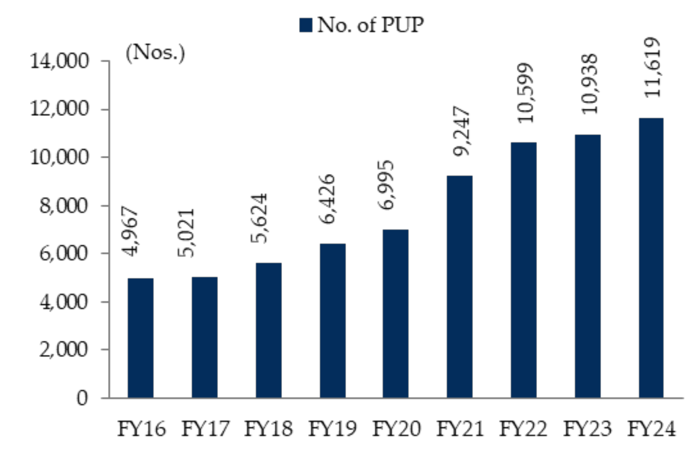
Source: Company, HSIE Research

Exhibit 5: Increasing patient service centers



Source: Company, HSIE Research

Exhibit 6: Expanding pick-up-points



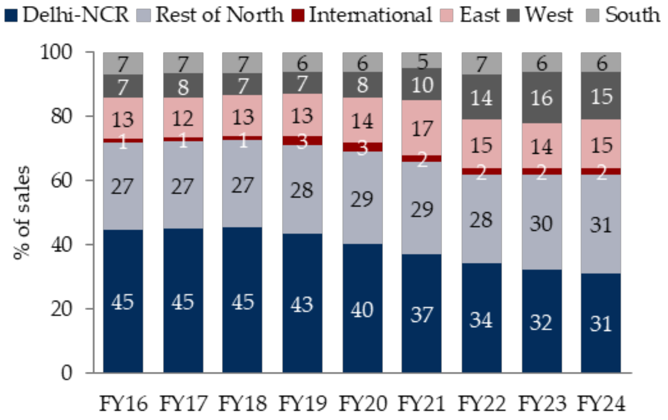
Source: Company, HSIE Research

Growth challenges in the Delhi NCR market, expanding to the rest of India

DLPL is the largest player in north India with a strong local presence and brand equity, led by consumer and doctor connects. In north India, it was largely concentrated around its core Delhi NCR market which is the most densified cluster for the company.

North India contributed ~62% to sales in FY24 and posted a CAGR of ~10% over FY19-24 but within this growth was softening in its core market of Delhi NCR (~31% of total sales) given higher penetration, increasing competition (from likes of SRL, Metropolis and Thyrocare and few hospitals-based chains), and maturity (base business). However, during the Covid period (FY21/22), it posted a strong CAGR of ~19% over FY20-22 led by Covid/allied testing opportunities but gained on a high base; it declined by 9% in FY23 and saw growth of ~7% YoY in FY24, with overall Delhi NCR region posting muted CAGR of ~6% over FY19-24.

Exhibit 7: Regional mix moving towards rest of India



Source: Company, HSIE Research

Exhibit 8: Delhi muted, rest of India driving growth

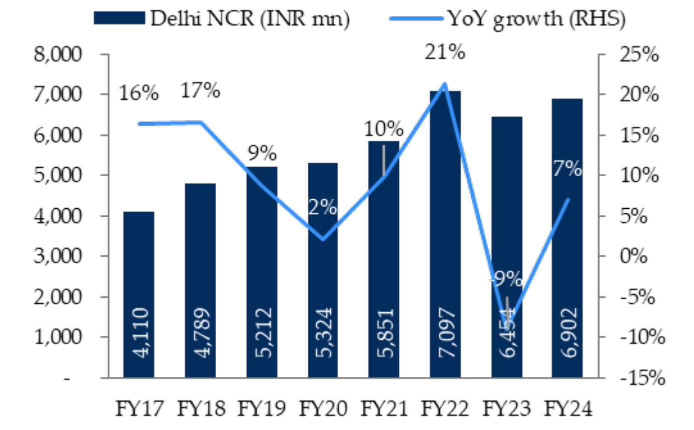
	CAGR over FY16-19	CAGR over FY20-22	CAGR over FY19-24
Delhi NCR	14%	15%	6%
Ex-Delhi	15%	23%	16%
North India	14%	19%	10%
East India	15%	30%	16%
South India	9%	35%	13%
West India	15%	66%	32%
International	66%	2%	4%
DLPL total	15%	25%	13%

Source: Company, HSIE Research

DLPL's strategy for expansion and maintaining a leadership position in the core market is:

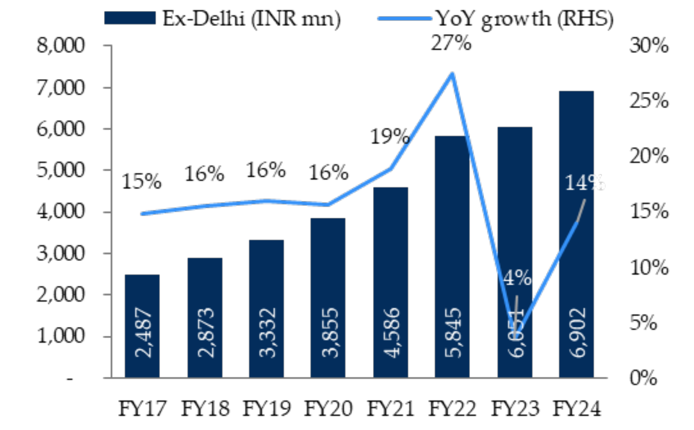
- **Delhi NCR**: Focus on driving volume with deeper penetration through a cluster-based approach by expanding touch points and traction in the B2B segment (government tenders) and expanding its bundled testing business (Swasthfit – wellness brand) for new customer acquisition, leveraging upon its strong brand equity across medical fraternity in Delhi NCR, and focus on strengthening its presence and capturing the full potential from micro markets to improve profitability in the base business.
- **Rest of North:** DLPL to diversify its expansion in the north region (ex-Delhi NCR) with a focus on gaining traction in key cities of Uttar Pradesh, Punjab, Uttarakhand, and other northern states. It is also looking for expansion into Tier 2-4 cities (such as Ghaziabad, Ajmer, Mirzapur, Faridabad, etc.).
- **East region:** DLPL has already commissioned a regional reference lab in Kolkata and expanded through the asset-light hub-and-spoke model. Focus on expanding in key markets of eastern India like Kolkata, Bihar, Assam, Odisha and other northeastern regions, where the competitive intensity is comparatively low.
- **West region:** In the western region, traditionally DLPL had a presence largely in the B2B segment and was facing competition from Metropolis and regional players. Acquisition of Suburban Diagnostics (Mumbai) in Nov'21 and setting up of a regional processing lab in Mumbai (commissioned in July 2022 at Vidyavihar, central Mumbai region; Suburban has its central lab at Andheri, western part of the Mumbai) would help DLPL expand presence in western India. Now the focus is to scale up the Suburban business through a wider test portfolio (synergy with DLPL test portfolio), expanding reach within core cities like Mumbai, Pune, and Goa as well as expanding presence in other key cities (through franchisee model), and dual brand strategy (DLPL for B2B and Suburban for B2B as well as B2C). Subsequently, the focus is also on improving profitability in the Suburban business through cost synergies with DLPL.
- **East region:** DLPL plans to further increase its footprint in the south by rolling out labs/collection centres with the launch of a reference lab in Bengaluru and setting up more satellite labs. In the south, DLPL has expanded its clinical labs, and centres and added hospital-managed labs across towns like Madurai, Kakinada etc. It expects to continue building a feeder network of collection centres and satellite labs, both through organic and inorganic means, to support the reference labs. It is focusing on key markets like Bangalore, Chennai, and Hyderabad.

Exhibit 9: Delhi NCR growth moderation



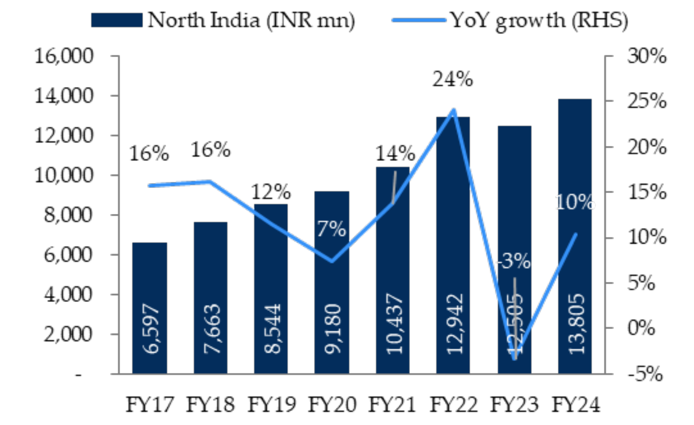
Source: Company, HSIE Research

Exhibit 10: Ex-Delhi, north region saw strong growth



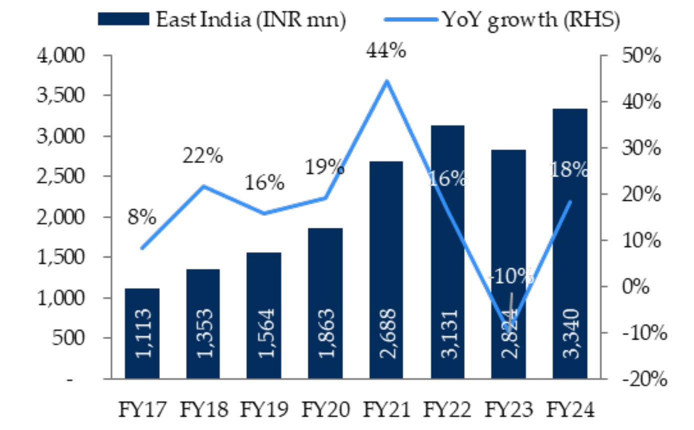
Source: Company, HSIE Research

Exhibit 11: North region growth was steady



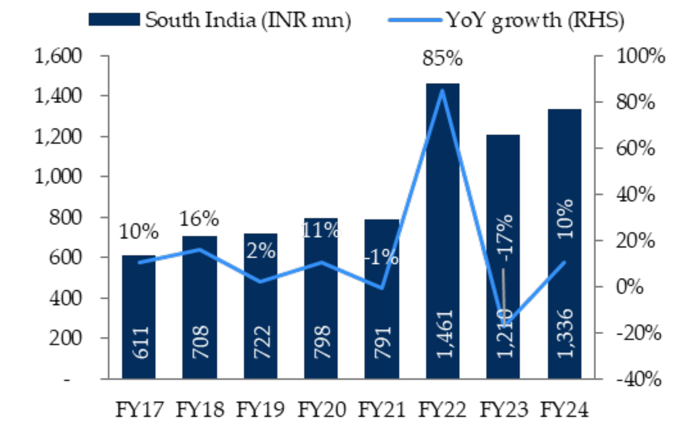
Source: Company, HSIE Research

Exhibit 12: East region saw steady growth



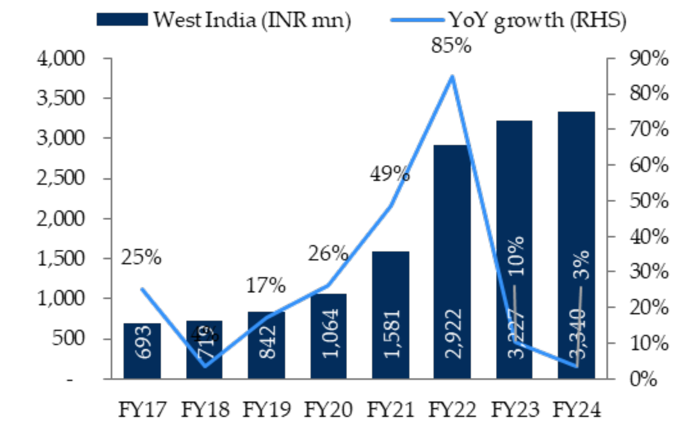
Source: Company, HSIE Research

Exhibit 13: West growth picked-up due to Suburban



Source: Company, HSIE Research

Exhibit 14: South region in scale-up phase



Source: Company, HSIE Research

Along with regional expansion, DLPL is also focusing on expanding its presence in Tier 3+ cities/ towns through network expansion (Lab and centre). Over the last 5 years, the contribution from Tier 3+ has increased to 35% of sales in FY24 from 32% in FY20. DLPL will continue to expand deeper in Tier 3+ cities/towns over the next few years.

Exhibit 15: Increasing DLPL reach in Tier 3+

Particulars (INR mn)	FY20	FY21	FY22	FY23	FY24	FY20-24 CAGR/ chg
Total sales	13,304	15,813	20,874	20,169	22,266	14%
Tier 3 revenue	4,210	5,440	6,830	6,850	7,890	17%
YoY %		29%	26%	0%	15%	
Tier 3 as % of sales	32%	34%	33%	34%	35%	379 bps
Tier 3 Infrastructure (nos.)						
Labs	60	64	69	70	84	24
Collection centers (CCs)	1,762	1,988	2,416	2,848	3,446	1,684
PUPs	4,475	5,560	6,363	6,863	7,668	3,193
CC/lab	29	31	35	41	41	9%
PUP/lab	75	87	92	98	91	5%

Source: Company, HSIE Research

Covid and Covid allied business phasing out, core business improving

COVID impact started with impact in Q4FY20 and for the next 1-2 quarters. Followed by which Covid test (RT-PCR) as well as the Covid allied test (IL6, D Dimer) saw a strong pick-up in FY21 and FY22. Accordingly, the margin expanded significantly and on the other side non-COVID business saw muted growth.

Post-COVID normalization, core business (non-COVID) has started recovery which has led to overall improvement in the margin. The growth was largely led by growth in sample volume and steady improvement in realization due to a better test mix as well as scale-up in the wellness business. Going ahead, with a price hike (taken in H1FY24) in select tests will support growth.

Exhibit 16: Covid business tapering down and non-Covid business picking up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Total revenues	4,319	4,524	4,310	6,066	4,984	4,969	4,855	5,027	5,338	4,894	4,910	5,410	6,013	5,389	5,454
YoY growth	18%	38%	43%	128%	15%	10%	13%	-17%	7%	-2%	1%	8%	13%	10%	11%
QoQ growth	62%	5%	-5%	41%	-18%	0%	-2%	4%	6%	-8%	0%	10%	11%	-10%	1%
Covid sales	960	1,100	570	2,200	510	590	660	210	200	110	110	130	120	-	4
% of sales	22%	24%	13%	36%	10%	12%	14%	4%	4%	2%	2%	2%	2%	0%	0%
Non-Covid sales	3,359	3,424	3,740	3,866	4,474	4,379	4,195	4,817	5,138	4,784	4,800	5,280	5,893	5,389	5,450
YoY growth	-8%	4%	24%	88%	33%	28%	12%	25%	15%	9%	14%	10%	15%	13%	14%
QoQ growth	63%	2%	9%	3%	16%	-2%	-4%	15%	7%	-7%	0%	10%	12%	-9%	1%
EBITDA	1272	1388	1220	1890	1415	1092	1211	1175	1438	1130	1156	1462	1778	1406	1447
EBITDA margin %	29.5%	30.7%	28.3%	31.2%	28.4%	22.0%	24.9%	23.4%	26.9%	23.1%	23.5%	27.0%	29.6%	26.1%	26.5%

Source: Companies, HSIE Research, Note: Suburban sales included in non-Covid from Q2FY22

Exhibit 17: Steady increasing in volume as realization per patients

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
No. of patients (mn)	5.4	5.5	5.9	7.1	6.9	6.7	6.6	6.9	7.2	6.5	6.3	6.9	7.5	6.7	6.59
YoY growth	2%	15%	34%	103%	28%	22%	12%	-3%	4%	-3%	-5%	0%	4%	3%	5%
QoQ growth	54%	2%	7%	20%	-3%	-3%	-1%	5%	4%	-10%	-3%	10%	9%	-11%	-2%
No. of samples (mn)	13.2	13.5	15.1	17.4	17.6	16.9	14.1	18.2	19.2	17.3	17.6	19.3	21.2	18.6	19.1
YoY growth	2%	16%	35%	120%	33%	25%	-7%	5%	9%	2%	25%	6%	10%	8%	9%
QoQ growth	67%	2%	12%	15%	1%	-4%	-17%	29%	5%	-10%	2%	10%	10%	-12%	3%
Sample per patient	2.4	2.5	2.6	2.5	2.6	2.5	2.1	2.6	2.7	2.7	2.8	2.8	2.8	2.8	2.9
YoY growth	0%	2%	1%	9%	4%	3%	-17%	8%	5%	6%	31%	6%	6%	4%	4%
QoQ growth	8%	0%	4%	-4%	4%	-1%	-15%	23%	1%	0%	5%	0%	1%	-2%	4%
Revenue per patients (INR)	800	823	731	854	722	742	736	729	741	753	779	784	802	804	828
YoY growth	16%	20%	7%	12%	-10%	-10%	1%	-15%	3%	2%	6%	8%	8%	7%	6%
QoQ growth	5%	3%	-11%	17%	-15%	3%	-1%	-1%	2%	2%	4%	1%	2%	0%	3%
Revenue per sample (INR)	327	335	285	349	283	294	344	276	278	283	279	280	284	290	286
YoY growth	16%	19%	6%	4%	-13%	-12%	21%	-21%	-2%	-4%	-19%	1%	2%	2%	2%
QoQ growth	-3%	2%	-15%	22%	-19%	4%	17%	-20%	1%	2%	-1%	0%	1%	2%	-1%

Source: Companies, HSIE Research, Note: Suburban included in non-Covid from Q2FY22

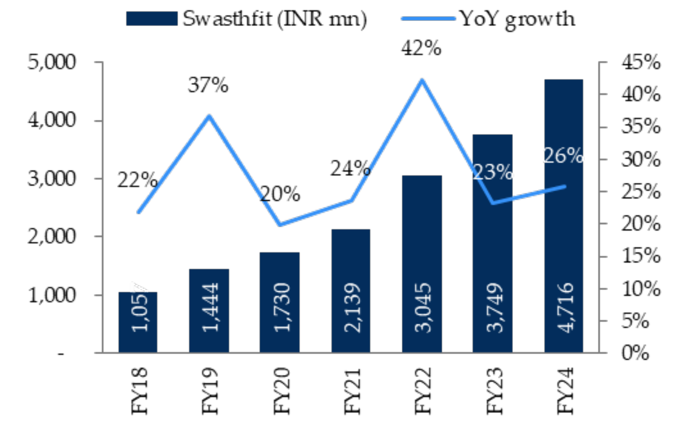
Swasthfit – wellness brand to drive both value and volume growth

In FY18, DLPL adopted a strategy to pivot towards the wellness segment, bundling its tests to offer packaged deals to consumers, leveraging its core strengths in LFT and KFT testing. This initiative culminated in the launch of Swasthfit, its wellness brand, which consolidated various tests under one umbrella. Over the past three years, DLPL has demonstrated consistent growth by providing enhanced value to patients, particularly in response to the increasing demand for preventive healthcare check-ups in urban areas. With the heightened awareness of preventive care post the COVID-19 pandemic, the packaged segment is poised for accelerated growth. DLPL anticipates that Swasthfit will enable it to effectively compete with online peers offering discounted prices.

To bolster its portfolio, DLPL introduced L-ACE, a centre of excellence specializing in autoimmunity. Additionally, in Q2FY23, it inaugurated its latest centre of excellence, L-CORD, focusing on reproductive diagnostics. These initiatives aim to enhance medical outcomes in areas such as infertility, pregnancy, and newborn health.

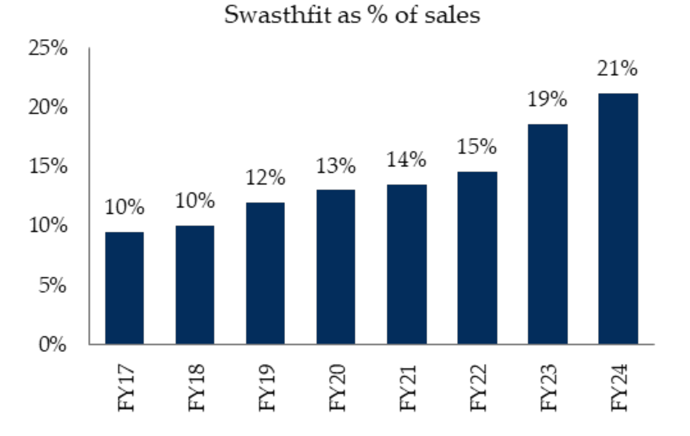
DLPL's Genomics division, Genevolve, specializes in genetic testing and provides a diverse array of essential tests encompassing onco-genomics, neuro-genomics, rare diseases, and prenatal/postnatal diagnostics. Utilizing state-of-the-art technologies including Next Generation Sequencing (NGS), MLPA, ddPCR, FISH analysis, and Sanger Sequencing, Genevolve delivers comprehensive genetic insights.

Exhibit 18: Steady growth in Swasthfit



Source: Company, HSIE Research

Exhibit 19: Increasing share over last few years



Source: Company, HSIE Research

Ongoing pressure from new entrants and aggressive discounts

The entrance of online players such as 1mg (Tata digital), PharmEasy (API holding), and Netmeds (Reliance Retail), alongside large corporates like Lupin and Mankind-Pathlabs, and emerging companies like Redcliff and Neuberg, has intensified competition within India's diagnostic industry. The aggressive cash burnout strategy employed by many of these entities, including heavy investments in branding, promotion, and discounts, is likely to drive pressure on test prices and potentially result in volume share gains for new entrants. In response to this heightened competition, DLPL aims to differentiate itself through superior services and quality, thereby sustaining its brand equity. Additionally, initiatives such as a wellness-focused push and selective price increases in certain test portfolios are anticipated to alleviate some of the pressure on profitability.

Exhibit 20: Increasing number of online and PE backed companies in the India diagnostic market

Pure diagnostic	Hospital Labs	Other corporates	Online players	PE backed
Dr Lal Pathlabs (1949)	Apollo diagnostic (2015)	Lupin (2022)	Tata 1mg (2015)	Neuberg (2017)
Agilus (1996)	Aster DM (2020)	Pathkind (2016)	Netmeds (2015)	Redcliffe (2018)
Metropolis (2000)	Max Labs (2020)	MedPlus (2018)	Healthians (2015)	Orange Health (2020)
Thyrocare (2000)			Practo (2008)	Atulaya (2008)
Vijaya (2009)			MediBuddy (2000)	Medall (1994)

Source: Companies, HSIE Research

Exhibit 21: Prices for organized players has see 4-5% increased; Tata 1mg discounts remain high and intensity is increasing as focus is to capture volume share

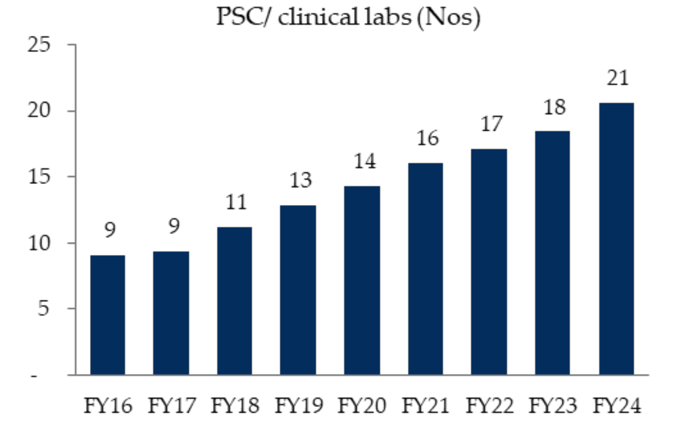
Price in Mumbai (Rs)	Metropolis			DLPL			Agilus/ SRL			1mg (online)			Average discount %		
	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024
CBC	310	310	330	250	250	250	350	350	350	299	299	249	-1%	-1%	-20%
Glucose fasting	90	90	90	85	85	85	80	85	90	99	99	99	16%	14%	12%
Vitamin D 25	1,650	1,650	1,700	1,500	1,500	1,500	1,500	1,530	1,700	370	389	339	-76%	-75%	-79%
Vitamin B12	1,150	1,150	1,200	1,200	1,200	1,200	1,150	1,130	1,200	449	449	339	-62%	-61%	-72%
Lipid Profile	800	800	800	840	840	840	800	800	830	320	320	319	-61%	-61%	-61%
Thyroid Profile	550	550	600	550	550	550	550	530	699	320	359	289	-42%	-34%	-53%
Liver Function	1,475	1,475	1,500	800	800	800	1,000	1,000	1,100	370	399	319	-66%	-63%	-72%
Kidney Function	1,100	1,100	1,180	910	910	910	900	900	965	349	359	309	-64%	-63%	-70%

Source: Companies, HSIE Research, Note: Some tests/profiles may differ under certain brands; Peer set to calculate discount by 1mg comprises Metropolis, DLPL and SRL

Asset sweating, cost controls to support margin; OCF, FCF enable M&As

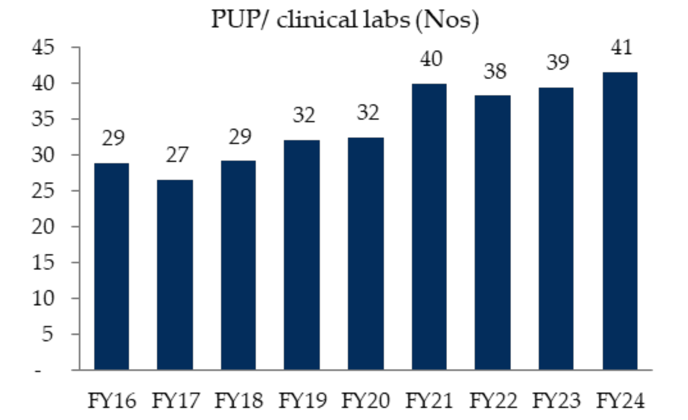
Over the past decade, DLPL concentrated its efforts on densifying Delhi NCR through a cluster-based approach and expanding into northern and eastern markets. Despite these expansions, it managed to maintain a margin of 25-26%, primarily driven by optimizing its lab infrastructure. Notably, the number of sample collection centres per lab increased to 20-21 in FY24 compared to 9-10 previously, effectively absorbing cost pressures. DLPL's strategic measures, including asset optimization and cost-saving initiatives such as transitioning from reference labs and Company Owned Company Operated (COCO) to hub labs, will further enhance its cost structure. This approach involves establishing fewer labs but offering a broader test menu in each region while investing in logistics for faster turnaround times. Moreover, the shift towards franchisee/partner collection centres (FOFO – Franchisee Owned Franchisee Operated) introduces a variable cost structure, contrasting with the fixed cost structure of COCO operations.

Exhibit 22: Expansion in patient service center and…



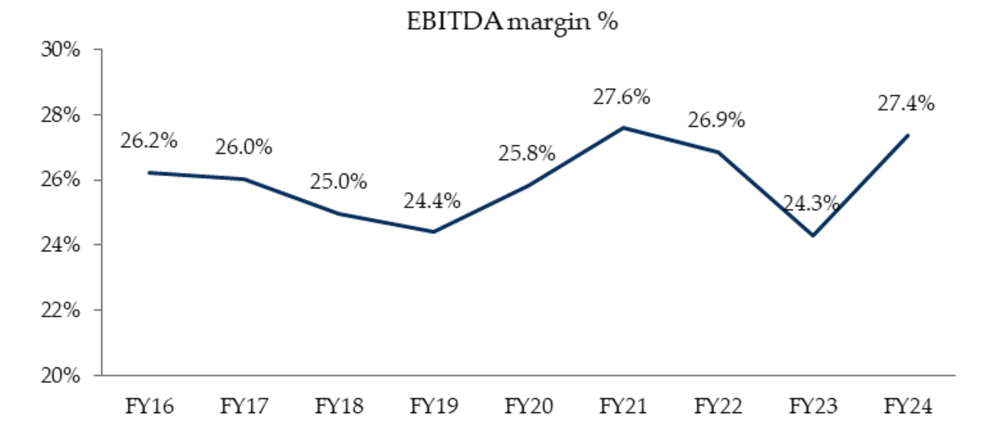
Source: Company, HSIE Research

Exhibit 23: …Pick-up-points – asset sweating led to…



Source: Company, HSIE Research

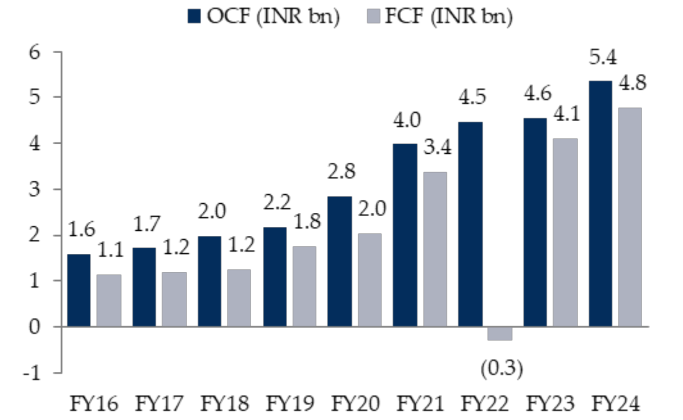
Exhibit 24: …steady margin in 24-27% range in the last few years



Source: Bloomberg, HSIE Research

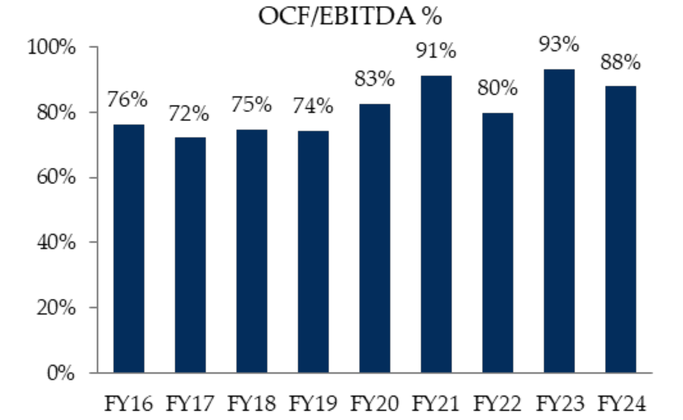
It expects to sustain the competitive pricing pressure in the wake of stiffer competition by having better cost management across the network. Moreover, its ability to generate strong operating costs and FCF (given diagnostics is a low capital-intensive business) and generate healthy EBITDA to OCF conversion can support the inorganic growth initiatives (cautious and strategic approach for M&As).

Exhibit 25: Strong OCF and FCF generation



Source: Company, HSIE Research

Exhibit 26: Healthy EBITDA to OCF conversion



Source: Company, HSIE Research

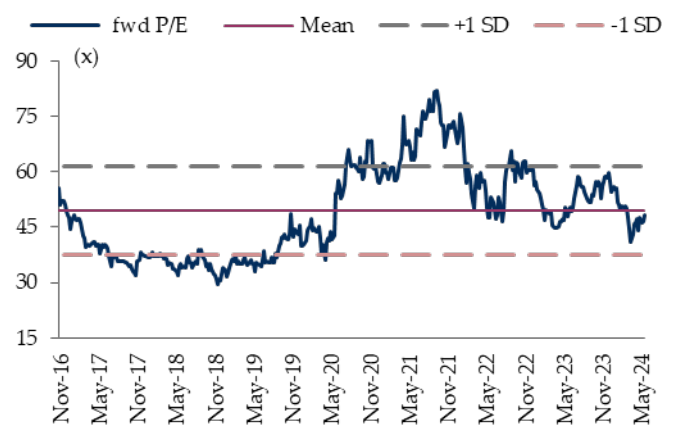
Outlook and valuation

We anticipate DLPL to maintain steady growth primarily driven by strategic initiatives aimed at deepening market presence in core regions such as North (Tier 3/4 towns), reducing reliance on Delhi-NCR (with a CAGR of approximately 6% from FY19 to FY24), expanding into untapped East markets, scaling up suburban operations in the West, and organic expansion in the South. Additionally, DLPL plans to enhance its specialized test menu, collection centres, and labs, alongside a wellness-focused push to bolster its business-to-consumer segment. Furthermore, a visible reduction in price pressure and selective price hikes within the test portfolio are expected to contribute positively to growth.

DLPL's remarkable trend in past (CAGR of 27% over FY11-16, 15% over FY16-20) has slowed down due to increasing competition and price pressure; accordingly, we expect DLPL to see 11/15/25% sales/EBITDA/PAT CAGRs over FY23-26E. We see gradual improvement in realization (select test price hike), increasing share of speciality and Swasthfit, and cost controls to help margin sustain at ~27% in FY25-26.

We initiate coverage with an ADD and a TP of INR 2,700, based on a 48x FY26E EPS (discount to average PE of 49x), which implies 28x EV/EBITDA.

Exhibit 27: PE chart



Source: Bloomberg, HSIE Research

Exhibit 28: EV/ EBITDA chart

Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	**12,034**	**13,304**	**15,813**	**20,874**	**20,169**	**22,266**	**24,866**	**27,767**
Other operating income	0	0	0	0	0	0	0	0
Total operating income	**12,034**	**13,304**	**15,813**	**20,874**	**20,169**	**22,266**	**24,866**	**27,767**
Cost of goods sold	-2,624	-2,987	-3,973	-5,023	-4,472	-4,514	-5,122	-5,692
Gross profit	9,411	10,317	11,840	15,851	15,697	17,752	19,743	22,074
Gross margin (%)	78.2	77.5	74.9	75.9	77.8	79.7	79.4	79.5
Total operating expenses	-6,474	-6,881	-7,477	-10,244	-10,798	-11,659	-13,030	-14,550
EBITDA	**2,937**	**3,436**	**4,363**	**5,607**	**4,899**	**6,093**	**6,714**	**7,525**
EBITDA margin (%)	24.4	25.8	27.6	26.9	24.3	27.4	27.0	27.1
Depreciation	-382	-728	-772	-1,081	-1,502	-1,436	-1,507	-1,588
EBIT	**2,554**	**2,708**	**3,591**	**4,526**	**3,397**	**4,657**	**5,207**	**5,937**
Net interest	-8	-153	-160	-302	-375	-294	-238	-227
Other income	459	550	513	525	417	692	709	789
Profit before tax	**3,005**	**3,105**	**3,944**	**4,749**	**3,439**	**5,055**	**5,678**	**6,499**
Total taxation	-1,001	-829	-979	-1,246	-1,028	-1,432	-1,533	-1,755
Tax rate (%)	33	27	25	26	30	28	27	27
Profit after tax	2,005	2,276	2,965	3,503	2,411	3,623	4,145	4,744
Minorities	13	17	49	55	22	46	46	47
Profit/ Loss associate co(s)	0	0	0	0	0	0	0	0
Adjusted net profit	**1,992**	**2,259**	**2,916**	**3,448**	**2,389**	**3,577**	**4,098**	**4,697**
Adj. PAT margin (%)	17	17	18	17	12	16	16	17
Net non-recurring items	0	0	0	0	0	0	0	0
Reported net profit	**1,992**	**2,259**	**2,916**	**3,448**	**2,389**	**3,577**	**4,098**	**4,697**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Paid-up capital	833	833	833	833	834	835	835	835
Reserves & surplus	8,622	9,495	11,617	14,183	15,829	17,658	19,502	21,616
Net worth	9,510	10,540	12,760	15,371	16,995	18,854	20,745	22,905
Borrowing	0	1,294	1,505	5,326	4,195	2,469	2,221	2,073
Other non-current liabilities	58	2	57	72	34	157	160	162
Total liabilities	**10,905**	**13,743**	**16,613**	**23,468**	**23,856**	**24,560**	**26,515**	**28,926**
Gross fixed assets	2,737	4,971	5,982	11,828	12,594	12,868	13,977	15,099
Less: Depreciation	-930	-1,613	-2,363	-3,574	-5,022	-6,412	-7,919	-9,507
Net fixed assets	1,807	3,358	3,619	8,254	7,572	6,456	6,058	5,592
Add: Capital WIP	34	114	96	150	49	57	67	67
Total fixed assets	1,841	3,472	3,715	8,404	7,622	6,513	6,125	5,659
Total Investment	1,848	1,643	593	655	1,499	1,475	1,475	1,475
Inventory	285	570	426	525	338	373	414	463
Debtors	532	514	667	854	708	774	967	1,080
Cash & bank	4,902	5,691	9,260	6,176	6,654	8,303	10,278	12,876
Loans & advances	9	9	10	12	14	13	15	17
Current liabilities	1,338	1,907	2,291	2,699	2,631	3,080	3,390	3,786
Total current assets	6,289	7,284	10,859	8,098	8,232	10,129	12,420	15,241
Net current assets	4,951	5,377	8,568	5,399	5,601	7,049	9,030	11,455
Other non-current assets	648	572	592	877	1,024	961	1,013	1,070
Total assets	**10,905**	**13,743**	**16,613**	**23,468**	**23,856**	**24,560**	**26,515**	**28,926**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	3,005	3,105	3,944	4,749	3,439	5,055	5,678	6,499
Depreciation & Amortisation	-382	-728	-772	-1,081	-1,502	-1,436	-1,507	-1,588
Chg in working capital	93	122	367	-167	355	357	-56	119
CF from operations	**2,185**	**2,839**	**3,982**	**4,467**	**4,560**	**5,354**	**5,434**	**6,232**
Capital expenditure	-420	-796	-596	-4,761	-460	-575	-700	-700
CF from investing	**-997**	**-261**	**-2,120**	**-4,492**	**-2,873**	**-243**	**-700**	**-700**
Equity raised/ (repaid)	1	2	2	3	8	35	0	0
Debt raised/ (repaid)	0	-351	-391	2,634	-1,655	-2,068	-865	-796
Dividend paid	-547	-1,543	-991	-1,157	-994	-2,012	-2,254	-2,584
CF from financing	**-548**	**-1,904**	**-1,386**	**1,364**	**-2,832**	**-4,139**	**-3,357**	**-3,607**
Net chg in cash	640	673	476	1,339	-1,145	972	1,377	1,925

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (Rs)	23.9	27.1	34.9	41.3	28.6	42.8	49.1	56.3
CEPS (Rs)	28.4	35.8	44.2	54.2	46.6	60.0	67.1	75.3
DPS (Rs)	6.6	18.5	11.9	13.9	11.9	24.1	27.0	30.9
Dividend payout ratio (%)	27.5	68.3	34.0	33.6	41.6	56.2	55.0	55.0
GROWTH								
Net sales (%)	13.9	10.6	18.9	32.0	(3.4)	10.4	11.7	11.7
EBITDA (%)	11.2	17.0	27.0	28.5	(12.6)	24.4	10.2	12.1
Adj net profit (%)	16.7	13.4	29.1	18.2	(30.7)	49.7	14.6	14.6
FDEPS (%)	16.7	13.4	29.1	18.2	(30.7)	49.7	14.6	14.6
PERFORMANCE								
RoE (%)	23.0	21.9	25.6	25.1	15.1	20.3	21.1	22.0
RoCE (%)	34.3	27.5	31.4	28.8	18.2	25.1	26.5	27.9
EFFICIENCY								
Asset turnover (x)	4.7	3.5	2.9	2.3	1.7	1.7	1.9	1.9
Sales/ total assets (x)	1.2	1.1	1.0	1.0	0.9	0.9	1.0	1.0
Working capital/ sales (x)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.0)
Receivable days	16	14	15	15	13	13	14	14
Inventory days	11	21	14	13	8	8	8	8
Payable days	32	44	46	35	37	42	42	42
FINANCIAL STABILITY								
Total debt/ equity (x)	0.0	0.1	0.1	0.4	0.3	0.1	0.1	0.1
Net debt/ equity (x)	(0.8)	(0.6)	(0.7)	(0.1)	(0.2)	(0.4)	(0.5)	(0.5)
Current ratio (x)	4.7	3.8	4.7	3.0	3.1	3.3	3.7	4.0
Interest cover (x)	304.5	17.7	22.4	15.0	9.1	15.8	21.9	26.2
VALUATION								
PE (x)	105.6	93.1	72.2	61.0	88.1	58.8	51.3	44.8
EV/ EBITDA (x)	69.4	59.5	46.4	37.3	42.2	33.4	30.0	26.4
EV/ Net sales (x)	16.9	15.4	12.8	10.0	10.3	9.2	8.1	7.2
PB (x)	22.2	20.4	16.9	14.0	12.6	11.4	10.3	9.4
Dividend yield (%)	0.3	0.7	0.5	0.6	0.5	1.0	1.1	1.2
Free cash flow yield (%)	0.8	1.0	1.6	(0.1)	1.9	2.3	2.3	2.6

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Metropolis Healthcare

Growth visible; near-term margin under check

ADD

CMP *(as on 16 May 2024)*	**INR 1,868**
Target Price	**INR 2,010**
NIFTY	**22,404**

KEY STOCK DATA	
Bloomberg code	METROHL IN
No. of Shares (mn)	51
MCap (INR bn) / ($ mn)	96/1,147
6m avg traded value (INR mn)	635
52 Week high / low	INR 1,935/1,209

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.6	16.2	42.8
Relative (%)	2.9	4.6	23.8

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	49.74	49.67
FIs & Local MFs	20.73	24.86
FPIs	21.66	18.9
Public & Others	7.87	6.57
Pledged Shares	1.18	1.18

Source : BSE

Metropolis (METROHL) is the third-largest diagnostic chain in India with West and South regions as its core markets (~80+% of sales). It has created a differentiated positioning with a strong brand equity in speciality testing. Over the last 15-20 years, it has evolved from a B2B player to a diversified in the B2C segment on the back of network expansion (labs/collection centres), expanding into semi-speciality and routine test offerings, and M&As. METROHL has sustained its leadership in the west region (mix of M&As and organic expansion) and strengthened its business in the south region through the acquisition of Hitech (in Oct'21). While METROHL had a strong run over FY20-22 (clocked 20% CAGR), led by COVID-19 and allied tests, core business (ex-COVID had 5% CAGR, including Hitech). Further, tapering of COVID sales impacted growth in FY23 (ex-COVID, the core business grew 17% YoY) and absence of NACO sales (contract expired in Feb'23, ~6% of sales) impacted sales in 9MFY24 (ex-COVID/NACO, core business grew 13% YoY). Going ahead, we expect the METROHL to see steady growth, led by aggressive expansion plans to add 90 labs (added 31 since Apr'22) and 1,800 service centres (added 1,063 since Apr'22), deeper penetration in core markets with target to increase market share, entry in newer markets (city/ town coverage increased to 595 as of Dec'23 from 307 earlier), scale-up in its speciality/ B2C/ wellness business, expansion into adjacencies like basic radiology and allied services, synergistic expansion of Hitech, and bolt-on acquisitions. Also, a price hike in the test portfolio (effective from Jan'24) could support growth. Steady growth, improving lab infra maturity, scale-up in B2C/wellness, price hikes, and moderation in network expansion could support the margin expansion to ~26.3% in FY26 (from 25/24% in FY23/24). Considering these factors, we initiate coverage with an ADD rating and a TP of INR 2,010, based on a 46x FY26E EPS (~2% premium to its average PE of 45x).

Well-placed in the growing diagnostic market with specialized offerings: METROHL has a strong presence in the west (54% of sales) and south (28%; including Hitech). It has expanded its network by ~1.8x (labs) and 4.1x (collection centres) over FY17-23. It has focused on creating a strong brand equity among opinion leaders like doctors with its specialized testing capabilities (contributes ~35% values and 13% volume for METROHL), quality, and accuracy.

Focus on pan-India expansion and increasing B2C market share: METROHL has started its expansion plans (since Apr'22) to add 90 labs (added 31 labs since Apr'22) and 1,800 service centres (added 1,063 centres since Apr'22), deeper penetration in core markets (focus cities like Mumbai, Pune, Chennai, Bangalore, and Surat) with a target to increase market share, an entry in newer markets (city/town coverage increased to 595 as of Dec'23 from 307 earlier; seeding cities like Delhi NCR, Hyderabad), scale-up in its speciality/B2C/wellness business, expansion into adjacencies like basic radiology and allied services with asset-light models (within existing lab/centre infra), synergistic expansion of Hitech, and bolt-on M&As.

Outlook and valuation: We expect METROHL to see 10/12/16% sales/EBITDA/PAT CAGRs over FY23-26E led by expansion, core business recovery, and price hikes (improvement in realization). Increasing share of specialized tests and wellness, lab infra maturity (current dilution of ~1.2%) and slowdown in expansion may drive the margin to ~26.3% in FY26. We initiate coverage with ADD and a TP of INR 2,010, based on 46x FY26E EPS (~2% premium to average PE of 45x), implying 25x EV/EBITDA.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	8.6	10.0	12.3	11.5	11.9	13.5	15.3
EBITDA	2.3	2.9	3.4	2.9	2.8	3.4	4.0
APAT	1.5	1.8	2.0	1.4	1.3	1.7	2.2
Diluted EPS (INR)	29.6	35.7	38.7	27.9	26.0	34.0	43.7
P/E (x)	63.0	52.2	48.2	66.9	72.0	54.9	42.7
EV / EBITDA (x)	40.4	32.3	28.5	33.7	34.3	28.3	23.4
RoCE (%)	34	35	27	16	14	17	19

Source: Company, HSIE Research

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Exhibit 1: Revenue, EBITDA, and PAT assumptions

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operating metrics									
No. of tests (mn)	16.0	17.0	19.6	19.0	25.7	24.5	23.7	26.0	28.5
YoY growth	12%	6%	15%	-3%	35%	-5%	-3%	10%	10%
Revenue per test (INR)	404	448	437	525	478	469	500	518	536
YoY growth	6%	11%	-2%	20%	-9%	-2%	7%	3%	3%
No. of patients (mn)	7.7	8.9	10.0	11.0	13.4	11.5	11.7	12.3	13.1
YoY growth	10%	16%	12%	10%	22%	-14%	2%	5%	6%
Revenue per patients (INR)	840	855	856	905	917	998	1,012	1,094	1,170
YoY growth	8%	2%	0%	6%	1%	9%	1%	8%	7%
Test/ Patients	2.1	1.9	2.0	1.7	1.9	2.1	2.0	2.1	2.2
YoY growth	2%	-8%	3%	-12%	11%	11%	-5%	4%	3%
Total Revenue	**6,472**	**7,612**	**8,564**	**9,980**	**12,283**	**11,482**	**11,872**	**13,469**	**15,279**
YoY growth	19%	18%	13%	17%	23%	-7%	3%	13%	13%
Gross profit	**4,956**	**5,821**	**6,454**	**7,404**	**9,454**	**8,884**	**9,414**	**10,668**	**12,117**
Gross margin	**76.6%**	**76.5%**	**75.4%**	**74.2%**	**77.0%**	**77.4%**	**79.3%**	**79.2%**	**79.3%**
EBITDA	**1,761**	**2,004**	**2,328**	**2,860**	**3,428**	**2,883**	**2,820**	**3,381**	**4,018**
YoY growth	16%	14%	16%	23%	20%	-16%	-2%	20%	19%
EBITDA margin	**27.2%**	**26.3%**	**27.2%**	**28.7%**	**27.9%**	**25.1%**	**23.8%**	**25.1%**	**26.3%**
PAT	**1,042**	**1,201**	**1,519**	**1,831**	**1,983**	**1,429**	**1,329**	**1,741**	**2,238**
YoY growth	3%	15%	26%	21%	8%	-28%	-7%	31%	29%
PAT margin	**16.1%**	**15.8%**	**17.7%**	**18.3%**	**16.1%**	**12.4%**	**11.2%**	**12.9%**	**14.6%**

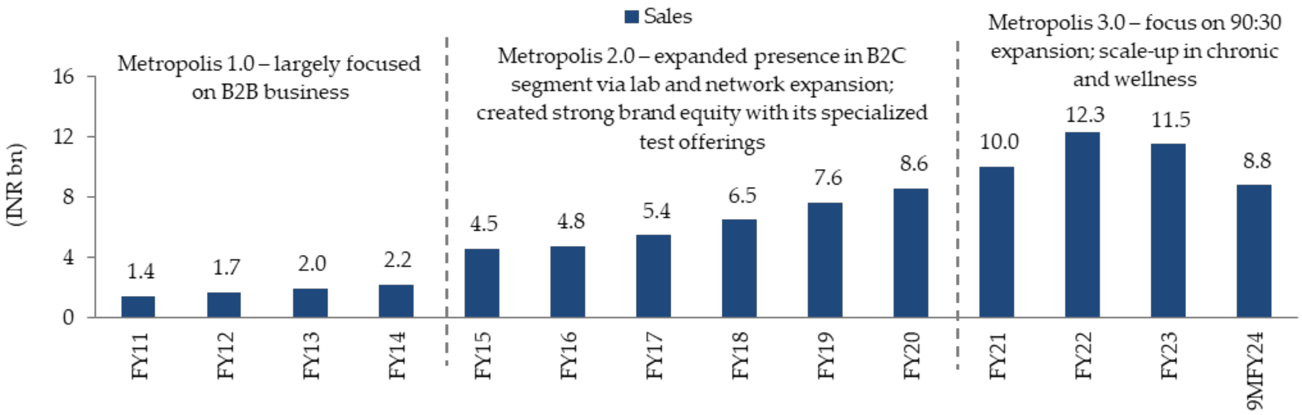
Source: Company, HSIE Research.

METROHL has evolved as India’s third-largest diagnostics player

Over the last 20 years, METROHL has evolved from B2B to the third-largest diagnostic player with a strong presence in B2C. Three phases of evolution:

- **Metropolis 1.0**: METROHL began its journey with one global central processing lab in Mumbai, focusing on building the brand – largely a B2B business.
- **Metropolis 2.0**: Over the last 10 years, it created a presence in the B2C segment through expansion in regional reference/satellite labs and collection centres and M&As (24+ acquisitions in the last 20 years).
- **Metropolis 3.0**: The company has emerged as India's third-largest player. It is on track for its 90 labs:30-month project to expand its geographical presence. It is targeting untapped markets in the chronic and wellness spaces with a continued scale-up in its core acute illness market. Key strategies are to strengthen the core markets with a target to increase market share, expand into adjacencies like basic radiology and allied services, look for bolt-on acquisitions for a strategic entry into a new market and build organic business thereafter.

Exhibit 2: Metropolis has emerged as the third largest player in India's diagnostic market



Source: Company, HSIE Research. Note: FY11-15 sales from Bloomberg

METROHL has created a pan-India presence with a national lab in Mumbai and regional reference labs in multiple cities. As of FY23, it has 175 clinical labs (including 20 labs of Hitech Diagnostics), 754 assisted referral centres, 2,594 third-party patient service centres and 327 own patient service centres (63 from Hitech), and offers 4,100+ test/panels across routine, specialty and semi-speciality.

Exhibit 3: Business mix

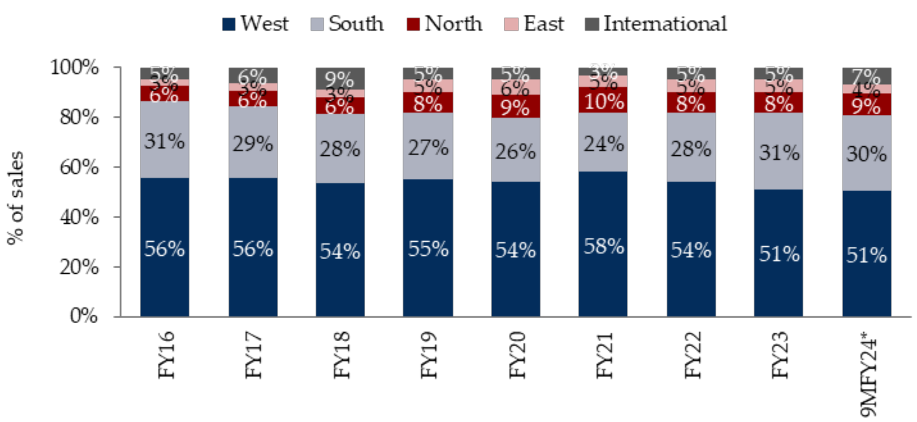
Revenue mix (INR mn)	FY22	FY23	YoY growth %	9MFY23	9MFY24	YoY growth %
Core business (including Hitech)	8,643	10,342	20%	7,617	8,597	13%
PPP contracts	760	670	-12%	640	21	-97%
Covid and Covid allied	2,880	470	-84%	400	150	-63%
Total sales	12,283	11,482	-7%	8,657	8,767	1%
% of sales						
Core business (including Hitech)	70%	90%		88%	98%	
PPP contracts	6%	6%		7%	0%	
Covid and Covid allied	23%	4%		5%	2%	

Source: Company, HSIE Research

Focus on expanding geographical presence

METROHL has established a strong presence in the west (51% sales; leading player in Mumbai) and south (31%). Over the last few years, the overall share from the West and South regions has been declining (~82% in FY23 and 81% in 9MFY24 from ~87% in FY16) largely due to expansion in the North region (Delhi key market) where the share has increased to ~9% in 9MFY24 from ~6% in FY16.

Exhibit 4: Regional mix – gradually expanding presence in north and east



Source: Company, HSIE Research. Note: 9MFY24 mix as per core business (including Hitech)

West region contributed ~51% to sales in FY23 and posted a CAGR of ~16% over FY19-23 and the South region (31% of sales) has seen a CAGR of ~12% over the same period. Post-Covid normalization growth in both the West and South regions was strong at 13% and 14%, respectively in 9MFY24.

METROHL's strategy for expansion and maintaining a leadership position in the core market is:

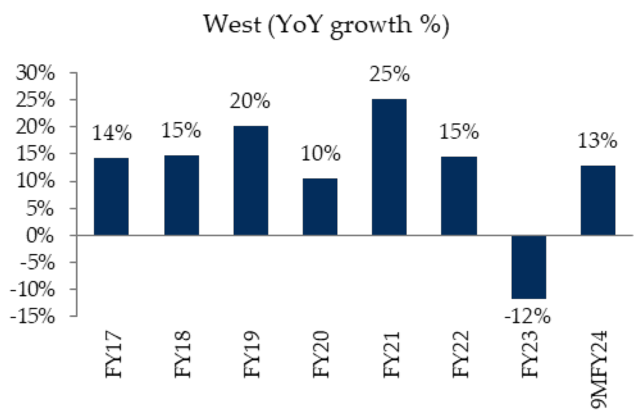
- **West region**: Deeper penetration in the focus cities such as Mumbai, Pune, and Surat; targets to increase market share through a specialised test portfolio and scale-up in the wellness business.
- **South region:** Looking to leverage synergies with Hitech to strengthen its presence in the southern region. Focus on enhancing its presence through a dual-brand strategy in the existing south markets like Chennai (Hitech), Bangalore (METROHL), Hyderabad and other key micro markets. It plans to expand the Hitech centres in its core markets as well as scale up the wellness business in Hitech to the METROHL level in the near term. Also, other integration benefits include increasing B2C revenue mix, procurement synergies, better lab utilization and rationalization of infrastructure, manpower, admin & logistic costs between the two brands.
- **North region:** METROHL is looking to expand its presence in new markets like Delhi NCR, Punjab etc. with a focus on the B2C market.
- **East region:** METROHL plans to expand its presence under its 90:30 plan to create a presence in key markets of Kolkata, northeast, and Odisha.

Exhibit 5: West and South region are the key drivers for growth

	CAGR over FY16-19	CAGR over FY20-22	CAGR over FY19-23	YoY growth Core 9MFY24*
West	16%	20%	9%	13%
South	12%	24%	15%	14%
North	29%	13%	11%	18%
East	39%	9%	11%	-3%
International	21%	20%	11%	13%
Total sales	17%	20%	11%	13%

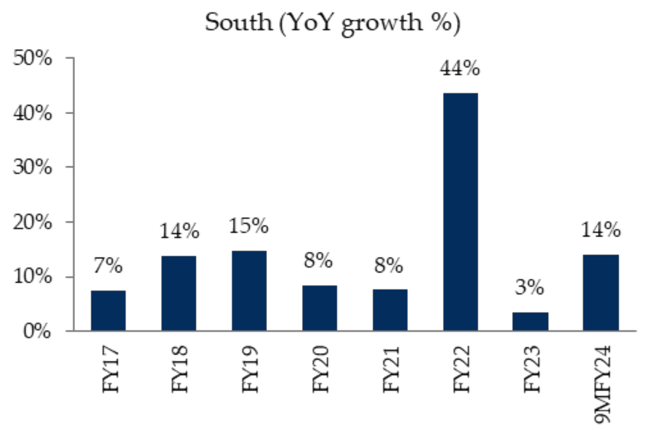
Source: Company, HSIE Research. Note: 9MFY24 mix as per core business (including Hitech)

Exhibit 6: Steady growth in West region



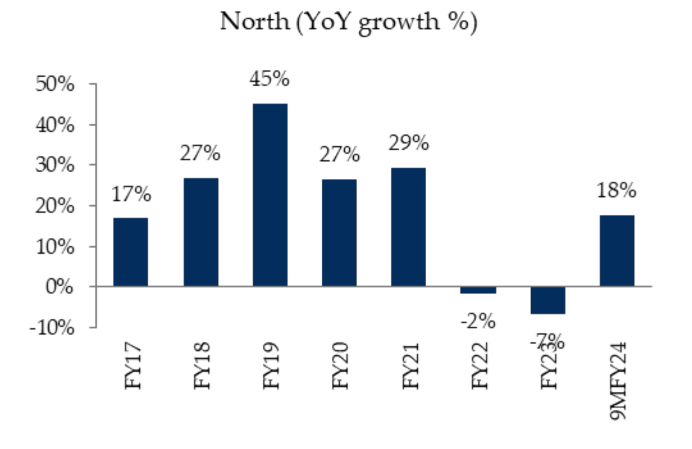
Source: Company, HSIE Research

Exhibit 7: South region remains strong



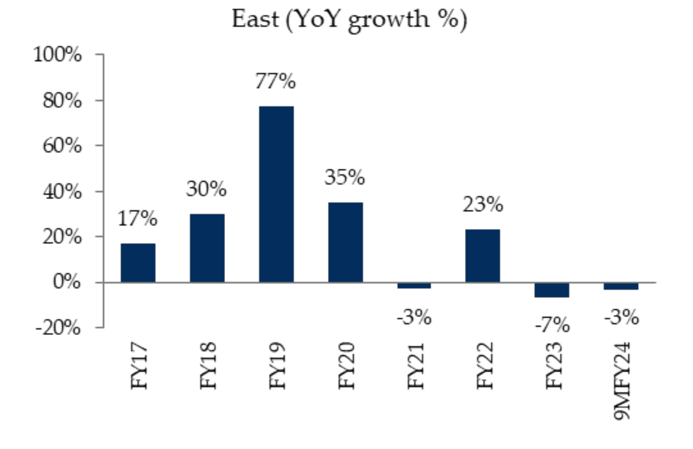
Source: Company, HSIE Research

Exhibit 8: Strong scale-up in North region



Source: Company, HSIE Research

Exhibit 9: Steady pick-up in East region

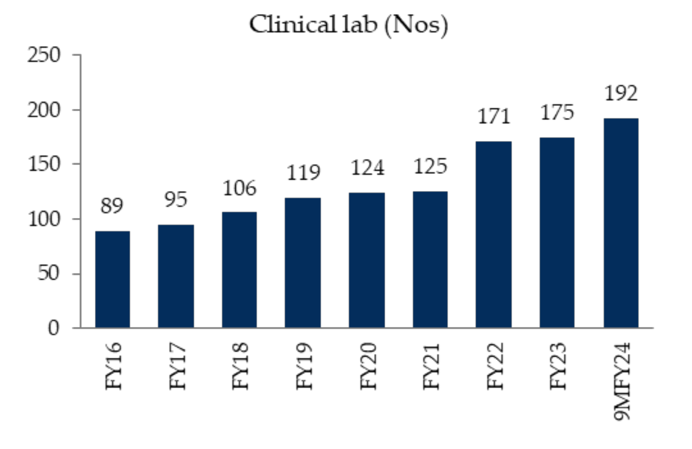


Source: Company, HSIE Research

Expansion to drive long-term growth, near-term impact on margin

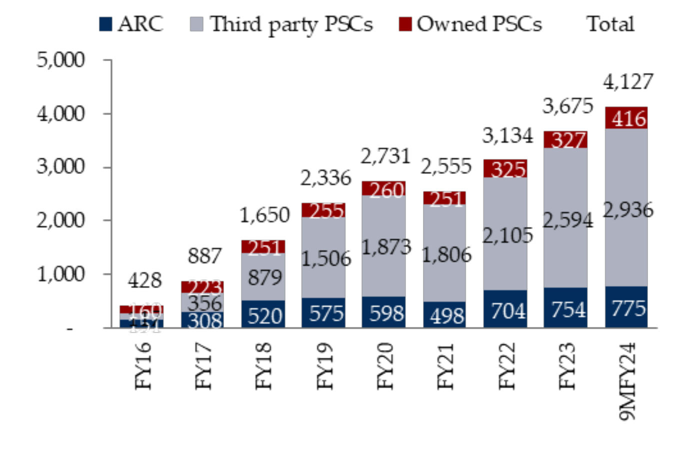
METROHL has expanded its network by ~1.8x (labs) and 4.1x (collection centres) over FY17-23. It has started its expansion plans (since Apr'22) to add 90 labs (added 31 labs) and 1,800 service centres (added 1,063 centres), deeper penetration in core markets (focus cities like Mumbai, Pune, Chennai, Bangalore, and Surat) with target to increase market share, enter newer markets (city/town coverage increased to 595 as of Dec'23 from 307 earlier; seeding cities like Delhi NCR, Hyderabad).

Exhibit 10: Expanding clinical labs



Source: Company, HSIE Research. Note: FY22, FY23, and 9MFY24 includes 20, labs for each year from Hitech Diagnostics

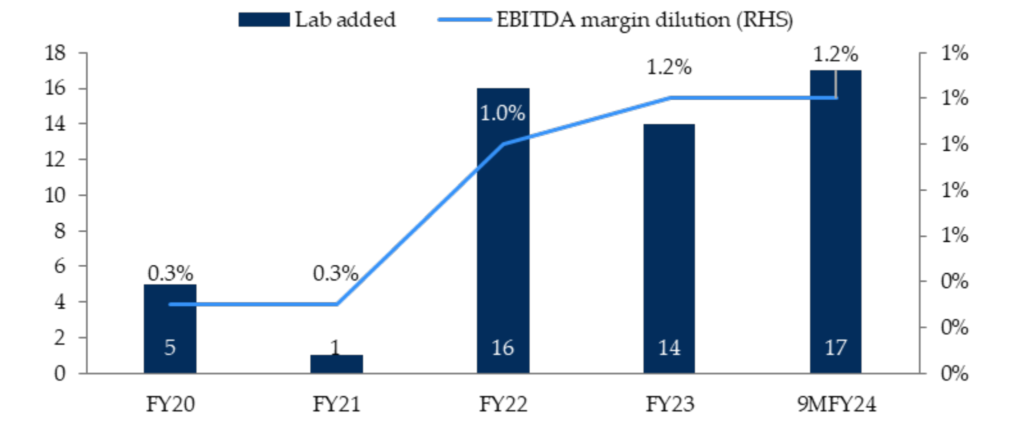
Exhibit 11: Increasing patient service centers



Source: Company, HSIE Research. Note: FY22, FY23, and 9MFY24 includes 70, 63, and 115 respectively PSC from Hitech Diagnostics, ARC - Assisted Referral Centers

METROHL has added ~51 labs over FY19 to 9MFY24, a large part of which addition has taken place in the last three years as it has added ~47 labs over FY22 to 9MFY24. The lab network expansion had an impact on its overall EBITDA margin with dilution from new lab addition at ~1.2% in the last couple of years. METROHL will continue to expand lab infra for FY25 and will moderate the expansion from FY26.

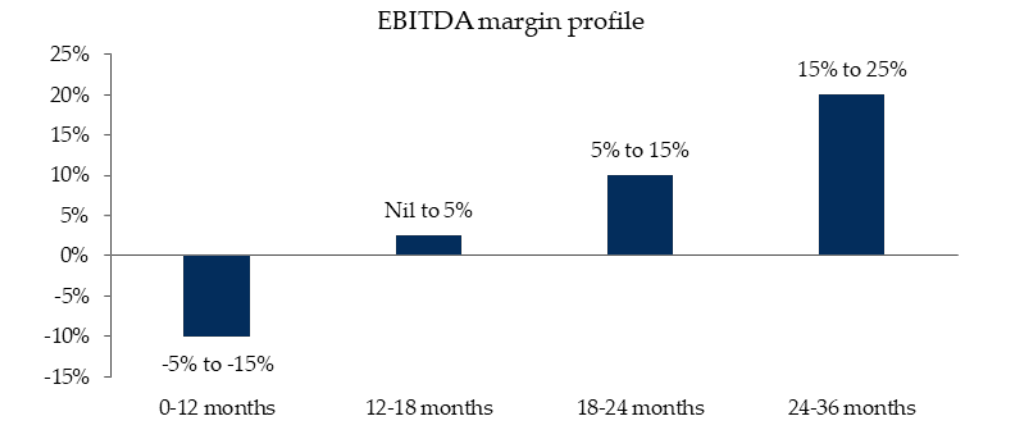
Exhibit 12: Lab network expansion led to dilution in the EBITDA margin



Source: Company, HSIE Research

METROHL expects to improve the overall EBITDA margin with a turnaround in lab addition over the last couple of years. After initial drag, improving maturity in the lab helped it to break even in 12-18 months and further scale-up (volume traction; support by service centre expansion) would lead to company-level EBITDA margin in 2-3 years. Accordingly, for METROHL the labs added during FY22/23 will support the overall margin from FY26 onwards.

Exhibit 13: Lab Maturity Cycle



Source: Company, HSIE Research

Growth impact on sales loss of Covid and PPP, core business improving

COVID impact started in Q4FY20 and remained for the next 1-2 quarters. Following this, the COVID test (RT-PCR) as well as the COVID allied test (IL6, D Dimer) saw a strong pick-up in FY21 and FY22. Accordingly, the margin expanded significantly and on the other hand the non-Covid business saw muted growth in FY23. Post COVID normalization, METROHL had an impact from contract expiry in its PPP business (the contract expired in Feb 2023), which led to muted performance 9MFY24.

However, core business (non-COVID) has started recovery which has led to overall improvement in the margin. The growth was largely led by growth in sample volume and steady improvement in the realization due to a better test mix as well as scale-up in the wellness business. Going ahead, price hikes (taken in Jan 2024) across the tests portfolio will support growth and moderation in expansion will support the margin.

Exhibit 14: Covid business tapering down, absence of PPP business, and non-Covid business picking up

INR mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Core business (including Hitech)	446	1,773	2,120	2,360	1,810	2,233	2,250	2,350	2,410	2,660	2,540	2,690	2,710	3,020	2,860
YoY growth	-78%	-21%	-5%	14%	306%	26%	6%	0%	33%	19%	13%	14%	12%	14%	13%
QoQ growth	-78%	298%	20%	11%	-23%	23%	1%	4%	3%	10%	-5%	6%	1%	11%	-5%
PPP contracts	-	-	-	-	260	250	80	170	200	210	230	30	10	10	1
YoY growth									-23%	-16%	188%	-82%	-95%	-95%	-100%
QoQ growth						-4%	-68%	113%	18%	5%	10%	-87%	-67%	0%	-95%
Covid and Covid allied	980	1,110	626	558	1,197	543	610	530	190	130	80	70	50	50	50
YoY growth					22%	-51%	-3%	-5%	-84%	-76%	-87%	-87%	-74%	-62%	-38%
QoQ growth		13%	-44%	-11%	115%	-55%	12%	-13%	-64%	-32%	-38%	-13%	-29%	0%	0%
Total revenue	1,426	2,883	2,746	2,918	3,267	3,026	2,940	3,050	2,800	3,000	2,850	2,790	2,770	3,080	2,911
YoY growth	-30%	29%	23%	41%	129%	5%	7%	5%	-14%	-1%	-3%	-9%	-1%	3%	2%
QoQ growth	-31%	102%	-5%	6%	12%	-7%	-3%	4%	-8%	7%	-5%	-2%	-1%	11%	-6%

Source: Companies, HSIE Research, Note: Hitech sales included in Core business from Oct'21 (Q2FY22)

Exhibit 15: Steady increasing in volume as realization per patients

Operating data	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Core Business No. of Patient Visits (In mn)	1.37	2.62	2.67	3.17	3.5	2.7	2.5	2.7	2.5	2.8	2.6	2.9	2.7	3.1	2.8
YoY growth	-42%	-5%	9%	29%	155%	3%	-6%	-15%	-29%	4%	4%	7%	8%	11%	8%
QoQ growth	-44%	91%	2%	19%	10%	-23%	-7%	8%	-7%	12%	-7%	12%	-7%	15%	-10%
Core Business No. of Tests (In mn)	2.64	4.83	5.12	6.46	6.5	5.6	5.4	5.5	5	5.7	5.2	6.1	5.4	6.2	5.8
YoY growth	-39%	-8%	7%	22%	146%	16%	5%	-15%	-23%	2%	-4%	11%	8%	9%	12%
QoQ growth	-50%	83%	6%	26%	1%	-14%	-4%	2%	-9%	14%	-9%	17%	-11%	15%	-6%
Core Business revenue per patient (In INR)	819	871	959	925	927	977	924	950	975	947	979	946	1006	975	1009
YoY growth	-5%	2%	4%	10%	13%	12%	-4%	3%	5%	-3%	6%	0%	3%	3%	3%
QoQ growth	-3%	6%	10%	-4%	0%	5%	-5%	3%	3%	-3%	3%	-3%	6%	-3%	3%
Core Business revenue per test (In INR)	404	432	468	418	500	462	426	461	486	464	486	452	501	488	492
YoY growth	-14%	0%	0%	7%	24%	7%	-9%	10%	-3%	0%	14%	-2%	3%	5%	1%
QoQ growth	3%	7%	8%	-11%	20%	-8%	-8%	8%	5%	-5%	5%	-7%	11%	-3%	1%

Source: Companies, HSIE Research, Note: Hitech included in Core business from Oct'21 (Q2FY22)

B2C scale-up in focus cities to drive overall B2C business

Over the last few years, the focus has shifted towards expanding presence in the B2C segment by increasing collection centres/touchpoints to densify existing markets. Accordingly, METROHL has expanded its network (added 4x centres, 1.8x labs; 13% sales CAGR over FY17-23). This coupled with entry into new markets like Delhi NCR, Kolkata and Hitech acquisition in Chennai will improve the B2C business. Scale-up in the B2C segment will lead to better volume growth and payor mix (increasing share of cash patients). Deeper penetration in focus cities and strong brand recognition drive individual patient volumes.

Focus on strengthening specialized business and scaling up wellness

METROHL targets the acute illness market (acute patients contribute ~80% of the volume share for Metropolis) through (1) specialized and semi-specialized test offerings (~67% value /51% volume as of 9MFY24) and (2) continuous engagement with clinicians and healthcare industry associations through different networking platforms, which will create strong brand equity among key opinion makers (doctors) through leveraging of its specialized testing capabilities, quality, and accuracy.

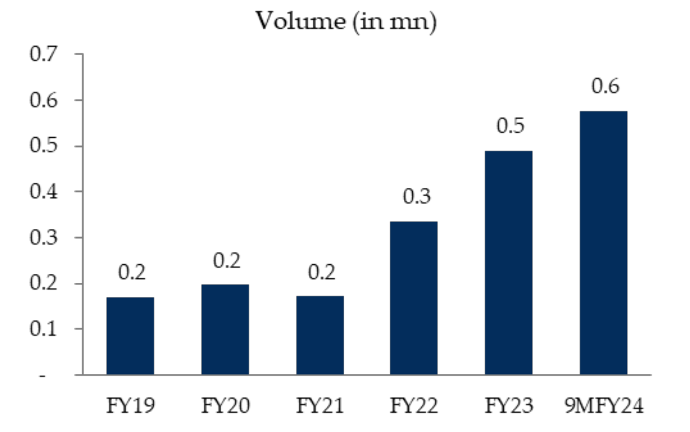
In FY22, METROHL boosted its senior management to drive a stronger focus on specialized/semi-specialized test development and medical education to improve prescription share and realize the full potential of market opportunities. Its goal is to further strengthen the acute illness business by penetrating Tier 2-4 cities.

Exhibit 16: Specialized and semi-specialized test contributes ~67% of sales

Revenue/ Volume mix	FY19	FY20	FY21*	FY22*	FY23*	9MFY23*	9MFY24*
Value share %							
Routine	17%	18%	18%	18%	18%	18%	18%
Semi Specialized	37%	37%	34%	33%	34%	34%	32%
Specialized	41%	37%	40%	40%	35%	35%	35%
Total specialized	78%	74%	74%	73%	69%	69%	67%
Wellness & Others	5%	8%	8%	9%	13%	13%	15%
Volume share %							
Routine	35%	46%	45%	48%	47%	47%	46%
Semi Specialized	41%	40%	39%	36%	38%	38%	38%
Specialized	16%	13%	14%	14%	13%	13%	13%
Total specialized	57%	53%	53%	50%	51%	51%	51%
Wellness & Others	8%	1%	2%	2%	2%	2%	3%

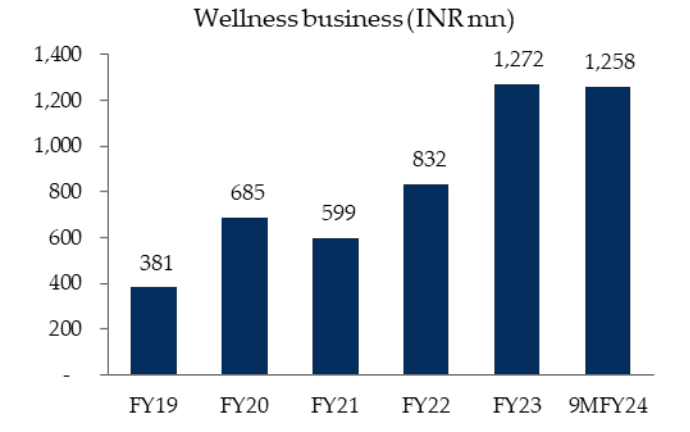
Source: Companies, HSIE Research, Note: Value and volume split on non-Covid sales and volume

Exhibit 17: Steady growth in wellness volumes



Source: Company, HSIE Research

Exhibit 18: Focus on premium wellness segment



Source: Company, HSIE Research

Ongoing pressure from new entrants and aggressive discounts

Entry of online players (1mg – Tata digital, PharmEasy – API holding, Netmeds – Reliance Retail), large corporates (Lupin, Mankind - Pathlabs), and new-age companies (Redcliff, Neuberg) have resulted in incremental competition in an already competitive India diagnostic industry. Cash burnout strategy by many companies on aggressive branding/promotion and heavy discounts would pressure test prices and lead to volume share gains for new entrants.

To tackle increasing competition, METROHL would focus on services and quality to sustain brand equity. Also, wellness push and price increases across the test portfolio (positive impact of 2-3%) could help absorb some pressure on profitability.

Exhibit 19: Increasing number of online and PE backed companies in the India diagnostic market

Pure diagnostic	Hospital Labs	Other corporates	Online players	PE backed
Dr Lal Pathlabs (1949)	Apollo diagnostic (2015)	Lupin (2022)	Tata 1mg (2015)	Neuberg (2017)
Agilus (1996)	Aster DM (2020)	Pathkind (2016)	Netmeds (2015)	Redcliffe (2018)
Metropolis (2000)	Max Labs (2020)	MedPlus (2018)	Healthians (2015)	Orange Health (2020)
Thyrocare (2000)			Practo (2008)	Atulaya (2008)
Vijaya (2009)			MediBuddy (2000)	Medall (1994)

Source: Companies, HSIE Research

Exhibit 20: Prices for organized players has seen 4-5% increased; Tata 1mg discounts remain high and intensity is increasing as focus is to capture volume share

Price in Mumbai (Rs)	Metropolis			DLPL			Agilus/ SRL			1mg (online)			Average discount %		
	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024	Mar 2023	Sep 2023	Apr 2024
CBC	310	310	330	250	250	250	350	350	350	299	299	249	-1%	-1%	-20%
Glucose fasting	90	90	90	85	85	85	80	85	90	99	99	99	16%	14%	12%
Vitamin D 25	1,650	1,650	1,700	1,500	1,500	1,500	1,500	1,530	1,700	370	389	339	-76%	-75%	-79%
Vitamin B12	1,150	1,150	1,200	1,200	1,200	1,200	1,150	1,130	1,200	449	449	339	-62%	-61%	-72%
Lipid Profile	800	800	800	840	840	840	800	800	830	320	320	319	-61%	-61%	-61%
Thyroid Profile	550	550	600	550	550	550	550	530	699	320	359	289	-42%	-34%	-53%
Liver Function	1,475	1,475	1,500	800	800	800	1,000	1,000	1,100	370	399	319	-66%	-63%	-72%
Kidney Function	1,100	1,100	1,180	910	910	910	900	900	965	349	359	309	-64%	-63%	-70%

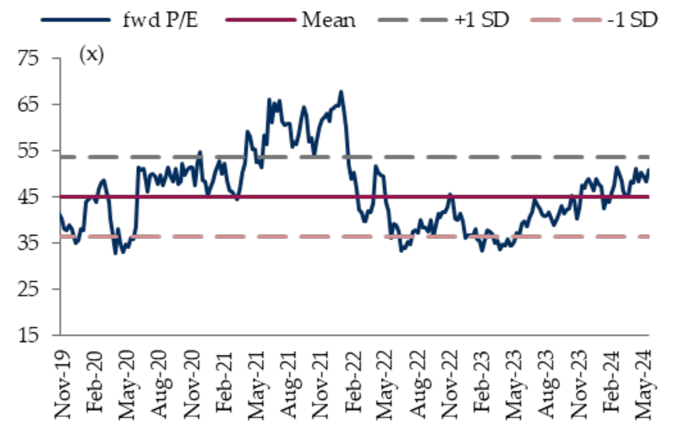
Source: Companies, HSIE Research, Note: Some tests/profiles may differ under certain brands; Peer set to calculate discount by 1mg comprises Metropolis, DLPL and SRL

Outlook and valuation

We expect METROHL to see steady growth, led by its aggressive expansion plans to add 90 labs (added 31 labs since Apr'22) and 1,800 service centres (added 1,063 centres since Apr'22), deeper penetration in core markets with a target to increase market share, entry into newer markets (city/ town coverage increased to 595 as of Dec'23 from 307 earlier), scale-up of its speciality/B2C/wellness business, expansion into adjacencies like basic radiology and allied services, synergistic expansion of Hitech, and looking for bolt-on acquisitions. Also, price hikes in test portfolios (effective from Jan'24) could support growth.

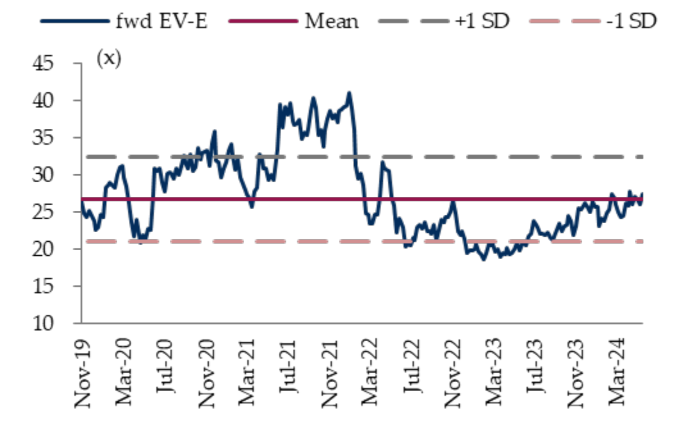
We expect METROHL to see 10/12/16% sales/EBITDA/PAT CAGRs over FY23-26E, led by expansion, recovery in core business, and price hikes (improvement in realization). Increasing share of specialized test and wellness, lab infra maturity (current dilution of ~1.2%) and slowdown in expansion could drive the margin to ~26.3% in FY26. We initiate coverage with an ADD and a TP of INR 2,010, based on a 46x FY26E EPS (~2% premium to average PE of 45x), which implies 25x EV/EBITDA.

Exhibit 21: PE chart



Source: Bloomberg, HSIE Research

Exhibit 22: EV/ EBITDA chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**7,612**	**8,564**	**9,980**	**12,283**	**11,482**	**11,872**	**13,469**	**15,279**
Other operating income	0	0	0	0	0	0	0	0
Total operating income	**7,612**	**8,564**	**9,980**	**12,283**	**11,482**	**11,872**	**13,469**	**15,279**
Cost of goods sold	-1,791	-2,110	-2,576	-2,829	-2,598	-2,457	-2,802	-3,163
Gross profit	5,821	6,454	7,404	9,454	8,884	9,414	10,668	12,117
Gross margin (%)	76.5	75.4	74.2	77.0	77.4	79.3	79.2	79.3
Total operating expenses	-3,817	-4,126	-4,544	-6,026	-6,001	-6,595	-7,287	-8,098
EBITDA	**2,004**	**2,328**	**2,860**	**3,428**	**2,883**	**2,820**	**3,381**	**4,018**
EBITDA margin (%)	26.3	27.2	28.7	27.9	25.1	23.8	25.1	26.3
Depreciation	-201	-393	-459	-632	-892	-935	-989	-1,039
EBIT	**1,803**	**1,936**	**2,401**	**2,796**	**1,991**	**1,884**	**2,391**	**2,980**
Net interest	-5	-83	-78	-197	-268	-219	-182	-188
Other income	82	86	120	176	152	97	151	239
Profit before tax	**1,880**	**1,693**	**2,443**	**2,934**	**1,875**	**1,763**	**2,360**	**3,030**
Total taxation	-629	-412	-610	-787	-441	-458	-614	-788
Tax rate (%)	33	24	25	27	24	26	26	26
Profit after tax	1,250	1,281	1,833	2,147	1,434	1,305	1,746	2,242
Minorities	35	2	3	5	5	6	5	4
Profit/ Loss associate co(s)	-14	-5	0	0	0	0	0	0
Adjusted net profit	**1,201**	**1,519**	**1,831**	**1,983**	**1,429**	**1,329**	**1,741**	**2,238**
Adj. PAT margin (%)	16	18	18	16	12	11	13	15
Net non-recurring items	0	-245	0	159	0	-31	0	0
Reported net profit	**1,201**	**1,273**	**1,831**	**2,142**	**1,429**	**1,298**	**1,741**	**2,238**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	100	101	102	102	102	102	102	102
Reserves & surplus	4,085	5,134	6,964	8,760	9,780	10,819	12,212	14,002
Net worth	4,200	5,252	7,081	8,882	9,907	10,939	12,327	14,114
Borrowing	176	667	1,123	3,786	2,664	2,588	2,471	2,549
Other non-current liabilities	143	101	179	929	881	874	894	914
Total liabilities	**5,526**	**7,522**	**10,044**	**15,303**	**15,016**	**15,975**	**17,567**	**19,691**
Gross fixed assets	1,900	2,893	3,817	8,024	9,544	10,810	12,099	13,184
Less: Depreciation	-557	-833	-1,289	-1,982	-2,884	-3,819	-4,809	-5,847
Net fixed assets	1,343	2,060	2,529	6,042	6,660	6,991	7,290	7,337
Add: Capital WIP	58	30	0	58	195	255	255	255
Total fixed assets	1,400	2,090	2,529	6,100	6,855	7,246	7,545	7,592
Total Investment	333	143	101	155	148	379	379	379
Inventory	261	244	405	511	446	495	524	594
Debtors	1,368	1,282	1,230	1,355	1,219	1,286	1,422	1,570
Cash & bank	802	2,105	4,197	1,669	932	1,126	2,205	4,005
Loans & advances	193	166	1	1	0	0	0	0
Current liabilities	1,008	1,503	1,662	1,707	1,564	1,574	1,875	2,114
Total current assets	2,779	3,900	6,002	3,794	2,897	3,203	4,460	6,498
Net current assets	1,771	2,397	4,340	2,087	1,333	1,629	2,585	4,384
Other non-current assets	229	486	510	707	569	600	636	674
Total assets	**5,526**	**7,522**	**10,044**	**15,303**	**15,016**	**15,975**	**17,567**	**19,691**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,880	1,693	2,443	2,934	1,875	1,763	2,360	3,030
Depreciation & Amortisation	-201	-393	-459	-632	-892	-935	-989	-1,039
Chg in working capital	-508	280	-153	-164	71	-141	107	-17
CF from operations	**902**	**2,150**	**2,490**	**2,533**	**2,471**	**2,256**	**2,910**	**3,250**
Capital expenditure	-250	-486	-337	-6,686	-531	-470	-450	-450
CF from investing	**353**	**-1,048**	**617**	**-7,376**	**468**	**-701**	**-450**	**-450**
Equity raised/ (repaid)	8	320	344	20	2	0	0	0
Debt raised/ (repaid)	170	-383	-250	2,197	-2,406	-1,122	-1,313	-955
Dividend paid	-831	-484	-409	-409	-410	-260	-348	-448
CF from financing	**-1,181**	**-553**	**-327**	**1,625**	**-2,923**	**-1,601**	**-1,844**	**-1,592**
Net chg in cash	73	548	2,780	-3,218	16	-45	616	1,208

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (Rs)	23.5	29.6	35.7	38.7	27.9	26.0	34.0	43.7
CEPS (Rs)	27.4	32.5	44.7	54.2	45.3	43.6	53.3	64.0
DPS (Rs)	16.2	9.4	8.0	8.0	8.0	5.1	6.8	8.7
Dividend payout ratio (%)	69.2	38.0	22.3	19.1	28.7	20.0	20.0	20.0
GROWTH								
Net sales (%)	17.6	12.5	16.5	23.1	(6.5)	3.4	13.5	13.4
EBITDA (%)	13.8	16.2	22.8	19.9	(15.9)	(2.2)	19.9	18.9
Adj net profit (%)	15.3	26.4	20.6	8.3	(27.9)	(7.0)	31.0	28.6
FDEPS (%)	15.3	26.4	20.6	8.3	(27.9)	(7.0)	31.0	28.6
PERFORMANCE								
RoE (%)	28.8	29.0	29.8	24.9	15.2	12.8	15.0	16.9
RoCE (%)	42.1	33.6	35.0	27.0	15.8	14.2	16.9	19.4
EFFICIENCY								
Asset turnover (x)	4.3	3.6	3.0	2.1	1.3	1.2	1.2	1.2
Sales/ total assets (x)	1.4	1.3	1.1	1.0	0.8	0.8	0.8	0.8
Working capital/ sales (x)	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Receivable days	66	55	45	40	39	40	39	38
Inventory days	17	14	21	21	19	20	19	19
Payable days	28	50	57	43	40	37	41	41
FINANCIAL STABILITY								
Total debt/ equity (x)	0.0	0.1	0.2	0.5	0.3	0.2	0.2	0.2
Net debt/ equity (x)	(0.2)	(0.3)	(0.5)	0.2	0.2	0.1	(0.0)	(0.1)
Current ratio (x)	2.8	2.6	3.6	2.2	1.9	2.0	2.4	3.1
Interest cover (x)	339.5	23.2	30.9	14.2	7.4	8.6	13.1	15.8
VALUATION								
PE (x)	79.6	63.0	52.2	48.2	66.9	72.0	54.9	42.7
EV/ EBITDA (x)	47.3	40.4	32.3	28.5	33.7	34.3	28.3	23.4
EV/ Net sales (x)	12.4	11.0	9.3	8.0	8.5	8.2	7.1	6.1
PB (x)	22.9	18.3	13.5	10.8	9.7	8.8	7.8	6.8
Dividend yield (%)	0.9	0.5	0.4	0.4	0.4	0.3	0.4	0.5
Free cash flow yield (%)	0.7	1.7	2.3	(4.3)	2.0	1.9	2.6	2.9

Source: Company, HSIE Research

Medplus Health Services

Thrust deeper into the retail pharmacy market

Medplus Health (MEDPLUS) has emerged as the second largest organized retail pharmacy in India backed by a strong brick-and-mortar store network and focused expansion (since inception in 2006) in 11 states (largely south focused – out of 4,233 stores, 70% are in south India and 55% are in matured). In the last 3-5 years, MEDPLUS has accelerated store addition (added 2,580 stores over FY20-9MFY24), scaled up its private label business, forayed into pathology/radiology, and launched its own "Medplus" branded generics in Jun'23. It has a well-integrated supply chain with a warehouse and in-house procurement strategy, which will support its omnichannel business model. Going ahead, we expect MEDPLUS's growth to be driven by: (1) the addition of ~600-700 stores p.a. for (a) deeper penetration in existing clusters to continue expansion in key (seven) cities/metros/Tier 1 and expansion in Tier 2 and beyond (Tier 2/3 sales contribution increased to 35% of Dec'23 vs ~26% earlier) and (b) addition of new states; (2) leveraging the omnichannel presence (online supported by physical stores for quick delivery in select clusters); (3) increasing its private-label share (at 14% in 9MFY24 from ~4% in FY19); (4) scaling up its diagnostics business; and (5) the introduction of Medplus brand generics at 50-80% discounts. Given its strategic expansion plan with a focus on improving profitability, we see a gradual improvement in margin led by a better mix with growth in matured stores (2+ years; ~9-10% margin), increasing share of margin-accretive private-label and Medplus-brand generics, and an efficient supply chain. We initiate coverage with a BUY rating and a TP of INR 850, based on an 18x FY26E EV/EBITDA.

Well-placed in the growing retail pharmacy market: India's retail pharmacy market is expected to see ~10% CAGR over FY23-27 with organized pharmacy penetration at ~23% by FY27 (~18% in FY23; implying a CAGR of 18%). While online pharmacy is scaling up and offering high discounts (reducing in the last few quarters), MedPlus is growing profitably via its omnichannel and slab-wise discounting structure in an expanding organized retail pharmacy market.

Store expansion will be the backbone for growth: Since its inception, MEDPLUS has focused on store expansion to create a pan-India presence. Store expansion has accelerated in the last 3-4 years as it has added 2,580 stores over FY20-9M'24 (monthly rate improved to 100-150 from 40-60 earlier). It targets to add ~600-700 stores p.a. for deeper penetration in existing clusters of key seven states across cities/metro/Tier 1 and expansion in Tier 2 and beyond (Tier 2 and 3 sales contribution risen to 35% of total as of Dec'23 from ~26% earlier). It has also been planning expansion in new states like Kerala, MP, Chhattisgarh, and Puducherry over the next few years.

Private label, Medplus branded generics, diagnostic turnaround key: MEDPLUS focus on increasing its private-label share (increased share in chronic pharma and nutrition/wellness in FMCG) and scale-up in its Medplus brand generics (at 50-80% discounts) across the existing market would help support growth and margin. It is also scaling up its diagnostics business with increasing coverage through a subscription model and B2B tie-ups – with a focus on the turnaround of the business.

Outlook and valuation: We expect MEDPLUS to see 23/33% sales/EBITDA CAGRs over FY23-26E. We see a gradual improvement of ~140 bps over FY23-26 to 7.3% in FY23. We initiate coverage with a BUY and a TP of INR 850, based on an 18x FY26E EV/EBITDA, which implies 30x pre-INDAS EV/EBITDA.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	29	31	38	46	56	69	85
EBITDA	1.7	2.2	2.7	2.7	3.5	4.6	6.2
APAT	0.3	0.6	1.0	0.4	0.5	1.1	2.0
Diluted EPS (INR)	2.9	5.4	8.0	3.4	4.4	9.3	16.9
P/E (x)	243.3	131.4	87.6	209.6	158.7	75.3	41.7
EV / EBITDA (x)	52.6	40.9	33.7	33.9	26.4	20.1	15.2
RoCE (%)	11	13	10	6	7	10	13

Source: Company, HSIE Research

BUY

CMP *(as on 16 May 2024)*	INR 704
Target Price	INR 850
NIFTY	22,404

KEY STOCK DATA	
Bloomberg code	MEDPLUS IN
No. of Shares (mn)	120
MCap (INR bn) / ($ mn)	84/1,008
6m avg traded value (INR mn)	118
52 Week high / low	INR 978/598

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.4	(13.4)	(0.6)
Relative (%)	1.7	(25.1)	(19.6)

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	40.45	40.39
FIs & Local MFs	25.18	22.47
FPIs	12.97	14.94
Public & Others	21.4	22.2
Pledged Shares	23.48	21.88

Source : BSE

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Exhibit 1: Revenue and EBITDA assumptions

INR mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Number of stores	1,653	1,775	2,081	2,748	3,822	4,372	4,972
Store addition		122	306	667	1,074	550	600
Retail Pharmacy revenues	22,518	28,511	30,546	37,589	45,097	55,639	67,668
YoY growth		27%	7%	23%	20%	23%	22%
% of sales	99%	99%	100%	99%	99%	99%	99%
Pathology testing services	25	28	23	75	306	718	933
YoY growth		11%	-19%	228%	309%	135%	30%
% of sales	0%	0%	0%	0%	1%	1%	1%
Others	184	167	124	129	174	61	60
% of sales	1%	1%	0%	0%	0%	0%	0%
Total revenues	22,727	28,706	30,693	37,793	45,576	56,418	68,662
YoY growth		26%	7%	23%	21%	24%	22%
Gross profit	4,287	5,341	6,440	7,969	9,999	12,327	15,106
Gross margin %	18.9%	18.6%	21.0%	21.1%	21.9%	21.9%	22.0%
Post-INDAS EBITDA	1,191	1,660	2,167	2,724	2,657	3,481	4,614
YoY growth		39%	31%	26%	-2%	31%	33%
EBITDA margin %	5.2%	5.8%	7.1%	7.2%	5.8%	6.2%	6.7%
Rent expenses	647	756	953	1,268	1,705	2,107	2,444
YoY growth		17%	26%	33%	34%	24%	16%
% of sales	2.8%	2.6%	3.1%	3.4%	3.7%	3.7%	3.6%
Operating EBITDA	544	904	1,214	1,456	951	1,374	2,170
YoY growth		66%	34%	20%	-35%	44%	58%
EBITDA margin %	2.4%	3.1%	4.0%	3.9%	2.1%	2.4%	3.2%

Source: Company, HSIE Research.

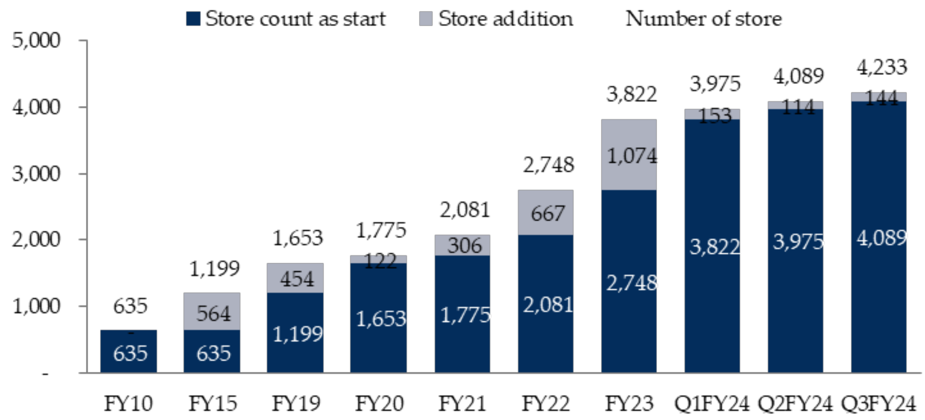
MEDPLUS has emerged as second-largest retail pharmacy in India

MEDPLUS is the second largest organized pharmacy retailer in India in terms of revenue and number of stores as of FY23. It was incorporated in 2006 by Gangadi Madhukar Reddy (Founder, MD and CEO) with a vision to set up a trusted pharmacy retail brand that delivers better value to the customer by reducing inefficiencies in the supply chain using technology.

Store addition to sustain growth momentum

It has expanded its retail store network in the last 15-18 years with a cluster-based approach. Its total store count has increased multifold to 4,233 as of Dec'23 from ~635 in FY10. MEDPLUS is amongst the largest retail pharmacy in the south region and over the years it has expanded into 11 states. It has a strong presence in the south region across Telangana, Andhra Pradesh, Karnataka, and Tamil Nadu, and has recently expanded to Kerala and Puducherry – these states contribute ~70% of the store count. Since the last 2-3 years, the store addition has been faster in states like Karnataka, Tamil Nadu, West Bengal, and Maharashtra. Also, it has recently entered new markets like Chhattisgarh, Madhya Pradesh, Kerala, and Puducherry.

Exhibit 2: Store addition accelerated in last few years



Source: Company, HSIE Research

Exhibit 3: Store-wise regional split

State	Number of Stores, as of									
	FY10	FY15	FY19	FY20	FY21	FY22	FY23	Q1FY24	Q2FY24	Q3FY24
Telangana	181	288	352	365	435	521	662	671	679	694
Andhra Pradesh	125	152	213	226	263	334	423	437	454	468
Karnataka	166	340	457	485	514	605	841	872	893	915
Tamil Nadu	101	231	348	373	447	572	814	832	845	897
West Bengal	22	105	139	148	183	289	423	475	506	529
Maharashtra	40	65	93	113	166	324	520	542	553	555
Odisha	0	18	51	65	73	103	139	146	151	153
Chhattisgarh									4	7
Madhya Pradesh									4	10
Kerala										3
Puducherry										2
Total	**635**	**1,199**	**1,653**	**1,775**	**2,081**	**2,748**	**3,822**	**3,975**	**4,089**	**4,233**

Source: Companies, HSIE Research.

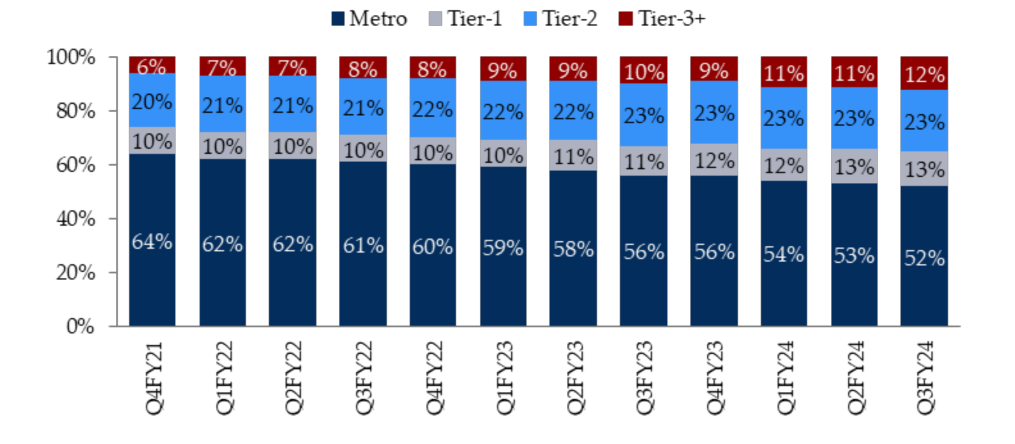
Exhibit 4: State-wise store addition over the last few years

State-wise store addition	FY10-15	FY15-19	FY20	FY21	FY22	FY23	9MFY24
Telangana	107	64	13	70	86	141	32
Andhra Pradesh	27	61	13	37	71	89	45
Karnataka	174	117	28	29	91	236	74
Tamil Nadu	130	117	25	74	125	242	83
West Bengal	83	34	9	35	106	134	106
Maharashtra	25	28	20	53	158	196	35
Odisha	18	33	14	8	30	36	14
Chhattisgarh							7
Madhya Pradesh							10
Kerala							3
Puducherry							2
Total	564	454	122	306	667	1074	411

Source: Companies, HSIE Research.

To establish its presence in new geographies to expand its footprint, MEDPLUS intends to use its cluster-based approach and a replicable store roll-out process, as well as concurrently develop the required supply chain and distribution infrastructure, including establishing primary warehouses in these states to serve as distribution hubs, building fleets of delivery vehicles and hiring delivery personnel. The company aims to achieve this at a lower incremental cost by leveraging economies of scale and using its established technology framework.

Exhibit 5: Regional revenue mix

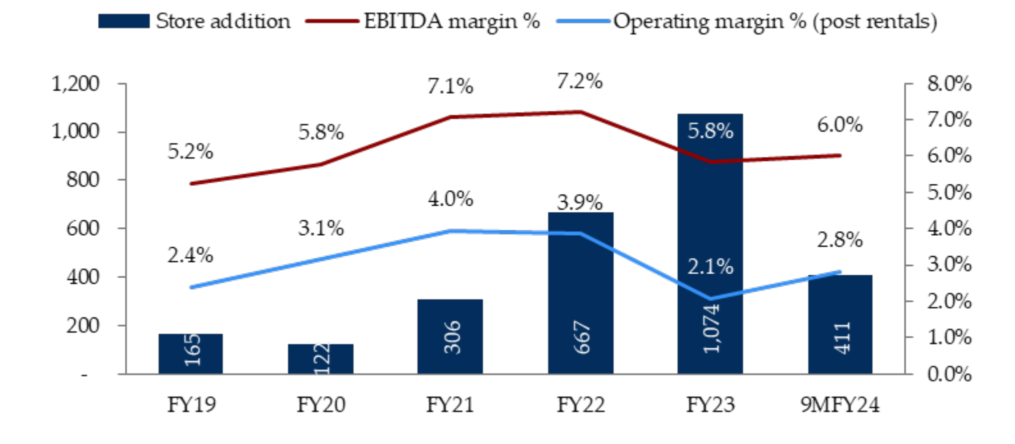


Source: Company, HSIE Research

Steady growth in matured stores, quicker break-even to support margins

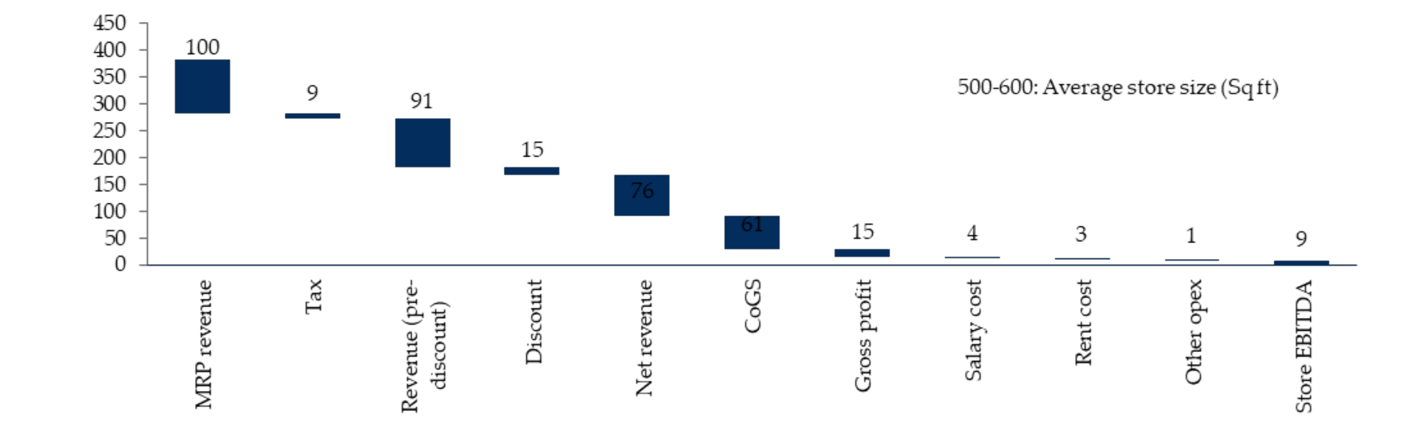
MEDPLUS, with its aggressive store addition strategy of the last few years, has led to margin pressure in the overall business, given new store break-even time tends to be at 6-12 months.

Exhibit 6: Store addition led to pressure on margins



Source: Company, HSIE Research

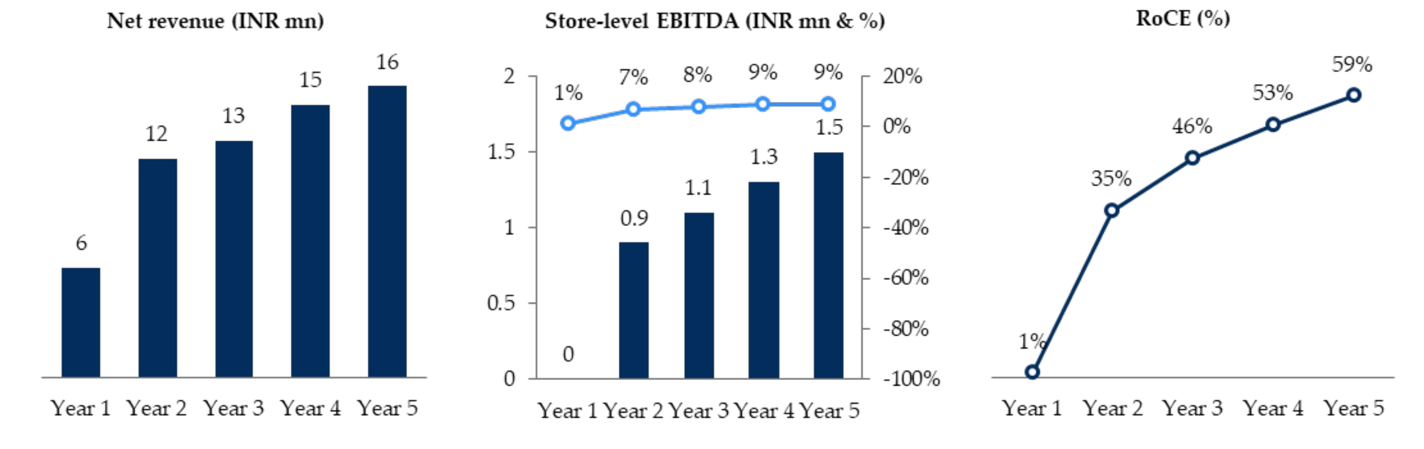
Exhibit 7: Store level unit economics



Source: Companies, HSIE Research

Over the last few quarters, the company has been able to improve its breakeven period for the store to 4-6 months. As the company highlighted, for the stores opened between Jan'23 and June'23, ~59% of them achieved breakeven within 6 months of their operations. As a cohort, all stores combined reach breakeven in 4 months.

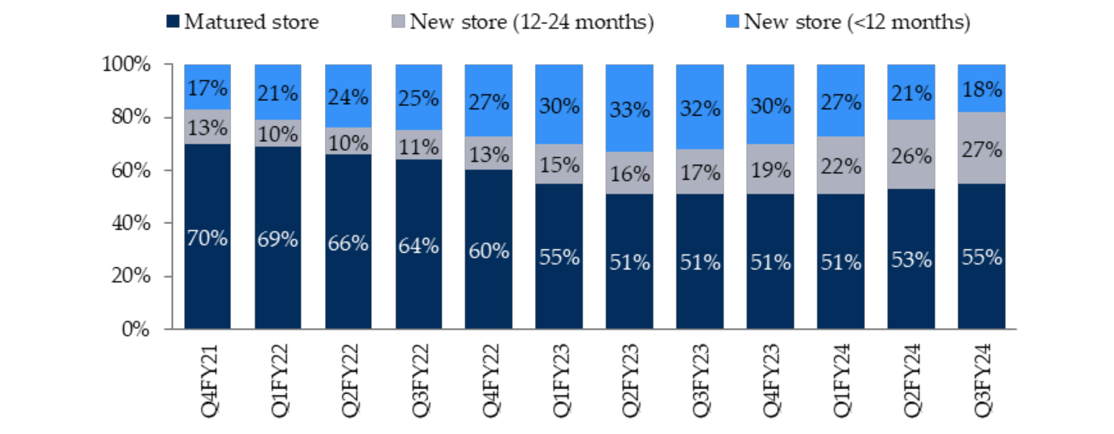
Exhibit 8: Progress at store level sales, EBITDA/ margin, and RoCE



Source: Companies, HSIE Research

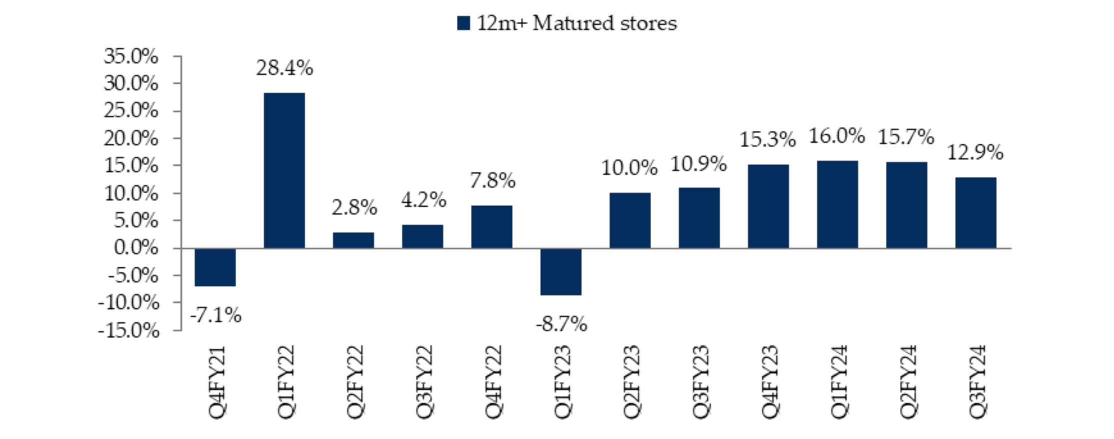
MEDPLUS had a healthy 8% mature store SSSG in the last 3-4 years and had a median payback period of less than 3 years. As of Dec'23, its network comprised 4,233 stores, of which 55% (2,328 stores) of the total number of stores in the mature phase command operating margin of 9-10.5% with health RoCE of 40-60%. MEDPLUS expects increased contribution from such stores as they mature and gradually achieve higher growth rates and improved profitability.

Exhibit 9: Store mix age wise



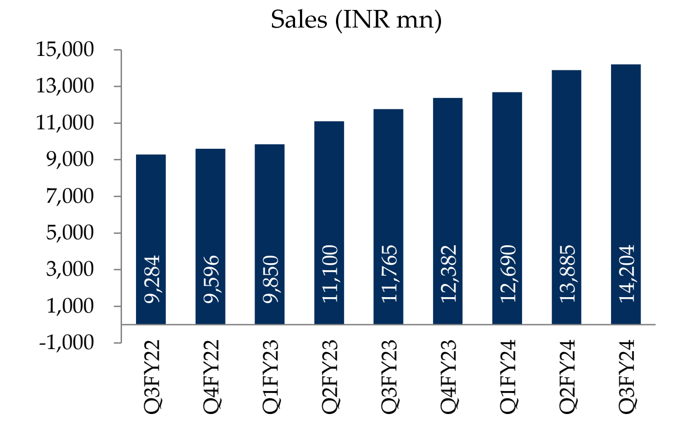
Source: Company, HSIE Research

Exhibit 10: Steady SSSG in matured stores



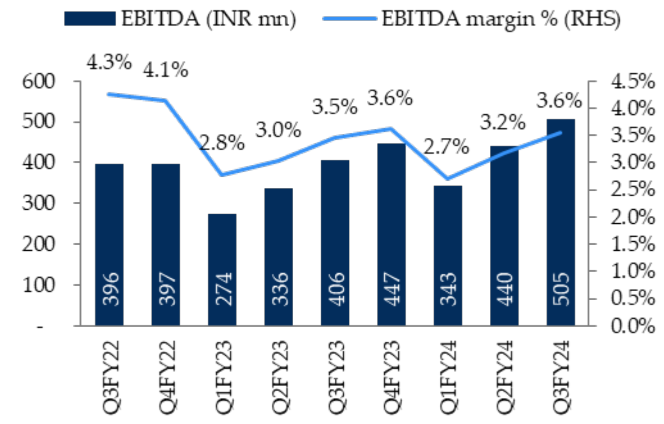
Source: Company, HSIE Research

Exhibit 11: Pharmacy sales saw steady growth



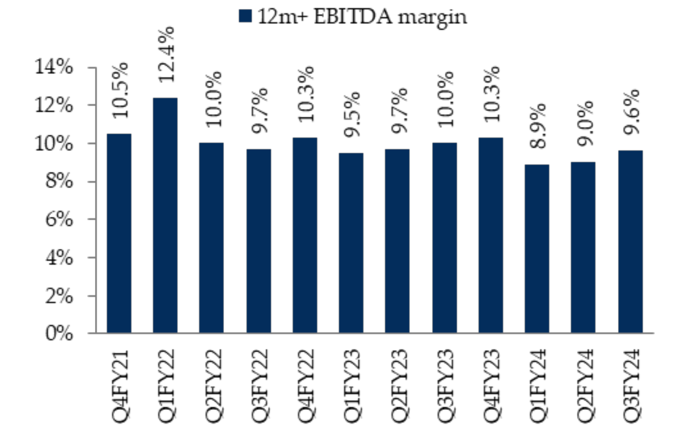
Source: Company, HSIE Research

Exhibit 12: Operating margin improving



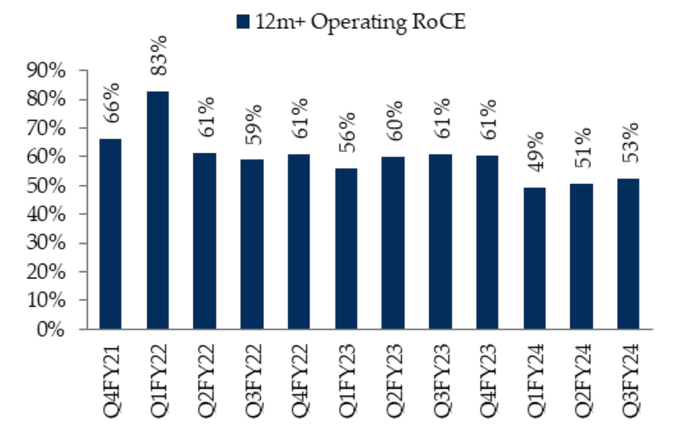
Source: Company, HSIE Research

Exhibit 13: Operating margin for matured stores



Source: Company, HSIE Research

Exhibit 14: Healthy RoCEs



Source: Company, HSIE Research

Omnichannel platform with a Hyperlocal delivery model

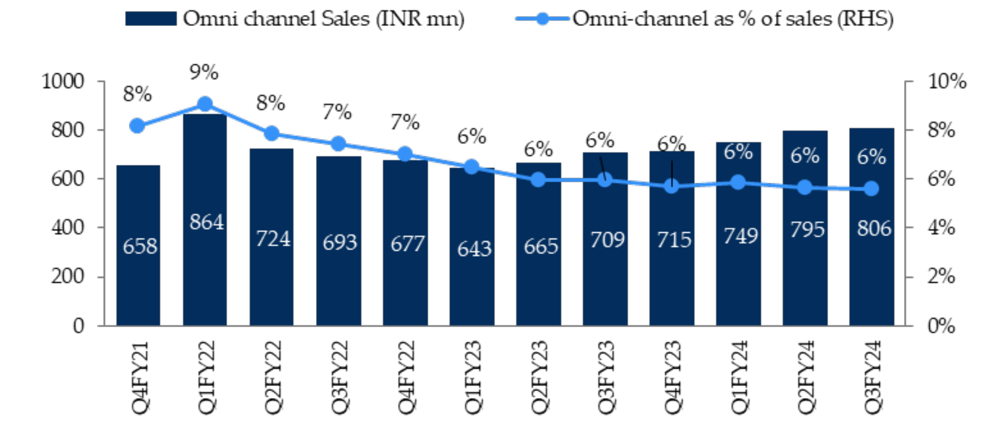
MEDPLUS plans to further develop its omnichannel platform to increase online sales revenue contribution to its total revenue from operations. It intends to leverage its growing store network and focus on deliveries through its growing number of larger format stores, as they tend to be better stocked and more closely linked to its supply chain and distribution infrastructure. MEDPLUS has built an extensive in-house technology platform and on the back of that, it focuses on (1) expanding the target addressable market via omnichannel offering, (2) increasing retention via omnichannel, and (3) operationally extending <2-hour delivery to more locations.

Exhibit 15: Peer comparison of traditional and online companies

	Store count	Offline	Online	Other business
Apollo Pharmacy	5,790	Yes	Yes, through Apollo 24/7 app	Apollo 24/7 app integrated to provide services across online medicine order, lab test booking, hospital bed booking, consultation etc.
MedPlus	4,233	Yes	Yes, through MedPlus app	Diversified into pathology and radiology business.
Wellness forever	400+	Yes	Yes, through app	No
API Holdings	100	Yes, though franchisee model	Yes, PharmEasy app	PharmEasy app integrated to provide services across online medicine order, lab testing through acquisition of Thyrocare, doctor consultation etc.
Tata 1mg	50+	Yes, though franchisee model	Yes, through app	1mg app integrated to provide services across online medicine order, diagnostic lab testing, and doctor consultation etc.
NetMeds	1,000	Yes	Yes, through app	Netmeds app integrated to provide services across online medicine order, diagnostic lab testing, and doctor consultation etc.

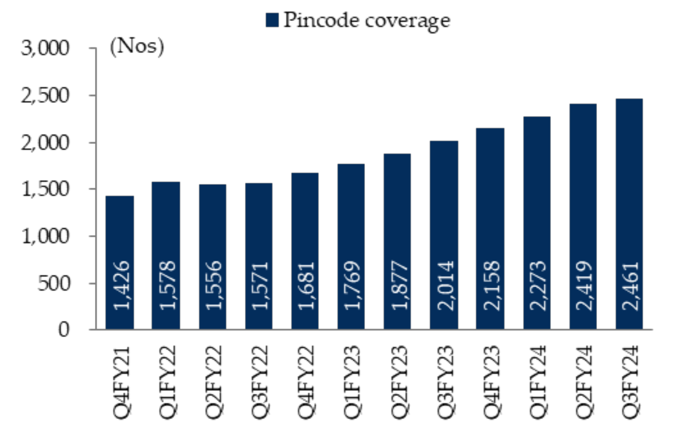
Source: Companies, HSIE Research

Exhibit 16: Steady growth in omni channel sales



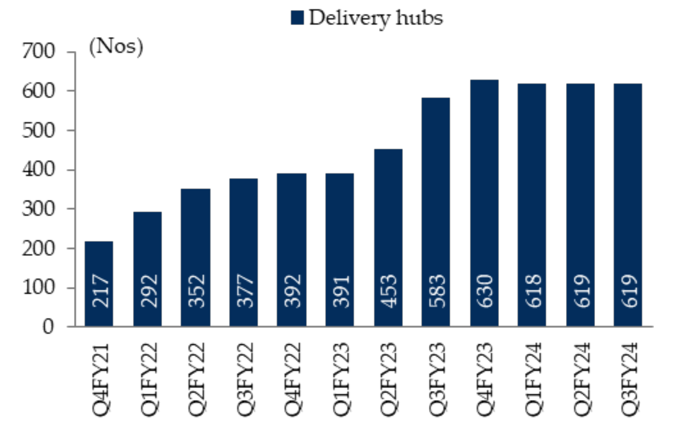
Source: Company, HSIE Research

Exhibit 17: Increasing pin code coverage



Source: Company, HSIE Research

Exhibit 18: Expanding Hub store to support omnichannel



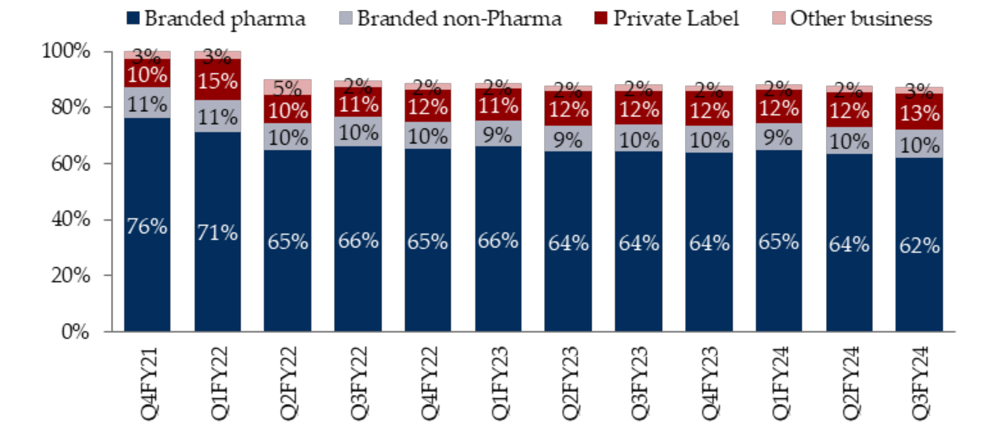
Source: Company, HSIE Research

Increase its share of private labels

MEDPLUS generally derives higher gross margin from sales of private label products and it intends to increase the range of private label products it offers to grow steadily. MedPlus intends to push its private label products with a focus on increasing its customer wallet share and increasing gross margins. MedPlus intends to increase the penetration of its private-label pharmaceutical products by introducing private labels for more therapeutic areas, in particular for sub-chronic and chronic ailments. It also plans new private-label products for fast-moving consumer goods (FMCG), mainly in consumer categories of nutrition and wellness. MEDPLUS has 1,000+ private label SKUs of which ~783+ SKUs in the pharma category covering chronic, acute, OTC and other pharma products as well as it has 313+ covering, packaged food, baked goods, dry goods, cleaning products, cosmetics and toiletries.

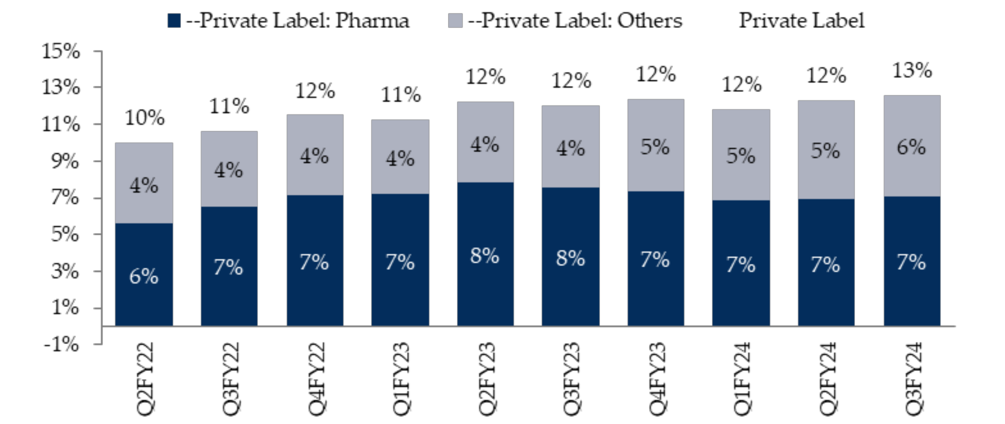
To increase sales of its private label products, MEDPLUS plans to market and advertise its private label products as good quality products offered at competitive prices, conduct training for sales staff and award them with financial incentives for identifying customer needs, and cross-selling its private label products.

Exhibit 19: Business mix for MEDPLUS, private label sales on rise



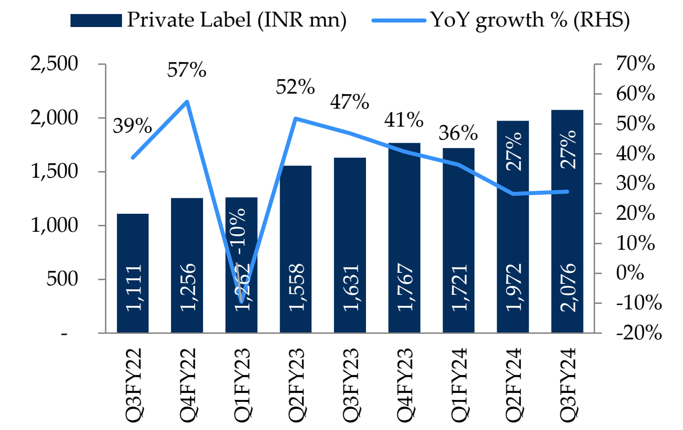
Source: Company, HSIE Research

Exhibit 20: Private label sales break-up



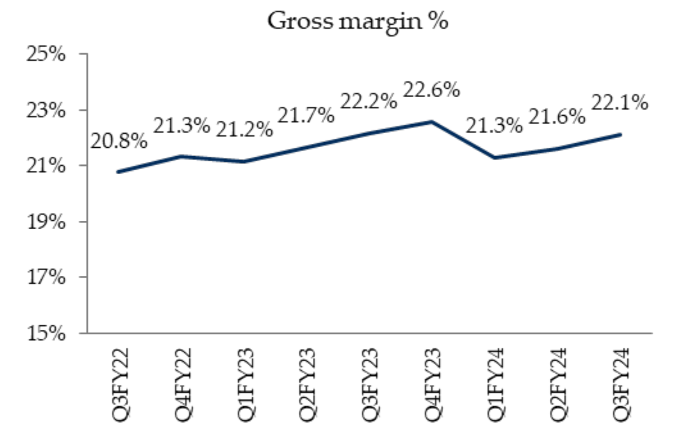
Source: Company, HSIE Research

Exhibit 21: Steady growth in private label sales…



Source: Company, HSIE Research

Exhibit 22: …help to improve gross margin

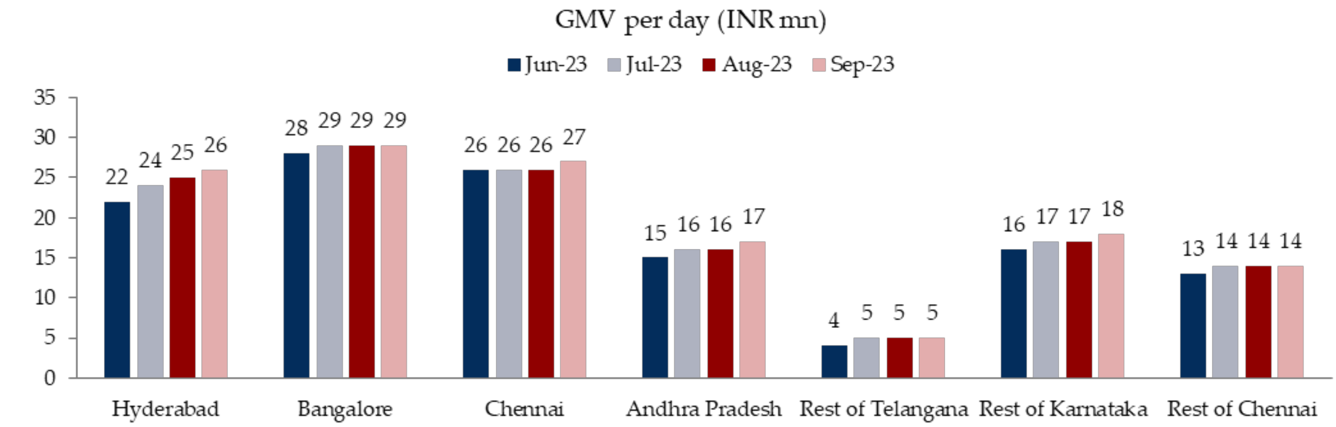


Source: Company, HSIE Research

Private label generics under the "Medplus" brand

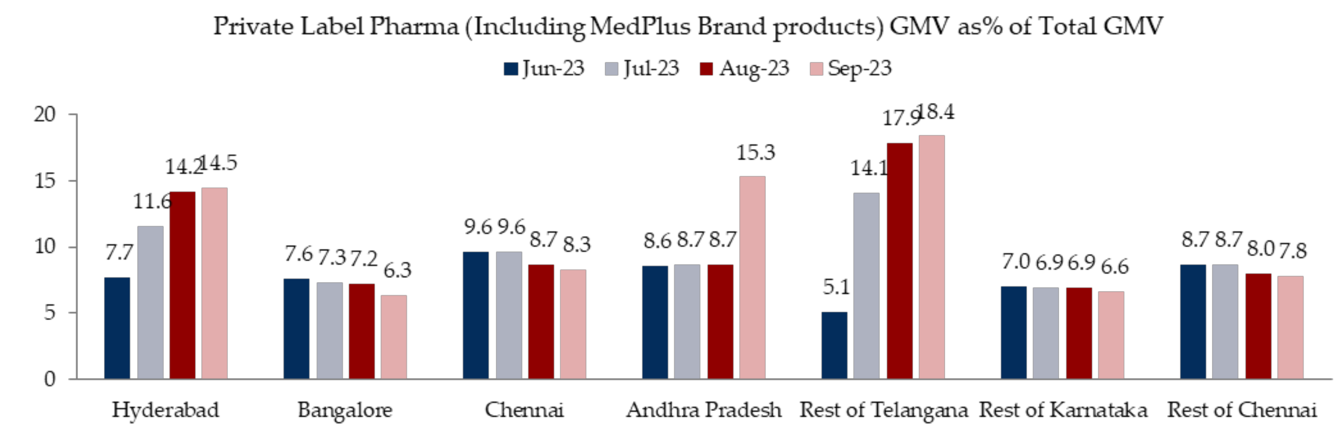
In Jun'23, MEDPLUS introduced a new private-label generics under its own "Medplus" brand in Hyderabad and the rest of Telangana; a subscription model of INR 499 per plan (initially launched at INR 49); earlier private labels were convenience-based to replace any brands not carried. As of Oct'23, it launched the MedPlus brand across its retail network with 50-80% price discounts compared to branded generic drugs. In recent quarters, the company has seen a good response for its owned brands. In Q1FY24, before the launch, the share of private label pharma stood at 6.61% of the total GMV in Telangana and following the launch and in Q3FY24, it increased to 15.03% of the total GMV in Telangana. Following the promising results observed in Telangana, the company initiated the launch of MedPlus branded products in other states starting Oct'23. Before the introduction of MedPlus-branded pharma products, sales of private label pharma products accounted for 8% of the GMV in Q2FY24 has increased to 11.2% in Q3FY24. MEDPLUS expects strong volume traction over the next few quarters and targets its share of revenue to increase to ~20% over the next few years. Given that in the global retail pharmacy market, pharmacies such as CVS Health and Walgreens have private labels under owned brand share in the range of 15-22%, we feel this is achievable. The efficient supply chain, manufacturing arrangement, and better cost structure (no additional marketing or customer acquisition costs) will help it adjust drug prices to outpace the competition and still be able to maintain its margin trajectory.

Exhibit 23: Initial traction in GMV post launch of Medplus owned branded products



Source: Companies, HSIE Research

Exhibit 24: Share of private label sales



Source: Companies, HSIE Research

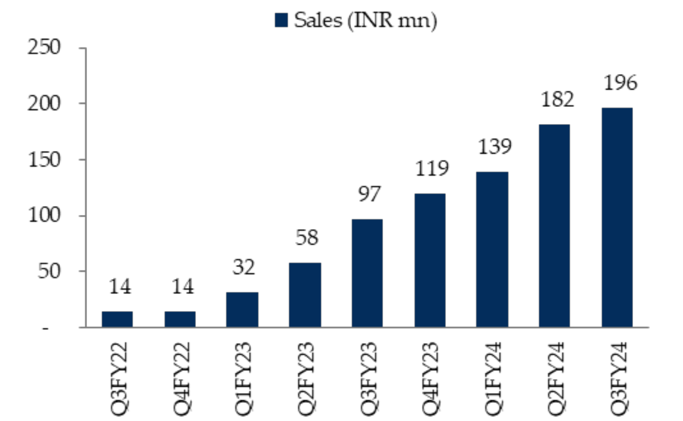
Focus on scaling up diagnostic business to leverage existing network

To leverage its retail store network and customer base, the company has expanded its pathology and radiology services in Hyderabad which is currently at the pilot level. Medplus is working on both B2C (existing client base) and B2B (tie-up with corporates – IT companies) and insurance companies with disruptive pricing at 75% on list price on tests after customers take initial membership.

Membership offering — INR 1,149 for service users and can add up to 3 adults at INR 500 each and 3 children at INR 150 each. It also launched a three-year Health care service plan for INR 3,399 for service users. This subscription includes (1) free diagnostic tests at MRP, worth a card fee, (2) a flat 75% discount on all diagnostic tests, health profiles and preventive health check-up packages, and (3) a flat 50% discount on all online and offline consultations with MedPlus in-house doctors.

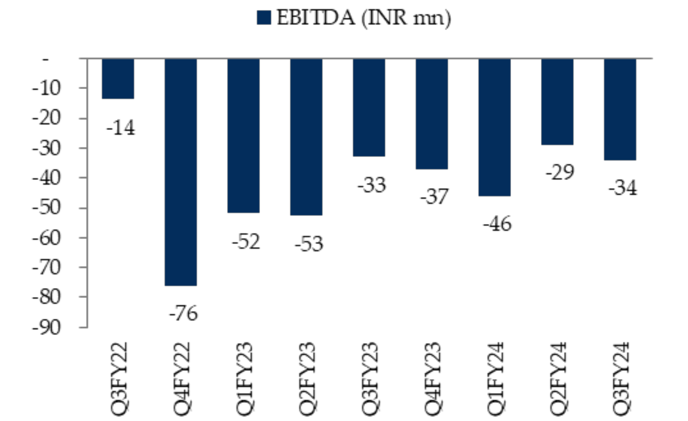
MEDPLUS plans to expand the diagnostics business in other metro/tier 1 cities after the success of the pilot project in Gachibowli, Hyderabad (with advanced radiology equipment). MEDPLUS had four full-service centres, eight Level 2 centres, and 120+ own collection centres. It had sold ~117k+ plans and covered 207k lives and targets to cover 250k lives. The current on-time renewal rate of subscription was at 19%.

Exhibit 25: Steady scale-up in sales



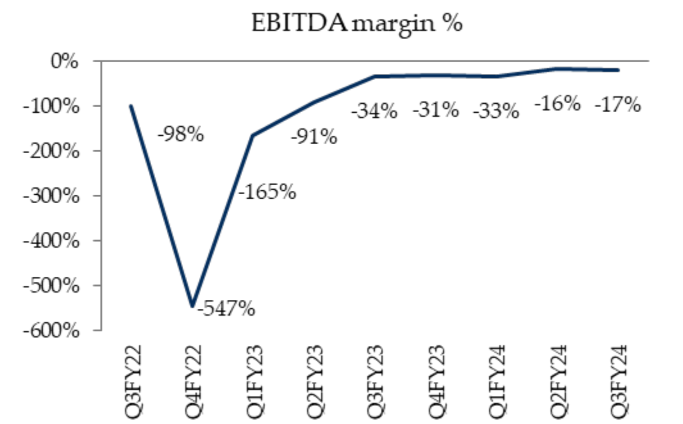
Source: Company, HSIE Research

Exhibit 26: EBITDA loss in reducing



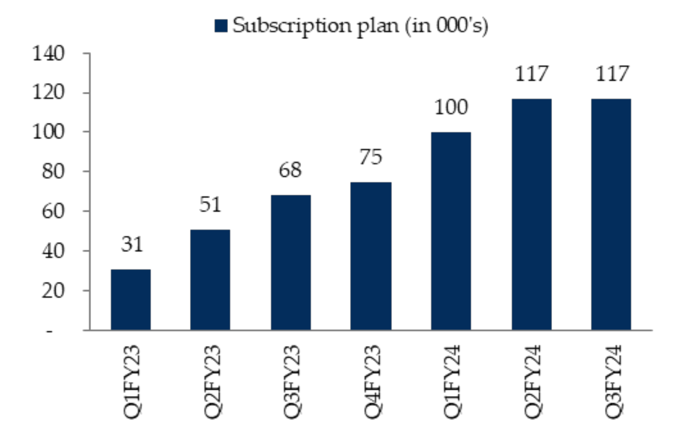
Source: Company, HSIE Research

Exhibit 27: Margin trend



Source: Company, HSIE Research

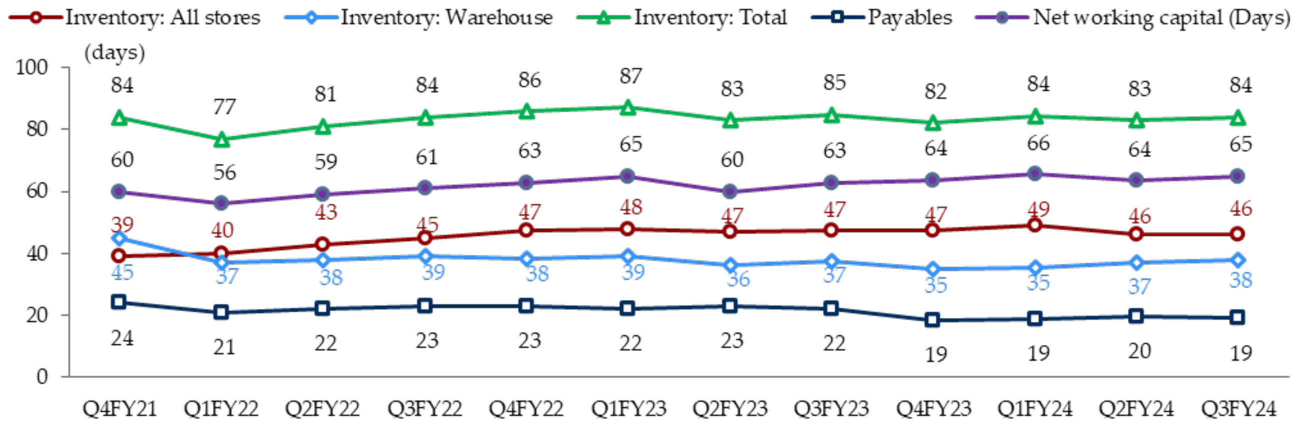
Exhibit 28: Steady improvement in active plans



Source: Company, HSIE Research

Other key charts

Exhibit 29: Inventory days increased on new store additions



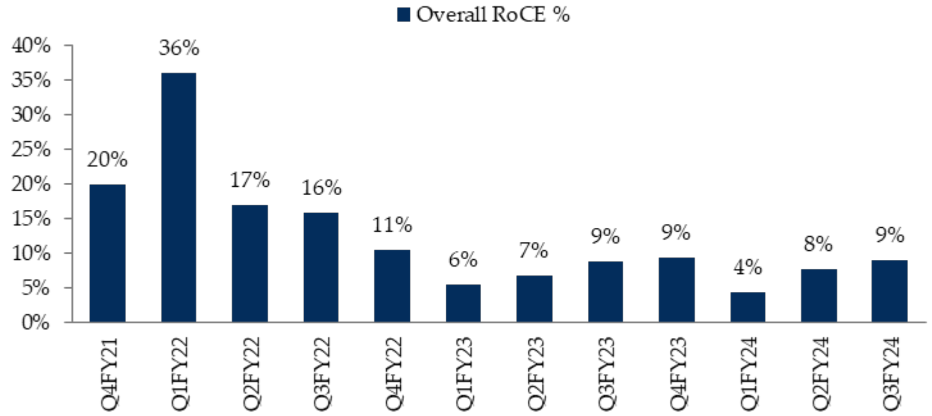
Source: Companies, HSIE Research

Exhibit 30: Cash flow cycle

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
PBT+ D&A+ Int. of Lease Liability + non-Cash expenses like ESOP	840	1,011	823	987	1,043
Change in working capital	703	633	473	588	545
Taxes	38	10	52	77	85
Operating cash flow	**99**	**368**	**298**	**322**	**413**
OCF/Operating EBITDA	**27%**	**91%**	**102%**	**79%**	**89%**
Capex	386	348	216	193	183
Payment of lease liabilities	450	444	487	505	514
FCF	**-737**	**-424**	**-405**	**-375**	**-284**

Source: Company, HSIE Research

Exhibit 31: Overall RoCE for the company



Source: Company, HSIE Research

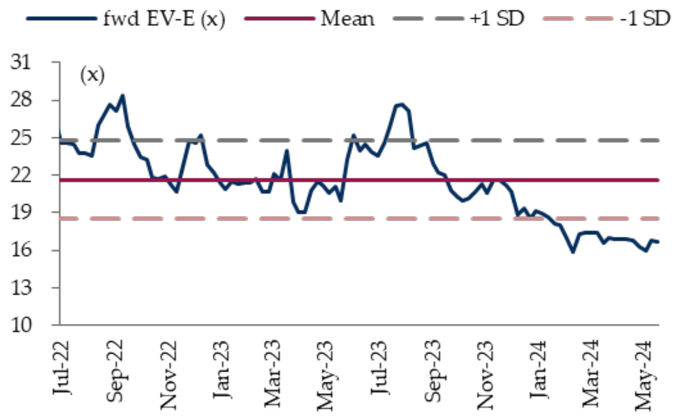
Outlook and valuation

Going ahead, we expect MEDPLUS's growth to be driven by: (1) the addition of ~600-700 stores p.a. for (a) deeper penetration in existing clusters to continue expansion in key (seven) cities/metros/Tier 1 and expansion in Tier 2 and beyond (Tier 2/3 sales contribution increased to 35% of Dec'23 vs ~26% earlier) and (b) addition of new states (expanded into Kerala, MP, Chhattisgarh, etc.); (2) leveraging the omnichannel presence (online supported by physical stores for quick delivery in select clusters); (3) increasing its private-label share (at 14% in 9MFY24 from ~4% in FY19); (4) scaling up its diagnostics business; and (5) the introduction of Medplus brand generics at 50-80% discounts.

We expect MEDPLUS to see 23/33% sales/EBITDA CAGRs over FY23-26E. Given its strategic expansion plan with a focus on improving profitability, we see a gradual improvement in margin by ~140 bps over FY23-26 to 7.3% in FY23, led by a better mix with growth in matured stores (2+ years; ~9-10% margin), increasing share of margin-accretive private-label and Medplus-brand generics, and an efficient supply chain.

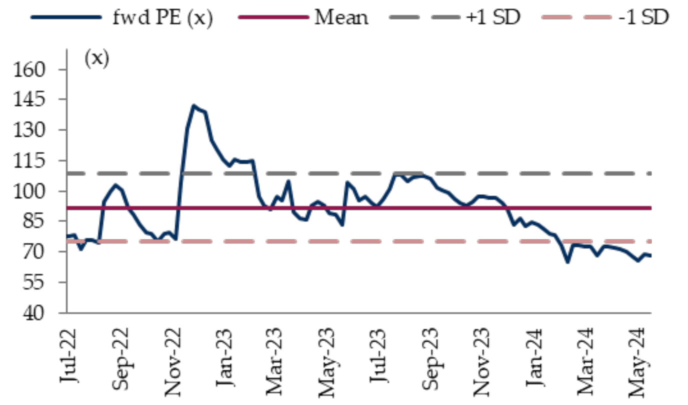
We initiate coverage with a BUY and a TP of INR 850, based on an 18x FY26E EV/EBITDA, which implies 30x pre-INDAS EV/EBITDA.

Exhibit 32: EV/ EBITDA chart



Source: Bloomberg, HSIE Research

Exhibit 33: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**22,727**	**28,706**	**30,693**	**37,793**	**45,576**	**56,418**	**68,662**	**84,544**
Other operating income	0	0	0	0	0	0	0	0
Total operating income	**22,727**	**28,706**	**30,693**	**37,793**	**45,576**	**56,418**	**68,662**	**84,544**
Cost of goods sold	-18,440	-23,365	-24,252	-29,824	-35,577	-44,090	-53,556	-65,776
Gross profit	4,287	5,341	6,440	7,969	9,999	12,327	15,106	18,769
Gross margin (%)	19	19	21	21	22	22	22	22
Total operating expenses	-3,096	-3,681	-4,274	-5,245	-7,342	-8,846	-10,492	-12,580
EBITDA	**1,191**	**1,660**	**2,167**	**2,724**	**2,657**	**3,481**	**4,614**	**6,189**
EBITDA margin (%)	5.2	5.8	7.1	7.2	5.8	6.2	6.7	7.3
Depreciation	-586	-748	-883	-1,194	-1,816	-2,221	-2,480	-2,755
EBIT	**606**	**912**	**1,284**	**1,530**	**841**	**1,260**	**2,134**	**3,434**
Net interest	-500	-468	-548	-664	-830	-958	-1,064	-1,175
Other income	122	173	215	314	461	384	414	422
Profit before tax	**228**	**294**	**951**	**1,179**	**472**	**685**	**1,485**	**2,681**
Total taxation	-108	-276	-320	-232	29	-158	-371	-670
Tax rate (%)	48	94	34	20	-6	23	25	25
Profit after tax	119	18	631	947	501	528	1,113	2,011
Minorities	0	4	7	11	-3	1	1	1
Profit/ Loss associate co(s)	0	0	0	0	0	0	0	0
Adjusted net profit	**119**	**345**	**639**	**958**	**400**	**529**	**1,114**	**2,012**
Adj. PAT margin (%)	1	1	2	3	1	1	2	2
Net non-recurring items	0	-323	0	0	97	0	0	0
Reported net profit	**119**	**22**	**639**	**958**	**498**	**529**	**1,114**	**2,012**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	2	2	4	239	239	239	239	239
Reserves & surplus	2,911	5,276	7,301	13,939	14,673	15,202	16,316	18,328
Net worth	2,914	5,291	7,311	14,173	14,905	15,434	16,549	18,562
Borrowing	4,285	4,773	5,902	8,149	8,999	9,946	10,989	12,042
Other non-current liabilities	30	39	19	10	17	18	20	21
Total liabilities	**9,587**	**13,487**	**15,656**	**25,940**	**27,967**	**30,338**	**34,166**	**38,722**
Gross fixed assets	4,414	5,203	6,977	10,709	15,742	19,077	22,637	26,442
Less: Depreciation	-1,055	-1,423	-2,219	-3,136	-4,777	-6,998	-9,478	-12,233
Net fixed assets	3,359	3,780	4,759	7,573	10,965	12,079	13,158	14,209
Add: Capital WIP	14	49	55	204	255	70	60	60
Total fixed assets	3,374	3,829	4,814	7,777	11,220	12,149	13,218	14,269
Total Investment	0	3	0	0	0	0	0	0
Inventory	3,941	6,436	7,500	9,150	11,441	13,321	15,830	19,257
Debtors	88	64	54	60	87	94	95	117
Cash & bank	499	1,407	1,186	344	2,838	1,861	2,081	2,049
Loans & advances	0	0	0	0	0	0	0	0
Current liabilities	2,358	3,384	2,424	3,608	4,046	4,939	6,609	8,097
Total current assets	4,697	8,155	9,230	16,316	14,805	16,122	18,865	22,354
Net current assets	2,339	4,771	6,806	12,708	10,760	11,183	12,256	14,257
Other non-current assets	1,102	1,085	1,197	1,432	1,527	1,652	1,668	1,685
Total assets	**9,587**	**13,487**	**15,656**	**25,940**	**27,967**	**30,338**	**34,166**	**38,722**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	228	294	951	1,179	472	685	1,485	2,681
Depreciation & Amortisation	-586	-748	-883	-1,194	-1,816	-2,221	-2,480	-2,755
Chg in working capital	190	-1,765	-2,409	-1,024	-2,156	-1,517	-867	-2,025
CF from operations	**1,467**	**-66**	**29**	**1,699**	**904**	**2,195**	**3,777**	**3,903**
Capital expenditure	-218	-311	-543	-1,177	-1,690	-810	-765	-815
CF from investing	**-193**	**-276**	**-345**	**-7,031**	**4,294**	**-810**	**-765**	**-815**
Equity raised/ (repaid)	0	2,045	980	5,725	12	0	0	0
Debt raised/ (repaid)	-687	-750	-651	-1,194	-3,132	-2,107	-2,444	-2,793
Dividend paid	0	0	0	0	0	0	0	0
CF from financing	**-828**	**898**	**-56**	**4,404**	**-1,702**	**-2,107**	**-2,444**	**-2,793**
Net chg in cash	445	557	-373	-928	3,496	-722	568	294

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (Rs)	1.0	2.9	5.4	8.0	3.4	4.4	9.3	16.9
CEPS (Rs)	5.9	6.5	12.7	18.0	19.4	23.0	30.1	39.9
DPS (Rs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GROWTH								
Net sales (%)	-	26.3	6.9	23.1	20.6	23.8	21.7	23.1
EBITDA (%)	-	39.3	30.5	25.7	(2.5)	31.0	32.6	34.1
Adj net profit (%)	-	189.2	85.2	50.0	(58.2)	32.0	110.8	80.5
FDEPS (%)	-	189.2	85.2	50.0	(58.2)	32.0	110.8	80.5
PERFORMANCE								
RoE (%)	-	6.5	10.1	8.9	2.8	3.5	7.0	11.5
RoCE (%)	-	10.7	12.9	10.4	5.6	6.7	9.6	13.3
EFFICIENCY								
Asset turnover (x)	5.1	6.0	5.0	4.3	3.4	3.2	3.3	3.4
Sales/ total assets (x)	-	2.5	2.1	1.8	1.7	1.9	2.1	2.3
Working capital/ sales (x)	-	0.1	0.1	0.2	0.2	0.2	0.1	0.1
Receivable days	1	1	1	1	1	1	1	1
Inventory days	67	87	96	95	97	92	90	90
Payable days	27	32	19	26	22	23	24	24
FINANCIAL STABILITY								
Total debt/ equity (x)	-	1.2	0.9	0.8	0.6	0.7	0.7	0.7
Net debt/ equity (x)	-	0.8	0.7	0.7	0.4	0.5	0.6	0.6
Current ratio (x)	2.0	2.4	3.8	4.5	3.7	3.3	2.9	2.8
Interest cover (x)	1.2	1.9	2.3	2.3	1.0	1.3	2.0	2.9
VALUATION								
PE (x)	703.6	243.3	131.4	87.6	209.6	158.7	75.3	41.7
EV/ EBITDA (x)	73.6	52.6	40.9	33.7	33.9	26.4	20.1	15.2
EV/ Net sales (x)	3.9	3.0	2.9	2.4	2.0	1.6	1.4	1.1
PB (x)	28.8	15.9	11.5	5.9	5.6	5.4	5.1	4.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow yield (%)	1.5	(0.4)	(0.6)	0.6	(0.9)	1.7	3.6	3.7

Source: Company, HSIE Research

Change in estimates

Change in coverage estimates and ratings

We have changed our estimates to factor in the recent development across key companies, increased sales estimates from gRevlimid (for Dr Reddy's, Aurobindo, Sun Pharma, and Zydus Life), and tweaked India business and other business growth for the coverage universe. Moreover, we have rolled forward the target price to FY26E EPS for certain companies under coverage.

Exhibit 75: Change in estimates

Companies	Ratings	Prev EPS (INR/sh)		Current EPS (INR/sh)		Change in EPS (%)		Target Multiple (x)		Target Price (INR/Sh)		
		FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	Previous	Current	Previous	Current	chg (%)
Alkem	ADD	178.0	204.4	177.1	207.4	-0	1	27x	27x	5,520	5,600	1
Aurobindo	ADD	59.4	65.4	66.6	69.5	12	6	18x	18x	1,150	1,250	9
Dr Reddy's	REDUCE	316.0	307.3	316.0	307.3	0	0	25x	25x	6,050	6,050	-
Eris LS	BUY	34.3	42.8	31.1	42.0	-9	-2	25x	25x	1,070	1,050	(2)
Lupin	REDUCE	50.5	61.6	50.8	61.5	1	-0	26x	26x	1,600	1,600	-
Mankind	ADD	55.2	65.6	55.2	65.6	0	0	36x	36x	2,360	2,360	-
Sun Pharma	BUY	47.9	55.0	49.7	56.5	4	3	31x	31x	1,650	1,750	6
Torrent Ph	ADD	62.0	78.2	60.8	77.4	-2	-1	38x	38x	2,970	2,940	(1)
Zydus	ADD	34.6	38.1	39.3	40.4	14	6	25x	26x	930	1,050	13

Source: Companies, HDFC Securities, Target multiples at FY26E EPS. Dr Reddy's TP includes INR 220/ sh for gRevlimid.

- We remain positive and maintain BUY on Sun Pharma led by specialty business visibility and Eris Life (now factored in Biocon's India formulation business and Swiss Parentals' 70% stake led to ~8%/2% EPS cut in FY25/26E) as it is well placed in mid-cap pharma space with visibility of turnaround in profitability. We also like Torrent Pharma with secular growth visibility and steady margin led by strong traction in its branded generic business and turnaround in US generic business.
- **Change in ratings**:
  - **Zydus Life**: While the broad thesis of steady growth and margin and monetization of R&D assets (injectables, biosimilar, NCE) stays, the recent run-up in the stock price (up 60/96% in last 6/12 months) factors most of the triggers and provides limited upside visibility. Hence, we have downgraded Zydus Life to ADD from BUY.
- **Major change in earnings**:
  - **Dr Reddy's and Aurobindo**: We have increased gRelivlimid sales estimates and factored in some interesting new launches leading to earnings upgrades. However, we maintain our REDUCE rating for Dr Reddy's and ADD rating for Aurobindo Pharma.
- **Top picks in the sectors** are Sun Pharma, Eris Life, Apollo Hospitals, and Medplus. Moreover, Torrent Pharma, Mankind Pharma, and Alkem are also preferred picks.

Pharma Coverage universe

- **Alkem Labs**: We have marginally tweaked our estimates for FY25/26E EPS and revised TP to INR 5,600 (27x FY26E EPS). Maintain ADD as we believe ALKEM will see steady growth led by a recovery in the acute segment (~83% of sales) on expected acute volume recovery in the IPM (after muted FY24), leadership in brands and therapies (ranked first in anti-infectives, second in VMN, and third in gastro/pain), scale-up in the chronic segment (new launches), and steady growth in trade generics. This coupled with improvement in EBITDA margin by ~500+ bps to 19.2% by FY26E (from 14% in FY23), led by increasing chronic share, cost control initiatives (productivity improvement and process optimization to improve efficiencies, and divestment of the less-profitable US plant). Scale-up in the chronic business and recovery in acute segment (anti-infectives, gastro) remains key.

- **Aurobindo Pharma**: We have raised our EPS estimates for FY25/26E EPS by 12/6% to factor higher gRevlimid sales and improvement in margin. We rolled forward TP to INR 1,250 (18x FY26E EPS vs Dec'25E earlier). Maintain ADD as we believe ARBP is well positioned to grow its US business led by new launches (~200+ pending ANDA) and traction in the base business. EBITDA margin expands by ~600+ bps to 21.2% in FY26E (from 15.1% in FY23) largely led by strong traction in gRevlimid. However, adverse outcomes from USFDA inspection of its plants are a near-term concern.

- **Dr Reddy's Lab**: We see strong sales growth and better margin for FY25/26 on gRevlimid traction. However, the base business (ex-gRevlimid) remains under pressure with increasing competition in key products in the US market and market share loss in leading therapies in India business. In Apr'24, it entered a definitive agreement in a JV (DRRD: Nestle at 51:49) for nutraceutical/an OTC product; DRRD expects to give the initial 2-3 years for investment for JV and registration of Nestle's global products in India; materialise JV post-FY26/27. R&D guidance of 8.5-9% (20% in biosimilars, 60% in small molecules, 20% in APIs/ technology) for investment towards long-term differentiated assets in global markets. We have INR 6,050 (25x FY26E EPS + INR 220/ sh from gRevlimid). Maintain REDUCE.

- **Eris Lifesciences**: We have raised our sales and EBITDA estimates for FY25/26E to factor in Swiss Parentals and Biocon's India formulation business. We have cut our EBITDA margin estimates by 100-150 bps for the next two years and EPS cut of ~9% in FY25E and ~2% in FY26E due to higher depreciation, interest cost, and tax rate. We remain positive on Eris with its chronic focus strategy and scale-up in M&As. We have revised our TP to INR 1,050 (25x FY26E EPS) and maintain BUY.

- **Lupin**: We have a TP of INR 1,600 (26x FY26E). We maintain REDUCE, as we believe that growth visibility (led by growth in the US—gSpiriva & new launches and India—new launches & traction in key therapies) and improving margin of 200-300 bps over the next two years (led by sales growth, better mix, and cost optimization) are already priced in.

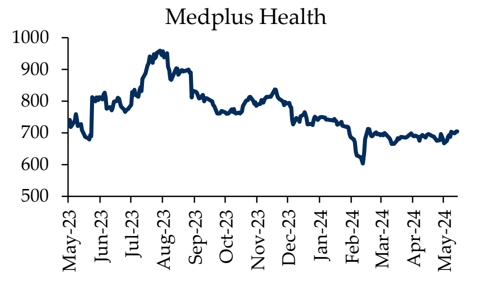
- **Mankind Pharma**: We have a TP to INR 2,360 (36x FY26E; implies 26x FY26E EV/ EBITDA) given steady growth visibility in India formulation (acute recovery and strong scale-up in chronic segment), growth momentum in exports, and ~100 bps margin expansion for each FY25 and FY26. Maintain ADD.

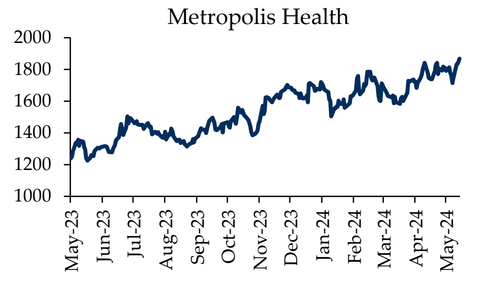
- **Sun Pharma**: We have raised our EPS estimates for FY25/FY26E by 4/3% on scale-up in specialty business, higher sales from gRevlimid, and better margin visibility. We roll forward our TP to INR 1,750 (31x FY26E vs 31x Dec'25E) and maintain BUY. Scale-up in specialty business, steady India growth, and gradual margin improvement are key positives. Moreover, value creation from the deuruxolitinib launch (PDUFA date in Jul'24) and incremental sales visibility from additional indication approval in Ilumya for Psoriatic Arthritis provide long-term growth visibility (not factored in estimates).

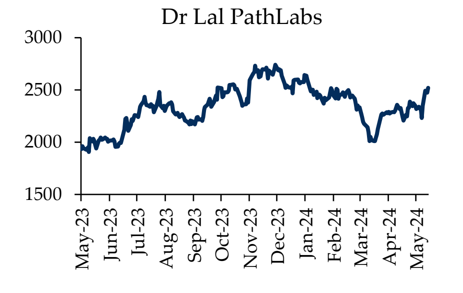
- **Torrent Pharma**: We have marginally tweaked our estimates for FY25/26E EPS. We maintain ADD with a revised TP of INR 2,940 (38x FY26E EPS; unchanged; implies 22x FY26E EV/ EBITDA). We believe TRP is well-positioned to see steady growth, led by its strong branded franchisee (new launches, MR addition, consumer wellness foray, traction in Brazil—new launches/field force expansion in chronic) and turnaround in the generics business in the US (new launches from Dahej from FY25, oncology filings) and Germany (tender wins) and a steady margin at 32-33% over the next few years.

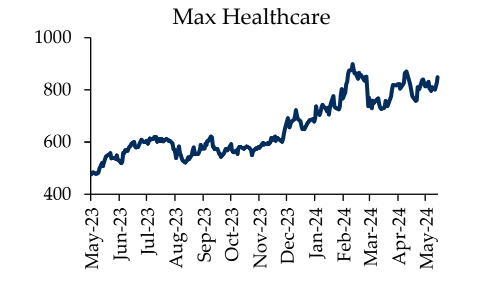
- **Zydus Life**: We have raised our EPS estimates for FY25/26E by 14%/ 6% to factor in higher-than-expected sales from gRevlimid for FY25E and FY26E, which will result in a better margin. We have rolled forward our TP to INR 1,050 (26x FY26E vs 25x Dec'25E). While the broad thesis of steady growth and margin and monetization of R&D assets (injectables, biosimilar, NCE) stays, the recent run-up in the stock price (up 60/96% in last 6/12 months) factors most of the triggers and provides limited upside visibility. Hence, we have downgraded Zydus Life to ADD from BUY.

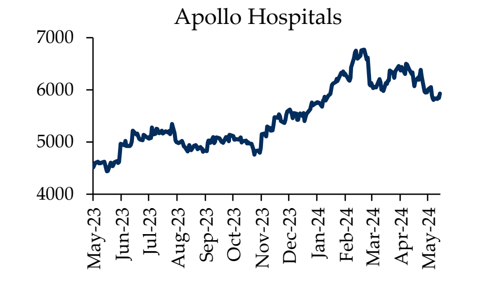
1 Yr Price history











Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:
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