INSTITUTIONAL RESEARCH

Sector Thematic

Healthcare

India Hospitals: capital discipline improving, sustenance is key

India is underinvested in healthcare with structural deficiencies in supply. At 12 beds per 10,000, the country ranks among the lowest in the world, despite carrying 20% of the global disease burden. Low government participation presents significant opportunities for private players. Most players have aggressively expanded capacity from FY12-18 and are treading on the path of consolidation. The other “asset light” businesses - pharmacy, diagnostics, digital platforms – are expanding avenues of growth while keeping the balance sheet light. Post pandemic, the recovery trends are encouraging (~90-95% of pre-COVID levels) with large players having gained market share. More importantly, despite the tough environment, the balance sheet position of companies remains stable. While resurgence in COVID cases could dampen near-term growth prospects, we don’t see this as a structural headwind and forecast a gradual recovery in FY22. Initiate coverage on Apollo Hospitals (ADD, TP Rs2,935) and Narayana Health (BUY, TP Rs460).

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India Hospitals: capital discipline improving, sustenance is key

The structural shortage of healthcare infrastructure, low government spending and attractive demographics presents huge growth opportunity for private players. Most listed players aggressively expanded capacity from FY12-18 and are treading on path of consolidation. The Capex trends have moderated since FY20 and may continue to remain so in the next two years. Post pandemic, the recovery trends are encouraging with large players having gained market share. More importantly, despite the tough environment, the balance sheets remain comfortable with stable net debt positions. With gradual recovery in FY22, we forecast ~15% EBITDA CAGR and ~435bps expansion in ROCE to 15% over FY20-23e for the covered stocks, driven by improving occupancy and ARPOB, strong growth in other businesses and calibrated Capex spends.

India healthcare – secular growth, asset light models improving returns
India's huge demand-supply gap, rising health insurance penetration, high out-of-pocket spends, increase in medical tourism provide compelling growth prospects for the industry. The adoption of "asset-light" models of expansion, enhanced focus on retail formats – pharmacy, diagnostics and digital initiatives – are expanding avenues of growth while keeping the balance sheet light.

Post COVID, recovery trends are promising with large players gaining share
After a severe impact in 1HFY21, the industry witnessed healthy recovery trends (90-95% of pre-COVID levels) in the past quarter. Large players have gained market share as patients preferred visiting corporate chains/quality healthcare providers in the crisis time. We expect a gradual recovery in mature/flagship units of our covered companies as international patient segment remains impacted. However, the other hospitals/new units in tier 1/2 locations have performed well and are expected to further gain traction. Other businesses (diagnostics/ pharmacy/ Cayman operations for NH) received fillip during the crisis and their EBITDA are expected to grow at ~20-30% CAGR over FY20-23e.

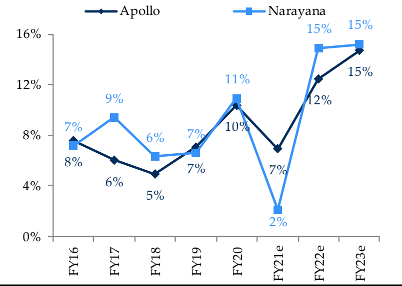
Treading on the path of consolidation; selective expansion ahead
With headroom to operationalise beds at existing units and average occupancy at 60-70%, we expect Capex trends to remain moderated for the next two years. The technological advancements have brought down ALOS from ~4.5 to ~3.5 in the past five years, which has aided volume growth. Most players are guiding for brownfield expansion or bolt-on acquisitions at strategic locations.

Digital platforms – exponential growth, albeit on a low base
The pandemic has driven greater adoption of digital platform but the customer behavior is still evolving. We believe the integrated offerings of digital platform (e-pharmacies, tele-consultation, diagnostics) and physical network could present meaningful synergies for players like Apollo (Apollo 24/7).

Initiating coverage on Apollo Hospitals (ADD) and Narayana Health (BUY)
We believe Apollo is the best play on India healthcare, given its pan-India presence, expanding avenues for growth (pharmacy, diagnostics, Apollo 24/7) and balance sheet strength. However, at 19x FY23e EV/EBITDA, ~25-30% premium to its historical average, the positives appear priced in. We like Narayana's India hospital franchise and believe it is poised to emerge stronger with ROCE expanding by ~550bps to 15% over FY20-23; the proposed expansion at Cayman is return dilutive in the near term, but NPV accretive (Rs25/sh), in our view. The stock is trading at attractive valuation of 14x FY23e EV/EBITDA, ~10-15% discount to its historical average.

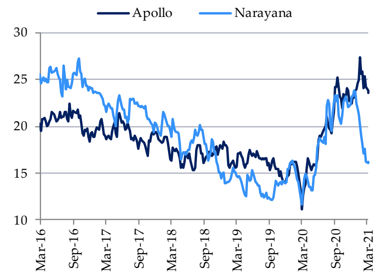
Stock	Rating	CMP	TP
APHS	ADD	2,903	2,935
NARH	BUY	406	460

RoCE (%)



Source: Company, HSIE Research

EV/ EBITDA multiple (x)



Source: Bloomberg, HSIE Research

Key risks – Delayed business recovery, adverse government regulations (price/scheme implementation)

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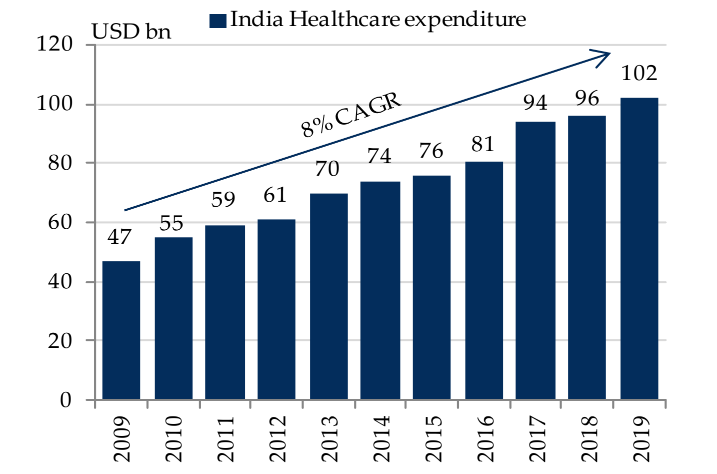
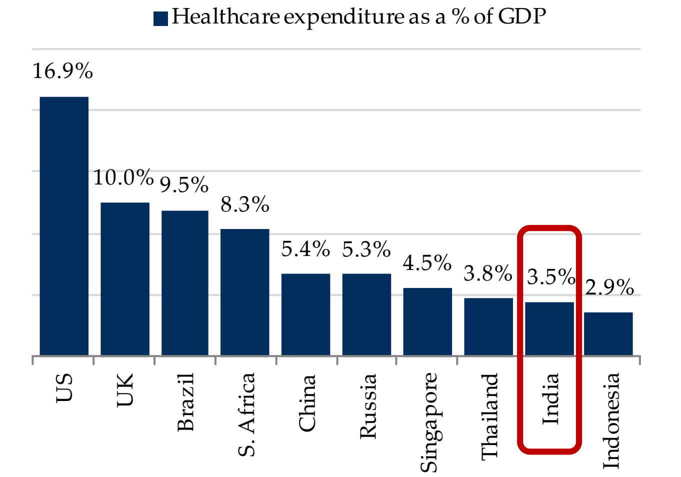


Source: World Bank, HSIE Research

Exhibit 2: India's spends on healthcare remains low compared to global average



Source: World Bank, HSIE Research, Data as of 2018

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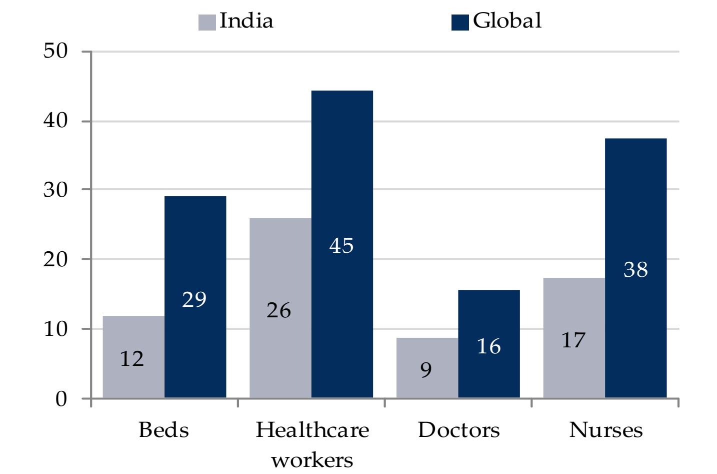

Source: CRISIL, HDR, HSIE Research, *per 10,000 population

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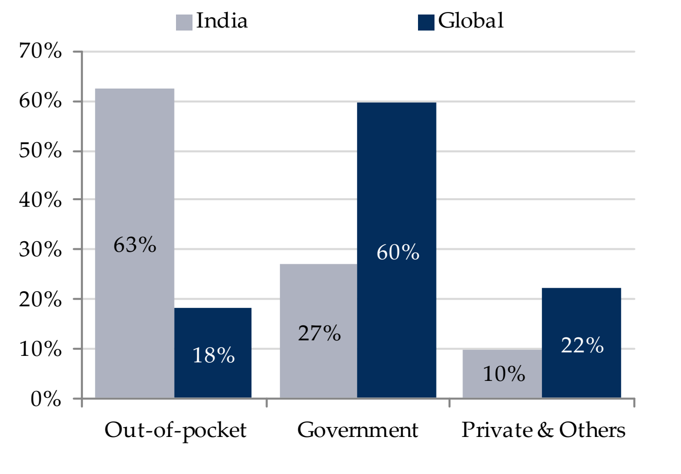

Source: WHO, HSIE Research, Data as of 2010-2018

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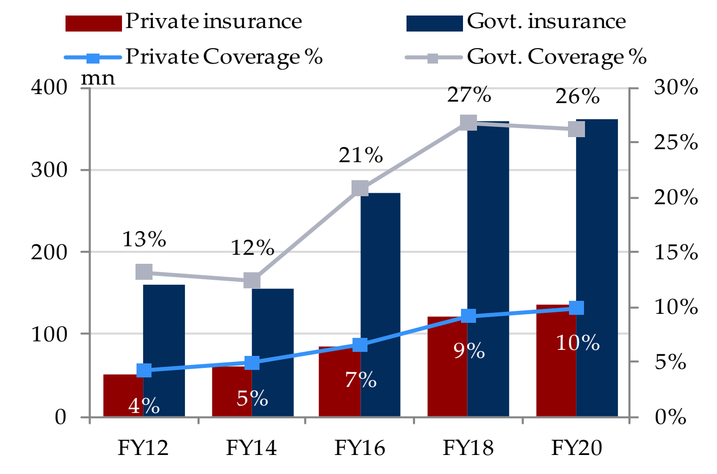

Source: IRDAI, HSIE Research

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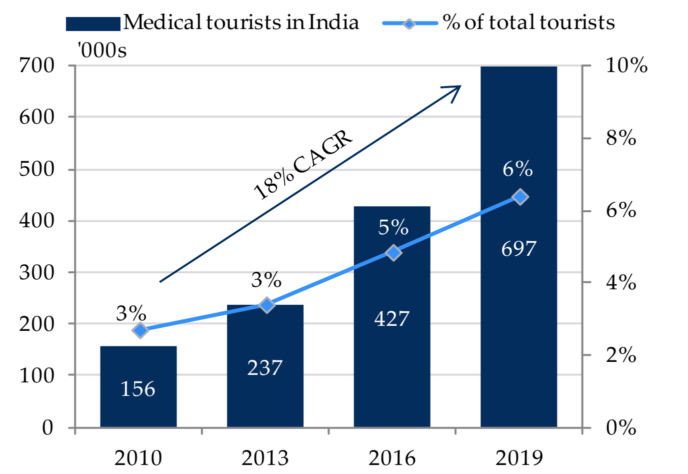

Source: Ministry of Tourism, HSIE Research

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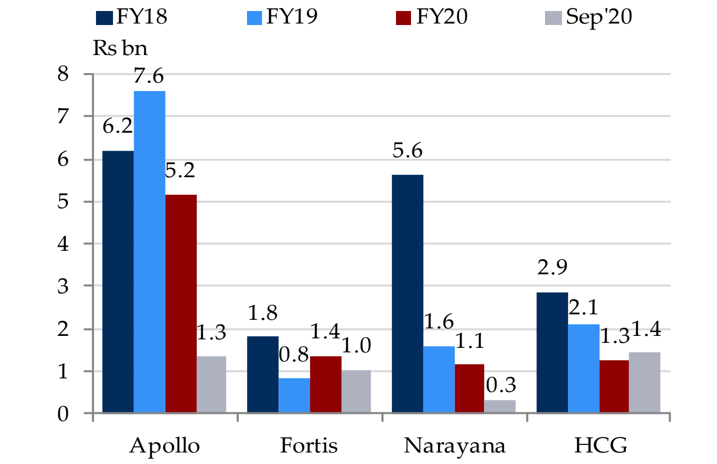

Source: Company , HSIE Research

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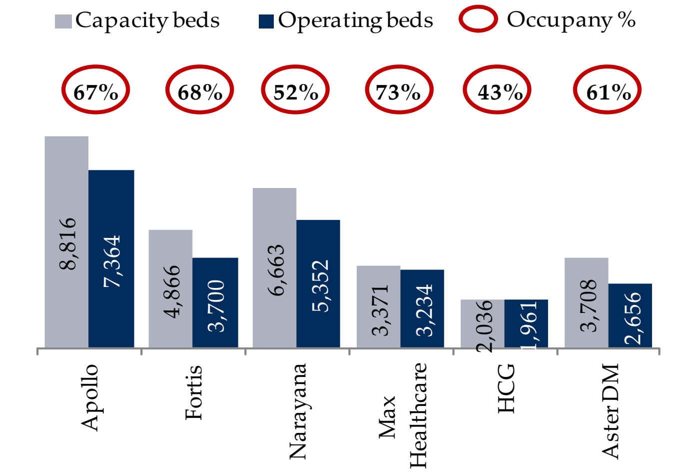

Source: Company, HSIE Research

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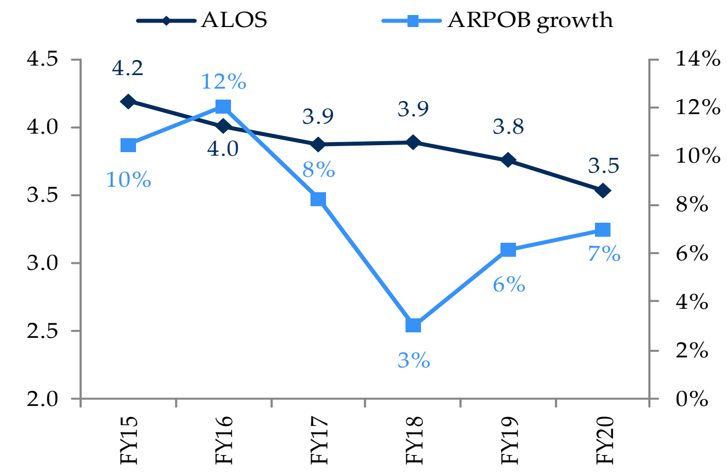
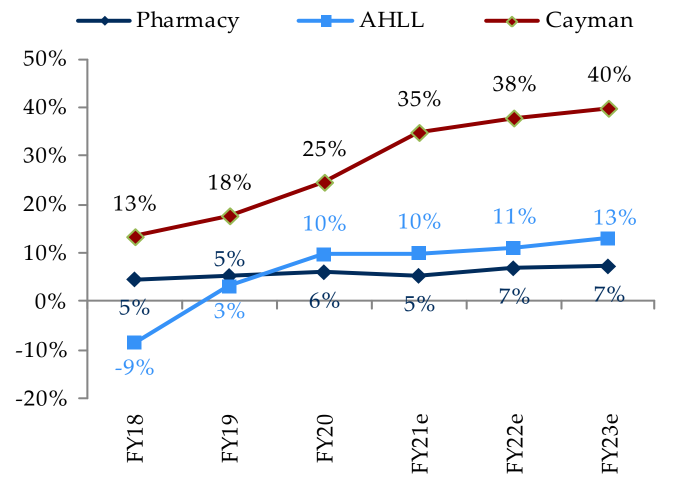


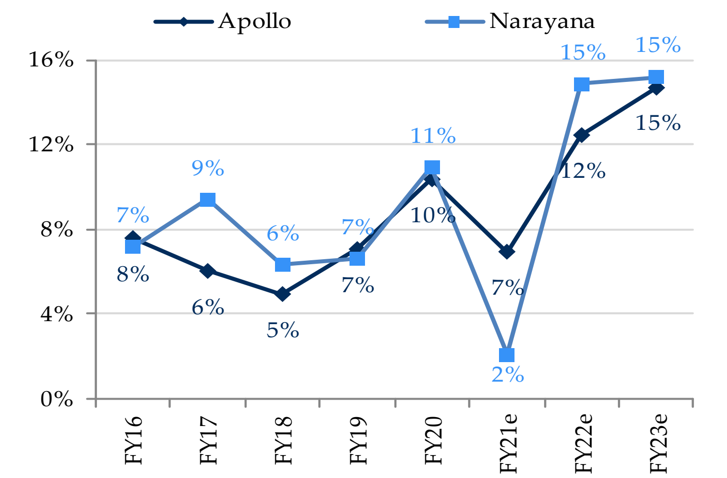
Source: Company, HSIE Research

Exhibit 10: Covered stocks - Other business verticals are witnessing margin expansion and are expected to drive higher EBITDA growth



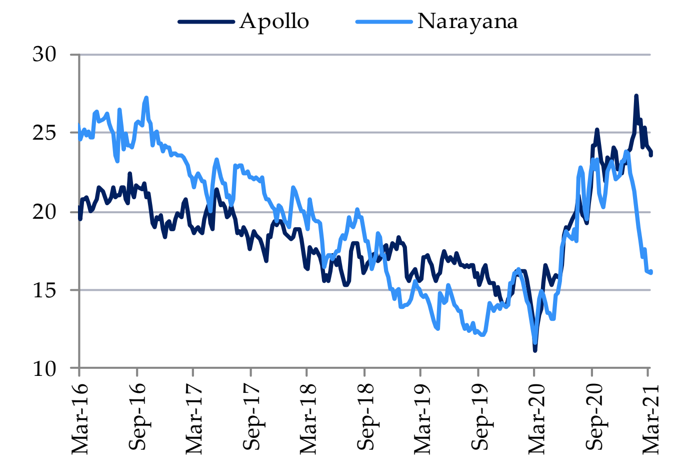
Source: Company, HSIE Research, pre-Ind AS for Pharmacy business

Exhibit 11: Covered stocks – Steady improvement in ROCE post FY18; expected to continue its upward trajectory



Source: Company, HSIE Research

Exhibit 12: Apollo trades at 19x FY23 EV/EBITDA, ~25-30% premium to its hist. avg., NH trades at 14x FY23 EV/EBITDA, ~10-15% discount to its hist. avg.



Source: Bloomberg, HSIE Research

Initiating coverage

In this report, we initiate coverage on the two leading private hospital chains in the country - Apollo Hospitals and Narayana Health (NH). We value both using sum-of-the-parts, primarily using EV/EBITDA methodology for the hospitals business.

Apollo Hospitals (ADD, TP Rs2,935)

- Apollo is the largest private healthcare provider in India with a network of 70 hospitals and 10,000+ beds, including Proton. It also owns the largest pharmacy chain in India (4,000 stores).
- With major expansion over and multiple growth avenues expected ahead, we believe Apollo is best positioned to witness improved profitability and return ratios in the next two years. Its asset light businesses such as pharmacy and AHLL (clinics/diagnostics) are expected to drive margin expansion and EBITDA growth of 17%+ CAGR in the same period. Its recent foray into online health through Apollo 24/7 will prove to be a significant growth enabler for its existing business as it attempts to leverage its robust infrastructure. Apollo's balance sheet remains comfortable with net debt/equity at ~0.9x (FY21e). We expect FCF generation of Rs34bn over FY20-23e (it turned FCF positive for the first time in FY19 since FY12). However, at 19x FY23e EV/EBITDA, 25-30% premium to its 5-year historical average, the positives appear priced in.
- Our target price of Rs2,935/sh is based on an SOTP valuation of (a) India hospitals - 18x FY23e EBITDA; (b) AHLL - 25x FY23e EBITDA; (c) Retail Pharmacy (backend) – 25x FY23e EBITDA; (d) Stake in associates. We value Apollo's hospital business at 18x EV/EBITDA, ~15-20% premium to Asian peers. We believe the premium is justified, given the divergent growth dynamics and Apollo's superior return profile. Our target multiple is at ~20% premium to Apollo's own historical average, and we believe this is merited, considering strong growth visibility in pharmacy and diagnostic business, investments in Apollo 24/7, and balance sheet strength.

Narayana Health (BUY, TP Rs460)

- NH's asset light expansion in India (FY14-18), followed by a consolidation phase, bodes well for the company in terms of ROCE improvement. Post COVID disruption, we expect it to emerge stronger and forecast ~17% EBITDA CAGR over FY20-23e, driven by: (a) turnaround of new units - from loss making to EBITDA positive by FY23e; (b) improving performance of non-flagship mature units (fared better than flagship units in 9mFY21); and (c) strong traction in Cayman Islands facility, expected to post ~ 21% EBITDA CAGR over the next two years.
- The proposed expansion (USD100mn) in Cayman is return dilutive in the near term, but NPV accretive, in our view. Considering the new unit will cater to oncology and high-end day care procedures, we base our DCF assumption on ARPP (average revenue per patient) and discharges. Despite the expansion, NH's ROCE remain at ~15% in FY22/23e. After a ~14% correction in the past two months, the stock is trading at an attractive valuation of ~14x FY23e EV/EBITDA, ~10-15% discount to its historical average.
- Our target price of Rs460/sh is based on SOTP valuation of (a) India hospitals business - 16x FY23e EBITDA; (b) Cayman operations - 12x FY23e EBITDA; (c) Cayman expansion – NPV of Rs25/sh. We value NH's India business at 16x EV/EBITDA, ~10% discount to Apollo's hospital business. While ROCEs are comparable today, Apollo has a consistent track record, true pan-India presence and diversified EBITDA base compared to NH. We assign 12x EV/EBITDA to existing Cayman operations, a discount of ~25% to the India business to factor in the divergent growth potential of that market. However, the ROCEs of Cayman and the medium growth outlook are superior to that of the India business.

Key risks to thesis

Price control on stents, knee implants adversely impacted business profitability in FY18

Retaining and recruiting medical talent is a key challenged faced by the industry

- **Delay in business normalcy –** Lockdown/extension of the pandemic could hamper patient mobility, which could impact occupancy. Delay in recovery of elective surgeries, return of international patients (high-margin business) will impact growth and profitability, especially of mature/flagship units.
- **Adverse price regulations by government –** The National Pharmaceutical Pricing Authority (NPPA) imposed a ceiling price on coronary stents in Feb'17 and extended it to knee implants later in the year, which impacted the business profitability in FY18. While hospitals modified their package prices to mitigate the impact, such headwind could recur if price caps are extended to cover other consumables, diagnostic tests, etc.
- **Scheme implementation –** Scheme business is a low-margin business. Any policy decision that results in higher admissions of scheme-based patients could impact profitability. West Bengal recently announced a health insurance scheme to cover entire state's population. If implemented, it could impact near-term profitability of hospitals in the region.
- **Recruitment and retaining of medical talent –** This is one of the key hurdles faced by the industry that limits growth. Given the scarcity of physicians, recruiting and retaining them is a key challenge, especially with the competition also looking out for similar resources.
- **Risks associated with greenfield expansion –** High cost of capital, execution hiccups, extended payback period, and increased competition are key risks associated with greenfield expansion.

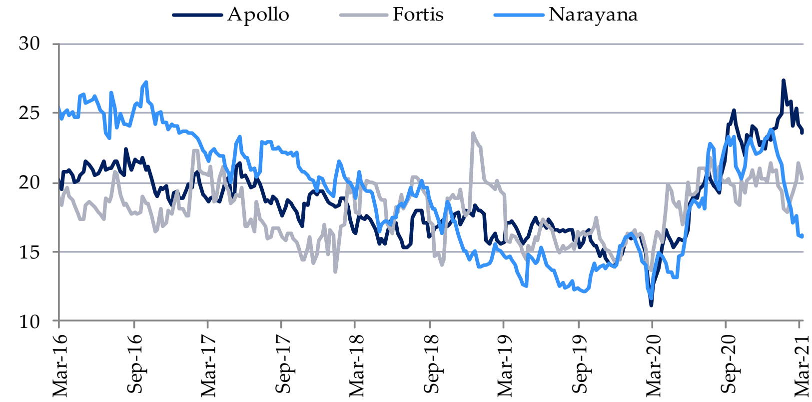
Indian hospital industry trades at par with Asian peers, but has better revenue/EBITDA growth prospects

Apollo (155% up) outperformed Nifty by 84% in the past one year and NH (64% up) underperformed Nifty by 7% over the same period

Valuation and performance

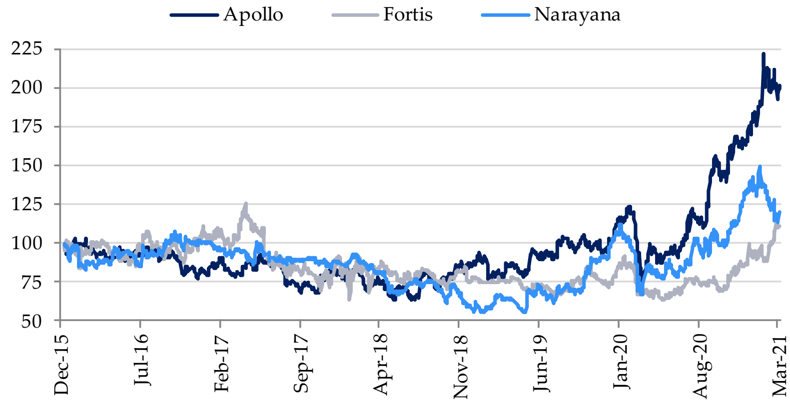
The Indian hospital industry is trading at par with Asian peers, but offers better revenue and EBITDA growth prospects. Apollo (155% up) has outperformed Nifty by 84% in the past one year and NH (64% up) has underperformed Nifty by 7% over the same period. We note that Apollo's EV/EBITDA multiple has seen expansion to ~24x/19x FY22/23e EV/EBITDA and is trading at a 25-30% premium to its 5-year historical average. Narayana is trading at ~16x/14x FY22/23e EV/EBITDA, ~10-15% discount to its 5-year historical average.

Exhibit 13: One year forward EV/ EBITDA chart



Source: Bloomberg, HSIE Research

Exhibit 14: Price performance Index



Source: Bloomberg, HSIE Research

Exhibit 15: Peer-set valuation

Name	M.Cap (USD mn)	Price (LC)	Target Price	Rating	FY20-23e CAGR		ROE		EV/ EBITDA		PER	
					Sales	EBITDA	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Indian peers												
Apollo Hospitals	5,704	2,902.7	2,935	ADD	11.1%	14.1%	13.6	16.4	24.3	19.2	60.1	42.0
Fortis Healthcare	2,055	199.2	NA	NR	9.2%	18.6%	3.9	5.4	20.2	16.6	58.7	39.3
Max Healthcare	2,720	206.1	NA	NR	39.6%	58.0%	25.2	19.4	20.3	17.5	35.0	28.5
Narayana Health	1,134	405.9	460	BUY	6.7%	16.5%	19.5	20.6	16.4	14.1	36.5	29.8
Aster DM	941	137.8	NA	NR	8.4%	9.5%	11.8	13.9	6.4	5.6	15.9	11.8
HCG	326	190.5	NA	NR	8.5%	14.4%	-2.8	0.7	15.7	13.2	NA	497.4
Shalby	149	100.8	NA	NR	7.3%	14.8%	6.0	6.7	10.3	8.9	21.0	17.7
Asian peers												
Bangkok Dusit	10,979	21.6	NA	NR	9.9%	5.7%	10.3	10.9	18.8	17.2	36.5	33.1
Bumrungrad Hospitals	3,456	136.0	NA	NR	13.8%	26.8%	14.7	16.0	22.9	20.9	37.9	33.7
IHH Healthcare	11,265	5.3	NA	NR	11.1%	18.4%	5.3	6.1	15.3	13.7	36.4	30.9
Raffles Medical Group	1,554	1.1	NA	NR	7.4%	4.3%	7.2	8.0	16.6	15.3	31.1	28.0
Ramsay Health Care	11,667	67.0	NA	NR	9.6%	13.8%	13.0	13.3	10.4	10.0	25.5	23.9
Chularat Hospital PCL	1,027	2.9	NA	NR	10.0%	8.8%	22.9	23.1	18.8	17.6	30.1	28.3

Source: Bloomberg, HSIE Research, price as on Mar 31, 2021

Comparison of leading listed players

Exhibit 16: Indian hospitals comparison

Hospitals	Apollo	Fortis	Narayana	Max HC
No. of Hospitals	49	28	21	16
Capacity Beds (owned)	8,816	4,866	6,663	3,371
Operational Beds (owned)	7,364	3,700	5,352	3,234
Key Presence	Pan India	Pan India	Pan India - dominant in Karnataka and East	Delhi NCR & Mumbai
Expansion plans	Bolt-on acquisitions, brownfield expansion	Plans to add ~1,300 beds in 4 years, Capex of ~Rs7.5bn, brownfield expansion	~USD 100mn in Cayman, selective expansion in India preferably in East	Nanavati (300 beds in phase-I), Delhi (~350 beds at Saket) for ~Rs13bn
Other businesses	Pharmacy, AHLL (clinics/ diagnostics), Apollo 24/7	SRL - Diagnostics	Cayman Islands	Diagnostics
Operating Parameters (FY20)				
ARPOB (Rs/ day)	37,397	43,562	26,575	51,000
ALOS	3.9	3.2	3.5	4.3
Occupancy	67%	68%	52%	73%
Revenue per bed	7.6	10.3	4.8	9.7
EBITDA per bed	1.5	1.3	0.9	1.4
EV per bed^	62.4	44.1	16.9	67.3
Gross block per bed	9.9	13.9	3.6	8.4
Financial Parameters (FY20)				
Revenues	1,12,468	46,323	31,278	43,710
Revenue CAGR (FY15-20)	16.8%	3.4%	18.1%	NA
EBITDA Margin	14.1%	14.3%	13.5%	13.4%
ROCE	10.4%	1.7%	10.9%	9.0%
Net debt/ EBITDA	3.5	2.2	2.2	4.0
Hospital Segment				
Hospitals revenue	57,298	37,520	25,592	31,352
FY15-20 CAGR	12.2%	3.2%	15.5%	NA
FY20-23e CAGR	11.1%	9.2%*	6.7%	NA
Hospital as % of revenues	50.9%	81.0%	81.8%	71.7%
EBITDA	10,975	4,765	4,578	4,440
FY20-23e CAGR	14.1%	18.6%*	16.5%	NA
EBITDA Margin	19.2%	12.7%	17.9%	14.2%

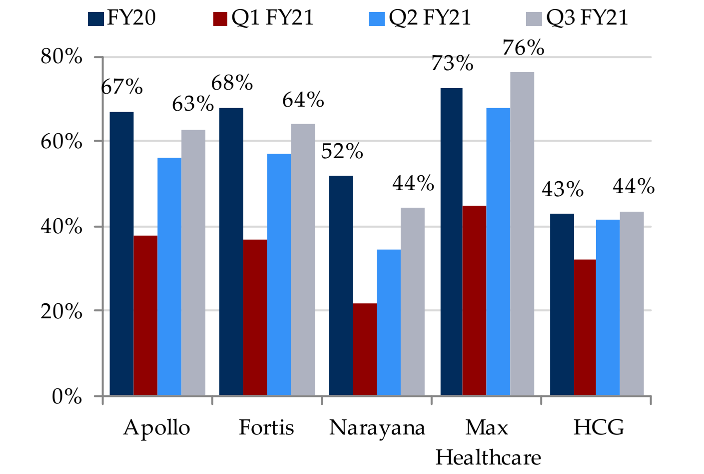
Source: Company, Bloomberg, HSIE Research, Rs mn, *consensus estimates, ^EV is for entire business

Recent Industry trends

Post pandemic, recovery trends are promising

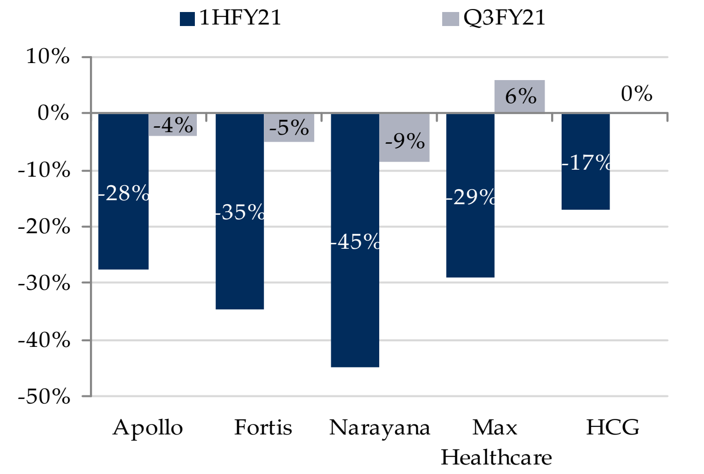
The COVID crisis severely impacted the hospital business in Q1FY21 as the occupancies dropped to <50% for most players. It gradually picked up in the subsequent quarter, led by COVID volumes. With steady decline in COVID cases and pick-up in elective surgeries, the occupancy increased to near pre-COVID levels. The hospital segment revenues recovered to ~90-95% of pre-COVID levels in Q3FY21. The OPD footfalls, which usually are ~20% of the overall volumes, remain impacted for some players like Apollo at ~65-70% of pre-COVID levels while for some like NH it almost recovered to normal.

Exhibit 17: Occupancy improved sequentially to pre-Covid levels after dropping below 50% in Q1FY21



Source: Company, HSIE Research

Exhibit 18: Hospital revenues recovered to 90-95% of pre-Covid levels in Q3FY21 vs. steep decline in 1HFY21

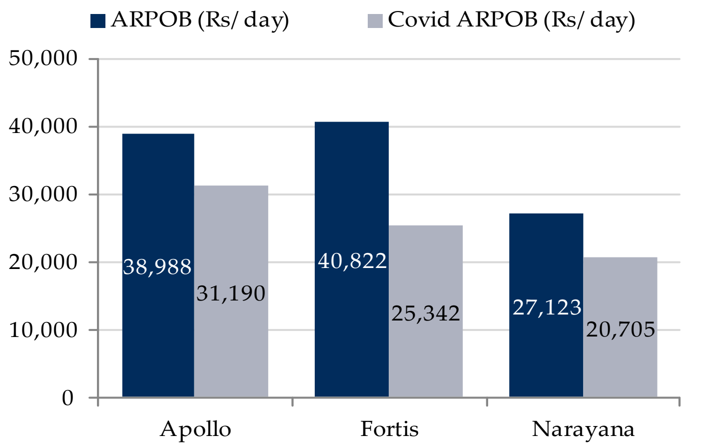


Source: Company, HSIE Research

ARPOBs remained healthy driven by favorable case mix

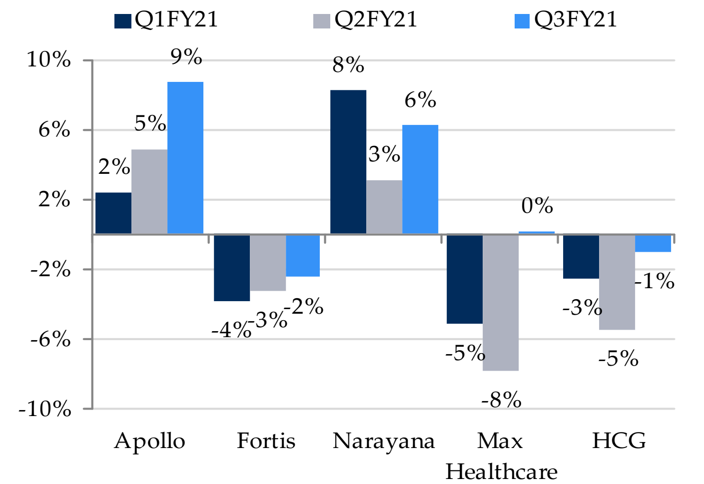
Despite lower COVID ARPOBs, negligible contribution from international patients and lower OPD volumes, overall ARPOB trend remained healthy. For players like Apollo and NH, it improved on YoY basis as the cases were more skewed towards high-end tertiary/quaternary care procedures. For other players, the decline was not significant. ALOS increased for most players due to COVID, which is expected to normalize, going ahead.

Exhibit 19: Despite lower Covid ARPOBs…



Source: Company, HSIE Research, Q2FY21

Exhibit 20: …overall ARPOB trend remained healthy

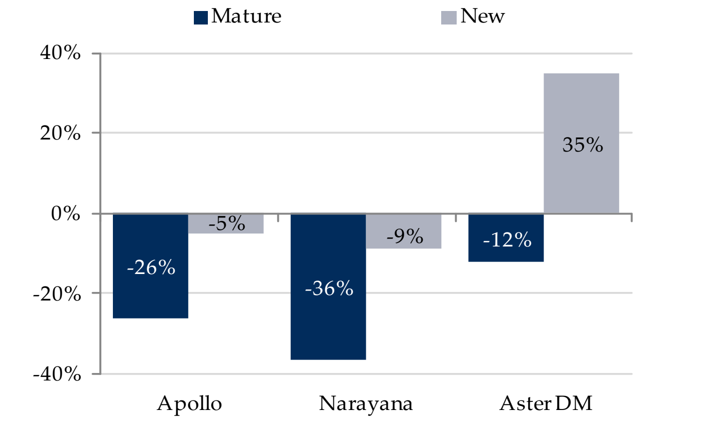


Source: Company, HSIE Research

Mature/flagship hospitals are impacted more than others

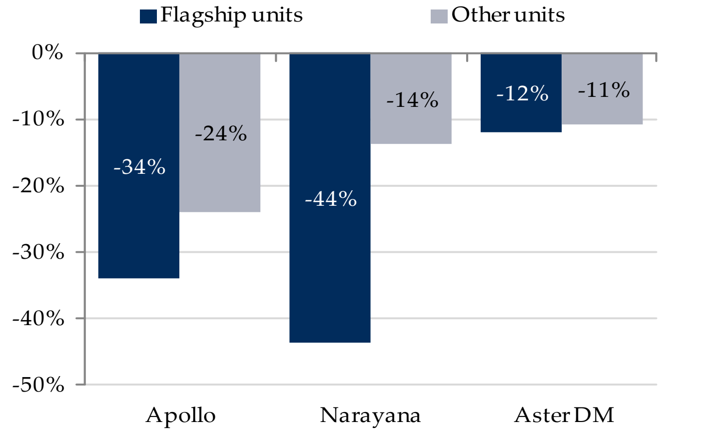
The mature/flagship hospitals remain impacted as they are heavily dependent on outstation/international patients vs. new/other hospitals which are located outside metro/tier-1 locations. International patients accounted for almost 10% of hospital revenues in FY20, which dropped to ~1-2% in 9mFY21. The newer hospitals/ other hospitals located in non-metro and tier-2 locations outperformed the flagship/ metro-based facilities as patients preferred visiting large/quality healthcare providers as they are perceived to be better equipped to manage COVID/ non-COVID facilities vs. standalone/ nursing homes. This has improved hospital's brand visibility and they expect patient footfalls to sustain in the post-COVID environment. Large players have also gained market share in key regions. Apollo cited market share improvement in Chennai cluster to ~25% vs. ~18-20% three years back. Likewise, it also gained market share in Hyderabad and Kolkata (aims 25% share in Kolkata, Karnataka & Hyderabad).

Exhibit 21: Revenues of mature units witnessed sharp decline as compared to newer units



Source: Company, HSIE Research, 9mFY21

Exhibit 22: Other units have shown resilience compared to the flagship/ well-established ones

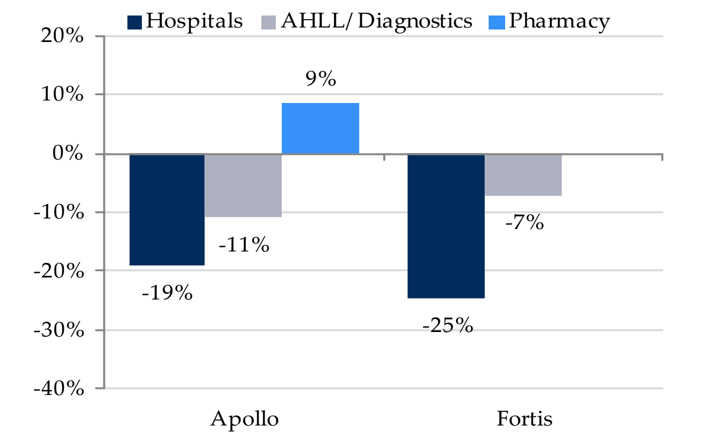


Source: Company, HSIE Research, 9mFY21

Other business verticals witnessed increased traction

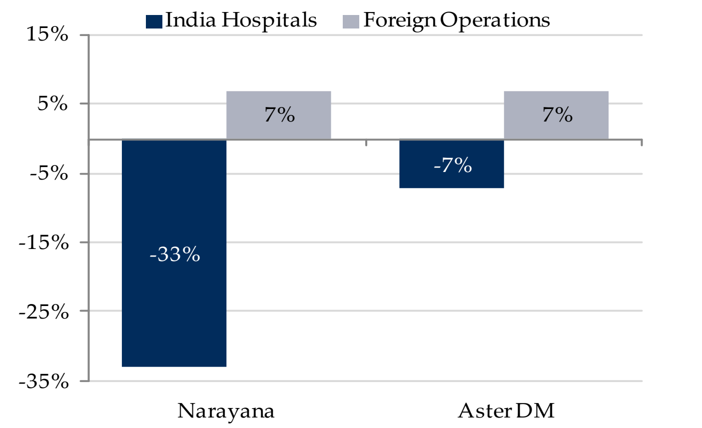
The other businesses such as pharmacy and diagnostics for Apollo, Cayman operations for NH, diagnostics for Fortis received fillip due to COVID and witnessed healthy traction. NH's Cayman operations benefitted on account of increased flow of domestic patients due to travel restrictions. Apollo and Fortis's diagnostic businesses benefitted on account of increased testing volumes for COVID.

Exhibit 23: Pharmacy and diagnostics fared better than hospitals business for Apollo and Fortis



Source: Company, HSIE Research, 9mFY21

Exhibit 24: International operations at Cayman for NH and GCC for Aster outperformed India operations

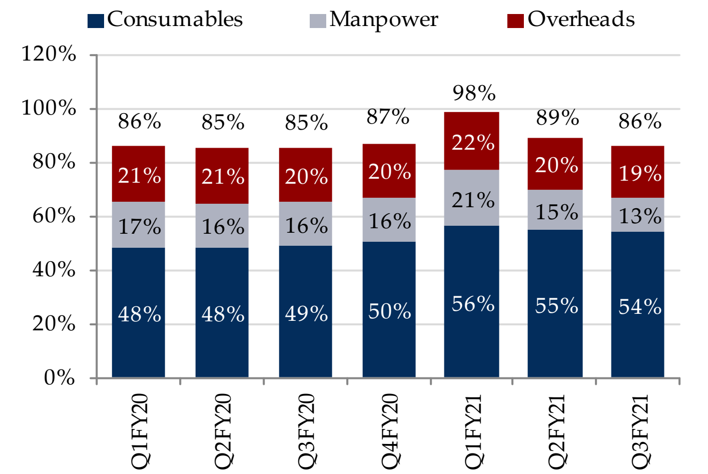


Source: Company, HSIE Research, 9mFY21

Strong focus on cost led to structural cost savings and margin improvement

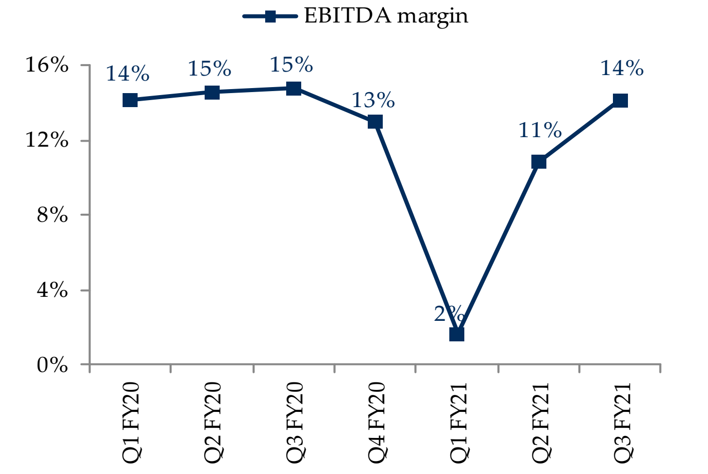
Faced with operational challenges during COVID, most players rationalised costs which has resulted in some structural cost savings. Renegotiation on rentals, saving on admin/travel/promotion cost, reduction in doctor fees/pay-outs resulted in cost savings. While doctor fees are likely to revert with increase in volumes, portion of savings in other cost items are likely to sustain.

Exhibit 25: Apollo – annualised cost savings of Rs1.2bn (~100bps of revenues) is likely to sustain



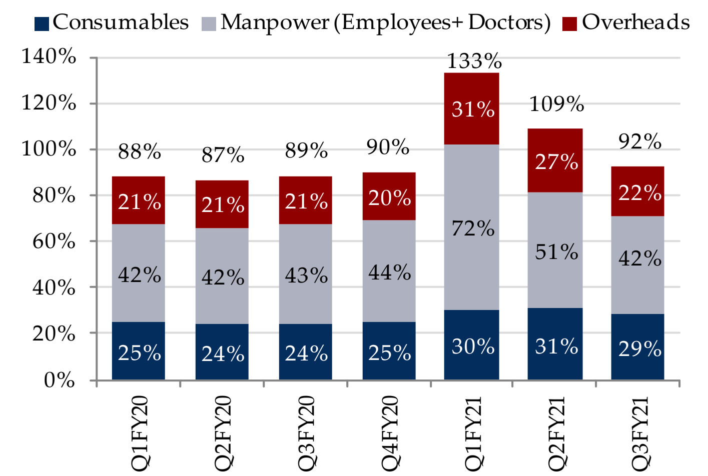
Source: Company, HSIE Research

Exhibit 26: Apollo EBITDA margin – recovered almost to pre-COVID level



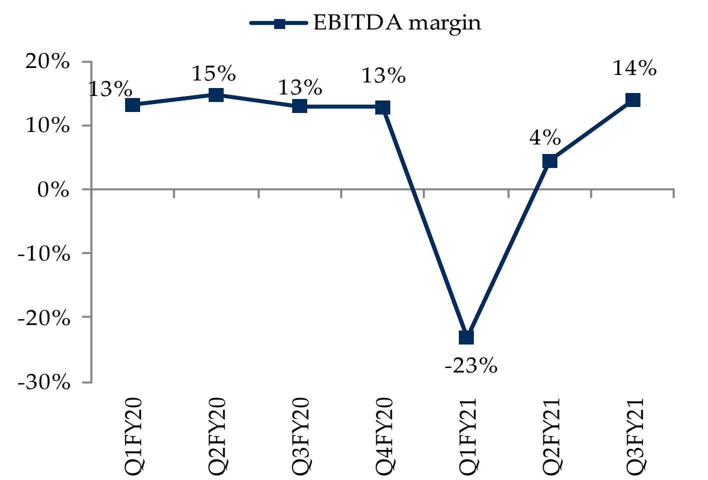
Source: Company, HSIE Research

Exhibit 27: NH – sharp fall in India occupancy and temporary shutdown in Cayman impacted Q1FY21



Source: Company, HSIE Research

Exhibit 28: Subsequent turnaround in Cayman and recovery in India led to strong margins in Q3FY21

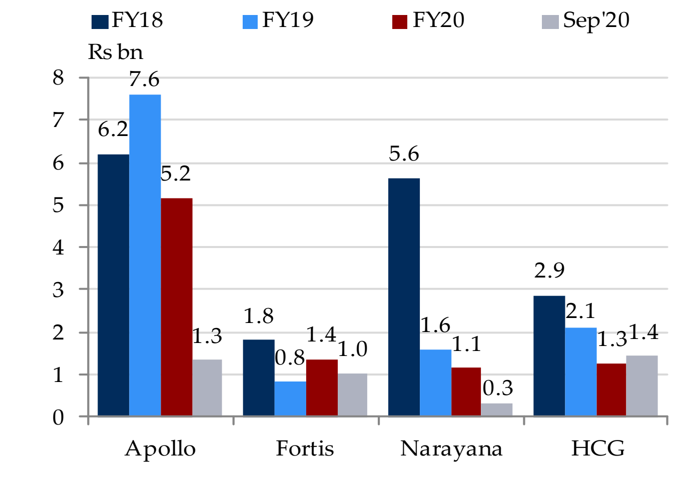


Source: Company, HSIE Research

Treading on path of consolidation

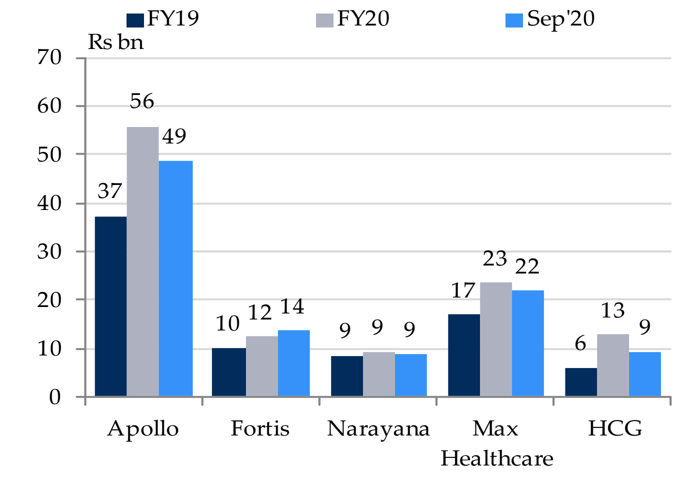
Most players entered a consolidation phase after having significantly expanded operations from FY12-18. The companies are focusing on sweating existing assets and will look to add capacities selectively through brownfield expansion or bolt-on acquisitions at strategic locations. It's important to note that despite the tough environment, net debt for most players has remained stable in the past three quarters. With major expansion behind, we expect balance sheet to remain strengthened.

Exhibit 29: Capex trend continues to moderate further in 9mFY21



Source: Company, HSIE Research

Exhibit 30: Net debt has remained stable despite tough environment

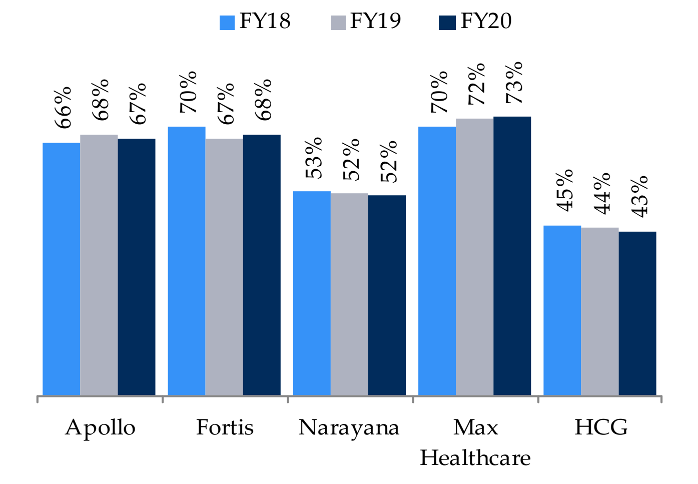


Source: Company, HSIE Research

Significant headroom for growth

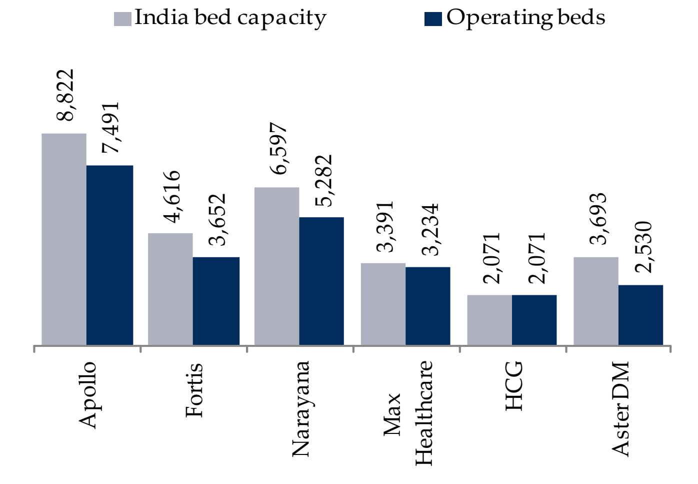
Most hospitals are operating at an average occupancy of ~60-70% with bed capacity being higher than operational beds, which suggests decent headroom for growth at existing facilities. Moreover, with the steady decline in ALOS driven by technological advancements, in-patient volume/discharges have increased driving volume growth. This, along with improved ARPOBs (price increase, case mix, international patients) has driven ~10% revenue growth for the industry in the past two years.

Exhibit 31: Average occupancy is at 60% which provides scope to grow at existing units



Source: Company, HSIE Research

Exhibit 32: Beds capacity vs. operational beds suggest headroom to expand at existing facilities

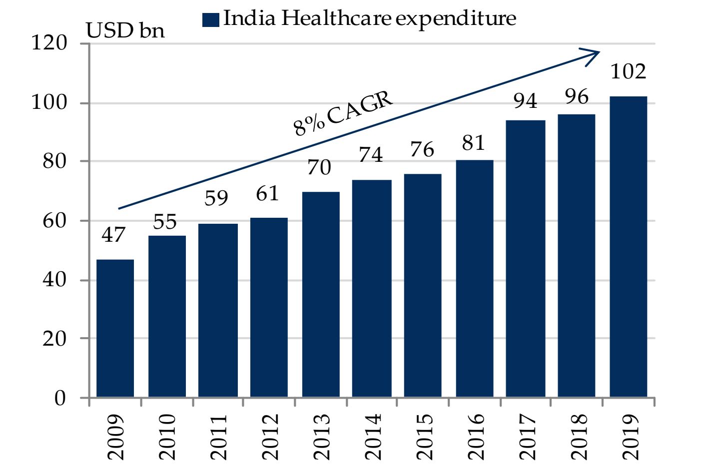


Source: Company, HSIE Research

India healthcare overview

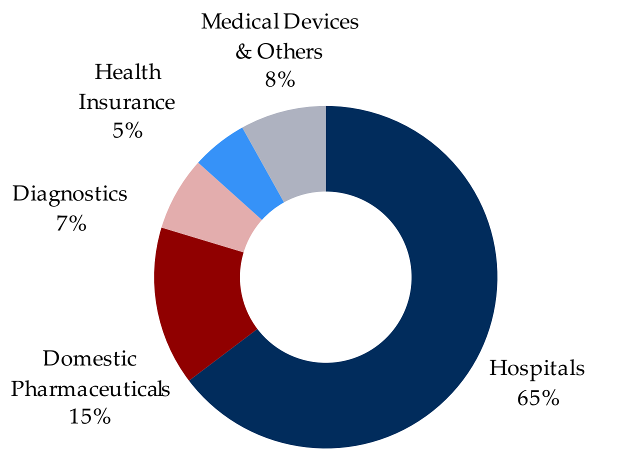
- The hospitals industry accounts for ~65% of India's healthcare market. The healthcare spends in the country has grown at 8% CAGR. Private players remain the key growth contributors, given that the government spending remains low at ~1.5% of GDP.
- The structural demand drivers such as increasing burden of lifestyle diseases, rising insurance penetration, and rising affordability & awareness provide sustainable growth prospects for the industry. The demand-supply gap and inadequate infrastructure will continue to attract private investments in the space.
- According to the National Investment Promotion and Facilitation Agency, the healthcare delivery market, accounting for ~80% of total healthcare market (incl. medical devices, diagnostics) in India, is expected to grow at 16-17% CAGR over 2017-2023e.

Exhibit 33: Healthcare spends have risen at 8% CAGR in the last 10 years



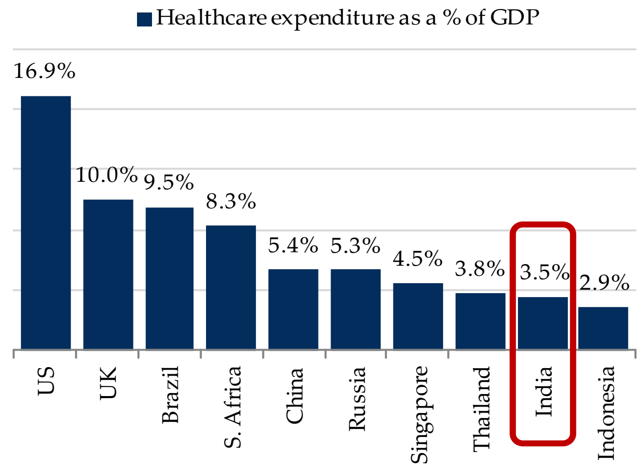
Source: World Bank, HSIE Research

Exhibit 34: Hospitals industry account for ~65% of healthcare delivery market



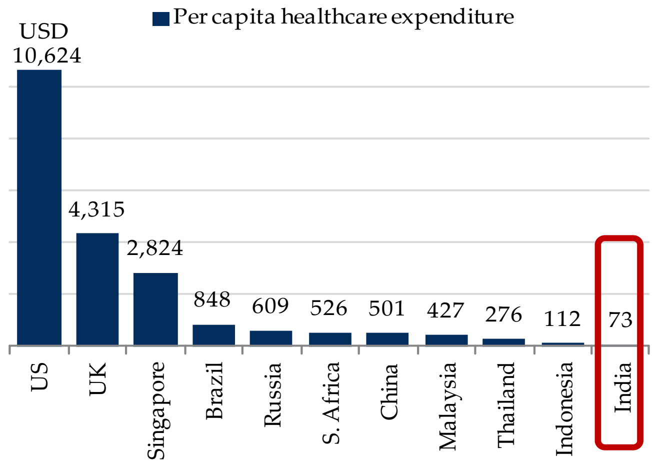
Source: Industry, HSIE Research

Exhibit 35: Healthcare expenditure as a % of GDP remains low compared to global spends



Source: World Bank, HSIE Research, Data as of 2018

Exhibit 36: India lags way behind others in terms of per capita healthcare expenditure

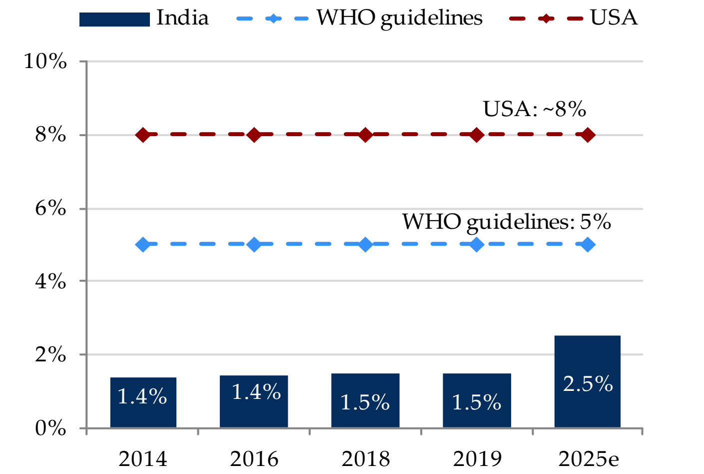


Source: World Bank, HSIE Research, Data as of 2018

Government participation remains low

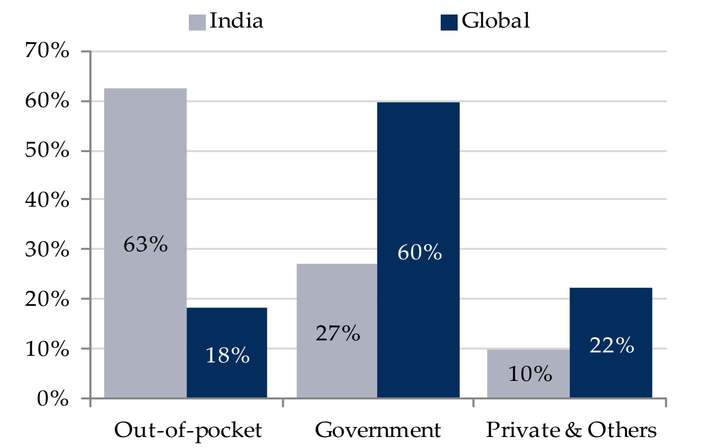
Despite the uptick in government spending and thrust on increasing insurance coverage, GoI's current allocation to healthcare at ~1.8% of GDP (aims to reach ~2.5% of GDP by 2025) is way below the global average of 4.5-5%. Overall healthcare spends are also low at 3.6% of GDP (vs. an average of ~9% for OECD countries, 2018). Low government spend is an opportunity for private players, in our view, as the demand for healthcare services is expected to grow at a healthy pace.

Exhibit 37: Government spends on healthcare is one of the lowest in the world…



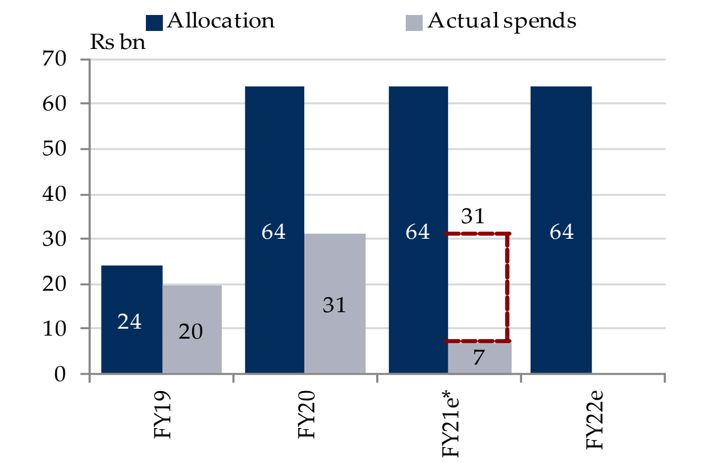
Source: World Bank, FICCI, HSIE Research

Exhibit 38: …resulting in high out-of-pocket spends compared to global average



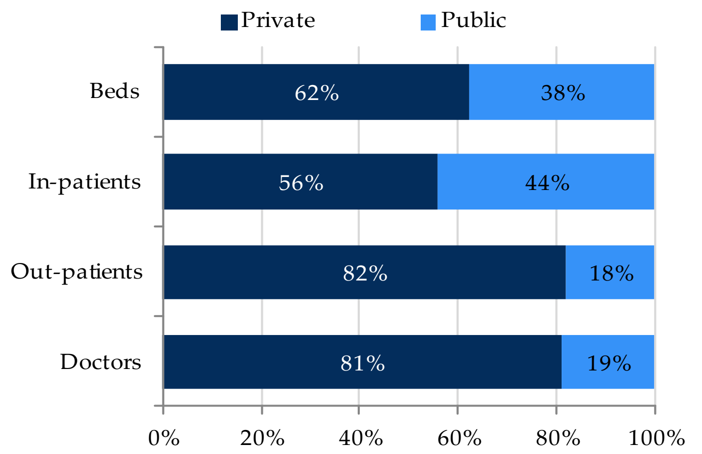
Source: World Bank, HSIE Research, Data as of 2018

Exhibit 39: Public insurance schemes have improved coverage but actual spends remain low - PMJAY allocation vs. actual spends



Source: Ayushman Bharat Annual Reports, *Actual spends - Rs7bn, RE - Rs31bn, HSIE Research

Exhibit 40: Given the low government participation, quality healthcare falls into the hands of private players



Source: AIHMS, CDDEP, HSIE Research

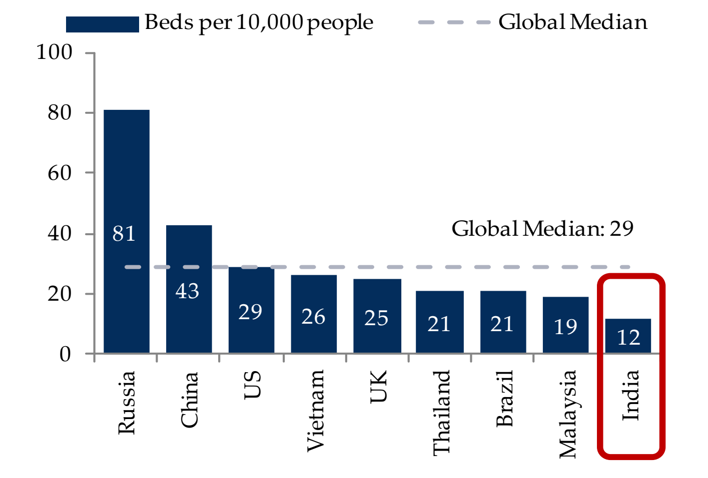
Structural deficiencies - inadequate healthcare infrastructure

India's share in global disease burden is high at 20% but its share in health infrastructure is much lower at low-to-mid single digit. It lags on all key parameters – number of beds, doctors and nurses compared to global averages. India's bed per 10,000 people is at 12 compared to global median of 29 beds per 10,000. As per CRISIL in 2015, India needs to invest ~Rs14tn (USD230bn) in order to meet the global average.

According to the Medical Council of India, there are ~12.6lakh doctors (~10lakh active) in India, which translates to a ratio of 1 active doctor for every 1,343 people vs. WHO norm of 1:1,000

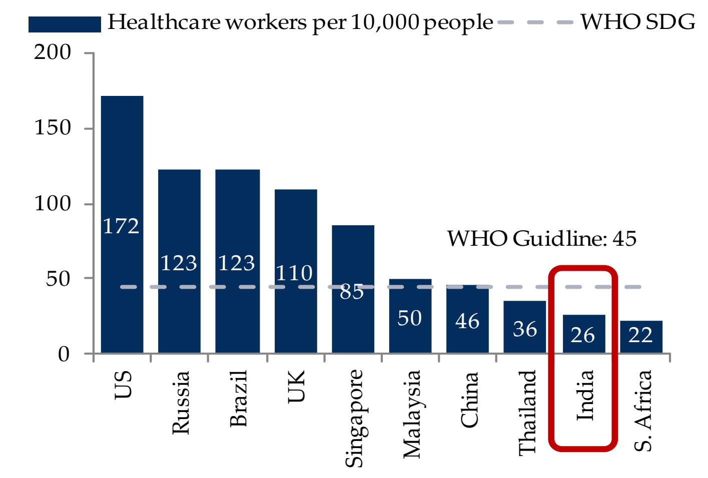
- **Scarcity of medical talent is the key limiting factor** – Availability of quality resources is a key challenge faced by the private sector. Currently, around 45-50k physicians graduate from the various medical colleges in India each year. According to the Medical Council of India, there are ~12.6lakh doctors (~10lakh active) in India at present, which translates to a ratio of 1 active doctor for every 1,343 people, which is not only lower than the global average of 1 doctor per ~640 people (World Bank, 2017), but also below the WHO norm of 1:1,000.
- **Retaining physicians is crucial success parameters** – The key hurdle in establishing hospitals in tier-2/3 towns is attracting and retaining physicians. Although setting up a hospital in these regions is less capital-intensive, viability of a project could depend on availability of physicians. Physician compensation comprises 30-50% of operating expenses of a hospital and could considerably impact profitability and breakeven. Also, retaining them is a key challenge as competition is also looking out for similar talent.

Exhibit 41: Beds per 10,000 people



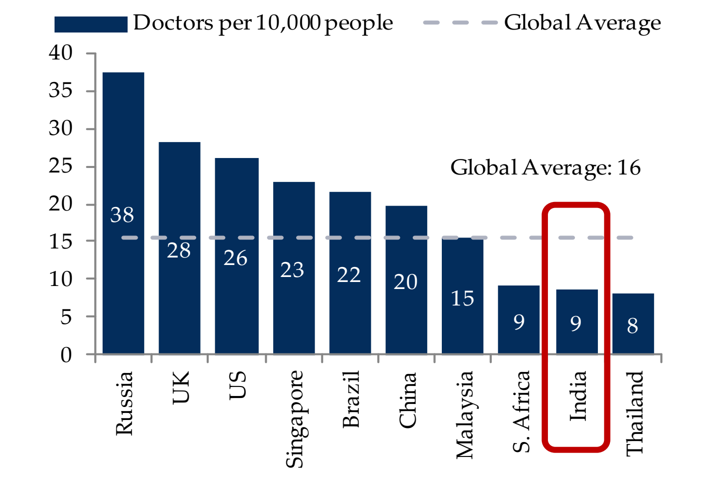
Source: CRISIL, HSIE Research, Data as of 2017

Exhibit 42: Healthcare workers per 10,000 people



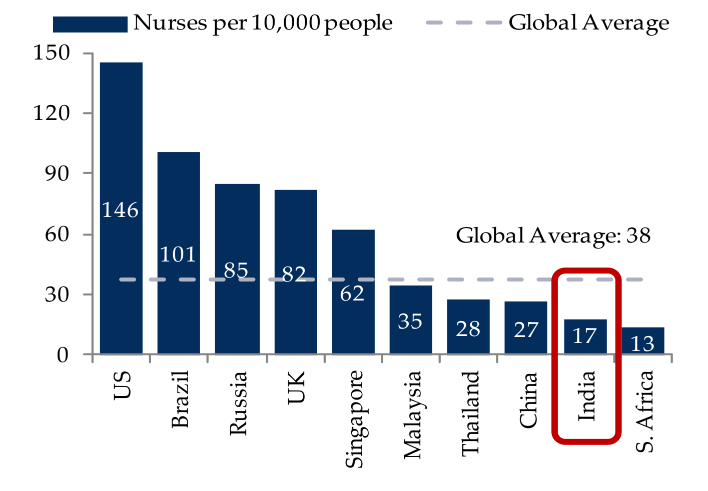
Source: WHO – World Health Statistics, 2020, HSIE Research

Exhibit 43: Doctors per 10,000 people



Source: WHO – World Health Statistics, 2020, HSIE Research

Exhibit 44: Nurses per 10,000 people



Source: WHO – World Health Statistics, 2020, HSIE Research

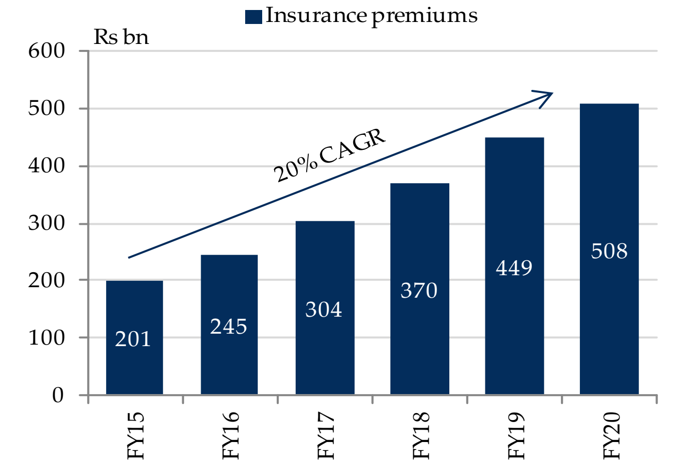
Multiple demand drivers

Private insurance penetration is at 10%

According to Statista, health insurance premiums are expected grow at a robust 15% CAGR and cross Rs2tn mark over FY20-30e

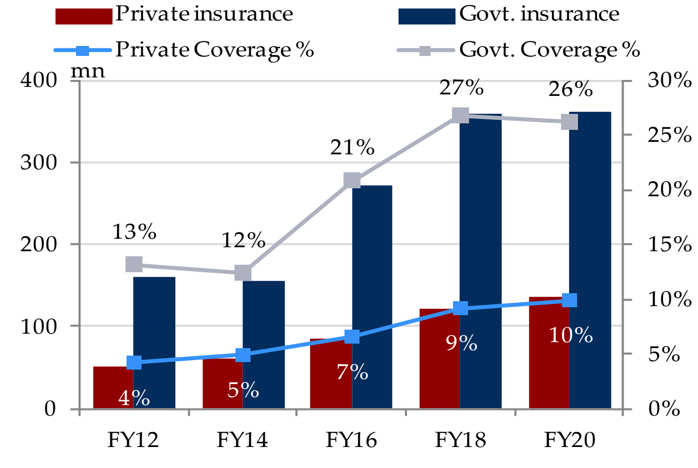
- Rising income levels and urbanisation, increasing penetration of health insurance, increasing proportion of middle-aged population, shift in disease profile towards lifestyle-related ailments, and medical tourism are driving strong demand for Indian healthcare delivery services.
- In India, 36% of the population is currently covered by health insurance; however, private insurance penetration is only at ~10% of the population. Therefore, access to premium private healthcare services is limited to only ~10% of the population. The balance coverage is under various government schemes, major ones being Aam Aadmi Bima Yojana, Ayushman Bharat scheme, CGHS, ECHS, ESIS etc.
- The out-of-pocket spends remain high at 60%+. As the penetration of healthcare insurance increases, quality healthcare will become more affordable to a larger percentage of the population, which will drive growth for the private players, especially the tertiary/quaternary care service providers.

Exhibit 45: Health insurance premiums have grown at 20% CAGR over FY15-20



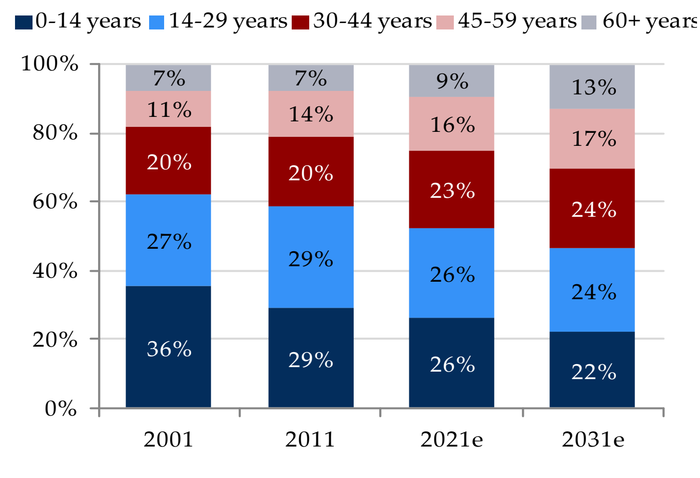
Source: IRDAI, HSIE Research

Exhibit 46: Private insurance penetration is lower at ~10%, government insurance programs are on the rise



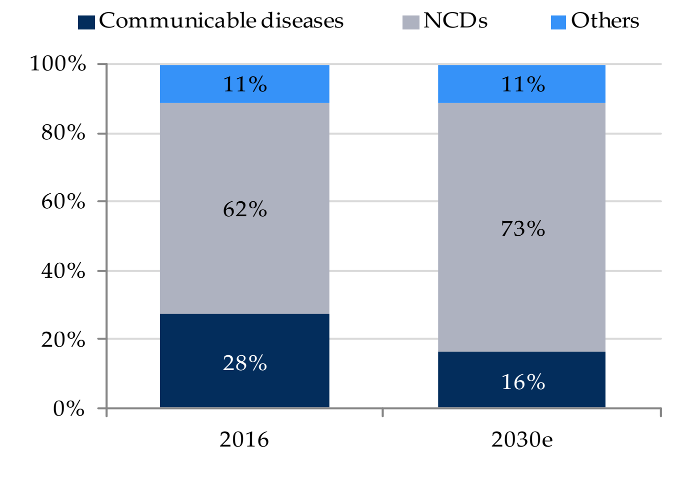
Source: IRDAI, HSIE Research

Exhibit 47: Favorable ageing demographics



Source: Journal of Critical Reviews, HSIE Research

Exhibit 48: Shift in disease profile - NCD to be responsible for 73% of deaths by 2030e



Source: CRISIL, HSIE Research

Medical tourism presents significant growth opportunity

Medical tourism industry is worth USD8-9bn in India

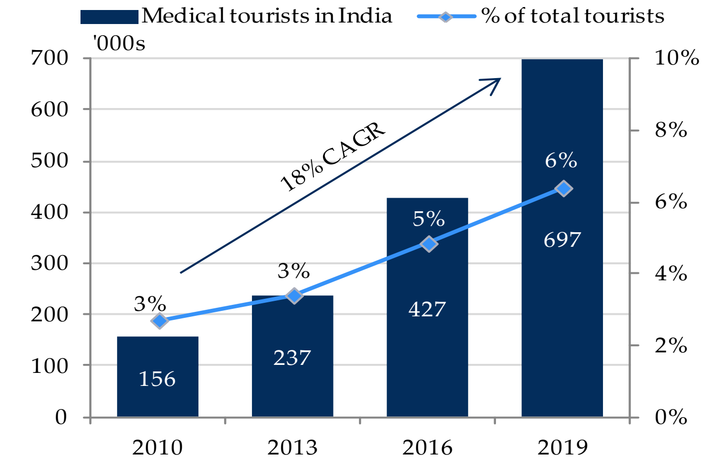
According in McKinsey, number of medical tourists in India could rise 4.5x to 3mn over 2018-2030e

International segment accounts for 10% of revenues for large listed players

India has 37 hospitals which are JCI accredited and ~750 NABH accredited facilities

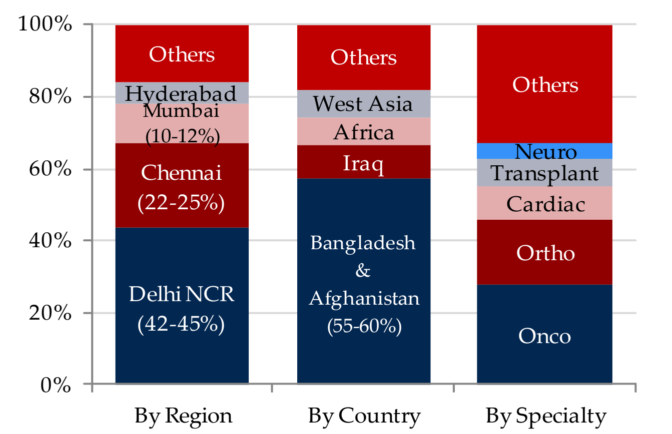
- Medical tourism industry in India is ~USD8-9bn in size. According in McKinsey, number of medical tourists in India could increase 4.5x to 3mn over 2018-2030e. Availability of affordable, quality treatment makes India a preferred destination for foreign patients. The estimated cost for foreign patients coming to India is ~1/5th-1/10th of the western countries depending upon the treatment. That said, India's increasing medical tourism demand is emerging from parts of the Middle East, Africa and Western Asia. As a country, we compete with Singapore, Thailand and Malaysia, which are also emerging as a medical tourism destination.
- The revenues from international patient segment account for 10% of the hospital revenues for large listed players. Given they have state-of-the-art facilities and some of the finest and renowned medical professionals, they are able to deliver service of the highest standards and play a major role in attracting patients from all over the world.
- The number of NABH and JCI accredited hospitals have increased in India over the years. Currently, there are ~750 NABH (National Accreditation Board for Hospitals) and 37 JCI (Joint Commission International) accredited hospitals in the country. A hospital with any of these accreditations has met the strictest of criteria in patient safety, delivery of clinical care, overall patient support, and much more.

Exhibit 49: Medical tourists trends in India



Source: Ministry of Tourism, HSIE Research

Exhibit 50: Delhi NCR and Chennai markets attract more than 50% of medical tourists



Source: Company, Ministry of Tourism, HSIE Research, Data as of 2017-18

Affordable and quality treatment makes India a favored destination

The treatment costs for key ailments in India are ~1/5th-1/10th of the western countries

Exhibit 51: Cost advantage - India compares favorably with regional peers

Ailments (USD)	US	UK	Thailand	Singapore	Korea	India
Heart Surgery	1,00,000	40,000	14,000	15,000	28,900	5,000
Bone Marrow Transplant	2,50,000	2,90,000	62,000	1,50,000	NA	30,000
Liver Transplant	3,00,000	2,00,000	75,000	1,40,000	NA	45,000
Knee Replacement	48,000	50,000	8,000	25,000	19,800	6,000
Dental Implant	2,800	NA	3,636	1,500	4,200	1,000
Avg. savings vs. US/ UK	**NA**	**NA**	**50-75%**	**30-45%**	**30-45%**	**65-90%**
JCI accredited hospitals	**NA**	**1**	**67**	**21**	**24**	**37**

Source: CRISIL, FICCI, JCI, HSIE Research

Digital platforms offer exponential growth, albeit on a low base

Digital platforms are increasingly shifting healthcare delivery on to the internet. Multiple players including Apollo hospital and health startups are looking to tap into the growing online health market in India. The COVID crisis has provided significant boost to adoption of digital healthcare, especially for e-pharmacies (3x increase in no. of household users) and tele-consultations (5-6x rise tele-consultation volumes).

E-pharmacies – biggest segment in digital health

E-pharmacies account for 3% share of India's pharma market and are likely to account for 10-12% share in the next 10 years

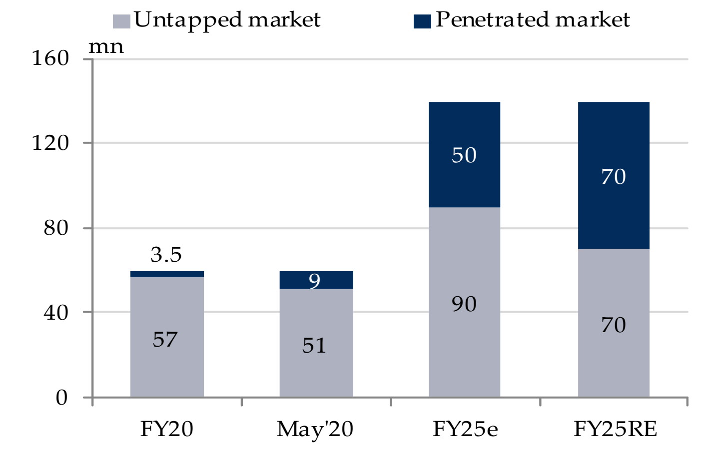
The market is expected to grow at 35-40% CAGR over FY20-25e

The no. of households using e-pharmacy platforms rose substantially from ~3.5mn pre-COVID levels in FY20 to ~9mn in May'20

19 out of 29 states have identified e-pharmacy as an essential service

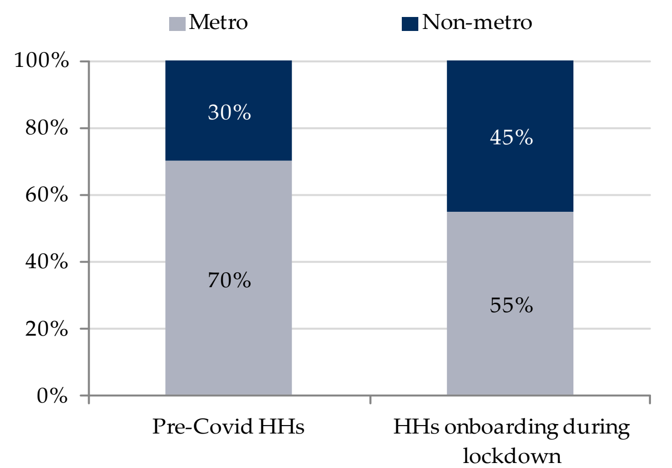
- Large e-pharmacy players such as PharmEasy, Netmeds, 1mg cater to practically the entire outpatient market in India consisting of pharma/ medicine consumption (USD20bn), diagnostics (USD8bn), and consultation (USD2-3bn). They have 3% market share in India's drug market, which is expected to increase to 7-8% in FY25 and 10-12% by FY30. The e-pharmacy GMV is expected to grow at 35-40% CAGR from ~USD0.9bn in FY20 to ~USD4-5bn by FY25.
- According to FICCI, the number of households using e-pharmacy platforms rose substantially from ~3.5mn pre-COVID levels in FY20 to ~9mn in May'20. It expects this number to grow exponentially and reach ~70mn households (~1.4x of ~50mn forecast pre-COVID) by FY25. As per RedSeer analysis, ~60mn households in India were ready to use e-Health platforms in FY20, implying penetration levels of ~6% in FY20, which has tremendous scope to increase.
- **Growth drivers** – increasing pharma demand, chronic diseases, digital access & higher adoption, consumer awareness and behavioural shifts.
- **Unit economics** – The cash burn rate of e-pharmacies has been decreasing with reduction in discounts and backward integration with suppliers. The average discounting has reduced from 20-22% to 15-18% today. PharmEasy (the largest player) is three years away from breakeven.

Exhibit 52: No. of households using e-pharmacy is expected to rise to 70mn in FY25 from 3.5mn in FY20



Source: FICCI, RedSeer, HSIE Research

Exhibit 53: COVID has expedited acceptance of online platforms in tier-2/3 towns



Source: FICCI, RedSeer, HSIE Research, HH - Households

Exhibit 54: Recent consolidation in India's e-pharmacy market

Year	Acquirer/Partner	Target	Comments
Sep'20	PharmEasy	MedLife	Largest player in India with 60%+ market share. Acquired 100% stake for ~USD200-250mn; Cash + Stock deal (~20% stake in PharmEasy); ~USD1.15bn valuation post acquisition
Aug'20	Reliance	Netmeds	Acquired 60% stake for ~USD83mn from Vitalix health in a full cash deal
Sep'20	Tata, Flipkart	1mg	Tata is possibly in talks to acquire stake in 1mg, Flipkart entered into a partnership deal with 1mg
Aug'20	Amazon	NA	Launched online pharmacy in Bengaluru. Opened couple of stock and stores centres

Source: Industry, HSIE Research

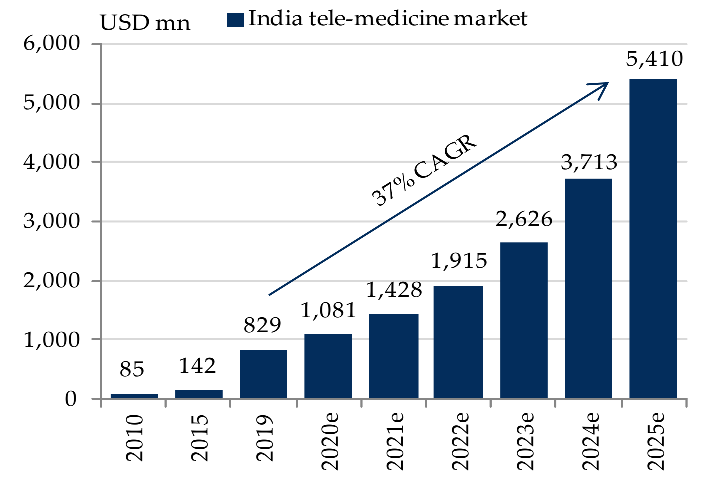
Tele-consultation – customer behavior is evolving and will be a key monitorable

India's telemedicine market to grow at ~37% CAGR over 2019-2025e

~51% of the overall teleconsultations were from three specialties viz. general physician, gynecology and dermatology

- The online consultation market in India is at a nascent stage where consumer behaviour is still evolving. Though this is an interesting space for long-term digital delivery of healthcare services, there will be headwinds with respect to changing consumer behaviour and extensive adoption over the next 3-4 years. COVID-led challenges have clearly played a huge role in expediting the overall acceptance of online platforms, but it would be interesting to observe how the adoption evolves post the pandemic. The teleconsultation volumes, which increased upto 6 times for major players during the lockdown, have clearly receded as restrictions eased. In the developed economies, higher insurance penetration has driven the growth in the online consultation market.
- DataLabs expects India's online market (e-pharmacy + tele-consultation) to cross ~USD 5.4bn (USD4-4.5bn for e-pharmacy, USD1-1.4bn for tele-consultation) growing at ~37% CAGR over 2019-2025e, driven by shifts in consumer behavior, increasing awareness levels, cost advantage/value proposition and ease in use.
- As per Practo's analysis, among the telemedicine users in India during the first phase of lockdown (Mar'20-May'20), ~80% were first time users and ~44% were from non-metro cities. As per EY, leading healthcare chains in India were doing ~200-500 consults per day. Apollo also witnessed a huge surge in volumes to 2,600 consults per day (peak), which then moderated to 2,000/day as of Dec'20.

Exhibit 55: India's tele-medicine market (incl. e-pharmacies and tele-consultation)



Source: DataLabs, HSIE Research

Exhibit 56: Covid-led surge in the tele-consultation market

Company	Country	% increase in tele-consultation during lockdown
Practo	India	500%
M Fine	India	500%
myUpchar	India	300%
Lybrate	India	60%+
Teladoc Health	US	60-90%
MD Live	US	50%
Pingan Good Doctor	China	900%
Chunyu Doctor	China	100%
Ding Xiang Hua	China	215% (active users)

Source: EY, HSIE Research

Exhibit 57: Tele-consultation market has received funding of ~USD300mn+ in the last 5 years

Company	Founding Year	Funding from 2014-19 (USD mn)	Investors
Practo	2008	195	Tencent, Ru–Net, RSI Fund, Thrive Capital, Trifecta Capital
Docprime	2018	50	Policy Bazaar Group
M Fine	2017	28	SBI Holdings, SBI Ven Capital, Bee Next, Stellaris Venture, Prime Venture, Alteria Capital
CallHealth	2013	14	The Times Group, Sachin Tendulkar, P.V. Sindhu, Pullela Gopichand
Lybrate	2013	11	Nexus Venture, Tiger Global, Ratan Tata

Source: EY, HSIE Research

Company Section

Apollo Hospitals

A microcosm of the healthcare industry

With major expansion over and multiple growth avenues expected ahead, Apollo is best positioned to witness improved profitability and return ratios in the next two years. Its asset light businesses such as pharmacy, AHLL (clinics/diagnostics) are expected to drive margin expansion and EBITDA growth of 17%+ CAGR over the same period. Its recent foray into online health (Apollo 24/7) will prove a significant growth enabler for its existing business as it attempts to leverage its robust infrastructure. Apollo's balance sheet remains comfortable with net debt/equity at ~0.9x (FY21e). We expect FCF generation of Rs34bn over FY20-23e (turned FCF positive for the first time in FY19 since FY12). However, at 19x FY23e EV/EBITDA, a 25-30% premium to its 5-year historical average, the positives appear priced in. Initiate with an ADD and TP of Rs2,935/sh.

Recovery trends are promising; market share gains in most clusters
Apollo has gained market share in most of its key clusters during COVID. The hospital business witnessed strong recovery (96% of pre-COVID revenue in Q3FY21) with pick-up of high end/elective surgeries. We expect 12%/18% revenue/EBITDA growth for its hospital segment, driven by gradual recovery in mature hospitals, consolidation of increased stake in Apollo Gleneagles & Apollo Medics, and strong growth/margin expansion in new hospitals & Proton.

Asset light verticals (pharmacy, AHLL) to witness margin expansion
Apollo's pharmacy business is likely to sustain its growth momentum (22% CAGR over FY15-20), supported by digital initiatives - Apollo 24/7 app. We forecast ~130bps of margin expansion (pre-IND AS), driven by higher mix of private label sales and operating leverage over FY20-23e. AHLL (clinics) has turned the corner (strong traction in diagnostics) and is expected to see margin improvement of ~335bps to 13% over FY20-23e. We expect these asset light verticals to contribute 30%+ to Apollo's EBITDA in FY23e (from ~25% in FY20).

Apollo 24/7 – a significant growth enabler
Apollo's online foray through the Apollo 24/7 app is likely to drive significant growth for its existing business. The integrated platform will enhance customer reach, funnel patients into the Apollo network (70 hospitals, 4,000+ pharmacies, 722 diagnostic centres) and drive its market share in the growing e-health market in India. At this stage, we do not value the Apollo 24/7 platform independently, but build in higher growth for its existing businesses.

Initiate with an ADD and target price of Rs2,935/sh; risks
Our TP of Rs2,935/sh is based on SOTP valuation of (a) healthcare services - 18x FY23e EBITDA; (b) pharmacy business - 25x FY23e EBITDA; (c) associates' stake. **Risks**: execution slippages, adverse government regulations (price control/scheme implementation), and delayed recovery in mature hospitals.

Financial Summary

YE Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	96,174	1,12,468	1,05,767	1,32,579	1,54,120
EBIDTA	10,636	15,873	10,881	19,013	23,552
EBITDA margins	11.1	14.1	10.3	14.3	15.3
Adj. PAT	2,360	2,566	824	6,943	9,932
EPS (Rs)	17.0	18.4	5.9	48.3	69.1
P/E (x)	171.1	157.4	494.1	60.1	42.0
EV / EBITDA (x)	41.6	29.0	42.3	24.3	19.2
RoCE (%)	7.1	10.4	7.0	12.5	14.7

Source: Company, HSIE Research

ADD

CMP *(as on 31 Mar 2021)*	Rs 2,903
Target Price	Rs 2,935
NIFTY	14,691

KEY STOCK DATA	
Bloomberg code	APHS IN
No. of Shares (mn)	144
MCap (Rs bn) / ($ mn)	417/5,740
6m avg traded value (Rs mn)	3,524
52 Week high / low	Rs 3,284/1,047

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.3	35.1	154.8
Relative (%)	16.6	5.1	86.8

SHAREHOLDING PATTERN (%)

	Dec-20	Sep-20
Promoters	30.82	30.82
FIs & Local MFs	10.85	14.71
FPIs	51.70	47.81
Public & Others	6.63	6.66
Pledged Shares	9.29	10.37

Source : BSE

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Financial projections

We forecast 14% EBITDA CAGR over FY20-23e driven by: a) strong traction in newer hospitals (~525bps margin expansion); b) improved performance at Proton – The centre achieved break even in Q3FY21 and is witnessing good traction in domestic as well as international patients. This gives us confidence that it should ramp up well as business normalises. With higher volumes, EBITDA is likely to improve significantly as incremental margin is likely to be at 40-50%. We forecast 35% margin in FY23e; c) pharmacy business – increasing share of private labels (from 8%+ in FY20 to ~10-12% in FY23e) will aid gross margins and operating leverage benefits as stores mature will drive ~130bps of margin expansion in the business.

Exhibit 58: Revenue summary

Particulars	FY18	FY19	FY20	FY21e	FY22e	FY23e	FY20-23e CAGR
Healthcare	**45,156**	**51,426**	**57,298**	**49,412**	**70,940**	**81,565**	**12.5%**
Existing/ Mature hospitals	35,280	39,279	42,892	35,504	52,723	59,715	11.7%^
New hospitals	9,876	12,142	13,820	12,907	16,417	19,350	11.9%
Proton	0	5	586	1,001	1,800	2,500	62.2%
Retail pharmacies (back-end)	**32,689**	**38,860**	**48,206**	**49,879**	**52,896**	**61,188**	**8.3%***
AHLL	**4,589**	**5,888**	**6,964**	**6,477**	**8,743**	**11,366**	**17.7%**
Total Revenues	**82,434**	**96,174**	**1,12,468**	**1,05,767**	**1,32,579**	**1,54,120**	**11.1%**

Source: Company, HSIE Research, ^6% excl. impact of Apollo Gleneagles, Apollo Medics consolidation, *15% including front-end operations (like-to-like)

Exhibit 59: EBITDA break-down

Particulars	FY18	FY19	FY20	FY21e	FY22e	FY23e	FY20-23e CAGR
Healthcare	**7,599**	**9,205**	**10,751**	**6,972**	**14,333**	**17,512**	**17.7%**
Existing/ Mature hospitals	7,368	8,430	9,629	5,503	11,599	13,734	12.6%^
New hospitals	231	822	1,346	1,484	2,134	2,903	29.2%
Proton	0	-47	-224	-15	600	875	NA
Retail pharmacies (back-end)	**1,479**	**2,031**	**4,452**	**3,240**	**3,703**	**4,528**	**0.6%***
AHLL	**-1,146**	**-599**	**671**	**648**	**962**	**1,478**	**30.1%**
Total EBITDA	**7,932**	**10,637**	**15,874**	**10,860**	**18,998**	**23,517**	**14.0%**

Source: Company, HSIE Research, *23% including front-end operations (like-to-like), ^includes consolidation impact of Apollo Gleneagles, Kolkata and Apollo Medics, Lucknow

Exhibit 60: EBITDA margin summary

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY20-23e CAGR
Hospitals	**16.8%**	**17.9%**	**18.8%**	**14.1%**	**20.2%**	**21.5%**	**271bps**
Existing/ Mature Units	20.9%	21.5%	22.4%	15.5%	22.0%	23.0%	55bps
New Units	2.3%	6.8%	9.7%	11.5%	13.0%	15.0%	526bps
Proton	NA	NA	-38.2%	-1.5%	33.3%	35.0%	NA
Retail Pharmacies (back-end)*	**4.5%**	**5.2%**	**6.0%**	**6.5%**	**7.0%**	**7.4%**	**140bps**
AHLL	**-25.0%**	**-10.2%**	**9.6%**	**10.0%**	**11.0%**	**13.0%**	**336bps**
Consol. margins	**9.6%**	**11.1%**	**14.1%**	**10.3%**	**14.3%**	**15.3%**	**117bps**

Source: Company, HSIE Research, *pre-Ind AS margins

SOTP based valuation

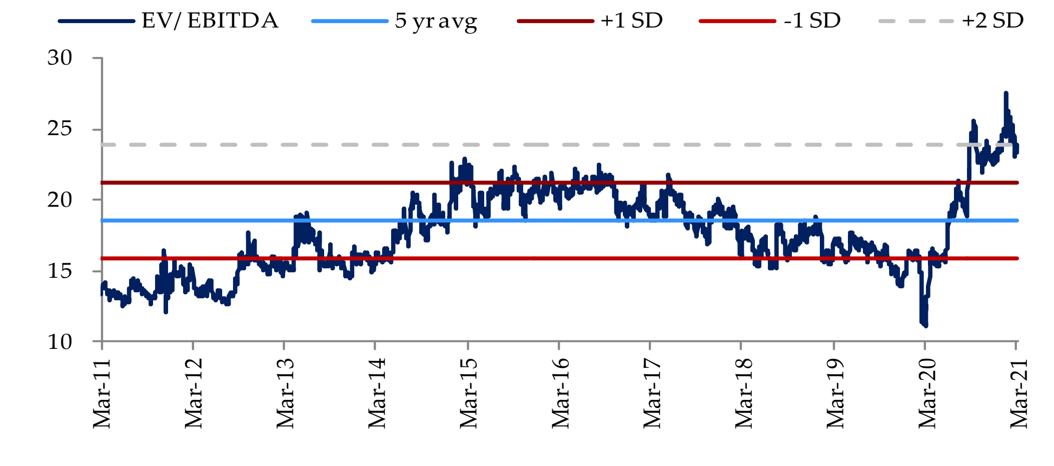
Our target price of Rs2,935/sh is based on SOTP valuation of (a) Healthcare services - 18x FY23e EBITDA; (b) Retail Pharmacy (backend) – 25x FY23e EBITDA; (c) stake in associates. We value Apollo's hospital business at 18x EV/EBITDA, ~15-20% premium to Asian peers. We believe the premium is justified, given the divergent growth dynamics and Apollo's superior return profile. Our target multiple is at ~20% premium to Apollo's own historical average, and we believe this is merited, considering strong growth visibility in pharmacy and diagnostic business, investments in Apollo 24/7 and balance sheet strength.

Exhibit 61: SOTP valuation

Particulars	Stake (%)	EBITDA (Rs mn)	Multiple	Value
Hospitals	*100*	17,547	18	3,15,842
AHLL	*67*	1,478	25	24,931
Healthcare services		**19,024**		**3,40,773**
Retail pharmacy (Backend)		**4,528**	**25**	**1,13,199**
Associates				
Retail pharmacy (Frontend)	26	927	25	5,912
Indraprastha	22			1,085
Others				1,212
EV				**4,62,180**
Less: Net debt				19,437
Less: Lease Liabilities & other adj.				19,895
Equity Value				**4,22,848**
No. of shares				144
Target Price				**2,935**

Source: Company, HSIE Research

Exhibit 62: The stock is trading at 19x FY23 EV/EBITDA, ~25-30% premium to its five year historical average EV/ EBITDA



Source: Bloomberg, HSIE Research

Business overview

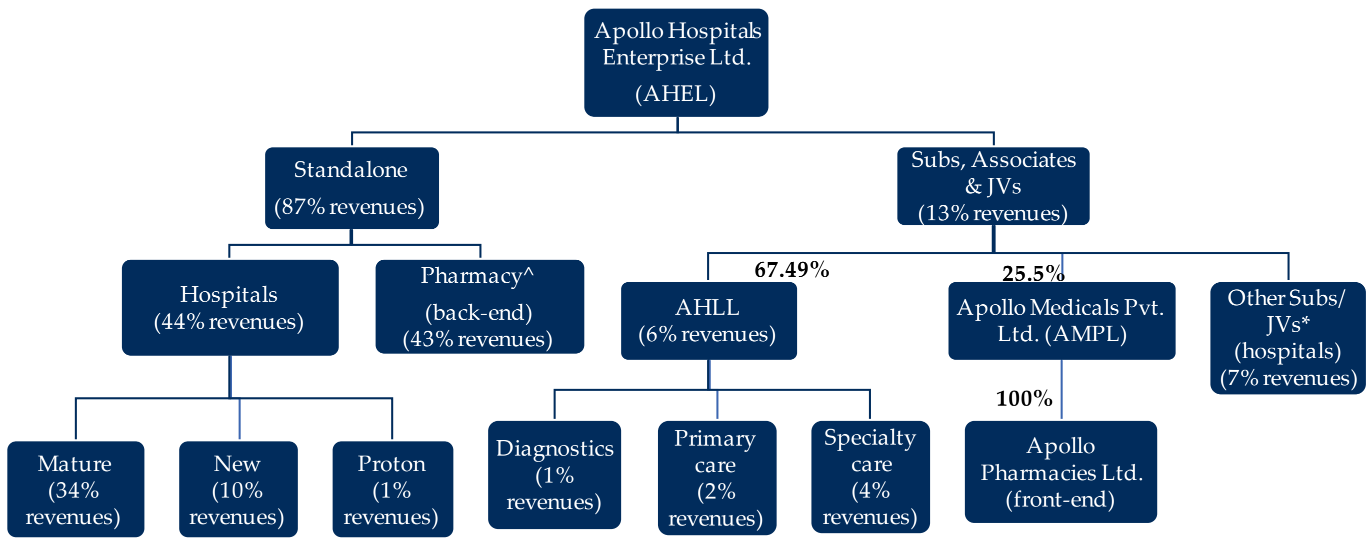
AHEL is the largest private healthcare provider in India with 10,000+ beds

Apollo hospitals (AHEL) is the largest private healthcare provider in India with a network of 70 hospitals (44 owned, 5 managed, 21 day care centres/ CRADLE centres) and 10,000+ bed capacity, including Proton. It has pan-India presence with widest reach in South India with 50%+ beds in that region. It owns the largest pharmacy chain in India with 4,000 stores.

It operates the largest retail pharmacy chain in the country with ~4,000 stores

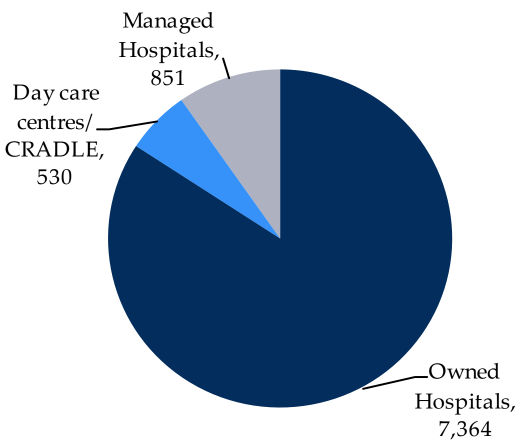
Between FY12-17, Apollo expanded its bed capacity by adding ~2,338 beds (~27% of total beds) which diluted its margins and return profile. Since then, it has incurred limited capex and consolidated its operations which has driven ROCE (pre-tax) from 8% in FY18 to 14%+ in FY20 (pre-tax). The standalone pharmacy continues to expand geographically, adding 300-350 stores per year. The pharmacy business is likely to witness significant margin improvement as existing stores mature and the share of private label in overall sales increase. Its recent foray into online health through Apollo 24/7 and ProHealth is likely to aid growth of its current business as more patients are funneled into Apollo network (diagnostics, hospitals, pharmacy).

Exhibit 63: Business Structure



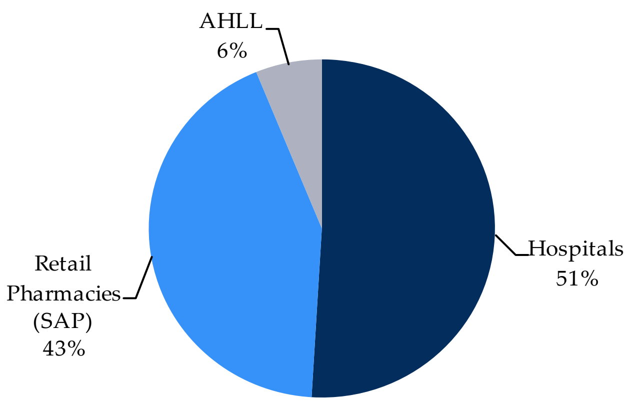
Source: Company, HSIE Research, *Blended holding at ~41%, ^Slump sale of front end business through NCLT process for ~USD 72mn

Exhibit 64: Operating beds break-up



Source: Company, HSIE Research, Sept'20

Exhibit 65: Revenue break-up



Source: Company, HSIE Research, FY20

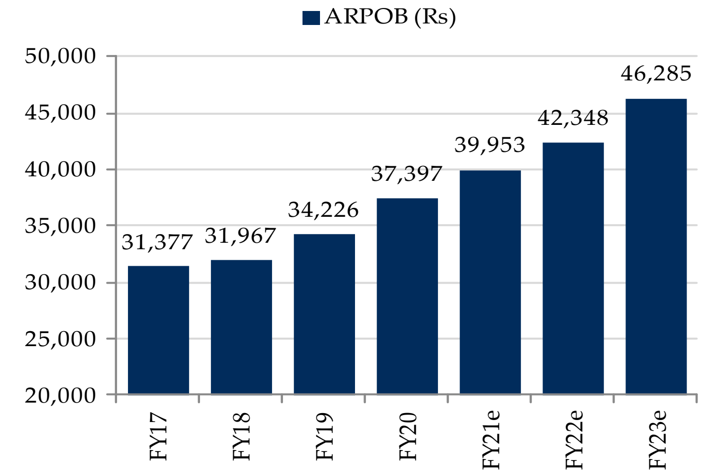
Exhibit 66: Regional split of India business

Particulars	Tamil Nadu	AP, Telangana	Karnataka	Others	Subs/ JVs/ Associates
Operational beds	2,003	1,344	769	993	2,257
Operational beds %	27.2%	18.3%	10.4%	13.5%	30.6%
Key Hospitals	**Chennai**: Greams Lane, Nandanam, Ayanambakam; **Other**: Madurai	**Hyderabad**: Jubilee Hills; **Other**: Vizag	**Bangalore**: Bannerghatta, Sheshadripuram; **Other**: Mysore	Navi Mumbai, Bhubaneshwar, Bilaspur, Kerala	Apollo Gleneagles (Kolkata)*, Apollo Medics (Lucknow)*, Indraprastha (Delhi)
FY20 data					
Revenue as % of hospitals revenues	39%	19%	13%	14%	15%
ARPOB (Rs/ day)	47,151	36,184	36,336	25,790	35,145
Occupancy %	59.0%	62.0%	72.0%	82.0%	72.0%
ALOS	3.53	3.90	3.61	4.00	4.21

Source: Company, HSIE Research, *consolidated from Q4FY21- Q1FY22

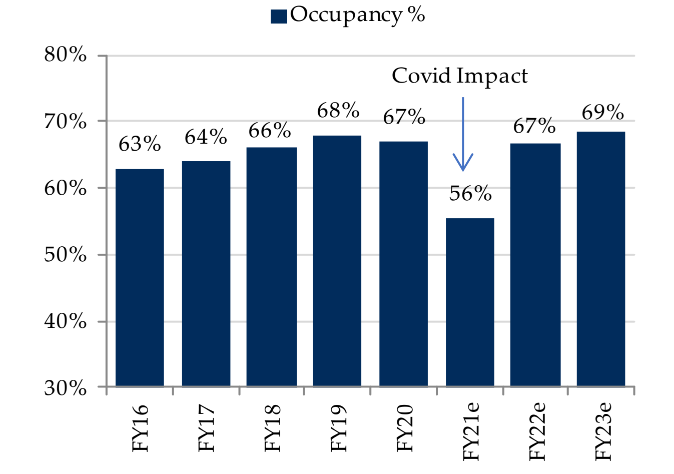
Operating parameters are trending in right direction

Exhibit 67: ARPOB – pricing power remains strong



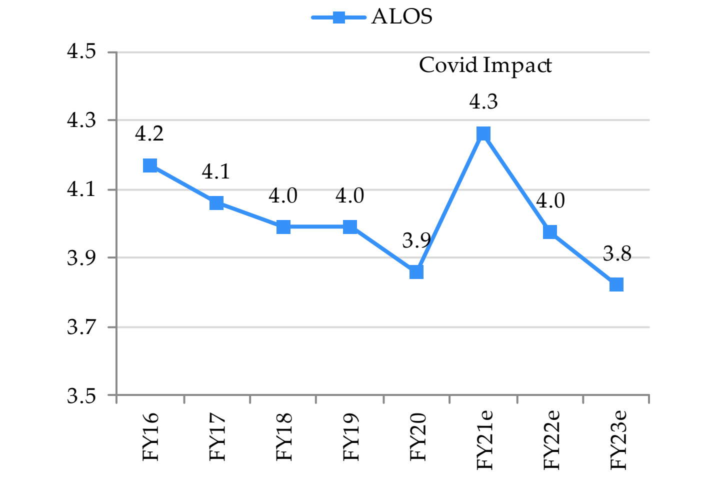
Source: Company, HSIE Research

Exhibit 68: Occupancy have steadily risen



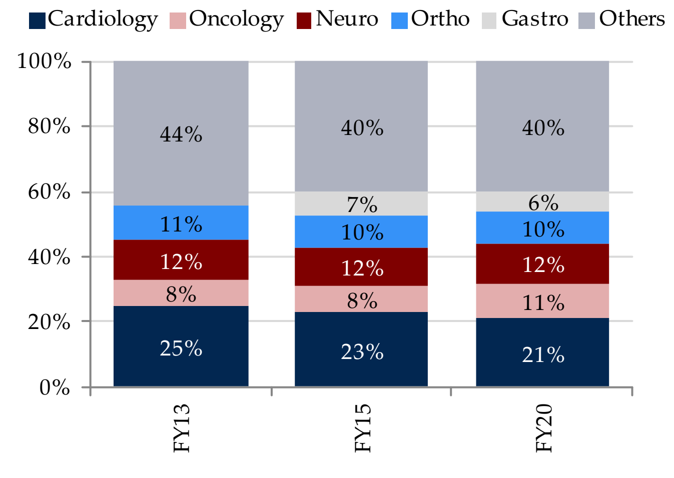
Source: Company, HSIE Research

Exhibit 69: Lower ALOS aids in driving volume growth



Source: Company, HSIE Research

Exhibit 70: Diversified therapeutic presence



Source: Company, HSIE Research

Hospital segment is forecasted to grow at 12% CAGR

Apollo's hospitals business accounts for 51% of the overall revenues. After a sharp reduction in occupancies in 1HFY21, the segment witnessed a strong recovery in Q3FY21 led by pick-up in high-end/elective surgeries. The occupancies recovered to ~90% of pre-COVID levels in the quarter. Apollo has strengthened its position in its key clusters - Chennai, Hyderabad, Kolkata by gaining market share.

Mature hospitals – occupancy and ARPOB to drive growth

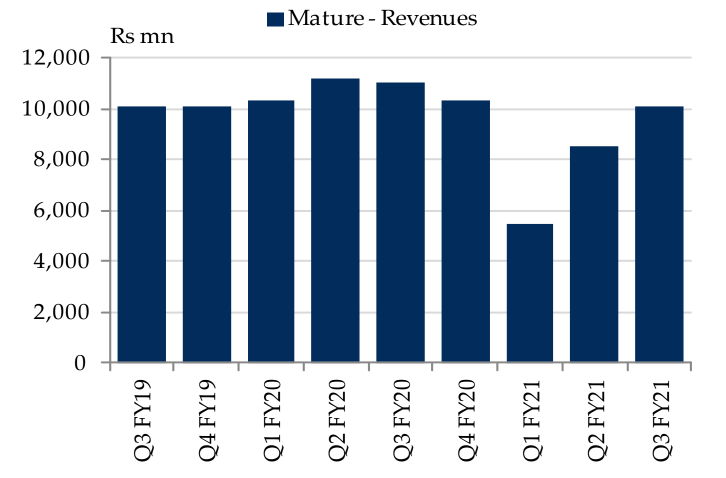
Mature clusters include 30 hospitals and 5,232 operational beds

We expect gradual recovery, driven by occupancy and ARPOBs

Consolidation of 2 hospitals - Apollo Gleneagles and Apollo Medics, Lucknow adds ~6% ppt. to mature clusters' growth

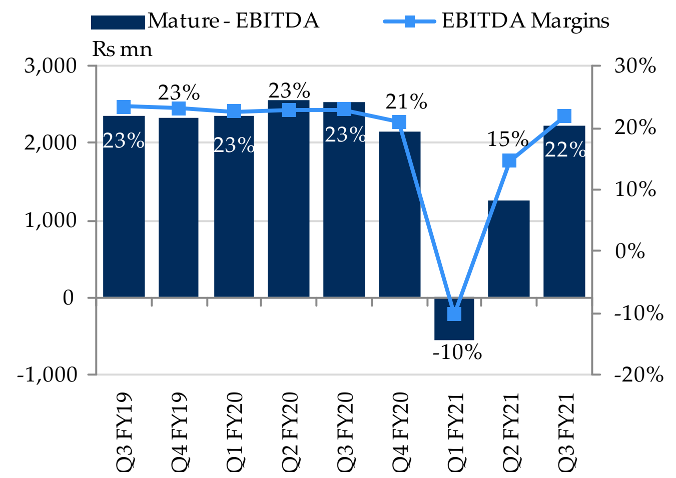
- The mature hospitals contributed ~75% to revenues and ~90% to hospital EBITDA in FY20. The revenues grew at 10% CAGR over the last two years driven by increase in occupancy (from 67% to 69%) and ARPOBs (8% CAGR).
- Post pandemic, the occupancy at these hospitals dropped to ~37% in Q1FY21 and subsequently rose to ~62% in Q3FY21. The patient footfalls remain impacted at some of the flagship hospitals due to absence of international patients. We forecast 12% revenue CAGR over FY20-23e driven by improving occupancy (building 70% in FY23e), ARPOB growth (high single digit) and consolidation of 2 hospitals - Apollo Gleneagles and Apollo Medics, Lucknow (adding ~6% ppt. to growth). With cost savings of Rs1.2bn (~210bps of hospital revenues), business recovery and improving case mix across clusters, we expect EBITDA margin to improve ~55bps to 23% in FY23e. Apollo expects these to inch up to 24%+ over time.

Exhibit 71: Revenues - quarterly trend



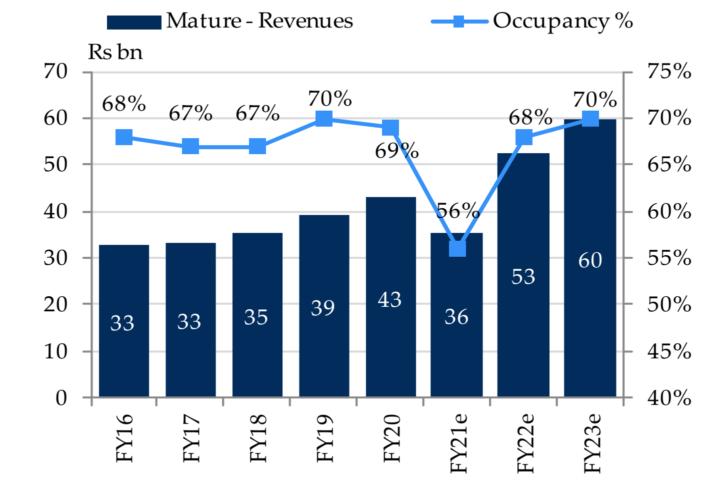
Source: Company, HSIE Research

Exhibit 72: EBITDA – quarterly trend



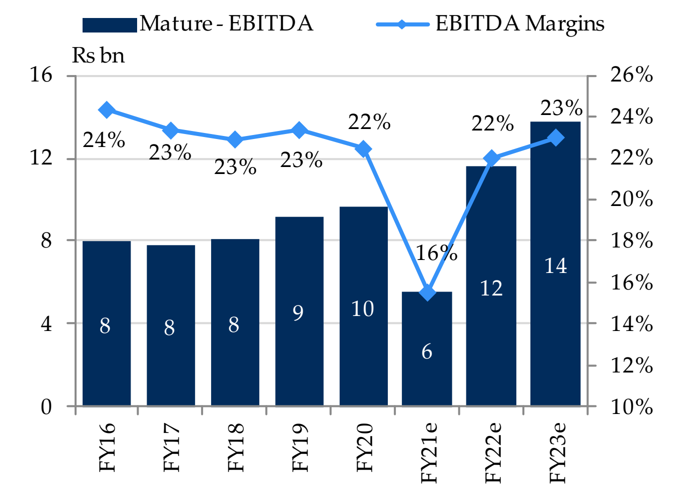
Source: Company, HSIE Research, post IND AS

Exhibit 73: Revenue to grow at 12% CAGR over FY20-23e



Source: Company, HSIE Research

Exhibit 74: EBITDA margin set to improve to 23-24%



Source: Company, HSIE Research, EBITDAR pre-FY20

New hospitals – growing at a faster clip, EBITDA contribution to increase from 13% to 17% in FY23e

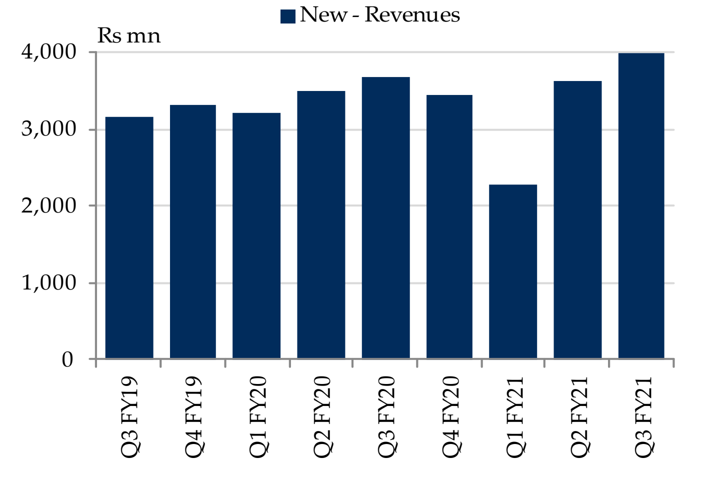
Record EBITDA margin of 16% in Q3FY21

Navi Mumbai facility EBITDA is expected to increase from Rs 300-350mn in FY21e to Rs 1bn in 1-2 years.

Nellore EBITDA is expected to increase from Rs 150-200mn in FY21e to Rs 300-350mn in FY22e

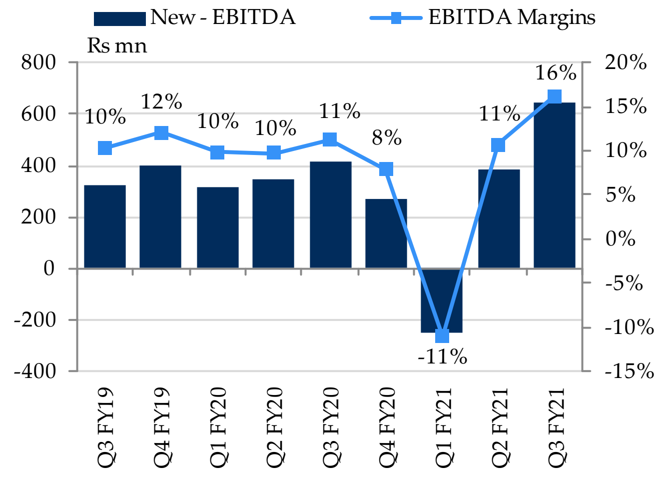
- The new hospitals (excl. Proton) contributed to ~24% of the hospital revenue and ~13% of hospital EBITDA in FY20. Key hospitals in this category include Navi Mumbai, Nellore, and Mysore. Occupancy at the new hospitals improved from 43% in FY16 to 64% in FY20.
- Post pandemic, the occupancy went down to 40% in Q1FY21, which subsequently recovered and now has improved to well above pre-COVID levels driven by strong recovery in tier-2 towns. The new hospitals posted record EBITDA of 16% in Q3FY21. Apollo's brand visibility has improved and the company expects footfalls across these units to sustain.
- Apollo expects new hospitals EBITDA margin to improve to 13-15% over the next 12-18 months from ~10% in FY20. We forecast 12% revenue growth and 29% EBITDA growth over FY20-23e and factor ~525bps margin improvement to 15% in the same period. Overall, we expect contribution of new hospitals EBITDA to overall hospital EBITDA to increase from 13% in FY20 to ~17% in FY23e.

Exhibit 75: Revenues – quarterly trend



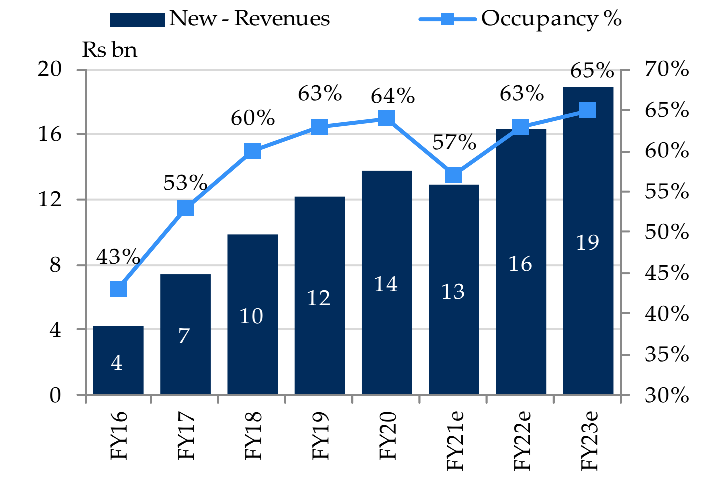
Source: Company, HSIE Research

Exhibit 76: EBITDA – quarterly trend



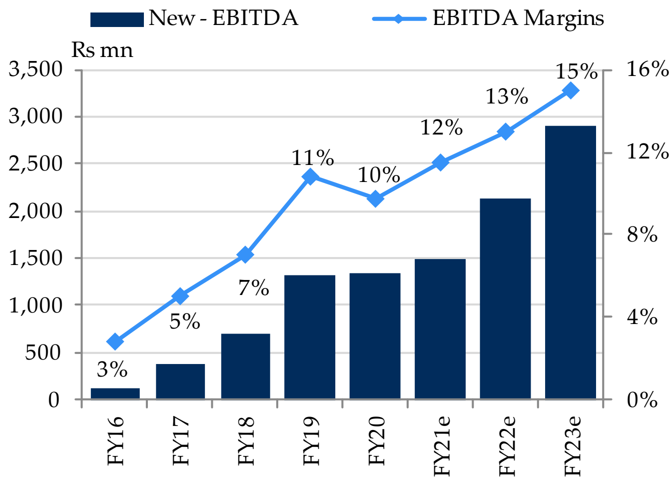
Source: Company, HSIE Research

Exhibit 77: Steady increase in occupancy and revenues



Source: Company, HSIE Research

Exhibit 78: Strong improvement in EBITDA margin



Source: Company, HSIE Research, EBITDAR pre-FY20

Proton – Encouraging trends, return of international patients is key to drive growth and margins

Invested ~Rs 11bn on the Proton facility (incl. ~Rs 5.5bn for equipments)

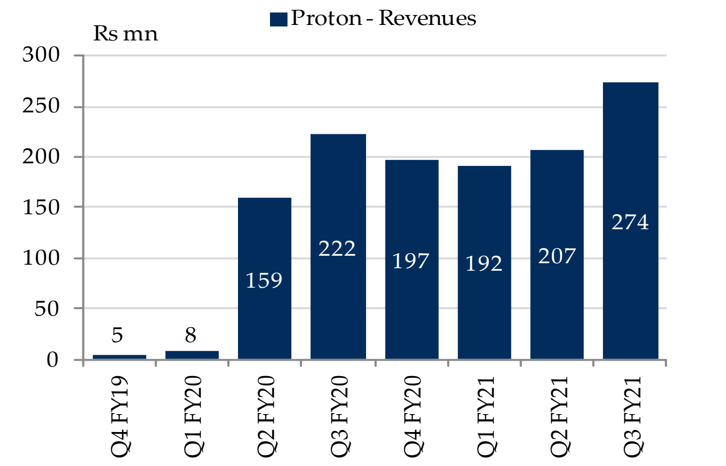
It is also India's only JCI approved cancer treatment centre till date

Proton achieved break-even in Q3FY21 and recorded annualised revenues of Rs1bn

Apollo targets Rs2-2.5bn in revenue with 33% EBITDA margin in FY22

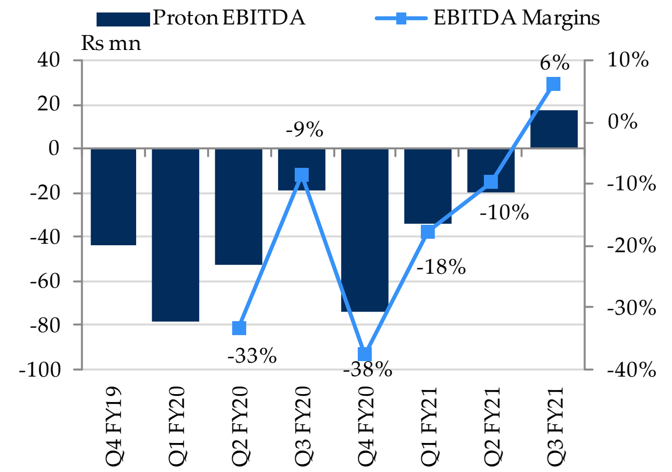
- Apollo proton cancer centre (APCC) in Chennai is South East Asia's first proton therapy centre to offer advanced organ specific radiation treatment with the state-of-the-art pencil beam Proton therapy. Currently, this treatment facility is only available in two other countries in the Asia-Pacific region - China and Japan. India is only the third country and 16th in the world to offer this treatment protocol. The treatment cost at Apollo is Rs2.5-3mn per patient which is nearly one-third the cost in the US making it a very attractive medical destination for international patients. Apollo expects 40% of its patients to be international medical tourists.
- With a cumulative investment of ~Rs11bn, Apollo commenced operations of this unit in FY19 with 130 beds. It recorded annualised revenue of more than Rs1bn and achieved EBITDA break-even in Q3FY21. Despite lockdown restrictions, the centre managed to maintain 40% occupancy and is witnessing good traction with domestic as well as international patients. This gives us confidence that it should ramp up well as travel restriction ease. Apollo targets Rs2-2.5bn in revenue with Rs600-700mn EBITDA margin in FY22. With higher volumes, EBITDA is likely to improve significantly as incremental margin is likely to be 40-50%.

Exhibit 79: Proton - quarterly revenue run-rate



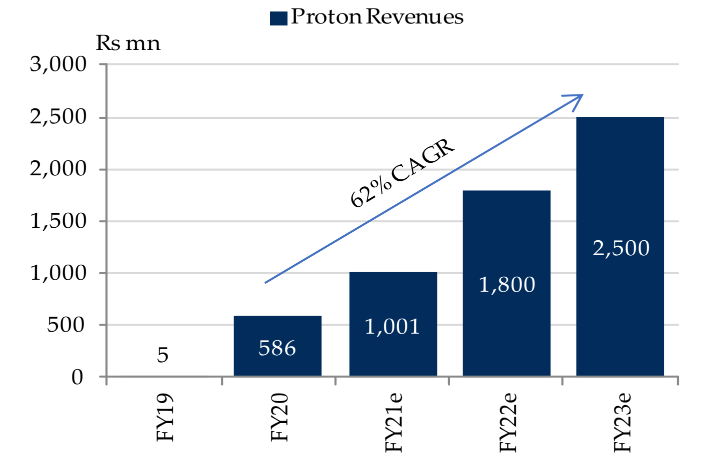
Source: Company, HSIE Research

Exhibit 80: Proton achieved break even in Q3FY21



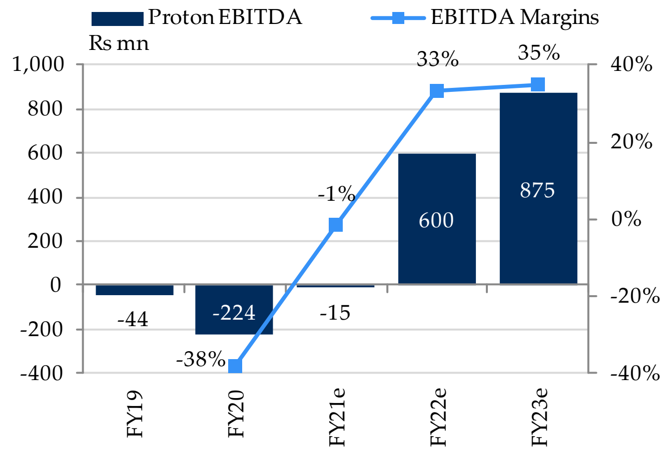
Source: Company, HSIE Research

Exhibit 81: Proton revenues forecasted to grow at 62% CAGR over FY20-23e



Source: Company, HSIE Research

Exhibit 82: Proton EBITDA margin likely to inch up to 35% in next two years



Source: Company, HSIE Research

Pharmacy business – strong growth potential with attractive ROCEs

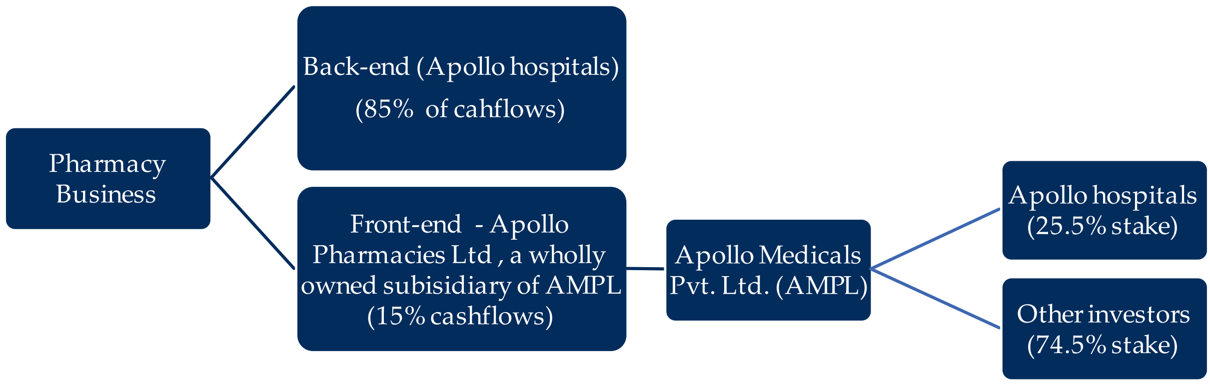
Largest pharmacy chain in India with 4,000+ stores and aims to add 300-350 stores per year

Guidance:
Revenue to double to Rs100bn, share of private label to increase to 12% of turnover by FY24

Restructuring impact: ~85% of cash flows to be recorded at back-end and balance in the front-end

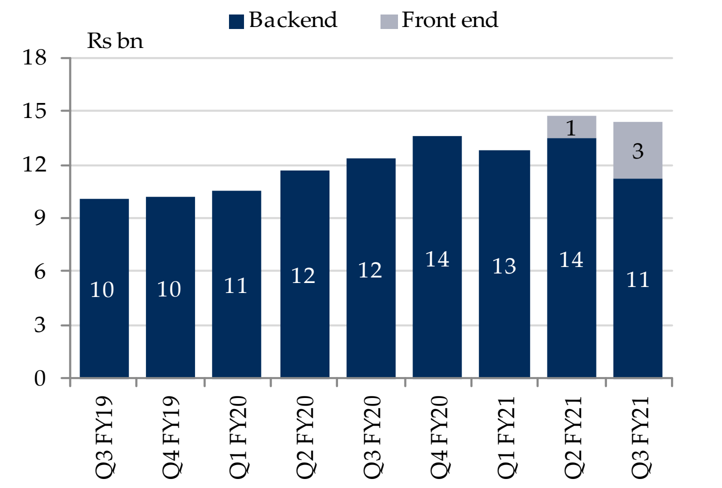
- Apollo Pharmacy is the largest organised retail pharmacy chain in India with 4,000 retail stores spread across ~400 cities/towns in 21 states and 4 union territories. With Apollo 24/7 initiatives, e-pharmacy along with offline store presence provides access to 13,500+ pin codes and 40% of the population within 30-60 minutes an Apollo store.
- The pharmacy business accounted for ~43% of overall revenues and ~41% of EBITDA as of FY20. The revenue growth has been robust at 22% CAGR in the past five years, driven by store additions, same store sales growth and improving mix of ageing stores (more than 44% of stores are 5+ years old). The number of stores has increased from 1,822 in FY15 to 4,000 today. Revenue per store has increased at 6% CAGR from Rs9.7mn in FY15 to Rs12.8mn in FY20. Apollo guides for revenue to double to Rs100bn and store count to increase to 5,000 by FY24.
- EBITDA has grown at 38% CAGR over the past five years and EBITDA margin (pre-Ind AS) has nearly doubled from 3.3% in FY15 to 6% in FY20. Margin has expanded on account of operating leverage benefits as more stores mature and rising proportion of private label sales driving gross margin higher. The share of private label sales in the turnover has increased from 6% in FY18 to ~10% today and Apollo aims to increase this to ~12% of turnover by FY24. We expect EBITDA margin to further improve to 7%+ in FY23e and model 23% EBITDA CAGR in the same period, driven by the above trends.
- In Sep'20, Apollo completed divestment of its front-end pharmacy business in order to comply with Indian regulations regarding multi-brand retail outlets, wherein the foreign ownership cannot exceed a prescribed limit of 51%. The front-end business was accordingly divested to Apollo Pharmacy Ltd (APL), a wholly owned subsidiary of Apollo Medicals Pvt Ltd (AMPL), where the listed entity Apollo hospitals (AHEL) owns 25.5% stake. The balance 74.5% stake is held by Jhelum Investment Fund (19.9%), Hemendra Kothari (9.9%) and ENAM securities (44.7%). AHEL received a consideration of ~Rs5.3bn from the slump sale. The back end/ supply chain portion of the business (~85% of pharmacy cashflows) is retained by AHEL and they will continue to be the exclusive supplier to the front-end. The retained profits at the front end will be deployed for new store expansion.

Exhibit 83: Pharmacy business (SAP) restructuring



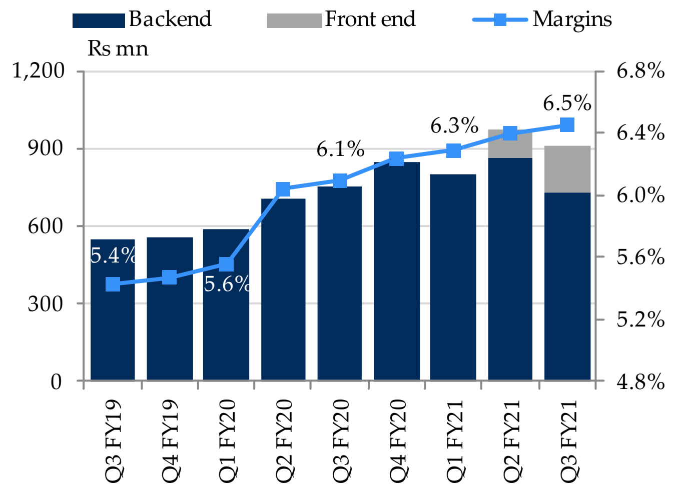
Source: Company, HSIE Research, Slump sale of front end business through NCLT process for ~USD 72mn

Exhibit 84: After a blip in Q1FY21, revenues recovered to pre-Covid levels



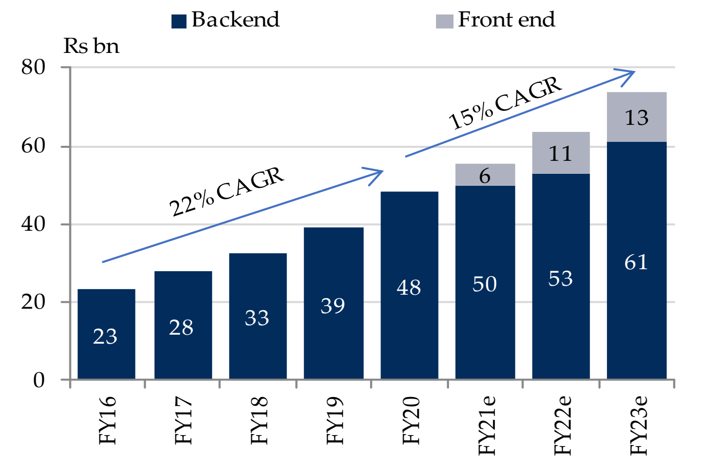
Source: Company, HSIE Research

Exhibit 85: EBITDA margin has steadily risen



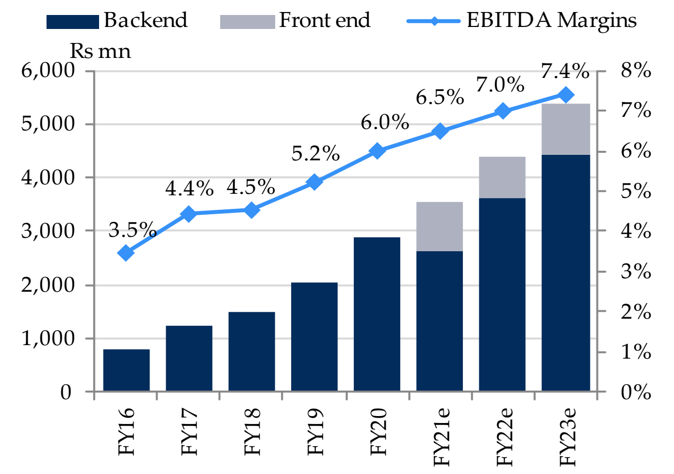
Source: Company, HSIE Research, pre-Ind AS margin

Exhibit 86: We expect 8% revenue CAGR over FY20-23e for the back-end business (15%, like-to-like)



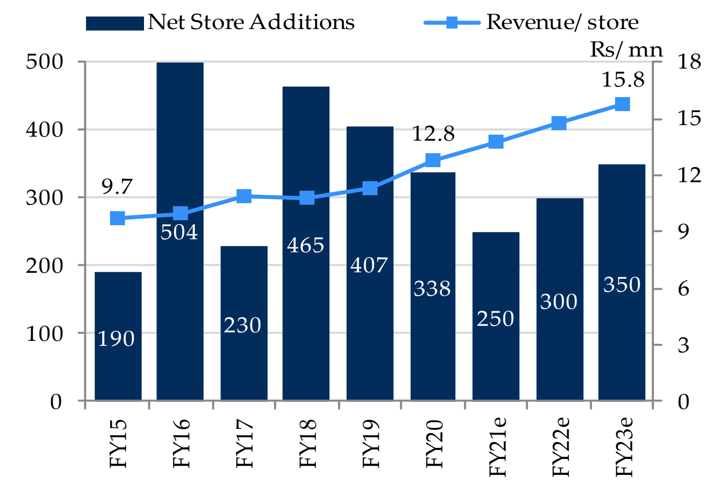
Source: Company, HSIE Research

Exhibit 87: EBITDA margin to improve by 130bps as share of private label increases & more stores mature



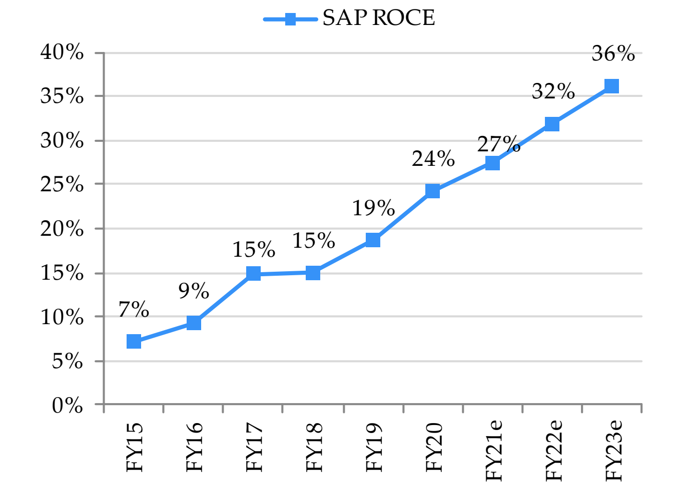
Source: Company, HSIE Research, pre-Ind AS margins

Exhibit 88: Net store addition and revenue per store



Source: Company, HSIE Research

Exhibit 89: ROCE set to improve materially



Source: Company, HSIE Research

AHLL has turned the corner – focus is on diagnostics

AHLL:
-722 diagnostic centers
-175 clinics
-23 sugar centers
-61 dental clinics
-58 dialysis centers
-8 cradles centers
-10 spectra centers
-11 IVF centers

Achieved break-even in FY20

The focus is on accelerating growth in diagnostics and IVF centres

- Apollo Health and Lifestyles Ltd (AHLL), a subsidiary of Apollo hospitals, operates a network of primary care, diagnostics and specialty hospitals across the country. These formats are located closer to patients and act as a feeder unit for Apollo hospitals. The primary care segment includes 175 clinics (family medicine and primary care), 23 sugar centers (diabetes care), 61 dental clinics (White dental) and 58 dialysis centers and the specialty care segment includes 8 cradle centers (boutique birthing hospitals), 10 spectra centers (short stay surgeries for Ortho, Uro, ENT, Bariatric, etc) and 11 IVF centers.
- AHLL revenues grew to Rs7bn at 22% CAGR in the past three years, driven by 11% CAGR in primary care segment, 24% CAGR in specialty care and 30% CAGR in diagnostics. The primary and specialty segment witnessed limited success, given various units were operating at sub-scale with unabsorbed costs impacting margins. With cost optimisation efforts such as integrating purchases with Apollo hospitals and rationalisation of doctor fees/revenue share, AHLL turned EBITDA positive in FY20. The asset-light format of these units also aided in faster break-even. Apollo expects to achieve revenues of Rs18-20bn in three years with 12-14% EBITDA margin. We expect 18%/30% revenue/EBITDA CAGR over FY20-23e. Within AHLL, the focus in on accelerating growth in diagnostics and IVF centres.

Diagnostics

Diagnostics:
~80% of the Rs 450bn+ of India's diagnostics market (ex-radiology) is unorganised

AHLL has ~1.3% market share in the organised diagnostics space and expects to capture the shift in the market from unorganized to organized

Apollo targets Rs5bn of revenues in 2-3 years

- The diagnostic market (ex-radiology) is ~Rs450bn, of which ~80% is unorganised. AHLL expects to grow by capturing the shift in the market share from unorganised to organised segment. The company has ~1.3% market share in the organised segment today. It operates a network of 722 centres and plans to add 650 centres over the next 24 months. The focus will be to expand and consolidate its presence in South and East India. It plans to invest Rs1.5bn in this business.
- Diagnostics accounted for ~17% of AHLL revenues (FY20) and grew at a healthy pace of 30% CAGR over FY17-20. This was mainly driven by aggressive network expansion (~2.4x centers over FY18-FY20) and growth in gross ARPPs (~5.3% CAGR) in the same period. The business broke even within five years of operations in FY20. We believe diagnostics business has now achieved a critical mass with revenues annualising to Rs1.7-1.8bn in FY21e. While COVID testing volumes could moderate, increased thrust from Apollo 24/7 and pick-up in home collection samples should drive higher utilisations at the centres. Apollo expects to grow this business to Rs5bn revenues in 2-3 years.

Exhibit 90: AHLL – Diagnostics and primary care has achieved critical mass

Particulars	FY17	FY18	FY19	FY20	FY17-20e CAGR
Revenues	**3,854**	**4,589**	**5,888**	**6,964**	**21.8%**
Diagnostics	539	660	923	1,185	30.0%
Primary Care	1,648	1,650	1,999	2,272	11.3%
Secondary Care	2,087	2,627	3,394	3,983	24.0%
EBITDA	**-394**	**-390**	**181**	**671**	**NA**
Diagnostics	-9	-79	-75	103	NA
Primary Care	-35	30	146	262	NA
Secondary Care	-202	-155	311	560	NA
EBITDA margins	**-10.2%**	**-8.5%**	**3.1%**	**9.6%**	**NA**
Diagnostics	-1.7%	-12.0%	-8.1%	8.7%	NA
Primary Care	-2.1%	1.8%	7.3%	11.5%	NA
Secondary Care	-9.7%	-5.9%	9.2%	14.1%	NA

Source: Company, HSIE Research

Apollo 24/7 – a significant growth enabler

Good traction with 5mn+ downloads

Partnerships with corporate giants like Airtel and HDFC Bank

50% of Apollo 24/7 revenues is expected to come from Pharmacy and balance from tele-consultation, diagnostics etc.

Broadened offerings through ProHealth – AI based health program

~ 12,000+ people have undergone check-ups via ProHealth

Apollo has invested Rs1-1.5bn in the platform and plans to invest a similar amount in the coming years

Targets potential revenue of Rs10bn from ProHealth in the next 3-4 years

- Apollo 24/7 is a digital healthcare platform that offers comprehensive services such as e-pharmacy, diagnostics tests, tele-consultation (7,000+ doctors with 50+ specialisations), chronic disease management (Diabetes/BP), and electronic health records management. The app has seen good traction in the first year of launch with 5mn+ downloads and 1mn+ weekly active users (close to startups like PharmEasy and Netmeds). We see this platform as a significant growth enabler for the company's existing business as it aims to leverage Apollo's robust infrastructure of 70 hospitals, ~4,000 pharmacy stores and 722 diagnostic centres. The integrated offerings will drive better customer experience, funnel patients into the Apollo network (referrals for hospitals, diagnostic labs, and higher sales for pharmacy) and allow the company to tap into the growing e-health market of India.

- Besides Apollo 24/7, the Apollo has broadened its offerings through **ProHealth** (preventive and holistic wellbeing) and Home care segment. **ProHealth** is an AI-engineered health program that features health analytics, gene sequencing/ genetic analysis, which aids in predictive diagnosis. Given its extensive network, Apollo has access to large data which can be processed to provide better solutions to patients. The company believes it is ready for a pan-India launch of the same and can generate potential revenue of Rs10bn from this segment in the next 3-4 years.

- **Tele-consultation market – customer adoption post-pandemic is the key monitorable**: Of the above services offered, we believe tele-consultation opportunity could prove to be difficult to monetise in the medium term. Post pandemic, Apollo witnessed surge in tele-consultation volumes to 2,600/day, which then moderated to 2,000/day (as of Q3FY21). We expect these volumes to further moderate as patients start to visit clinics and hospitals as economy normalizes. The online consultation market in India is at a nascent stage where consumer behaviour is still evolving. Though this is an interesting space for long-term digital delivery of healthcare services, there will be headwinds with respect to changing consumer behaviour and extensive adoption over the next 3-4 years. We need to closely monitor how the adoption evolves post the pandemic. In the developed economies, higher insurance penetration has driven strong growth in the online consultation market.

- **Apollo has invested Rs1-1.5bn in the platform and plans to invest a similar amount in the coming years.** Over time, it expects 50% of Apollo 24/7 revenues to come from pharmacy and the remaining from tele-consulting, diagnostics, clinics, etc. We do not value the Apollo 24/7 platform independently but build in higher growth for the existing business driven by strong synergies from the integrated offerings.

Limited Capex, improving profitability to drive ROCEs

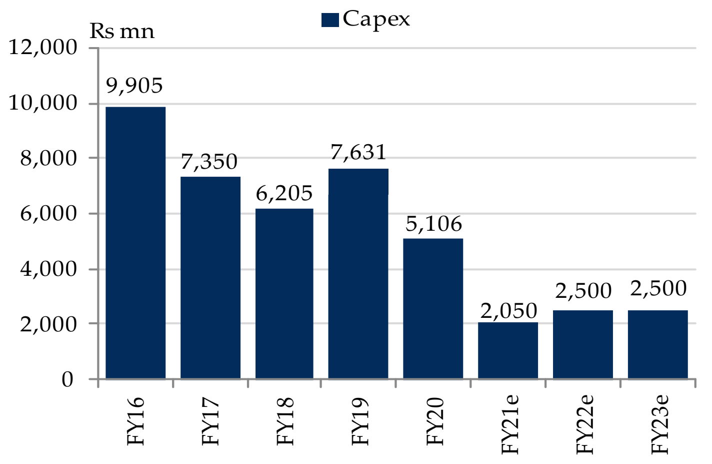
Structural savings of Rs1.2bn (~210bps of hospitals revenues)

We expect consolidated margins to improve from 14% in FY20 to 15%+ in FY23e

The company is comfortable leveraging up to 2-2.5x net debt/EBITDA and 0.8x net debt to equity

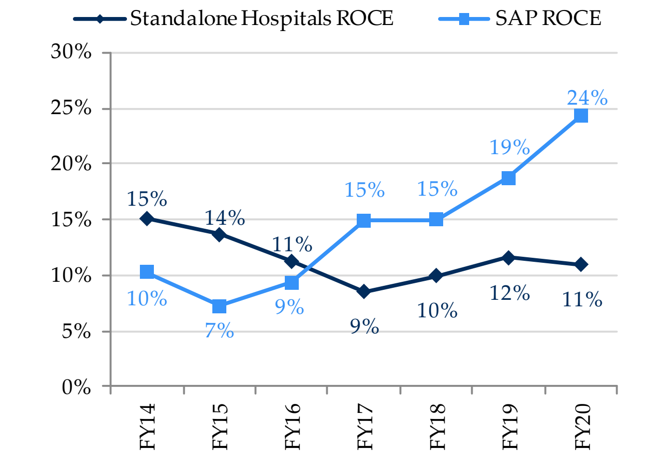
- Apollo rationalized costs in FY21 which led to structural savings of ~Rs1.2bn (~210bps of hospital revenues). We factor margin improvement across hospitals (mature and new), AHLL, Proton and pharmacy business. We expect consolidated margins to improve from 14.1% in FY20 to ~15.3% in FY23e.
- With significant bed addition between FY12-17 and major capex behind, Apollo consolidated its operations in the past three years. It has guided for no greenfield expansion but will evaluate bolt-on acquisitions, especially in the regions of East and North India. The company is comfortable leveraging up to 2-2.5x net debt/EBITDA and 0.8x net debt to equity.
- The balance sheet remains in comfortable position. It raised fresh equity capital of Rs11.7bn in Jan'21 for proposed usage towards – (a) Rs4.1bn for buyback of remaining stake in Kolkata's Apollo Gleneagles hospital; (b) Rs1.5bn for investment in 24/7 app; and (c) Rs1.5bn for expansion in diagnostic segment. The balance is expected to be used for bolt-on acquisitions and debt reduction.

Exhibit 91: Capex trend has moderated since FY20 and is likely to remain low



Source: Company, HSIE Research

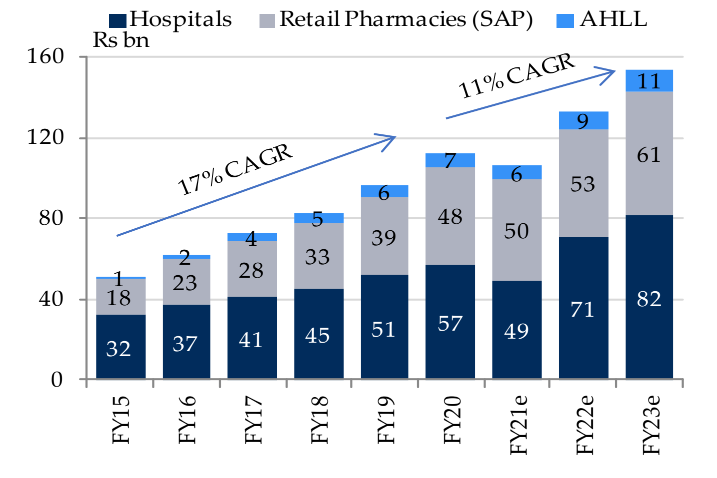
Exhibit 92: Pre-tax ROCE - Standalone hospitals vs. pharmacy business



Source: Company, HSIE Research

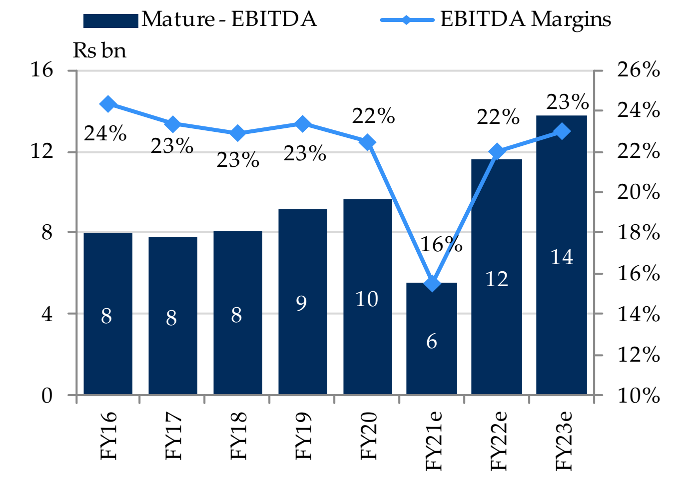
Financial Metrics

Exhibit 93: Revenues expected to grow at 11%+ CAGR over FY20-23e for the overall business



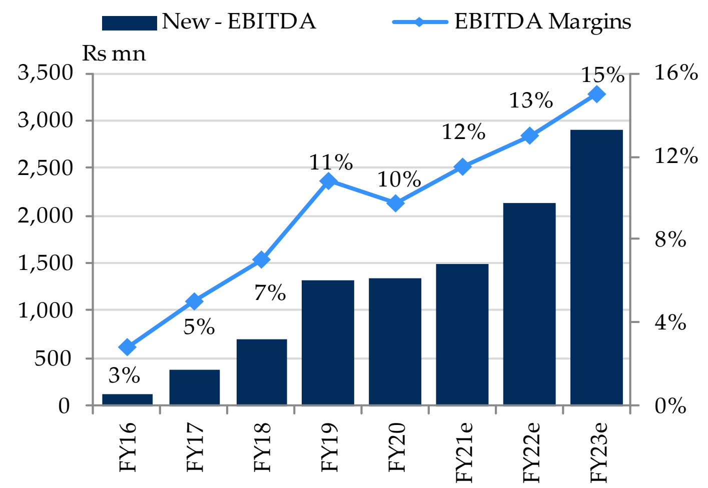
Source: Company, HSIE Research

Exhibit 94: Mature hospitals margin to see steady improvement to 23-24%



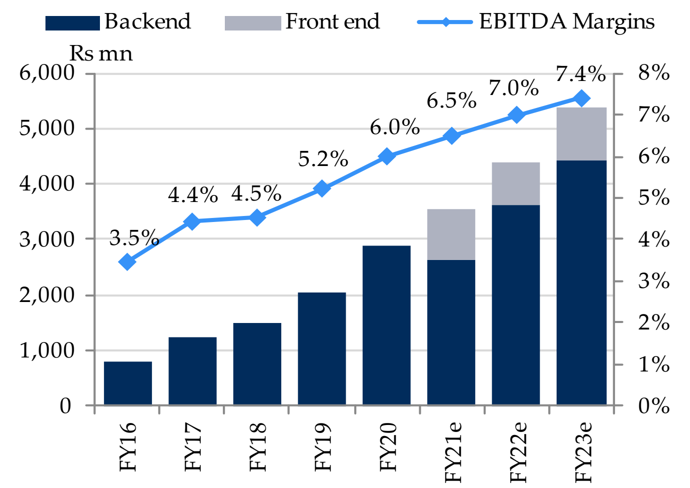
Source: Company, HSIE Research, EBITDAR pre-FY20

Exhibit 95: New hospitals to witness significant margin expansion



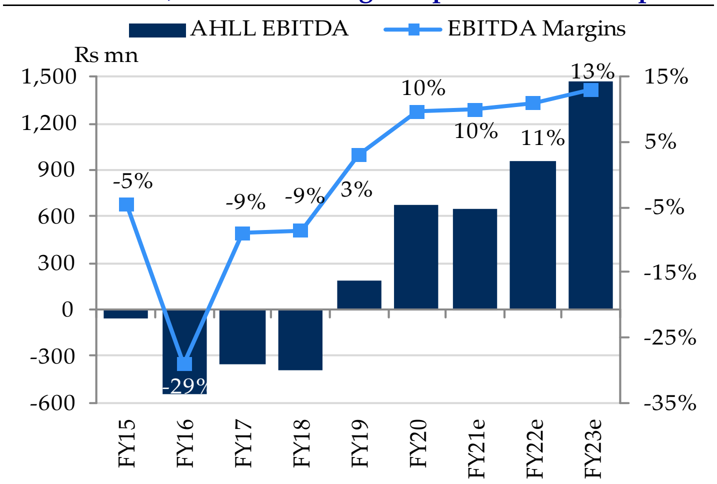
Source: Company, HSIE Research, EBITDAR pre-FY20

Exhibit 96: Pharmacy EBITDA to see steady increase – higher share of private labels, operating leverage



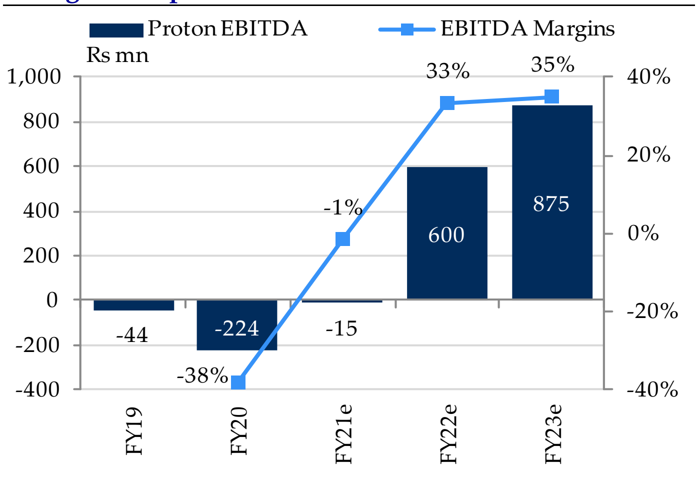
Source: Company, HSIE Research

Exhibit 97: AHLL has turned the corner – achieved critical mass, to witness margin expansion of ~335bps



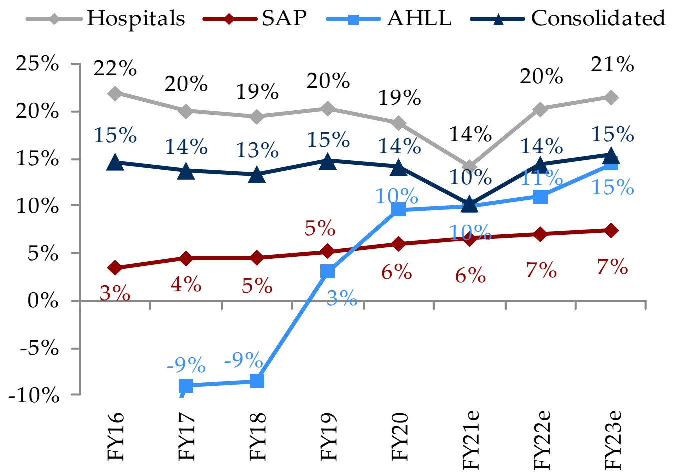
Source: Company, HSIE Research, EBITDAR pre-FY20

Exhibit 98: Proton achieved break even in Q3FY21 – margin to expand to 35% in FY23e



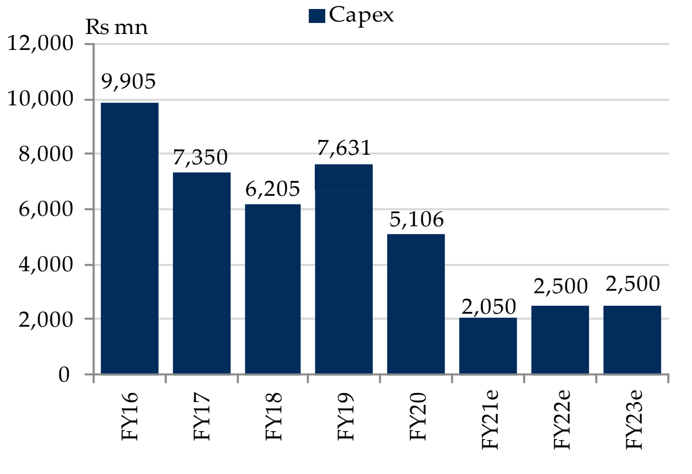
Source: Company, HSIE Research

Exhibit 99: Consolidated EBITDA margin to expand by ~117bps over FY20-23e



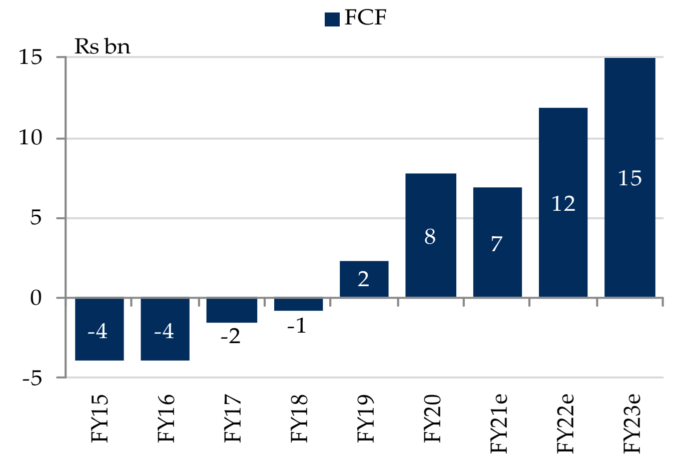
Source: Company, HSIE Research

Exhibit 100: Capex trend has moderated since FY20 and is likely to remain low



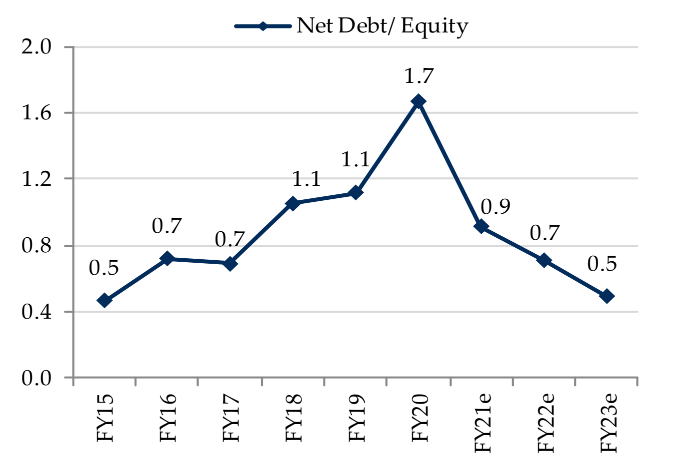
Source: Company, HSIE Research

Exhibit 101: Apollo turned FCF positive for the first time in FY19 since FY12, expects ~Rs34bn FCF over FY20-23e



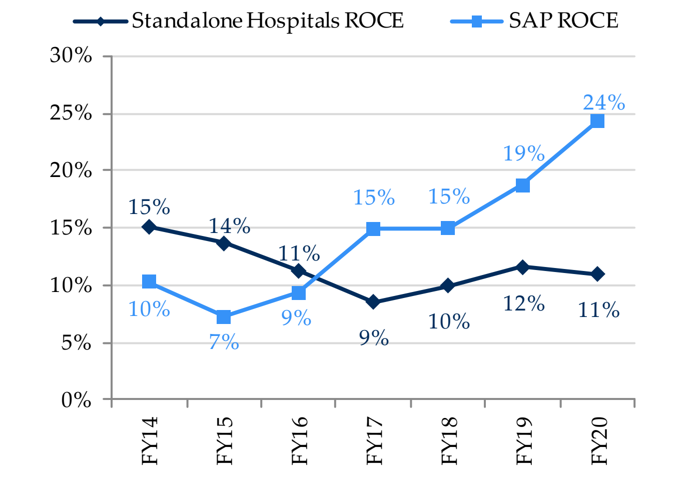
Source: Company, HSIE Research

Exhibit 102: Net debt/equity comfortable at 0.9x levels in FY21, to trend down to ~0.5x levels over FY23e



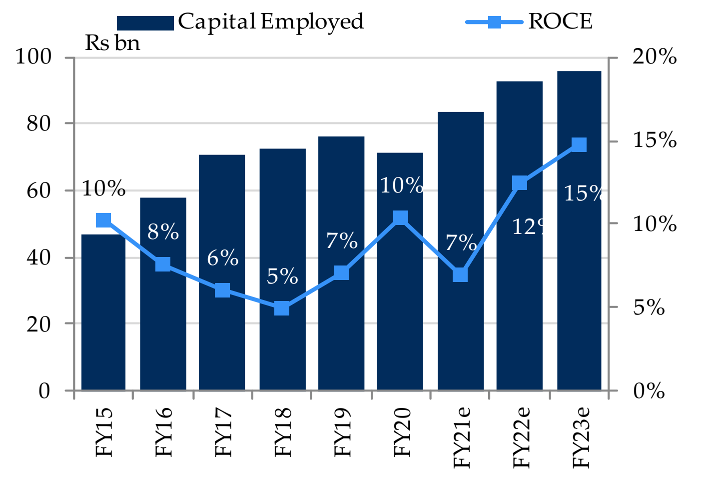
Source: Company, HSIE Research

Exhibit 103: Pre-tax ROCE break down – standalone hospitals vs. pharmacy business



Source: Company, HSIE Research

Exhibit 104: Post-tax ROCE to expand by ~435bps to ~15% over FY20-23e



Source: Company, HSIE Research

Valuation and risks

Our TP of Rs2,935/sh is based on SOTP valuation: (a) Healthcare services - 18x FY23e EBITDA (b) Retail Pharmacy (backend) – 25x FY23e EBITDA (c) stake in associates

Our target price of Rs2,935/sh is based on SOTP valuation of (a) Healthcare services - 18x FY23e EBITDA; (b) Retail Pharmacy (backend) – 25x FY23e EBITDA; (c) stake in associates. We value Apollo's hospital business at 18x EV/EBITDA, ~15-20% premium to Asian peers. We believe the premium is justified, given the divergent growth dynamics and Apollo's superior return profile. Our target blended multiple is at ~20% premium to Apollo's own historical average, and we believe this is merited, considering strong growth visibility in pharmacy and diagnostic business, investments in Apollo 24/7 and balance sheet strength.

Exhibit 105: SOTP valuation

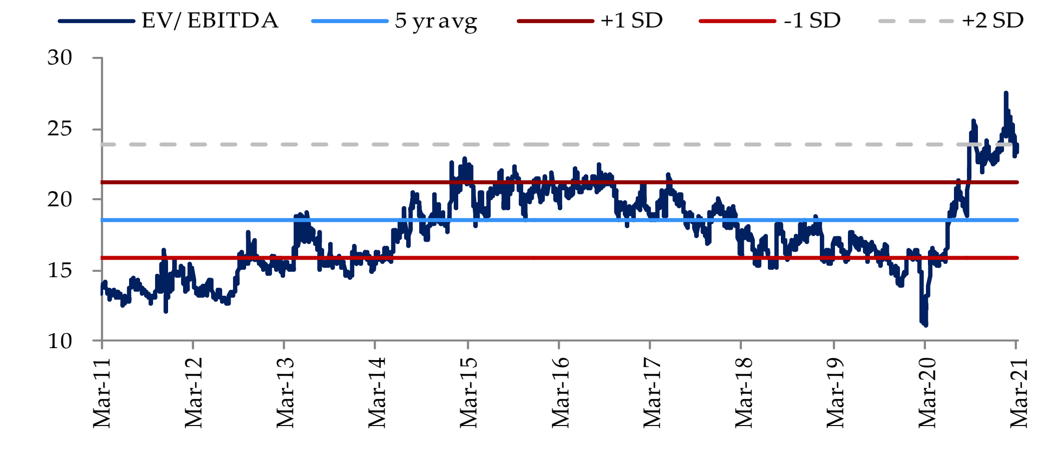
Particulars	Stake (%)	EBITDA (Rs mn)	Multiple	Value
Hospitals	*100*	17,547	18	3,15,842
AHLL	*67*	1,478	25	24,931
Healthcare services		**19,024**		**3,40,773**
Retail pharmacy (Backend)		**4,528**	**25**	**1,13,199**
Associates				
Retail pharmacy (Frontend)	26	927	25	5,912
Indraprastha	22			1,085
Others				1,212
EV				**4,62,180**
Less: Net debt				19,437
Less: Lease Liabilities & other adj.				19,895
Equity Value				**4,22,848**
No. of shares				144
Target Price				**2,935**

Source: Company, HSIE Research

The stock is ~155% up and has outperformed the Nifty by ~84% in the past one year.

It is trading at 24x/19x FY22/23e EV/ EBITDA, which is a ~25-30% premium to its one year forward 5-year historical average EV/ EBITDA.

Exhibit 106: The stock is trading at ~25-30% premium to its five year average EV/ EBITDA multiple



Source: Bloomberg, HSIE Research

Key risks

Delay in business normalcy and return of international patients, lower traction and margin improvement in Proton, AHLL and pharmacy, adverse government regulations in terms of price control/scheme implementation.

Financials

Consolidated Income Statement

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**62,147**	**72,549**	**82,435**	**96,174**	**1,12,468**	**1,05,767**	**1,32,579**	**1,54,120**
Growth (%)	16.3	18.1	20.0	16.7	13.6	16.7	16.9	-6.0
Operative Expenses	34,196	40,310	47,165	54,522	63,832	64,571	74,907	84,766
Gross Profit	27,951	32,239	35,270	41,652	48,636	41,196	57,672	69,354
Gross Margins	45.0	44.4	42.8	43.3	43.2	39.0	43.5	45.0
Employee cost	10,236	11,965	14,044	15,982	18,529	17,092	22,141	26,200
Other expenses	602	1,023	-750	-949	-4,295	-3,869	-5,622	-6,599
EBITDA	**6,878**	**7,286**	**7,932**	**10,636**	**15,873**	**10,881**	**19,013**	**23,552**
Growth (%)	-6%	6%	9%	34%	49%	-31%	75%	24%
Margins (%)	11.1	10.0	9.6	11.1	14.1	10.3	14.3	15.3
Depreciation	2,638	3,140	3,590	3,955	6,197	5,644	6,140	6,695
Other income	450	225	322	314	269	308	315	289
Interest	1,800	2,574	2,951	3,270	5,328	4,780	4,115	3,765
PBT	**2,890**	**1,797**	**1,713**	**3,725**	**4,617**	**765**	**9,073**	**13,381**
Tax	969	910	1,119	1,734	2,252	252	2,268	3,345
Effective tax rate (%)	33.5	50.6	65.3	46.5	48.8	33.0	25.0	25.0
Recurring PAT	**2,205**	**2,210**	**1,174**	**2,360**	**2,566**	**824**	**6,943**	**9,932**
Extraordinary items	159	0	0	0	1,983	0	0	0
MI/share of Profit/loss in JV	261	-475	-576	-349	-263	-112	61	304
Reported PAT	**2,364**	**2,210**	**1,174**	**2,360**	**4,549**	**824**	**6,943**	**9,932**

Source: Company, HSIE Research

Consolidated Balance Sheet

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	697	730	696	696	696	719	719	719
Reserves and surplus	32,615	35,983	31,819	32,639	32,696	45,032	55,950	63,399
Shareholder's funds	**33,311**	**36,714**	**32,515**	**33,335**	**33,391**	**45,751**	**56,668**	**64,118**
Minority Interest	**779**	**2,164**	**1,324**	**1,355**	**1,307**	**1,095**	**4,486**	**4,690**
Total debt	28,639	31,658	39,001	41,516	61,282	61,282	56,282	51,282
Total Liabilities	**64,904**	**72,804**	**75,404**	**79,354**	**98,922**	**1,11,070**	**1,20,379**	**1,23,031**
Net fixed assets	37,898	44,233	44,195	46,289	70,799	69,205	80,734	76,539
Capital work-in-progress	5,616	3,467	7,120	8,218	2,356	356	356	356
Investments	3,524	4,146	3,587	4,682	4,400	4,500	2,710	2,810
Inventories	4,061	4,669	5,658	5,847	7,377	7,824	9,081	10,556
Debtors	6,094	7,482	8,846	10,232	10,272	11,301	13,803	16,045
Cash & bank balance	3,788	5,264	4,172	3,470	4,668	18,621	15,845	20,017
Loans and Advances	9,929	9,035	8,509	9,084	9,414	10,208	11,127	12,071
Other current assets	613	601	579	547	637	869	908	1,056
Total current assets	**24,484**	**27,051**	**27,764**	**29,180**	**32,367**	**48,823**	**50,763**	**59,746**
Creditors	5,502	5,005	5,889	7,132	9,088	9,273	10,897	12,245
Provisions	738	803	1,027	1,136	1,331	1,393	1,457	1,525
Net current assets	**15,791**	**18,690**	**17,040**	**16,704**	**17,905**	**33,547**	**33,116**	**39,864**
Total net assets	**64,904**	**72,804**	**75,404**	**79,354**	**98,922**	**1,11,070**	**1,20,378**	**1,23,031**

Source: Company, HSIE Research

Consolidated Cash Flow

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Profit Before Tax	**3,052**	**1,833**	**1,715**	**3,735**	**6,569**	**765**	**9,073**	**13,381**
Depreciation	2,659	3,142	3,590	3,955	6,197	5,644	6,140	6,695
Cash flow before WC	7,302	7,633	8,692	11,432	16,693	10,881	19,013	23,552
WC changes	108	-703	-2,071	-458	-704	-1,688	-2,345	-2,575
Taxes paid	-1,412	-1,169	-1,251	-1,924	-3,061	-252	-2,268	-3,345
Cash flow from operations	**5,972**	**5,756**	**5,370**	**9,050**	**12,928**	**8,940**	**14,400**	**17,632**
Capex	-9,905	-7,350	-6,205	-6,720	-5,106	-2,050	-2,500	-2,500
Cash flow from investing	**-8,882**	**-9,747**	**-4,049**	**-7,106**	**-2,889**	**-1,742**	**-6,325**	**-2,212**
Equity Capital issues	29	6,056	83	0	-0	11,700	0	0
Borrowings (net)	6,819	2,087	3,018	2,347	-1,860	0	-5,000	-5,000
Interest paid	-1,933	-2,675	-3,178	-3,620	-5,645	-4,780	-4,115	-3,765
Dividends paid	-1,615	0	-1,008	-837	-1,551	-164	-1,736	-2,483
Cash flow from financing	**3,299**	**5,468**	**-1,085**	**-2,145**	**-9,095**	**6,756**	**-10,851**	**-11,248**
Net change in cash	**389**	**1,476**	**236**	**-201**	**944**	**13,953**	**-2,776**	**4,172**
Beginning cash	3,399	3,788	2,828	3,063	2,862	3,806	17,760	14,984
Closing cash	**3,788**	**5,264**	**3,063**	**2,862**	**3,806**	**17,760**	**14,984**	**19,156**
Free cash flow	**-3,933**	**-1,594**	**-835**	**2,329**	**7,822**	**6,890**	**11,900**	**15,132**

Source: Company, HSIE Research

Key Ratios

Year to March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)								
GPM	*45.0*	*44.4*	*42.8*	*43.3*	*43.2*	*39.0*	*43.5*	*45.0*
EBITDA Margin	*11.1*	*10.0*	*9.6*	*11.1*	*14.1*	*10.3*	*14.3*	*15.3*
APAT Margin	*3.5*	*3.0*	*1.4*	*2.5*	*2.3*	*0.8*	*5.2*	*6.4*
RoE	*6.8*	*6.3*	*3.4*	*7.2*	*7.7*	*2.1*	*13.6*	*16.4*
RoCE	*7.6*	*6.0*	*4.9*	*7.1*	*10.4*	*7.0*	*12.5*	*14.7*
EFFICIENCY								
Tax Rate (%)	33.5	50.6	65.3	46.5	48.8	33.0	25.0	25.0
Fixed Asset Turnover (x)	1.5	1.5	1.5	1.6	1.4	1.0	1.2	1.3
Inventory (days)	24	23	25	22	24	27	25	25
Debtors (days)	36	38	39	39	33	39	38	38
Other Current Assets (days)	29	17	13	10	11	13	12	12
Payables (days)	32	25	26	27	29	32	30	29
Other Current Liab & Provns (days)	19	17	21	20	17	20	18	18
Cash Conversion Cycle (days)	27	36	38	34	28	34	33	34
Debt/EBITDA (x)	3.5	3.5	4.3	3.5	3.5	3.9	2.1	1.3
Net D/E (x)	0.7	0.7	1.1	1.1	1.7	0.9	0.7	0.5
Interest Coverage (x)	2.6	1.7	1.6	2.1	1.9	1.2	3.2	4.6
PER SHARE DATA (Rs)								
EPS	15.8	15.9	8.4	17.0	18.4	5.9	48.3	69.1
Dividend	6.0	6.0	6.0	5.0	3.7	1.1	12.1	17.3
Book Value	239	264	234	240	240	318	394	446
VALUATION								
P/E (x)	183.2	182.7	343.8	171.1	157.4	494.1	60.1	42.0
P/BV (x)	12.1	11.0	12.4	12.1	12.1	9.1	7.4	6.5
EV/EBITDA (x)	62.3	59.2	55.4	41.6	29.0	42.3	24.3	19.2
EV/Revenues (x)	6.9	5.9	5.3	4.6	4.1	4.4	3.5	2.9
OCF/EV (%)	*1.4*	*1.3*	*1.2*	*2.0*	*2.8*	*1.9*	*3.1*	*3.9*
FCF/EV (%)	*(0.9)*	*(0.4)*	*(0.2)*	*0.5*	*1.7*	*1.5*	*2.6*	*3.3*
FCFE/MCap. (%)	*(1.0)*	*(0.4)*	*(0.2)*	*0.6*	*1.9*	*1.7*	*2.9*	*3.6*
Dividend Yield (%)	*0.2*	*0.2*	*0.2*	*0.2*	*0.1*	*0.0*	*0.4*	*0.6*

Source: Company, HSIE Research

Narayana Health

In pursuit of growth

NH's asset light expansion in India (FY14-18), followed by consolidation phase, bodes well for the ROCE improvement. Post COVID disruption, we expect NH to emerge stronger and forecast ~17% EBITDA CAGR over FY20-23e, driven by: (a) turnaround of new units - from loss making to EBITDA positive by FY23e; b) improving performance of non-flagship mature units (fared better than flagship units in 9mFY21); and (c) strong traction in Cayman Islands facility, expected to deliver ~31% EBITDA CAGR over the same period. The proposed expansion in Cayman is return dilutive in the near term, but NPV accretive, in our view. Despite the outlay, ROCE are expected to be at ~15% in FY22/23e. After a 14% correction in the past two months, the stock is trading at an attractive valuation of 16x/14x FY22/23e EV/EBITDA, ~10-15% discount to its 5-year historical average. Initiate with a BUY and TP of Rs460.

Healthy outlook for India; operating leverage to drive margins, ROCEs
During lockdown, NH's flagship units (~80% of India EBITDAR) were impacted the most by travel restrictions; however, other mature units at Raipur, Mysore, and Shimoga fared better and are showing improved signs of profitability with EBITAR trending towards 18-23% (vs. 15-20% pre-Covid). Also, new units (Dharamshila, Gurugram) have broken even on a monthly basis and will contribute ~30% to the EBITDA increase over FY20-23e. With limited Capex, we expect India hospital ROCE to improve from 9% to ~15% in the same period.

Improved trajectory at Cayman; benefits likely to sustain
COVID disruption significantly boosted Cayman operations (14% of revenues) as travel restrictions led to increased flow of domestic patients. ARPOBs increased from USD1.6mn to USD2mn, driving 20%+ revenue growth and 40%+ EDITDA margins in the past two quarters (vs. 25% margins in FY20). The crisis has enhanced NH's credibility in the region, which augurs well for the medium-term growth. We expect Cayman Island's contribution in overall EBITDA to increase from 25% in FY20 to 37% in FY23e.

New expansion at Cayman adds an NPV of Rs25/sh to our target price
The proposed expansion (~USD100mn outlay) is return dilutive in the near term but expected to be EBITDA positive from the year one of operation. Considering the new unit will cater to oncology and high-end day care procedures, we base our DCF assumption on ARPP (average revenue per patient) and discharges. Our sensitivity analysis results in an NPV range of Rs-14-71 for the project.

Our target price of Rs460/sh provides ~13%+ upside potential; risks
Our TP of Rs460/sh is based on SOTP valuation of (a) India hospitals - 16x FY23e EBITDA; (b) Cayman operations - 12x FY23e EBITDA; (c) Cayman expansion - NPV of Rs25/sh. **Risks**: adverse government regulations (price control/scheme implementation), delayed payback period for Cayman expansion, increased competition in Cayman, and slower recovery in flagship units.

Financial Summary

YE Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	28,609	31,278	24,885	33,911	37,985
EBIDTA	2,878	4,229	1,512	5,705	6,693
EBITDA Margins	10.1	13.5	6.1	16.8	17.6
Adj. PAT	592	1,108	-406	2,269	2,783
EPS (Rs)	2.9	5.4	-2.0	11.1	13.6
P/E (x)	140.2	74.8	-204.4	36.5	29.8
EV / EBITDA (x)	31.8	21.8	60.9	16.4	14.1
RoCE (%)	6.6	10.9	2.1	14.9	15.2

Source: Company, HSIE Research

BUY

CMP *(as on 31 Mar 2021)*	**Rs 406**
Target Price	**Rs 460**
NIFTY	**14,691**

KEY STOCK DATA

Bloomberg code	NARH IN
No. of Shares (mn)	204
MCap (Rs bn) / ($ mn)	83/1,141
6m avg traded value (Rs mn)	121
52 Week high / low	Rs 525/222

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.4)	13.4	64.0
Relative (%)	(13.1)	(16.7)	(4.0)

SHAREHOLDING PATTERN (%)

	Dec-20	Sep-20
Promoters	63.85	63.85
FIs & Local MFs	21.18	21.09
FPIs	8.95	8.54
Public & Others	6.02	6.52
Pledged Shares	0.00	0.00

Source : BSE

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Investment thesis

India business continues to consolidate, ROCE to improve materially

With limited capex in India and recovery in business operations, we expect India business **EBITDAR** ***(EBITDA before rent and corporate overheads)*** margin to expand by ~150bps to 19%+ and ROCE to improve by ~550bps to ~15% over FY20-23e.

EBITDAR margin of other mature units to increase from ~13% to ~14% over FY20-23e

Dharamshila and Gurugram (new units) broke even on monthly basis – to contribute to 4% to India EBITDAR by FY23e

- **New units to turn EBITDAR positive by FY23e** – The three new units - Dharamshila, Gurugram, SRCC-Mumbai reported EBITDAR losses of ~Rs580mn in FY20. While SRCC continues to struggle, both Dharamshila and Gurugram have broken even on a monthly basis (revenues were tracking at pre Covid levels with EBITDAR of 1% in Q3FY21). We expect the combined losses of these units to reduce further in FY22 and contribute positively to EBITDAR in FY23e. We forecast new units to contribute ~30% of EBITDAR increase over FY20-23e.
- **Resilient performance of non-flagship mature units** – The other mature units (14 hospitals) such as Raipur, Mysore, Shimoga have shown resilience and outperformed the flagship units during 9mFY21 with margins trending towards 18-23% (vs. 15-20% pre-Covid). We expect EBITDAR margin expansion of ~65bps to ~14% over FY20-23e.
- **Gradual recovery in flagship units** – The three flagship units (NICS, MSMC & RTIICS) in Bangalore and Kolkata are well-established hospitals with steady track record of 7% revenue CAGR over FY18-20. They contribute ~80% to India EBITDAR. These units receive high footfalls from outstation/ international patients and hence were severely impacted during Covid. We expect gradual recovery at these units as travel restriction ease. With limited visibility on international segment (high margin business), we forecast muted EBITDAR growth of ~2% CAGR for the FY20-23e.

Cayman operations – stronger than ever

Cayman ARPOBs increased from USD1.6mn to USD2mn

We forecast 12%/31% revenue/ EBITDA CAGR over FY20-23e

Cayman expansion is NPV accretive - adds an NPV of Rs25/sh to our target price

- **Increased contribution from Cayman to enhance overall margin profile** - Benefitted by Covid crisis, Cayman EBITDA margins improved from 25% in FY20 to ~40-45% in the last two quarters driven by high-end procedures and favorable price action. ARPOBs increased from USD1.6mn in FY20 to USD2mn in Q2/Q3FY21. The company expects these trends to sustain as patient mobility remains impacted. NH is among the three healthcare providers in the region and the current crisis has enhanced their credibility. We expect 12%/31% revenue/EBITDA CAGR for Cayman operations over FY20-23e.
- **Expansion adds an NPV of Rs25/sh to our target price** - The proposed expansion (USD100mn) in Cayman is return dilutive in the near term, but NPV accretive in our view. Considering the new unit will cater to oncology and high-end day care procedures, we base our DCF assumption on ARPP (average revenue per patient) and discharges. We assume capital outlay of ~USD75mn and WACC of 8% to arrive at an NPV range of Rs-14 to Rs71 for the project. Despite the expansion, we expect Cayman ROCE to improve by ~70bps to ~16% in FY23e.

Exhibit 107: Sensitivity analysis

Cayman Expansion		ARPP (USD)				
Fair Value		24,000	26,000	28,198	30,000	32,000
Discharges (nos.)	1,300	-14	-10	-5	0	4
	1,600	-2	4	10	15	21
	1,900	11	18	**25**	31	37
	2,200	24	31	40	47	54
	2,500	36	45	54	62	71

Source: HSIE Research, Company

EBITDA margins and ROCE on upward trajectory

We forecast revenue and EBITDA CAGR of 7% and 17% over FY20-23e

- We expect 24% revenue CAGR over the next two years, driven by higher growth in new units and Cayman Islands. EBITDA margins are expected to increase from ~14% in FY20 to ~18% in FY23e, driven by turnaround of new units, improved profitability in Cayman Islands and operating leverage. Despite the additional outlay in Cayman, ROCEs remain attractive and is likely to expand by ~430bps to 15%+, driven by improved profitability and limited capex in India.

EBITDA margin is expected to expand by 410bps to 18% driven by a) turnaround of new units, b) higher profitability at Cayman and c) operating leverage

ROCE to improve by ~430bps to 15%+ over FY20-23e driven by margin expansion and limited Capex in India

Exhibit 108: We forecast 7% of revenue growth over FY20-23e

Particulars	FY18	FY19	FY20	FY21e	FY22e	FY23e	FY20-23e CAGR
India	**22,022**	**24,803**	**26,939**	**19,966**	**28,030**	**31,794**	**5.7%**
Hospitals	20,700	23,315	25,592	18,983	26,858	30,464	6.0%
Flagship units	*11,024*	*11,920*	*12,668*	*8,009*	*12,563*	*13,939*	*3.2%*
Other Mature units	*8,745*	*9,564*	*10,424*	*8,754*	*11,102*	*12,443*	*6.1%*
New units	*932*	*1,831*	*2,500*	*2,220*	*3,194*	*4,082*	*17.8%*
Heart Centers	1,102	1,240	1,078	862	966	1,062	-0.5%
Other anc. business	220	248	269	121	206	268	-0.2%
Cayman	**769**	**3,815**	**4,338**	**4,918**	**5,881**	**6,190**	**12.6%**
Total Revenues	**22,792**	**28,618**	**31,277**	**24,885**	**33,911**	**37,985**	**6.7%**
EBITDA Margins	**10.9%**	**11.5%**	**13.5%**	**6.1%**	**16.8%**	**17.6%**	**413bps**

Source: Company, HSIE Research

Exhibit 109: Margin improvement to be driven by new units, Cayman Islands

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY20-23e CAGR
India	**16.6%**	**16.3%**	**17.8%**	**5.2%**	**18.3%**	**19.3%**	**148bps**
Hospitals	16.6%	16.3%	17.9%	5.1%	18.4%	19.4%	153bps
Flagship units	*28.0%*	*29.1%*	*29.8%*	*7.6%*	*28.0%*	*28.6%*	-119bps
Other Mature units	*7.6%*	*10.8%*	*13.3%*	*7.5%*	*13.5%*	*13.9%*	66bps
New units	-32.2%	-38.4%	-23.4%	-13.8%	-2.5%	4.6%	2,802bps
Cayman	***13.5%***	***17.8%***	***24.7%***	***35.0%***	***38.0%***	***40.0%***	**1,529bps**
EBITDA Margins	**10.9%**	**11.5%**	**13.5%**	**6.1%**	**16.8%**	**17.6%**	**413bps**

Source: Company, HSIE Research

Valuation and risks

- Our target price of Rs460/sh is based on SOTP valuation of (a) India hospitals business - 16x FY23e EV/ EBITDA; (b) Cayman operations - 12x FY23e EV/EBITDA; (c) Cayman expansion – NPV of Rs25/sh. We value NH's India business at 16x EV/EBITDA, ~10% discount to Apollo's hospital business. While ROCEs are comparable today, Apollo has a consistent track record, true pan India presence and diversified EBITDA base compared to NH. We assign 12x EV/EBITDA to existing Cayman operations, a discount of ~25% to the India business to factor divergent growth potential of that market. However, the ROCE of Cayman and the medium growth outlook are superior to that of India business.

Our target price of Rs460/sh is based on SOTP valuation of (a) India business - 16x FY23e EV/EBITDA; (b) Cayman operations - 12x FY23e EV/EBITDA; (c) Cayman expansion – NPV of Rs25/sh

Exhibit 110: SOTP valuation

Particulars	EBITDA	Multiple	Rs mn
India business	4,217	16.0	67,468
Cayman operations	2,476	12.0	29,714
Fair value	**6,693**		**97,300**
Less: Net Debt (excl. Cayman expansion)			6,051
Less: Lease liabilities			2,344
Implied Market Cap			**88,897**
No. of Equity shares			204.4
Fair Value per share (Existing operations)			**435**
Add: PV of Cayman expansion			25
Target Price			**460**

Source: HSIE Research

After a 14% correction in the past two months, the stock is trading at 16x/ 14x FY22/23e EBITDA which is ~10-15% discount to its 5-yr historical average

Exhibit 111: NH is trading at ~10-15% discount to its 5-yr avg. EV/ EBITDA multiple

Source: Bloomberg, HSIE Research

Key risks – delayed recovery in India, entry of additional player in Cayman Islands, delayed payback period of new expansion

Key risks

- **India** – Delay in business normalcy and turnaround of new units, adverse government regulations in terms of price control, and scheme implementation in West Bengal.
- **Cayman** – Inability to sustain patient footfalls at existing units, extended payback period for the new unit, increased competition by entry of new player.

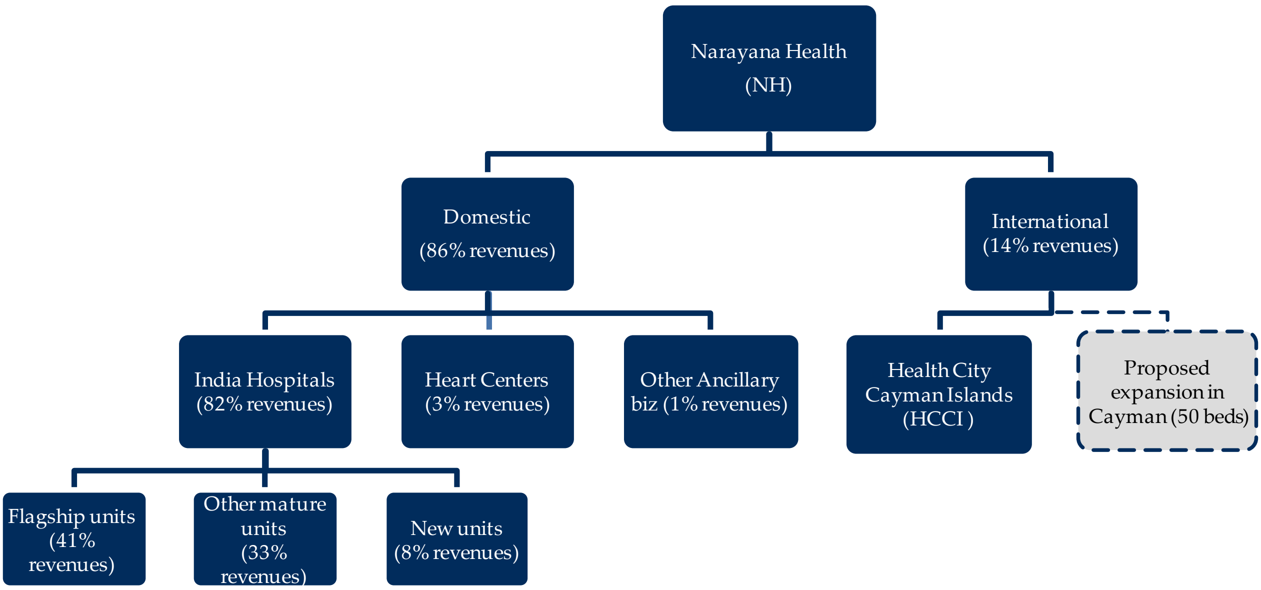
Business overview

Among the top three private healthcare provider in India with a capacity of 6,663 beds

Domestic operations form ~86% of the revenues

- Narayana Health (NH) was set up in 2000 by Dr. Devi Prasad Shetty, a renowned cardiac surgeon and an entrepreneur with over 35 years of medical experience. The "Narayana Health" brand is widely recognized for providing high-quality healthcare at affordable prices.
- Despite lower ARPOBs (~30-40% lower than peers, its profitability and return ratios are largely in line with peers given it has followed an asset-light expansion model (capex of Rs3.6mn/per bed) with a strong focus on achieving operational efficiencies through cost optimisation measures and economies of scale.
- Besides India, it has operations in Cayman Islands, which forms ~14% of its revenues. NH is a credible player in the region along with 2 other players (one being the government). It recently announced expansion in Cayman (~USD100mn) for -50 bed facility which would focus mainly on providing oncology, critical care and day care services.

Exhibit 112: Business Structure



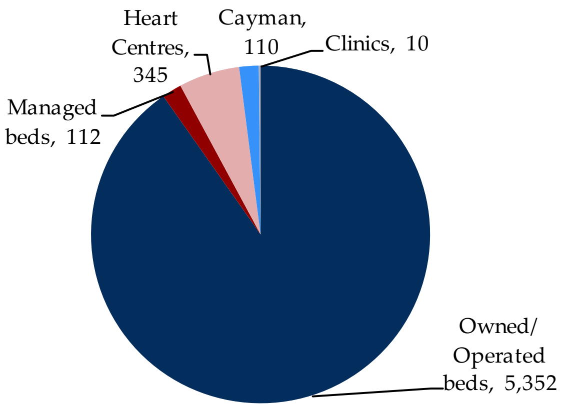
Source: Company, HSIE Research

India hospital network:
-20 owned hospitals
-1 managed hospital
-6 heart centres
-19 primary healthcare facilities

Pan-India network with stronghold in Karnataka and Eastern region

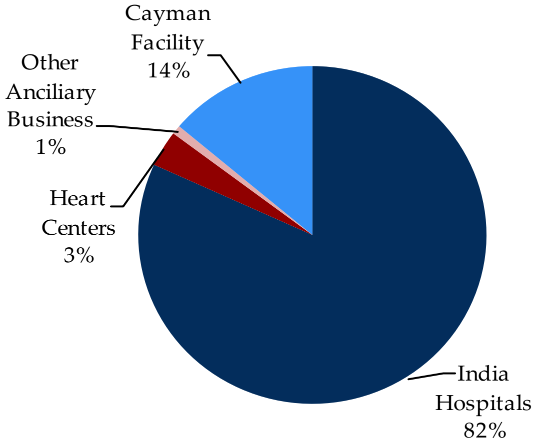
NH started operations in Bangalore with 225 operational beds and over the years, it has expanded to 47 facilities with total capacity of 6,663 beds (5,929 operational beds). It operates a network of 21 hospitals (20 owned and 1 managed), 6 heart centers (units set up in a third party hospital), 19 primary healthcare facilities (incl. information centers, clinics) and 1 hospital in Cayman Islands. Within India, it has a dominant presence in Karnataka and Eastern region, which accounts for ~71% of its revenues.

Exhibit 113: Operating beds break-up



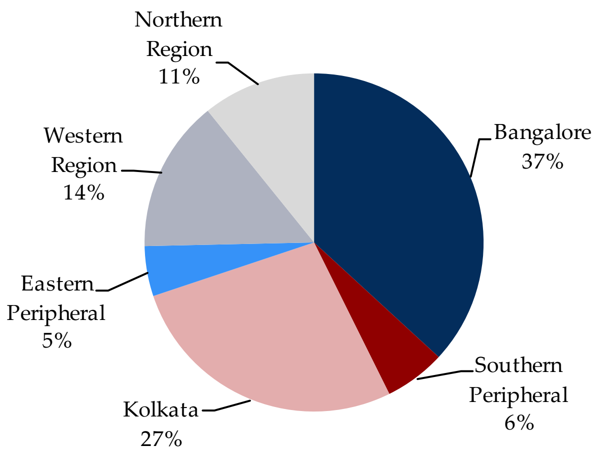
Source: Company, HSIE Research, Q3FY21

Exhibit 114: Revenue break-up



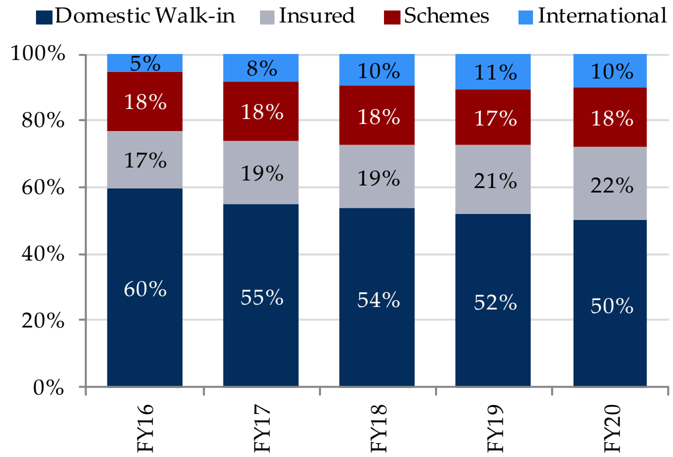
Source: Company, HSIE Research, FY20

Exhibit 115: Regional split of India revenues – Bangalore and Kolkata account for 64% of revenues



Source: Company, HSIE Research, FY20

Exhibit 116: Payee profile – Contribution from international segment has doubled



Source: Company, HSIE Research, FY20

Exhibit 117: Regional split of India business

Particulars	Bangalore	Southern Peripheral	Kolkata	Eastern Peripheral	West	North*
Owned Hospitals	3	2	6	2	4	3
Operational beds	1,573	516	1,315	413	928	608
Operational beds %	31%	10%	26%	8%	18%	8%
Hospitals	**NICS, MSMC**, HSR	Mysore, Shimoga	**RTIICS** + RTSC, **MMRHL**, Barasat, RNN	Jamshedpur, Guwahati	Jaipur, Raipur, Mumbai, Ahmedabad	Dharamshila (Delhi), Gurugram, Jammu
Revenue % of India hospitals	37%	6%	27%	5%	15%	11%
ARPOB (Rs mn)	11.6	7.0	9.1	6.7	8.3	13.6
Occupancy %	62%	53%	67%	58%	57%	41%

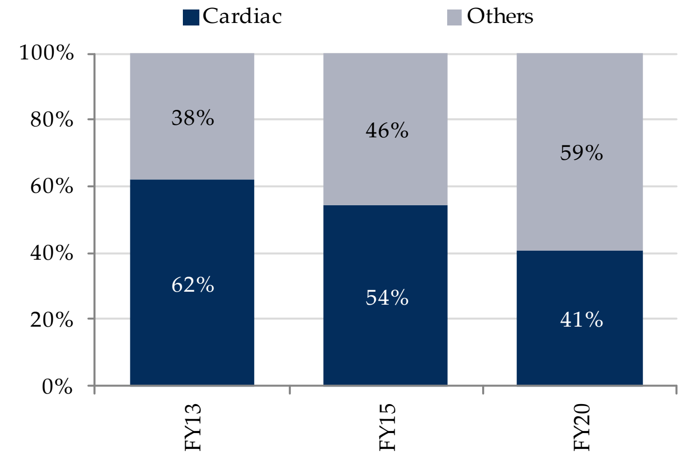
Source: Company, HSIE Research, *ARPOBs and Occupancy are ex-Jammu

Therapeutic diversification has accelerated growth

Cardiac contribution has declined from 62% in FY13 to 41% in FY20

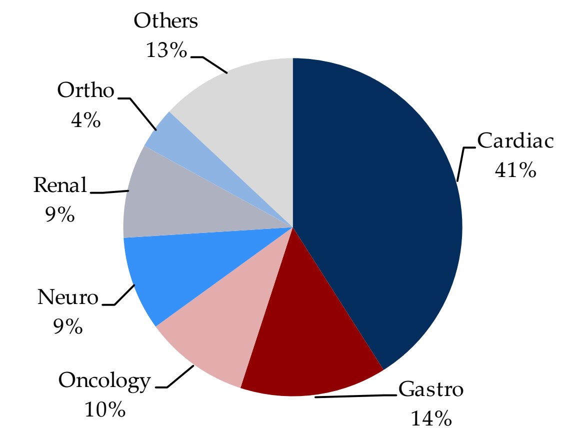
With strong reputation and legacy in cardiac and renal sciences, NH has steadily expanded its services across high value clinical specialties in areas of cancer care, neurology, orthopaedics, and gastroenterology. Diversifying away from cardiac has de-risked the business model (stents price control) and at the same time benefitted the company from the rising demand for tertiary care services in the country. The contribution of cardiac therapy to in-patient billed revenue has reduced from 62% in FY13 to 41% in FY20. Other therapies such as gastro, oncology, neuro, renal and ortho now account for ~59% of its India revenues.

Exhibit 118: Cardiac contribution has steadily declined



Source: Company, HSIE Research

Exhibit 119: Focus on high-end specialty tertiary care



Source: Company, HSIE Research

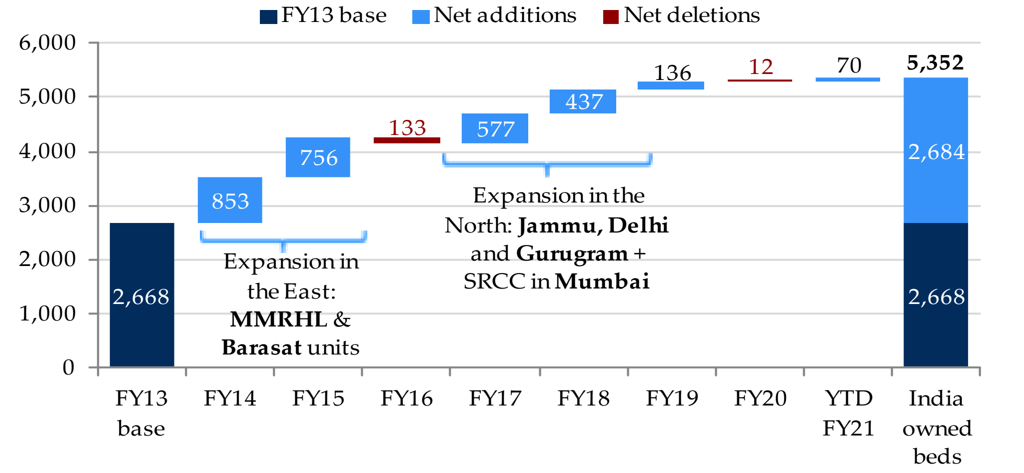
Aggressive expansion in the past, now in consolidation phase

Added 2.500 beds (50% of capacity) from FY14-18

To target selective expansion – greenfield/ brownfield in Kolkata

From FY14-18, NH aggressively expanded capacity by adding 2,500 beds (~50% of total beds). Besides expanding in metros (Mumbai, Delhi NCR, and Kolkata), it added capacities in several tier-2/3 towns such as Jaipur, Raipur, Jamshedpur, Guwahati, etc. Over the past two years, it has consolidated its operations by bolstering capacities at existing units (added oncology block in Jaipur and Raipur) and exited some of the none-core units such as Whitefield and Durgapur. Going forward, it will look to add capacities selectively in regions where it has existing presence; prioritising Kolkata over Bangalore and Delhi.

Exhibit 120: ~50% of total beds were added between FY14-18



Source: Company, HSIE Research

"Asset-right" expansion has led to lowest gross block per bed

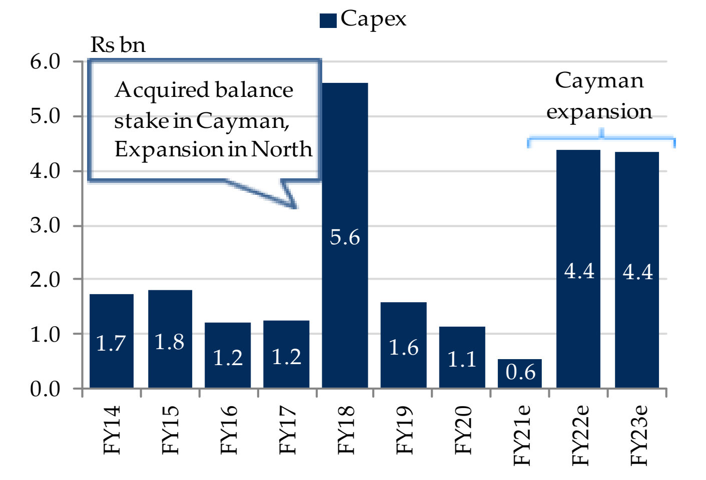
The significant expansion has happened with efficient capital deployment which is clearly evident in NH's lower gross block per bed at Rs3.6mn vs. Rs10-13mn for comparable peers with pan-India presence. NH engages with partners that own the fixed assets, primarily, land and building, while it owns the medical equipment and operates the hospital, typically on a revenue share basis. This has enabled it to expand its network without compromising on balance sheet quality.

Exhibit 121: Asset-light model of expansion

Engagement Framework	Comments	No. of units	Hospitals	No. of operating beds	GB + CWIP*	Capital cost per bed
Owned or Long/ Perpetual lease	Owns & operates on freehold basis or long term/ perpetual lease	9 hospitals	NICS, MSMC, Barasat, MMRHL (2 units), Ahmedabad, Jaipur, Mysore & Gurugram	2,993	14,000	4.7
Revenue Share/ Rentals	Operates and pays a revenue share/ rent to the owner	9 hospitals	RTIICS + RTSC, Jamshedpur, Raipur, Shimoga, HSR, RNN, SRCC, Dharamshila	1,955	4,500	2.3
Public-Private Partnership (PPP)	Operates with nominal investment in partnership with public entities	2 hospitals	Jammu, Guwahati	365	190	0.5
Managed Hospitals	Provides healthcare services to third parties for management fees	1 hospital	JSW Bellary	112	NA	NA
Heart Centers	Runs cardiac sciences' dept. out of 3rd party hospitals and pays revenue share	6 heart centers	**Karnataka** - St. Marthas, Davangere, Dharwad, Kolar, MSRNH **Bangladesh** - Chittagong	345	580	1.7

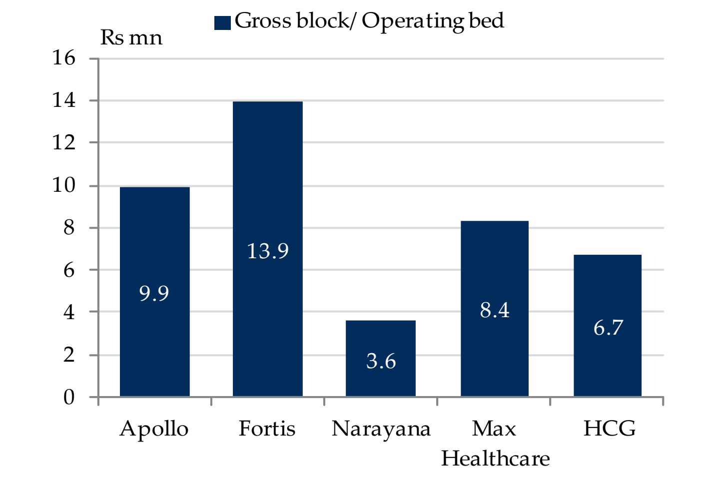
Source: Company, HSIE Research, Rs mn, *Figures exclude cash and non-cash government grant of ~Rs1.5bn and a non-cash lease provision of ~Rs1bn

Exhibit 122: Despite doubling of gross block in the past 5 years…



Source: Company, HSIE Research

Exhibit 123: …its Gross block/bed is lowest among peers



Source: Companies, HSIE Research

Geographic expansion has led to growth diversification

NH had a dominant position in Karnataka and Eastern region with both accounting for ~85% of its revenues in FY16. Over the past few years, it has expanded its operations in the Northern (Delhi, Gurugram and Jammu) and Western region (Mumbai, Raipur, Ahmedabad) of India. Other regions now contribute to 24% of India revenues.

- **Bangalore** – NH operates three hospitals in Bangalore – NICS, MSMC and HSR. These are well-established hospitals with steady track record (~7% revenue CAGR over FY18-20) and contributed ~37% to India hospital revenues in FY20**.** NICS and MSMC are its flagship facilities and these were severely impacted by COVID with revenues declining by 48% in 9mFY21, given they have higher proportion of revenues from outstation/ international patients. We expect gradual recovery at these units as travel restriction eases. With limited visibility on international segment (high margin business), we forecast muted revenue/EBITDAR growth of 2%/2% CAGR for the FY20-23e**. Both these units have strong operating metrics with EBITDAR margins at 30%+ levels (pre-COVID).**

NICS – largest facility with focus on cardiac care ARPOBs will be driven by improving case mix and higher proportion of international patients

  - **NICS** – Narayana Institute of Cardiac Sciences (NICS), a super-specialty hospital for cardiology and cardiac surgery, is its largest facility with ~750 operating beds. The facility operates at ~60-70% occupancy (pre-COVID) and has good runway of growth. International patients account for 15-20% of its revenues. The scheme based patients form 25-30% of its revenues which limits the ability to take higher price increases. We expect ARPOBs to grow at single digit primarily on back of improved case mix.

MSMC – second largest facility with high-end specialties

  - **MSMC** – Mazumdar Shaw Medical Center (MSMC), a multispecialty hospital for cancer care, neurology and neurosurgery, nephrology and urology is its second largest facility with ~705 operating beds. The hospital operates at ~60-70% occupancy (pre-Covid) and enjoys higher ARPOBs than NICS, given superior case mix (high-end procedures).

Exhibit 124: Bangalore units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenues	2,464	2,556	2,339	2,072	793	1,202	1,796
ARPOBs	11.7	11.4	11.2	12.1	13.3	11.5	11.7
Margins	32%	34%	30%	26%	-31%	-6%	19%

Source: Company, HSIE Research

Hospitals in Mysore and Shimoga have outperformed flagship units in 9mFY21

- **Southern peripheral** comprises of two hospitals with one each in Mysore and Shimoga. This cluster has significantly outperformed the flagship units in 9mFY21 thereby underlining the improving operating conditions at these hospitals. After a decline in 1HFY21, revenues grew by 4% in Q3FY21 with 22% EBITDAR margin. We expect NH to sustain this performance and model ~9% revenue CAGR over FY20-23e with improved contribution from these hospitals to overall profitability.

Exhibit 125: Southern peripheral units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenues	370	393	369	357	301	373	393
ARPOBs	7.1	6.7	7.0	7.2	9.8	8.7	8.9
Margins	15%	20%	21%	18%	13%	20%	22%

Source: Company, HSIE Research

RTIICS - one of flagship units caters to patients from countries like Bangladesh, Bhutan, Myanmar, Nepal, and Africa

With 665 beds, it operates at 80-85% occupancy

MMRHL units - good infrastructure with strong focus on tertiary and quaternary care - we forecast margin expansion of 50bps at these units

- **Kolkata and Eastern Peripheral** – Arguably the largest player in the Eastern markets (esp. Kolkata), the company has a very strong presence and brand value in the Eastern market. Kolkata contributed to ~27% of India hospital revenue in FY20 and accounts for 26% of NH's total operating beds in India. It operates six hospitals in Kolkata – RTIICS, RTSC, MMRHL (2 units), Barasat and RNN and one hospital each in Jamshedpur and Guwahati in the Eastern peripheral region.
  - **RTIICS** – Established in the year 2000, Rabindranath Tagore International Institute of Cardiac Sciences (RTIICS), Kolkata, is a 681-bedded, NABH-accredited multi-super-specialty quaternary care hospital for cardiac sciences & heart transplantation, renal sciences and kidney transplantation, neurosciences, medical & surgical gastroenterology, hepatobiliary sciences and liver transplantation. With ~665 operating beds, the company operated at ~80-85% of occupancy (pre-COVID) underscoring high demand in the region. However, due to space constraints, NH is unable to add beds despite the strong demand. The facility enjoys high ARPOBs and will potentially grow in mid-single digits, driven by price and case mix. We expect revenue to grow at ~3% CAGR over FY20-23e with ~25% EBITDAR margins.
  - **MMHRHL** – In 2014, NH strengthened its presence in the East by acquiring two units of Westbank hospital, a subsidiary of Meridian Medical Research and Hospital Ltd (MMRHL), for ~USD24.3mn. The unit provides comprehensive cancer care facilities, in addition to other tertiary care specialties. With ~400 operating beds, the hospital (both units) operated at ~65-70% occupancies in FY20. Despite high competition in the region and supply side constraints for MMRHL, the management expects ARPOBs to grow in high single digits (from a base of Rs8.5-9mn in FY20), driven by case mix. We model ~8%+ revenue CAGR over FY20-23e with EBITDAR margin expansion to ~22-23% (from 20%+ pre-COVID) over the same period.

Exhibit 126: Kolkata units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenues	1,663	1,769	1,724	1,793	616	1,077	1,571
ARPOBs	9.0	9.2	9.1	9.0	9.3	8.9	8.7
Margins	21%	23%	22%	21%	-46%	-4%	17%

Source: Company, HSIE Research

Exhibit 127: Eastern peripheral units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenues	308	328	308	297	205	207	281
ARPOBs	6.7	6.6	6.7	6.8	7.4	8.2	8.4
Margins	10%	17%	12%	8%	-6%	-8%	11%

Source: Company, HSIE Research

- **Western Region** – NH operates four hospitals in the Western region – Mumbai, Jaipur, Raipur, and Ahmedabad. The region contributes to ~15% of the India hospital revenues and accounts for ~18% of the operating beds.
  - **Mumbai's SRCC children's hospital** commissioned in FY18 is part of the "new units" which has struggled to ramp up. The hospital made EBITDAR loss of over ~Rs200mn in FY20 (~Rs300mn loss in FY18). The doctor cost is significantly high at this facility. Key challenges faced are as follows: (a) patient pool is limited, given this is a pediatric hospital; (b) it's a tertiary/quaternary care hospital in South Mumbai and, therefore, many people cannot afford it; (c) a lot of ailments are due to genetic issues, which impacts bottom section of the economy more since they cannot afford the treatment/ early diagnosis of such issues (vs. the more affluent section who can afford the best treatment and may chose to travel abroad for the same). The current patient pool is either referred to by government or is scheme driven. We expect the facility to take longer to break even (FY24).

Barring SRCC, we expect the Western region revenue to grow at 8%+ CAGR over FY20-23e with EBITDA margin expanding from ~11% in FY20 to ~11.5% in FY23e (better case mix, ramp-up of oncology segment at Raipur)

- **Jaipur, Raipur** and **Ahmedabad** are all part of other mature units cluster. Raipur specifically has demonstrated resilient performance during 9mFY21 and we expect it to contribute higher to overall profitability. NH has added oncology services at Jaipur and Raipur units, which should drive ARPOBs. The Ahmedabad hospital was making losses until FY18 but the company's decision to stay the course despite muted ramp-up in the initial years has begun to pay off in recent years. NH added ~20 beds in FY20 and plans to add oncology services. We expect these units to gain further traction once business normalizes.
- Barring SRCC, we expect the Western region revenue to grow at 8%+ CAGR over FY20-23e with EBITDAR margin expanding from ~11% in FY20 to ~11.5% in FY23 (better case mix, ramp-up of oncology segment at Raipur).

Exhibit 128: Western region units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenues	924	983	923	892	520	787	954
ARPOBs	8.5	8.3	8.1	8.2	9.1	9.7	10.0
Margins	3%	7%	3%	1%	-28%	-1%	9%

Source: Company, HSIE Research

- **Northern region (ex-Jammu)** – NH owns/operates two units in this region – Dharamshila (Delhi) and Gurugram facilities, which have been acquired in the past three years. These accounted for ~8% of NH's India hospitals revenues in FY20. Dharamshila and Gurugram have broken even on a monthly basis and we expect them to contribute positively to EBITDAR from FY22 onwards. We model ~19% revenue CAGR for these two hospitals over FY20-23e.

  - **Gurugram** (~230 bedded) hospital broke even in Dec'20 on a monthly basis. However, the sustenance of this needs to be monitored. The hospital is close to the airport and, therefore, attracts a higher proportion of international patients (~30-35% of pre-COVID volumes). ARPOBs are attractive at ~Rs20mn, given it has superior case mix and lower scheme business. We expect this facility to turn EBITDAR positive by FY22e.
  - **Dharamshila** (300 bedded) follows an asset-light model. The hospital has been converted from a cancer care unit into a multispecialty set-up (cancer is 50% of revenue today). Going forward, NH might step up investments to upgrade infrastructure (civil/ tech), given this is a very old hospital. The company pays rental of Rs200mn per annum with 5-6% cost inflation to the owner. This is the first hospital to break-even among the new units cluster and is on track to achieve mid-teen profitability in the next 3-4 years.

Exhibit 129: Northern region (ex-Jammu) units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenues	431	524	493	538	301	497	617
ARPOBs	14.3	13.9	12.9	13.4	15.4	13.9	14.2
Margins	-25%	-17%	-18%	-14%	-40%	-10%	1%

Source: Company, HSIE Research

Business mix by maturity profile

While we model each hospitals separately, we further analyse them based on their maturity profile - mature units (>3 years) and new (upto 3 years) units. Out of the 20 owned/ operated hospitals, mature units comprise of 17 hospitals – 3 flagship and 14 other mature hospitals whereas the new units comprise of 3 hospitals. We highlight the recent trends for these units which demonstrate strong traction witnessed by the new units cluster.

Mature units – strong bounce back from the lows of Q1FY21

Flagship units - NICS, MSMC and RTIICS contribute to almost half of India revenues and ~80%+ of India EBITDAR

While the mature units are expected to see gradual recovery, it is the non-flagship units that will drive better growth over flagship units over FY20-23e

- The share of mature units in India revenues has risen from 79% to 86% over FY15-20. The three flagship units (NICS, MSMC & RTIICS) contribute ~80% to India EBITDAR. These units receive high footfalls from outstation/ international patients and hence were severely impacted during Covid. We expect gradual recovery at these units as travel restriction ease. With limited visibility on international segment (high margin business), we forecast muted EBITDAR growth of 2% CAGR for the next FY20-23e. Out of the other mature units (14 hospitals), Raipur, Mysore, Shimoga have shown resilience and outperformed the flagship units during 9mFY21 with margins trending towards 18-23% (vs. 15-20% pre-Covid).

Exhibit 130: Mature units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Mature Units							
Revenues	5,777	6,094	5,740	5,503	2,517	3,761	5,071
Margins	23%	26%	23%	20%	-24%	-1%	17%
ARPOBs	9.4	9.4	9.3	9.4	10.1	9.8	9.8
Discharges	57,098	61,890	58,825	54,604	19,219	26,355	34,718

Source: Company, HSIE Research

New units – encouraging performance even in tough times

We expect Dharamshila and Gurugram units to break even in FY23e, SRCC (Mumbai) to break even in FY24e

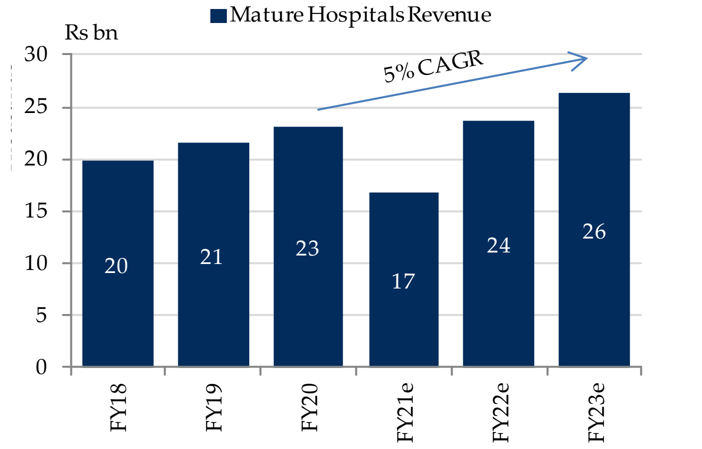
- The three new hospitals – SRCC in Mumbai (commissioned in Apr'17), Dharamshila in Delhi (Mar'18) and Gurugram (Mar'18) had combined EBITDAR losses of Rs700mn+ in FY19 which reduced to ~Rs340mn in 9mFY21, driven by strong performance in Gurugram and Dharamshila (revenues at pre-COVID levels with EBITDAR margin at 1% for these two units in Q3FY21). Despite discharges being at <50% of pre-Covid levels in Q3FY21, the company managed to bring the cluster closer to break-even levels. We expect SRCC to remain negative in FY23e, but the overall cluster to contribute ~4% to India EBITDAR in FY23e driven by Dharamshila and Gurugram.

Exhibit 131: New units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
New Units							
Revenues	574	650	616	639	364	577	744
Margins	-27%	-20%	-22%	-20%	-51%	-17%	-4%
ARPOBs	12.4	12.3	11.8	12.2	13.4	13.7	13.5
Discharges	7,098	7,947	8,181	7,815	5,578	7,008	3,424

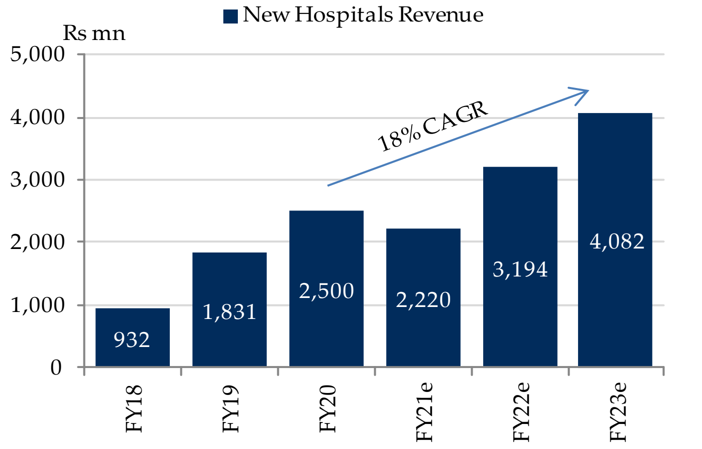
Source: Company, HSIE Research

Exhibit 132: Mature units are expected to see gradual recovery and grow at ~5% CAGR over FY20-23e



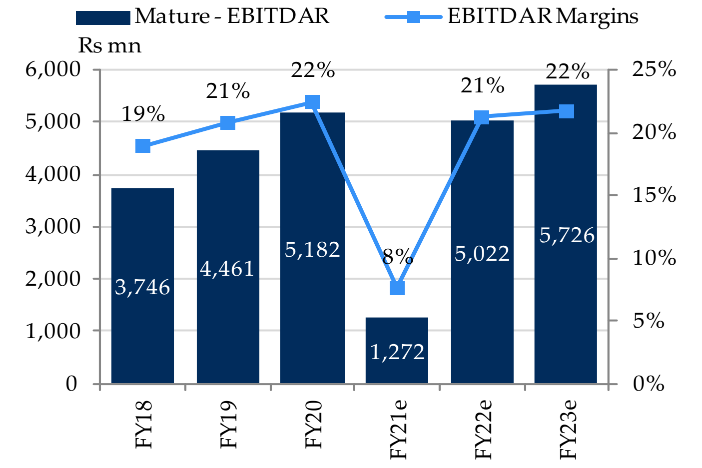
Source: Company, HSIE Research

Exhibit 133: New hospitals to grow at ~18% CAGR over FY20-23e driven by Dharamshila and Gurugram units



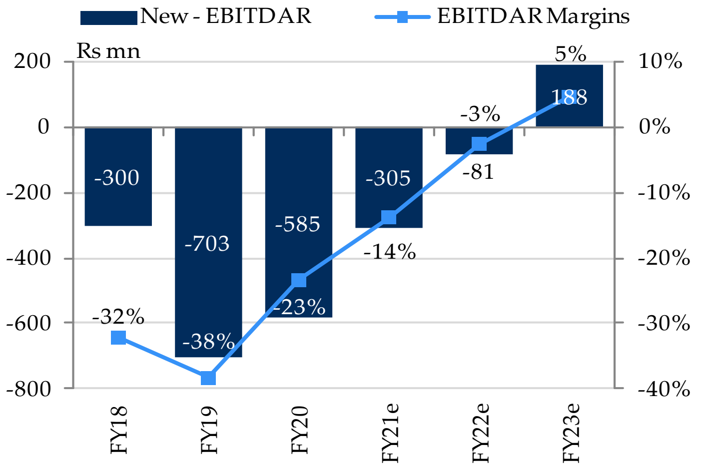
Source: Company, HSIE Research

Exhibit 134: Mature units to achieve FY20 absolute EBITDAR level in FY22 and to grow from there on



Source: Company, HSIE Research

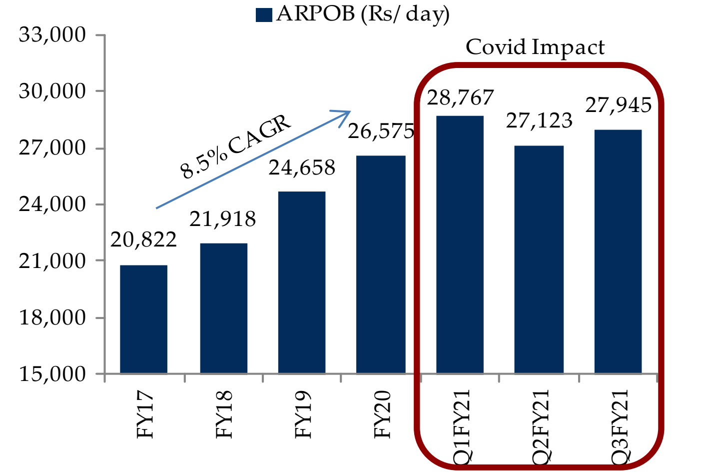
Exhibit 135: Sharp reduction in losses at new hospitals in FY22e; to turn EBITDAR positive by FY23e



Source: Company, HSIE Research

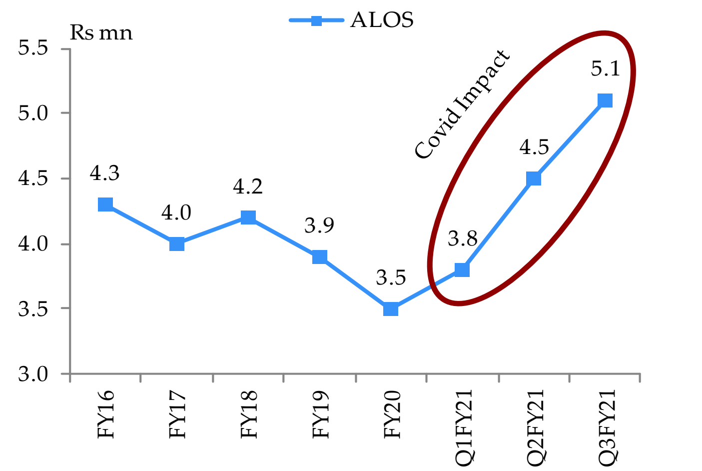
Key operating parameters - strong trends (pre-Covid)

Exhibit 136: ARPOBs have improved



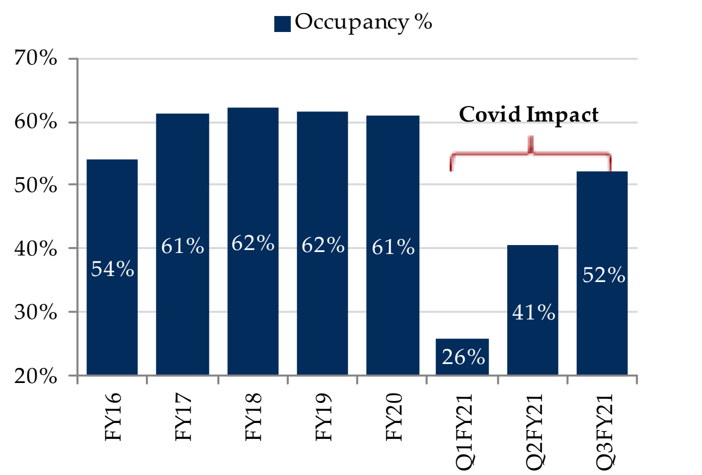
Source: Company, HSIE Research

Exhibit 137: ALOS has steadily declined



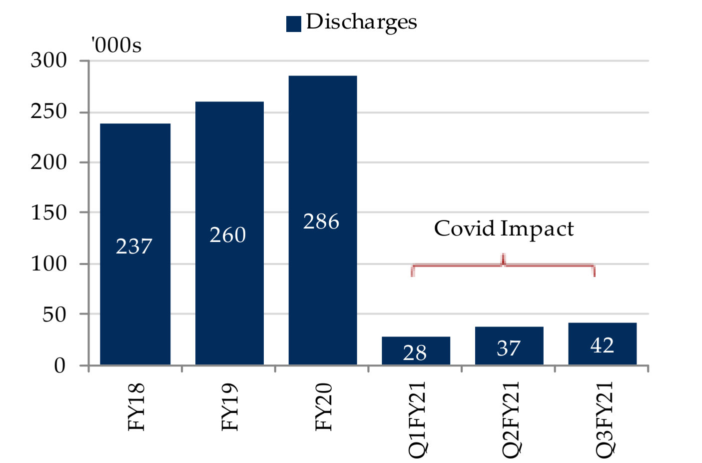
Source: Companies, HSIE Research

Exhibit 138: Occupancy has remained stable



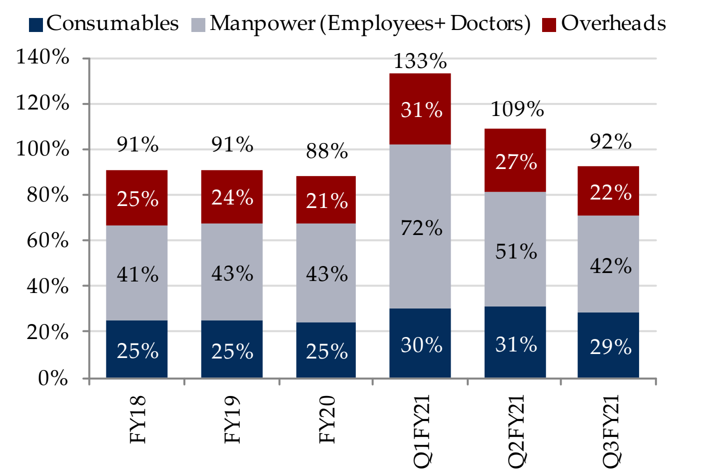
Source: Company, HSIE Research, NH started reporting occupancies on census bed basis from FY17

Exhibit 139: Increase in discharges drove volumes



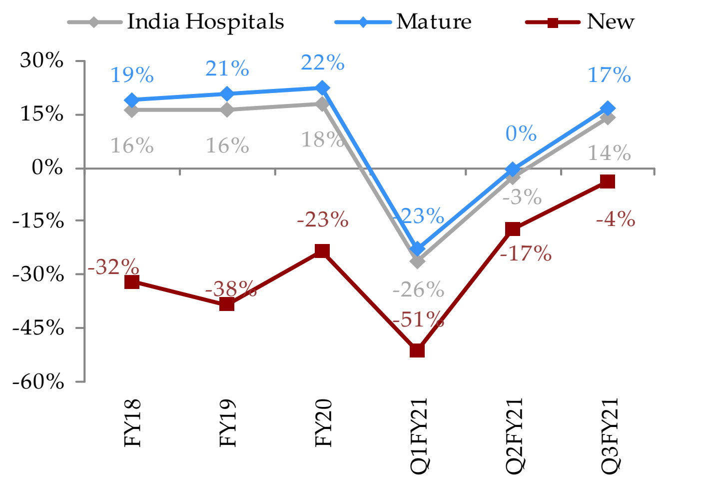
Source: Company, HSIE Research

Exhibit 140: Operating efficiencies have improved cost structure



Source: Company, HSIE Research

Exhibit 141: India hospitals' EBITDAR margin improved by ~125bps over FY18-20



Source: Company, HSIE Research

Cayman Islands – stronger than ever

Cayman is a 100% insured market and the richest island in the Caribbean

NH is a credible player in the region along with 2 others (one being government)

International patient account for ~15-18% of NH's revenues (pre-Covid)

Travel restriction led to increased flow of local patients into NH's facility driving ARPOBs from USD1.6mn to USD2mn

Back in 2014, NH forayed into the international market in the Caribbean region with a minority stake of 28.6% in a 105-bed multispecialty hospital in Health City Cayman Islands (HCCI). It further raised its stake to 100% in FY18 by paying a consideration of USD32.2mn in cash. This facility broke even in FY17 and has now emerged as an advanced tertiary care hospital, expanding its offerings in plastic surgery and interventional radiology, besides the core offerings in cardiac sciences, orthopaedics, and neurosciences. NH is a credible player in the Cayman Islands today along with 2 other players (one being government). While the company aims to attract patients from the Caribbean, the US and Latam, it has seen limited success with that and has been able to attract patients only from the neighboring Caribbean Islands. International patients account for ~15-18% of its revenues (pre-Covid).

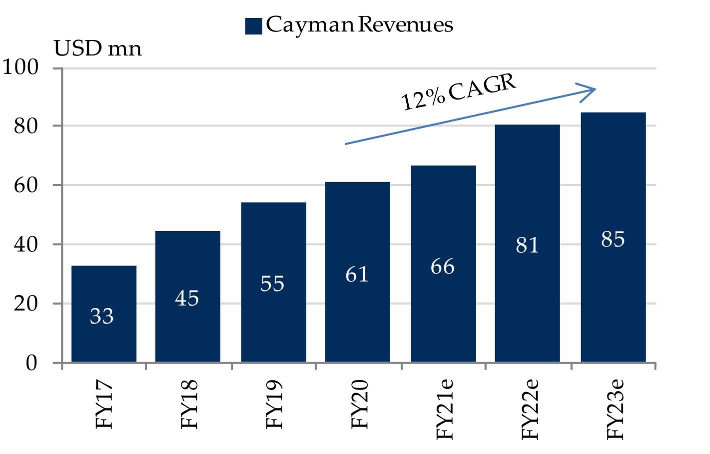
- The revenues from the Cayman unit have grown at ~23% CAGR in the past three years to USD61mn in FY20 with ~36% occupancy and ~25% EBITDA margin. The COVID significantly boosted its operations as the country locked doors for international travel, which led to increased flow of domestic patients who otherwise would have travelled abroad (primarily US) for the treatment.
- Post a temporary blip in Q1FY21 due to the shutdown of operations after the admission of an infected patient, the Cayman unit posted a robust growth of 20%+ in Q2/Q3FY21 with ~45% EBITDA margins driven by improved mix (high-end procedures) and favorable pricing action. ARPOBs increased from USD1.6mn in FY20 to USD2mn in Q2/Q3FY21. NH remains confident of sustaining this performance over the next two years as patient mobility remains restricted in the island. Moreover, it expects patient footfalls to sustain given they enhanced their credibility in the region in this period.
- We forecast 12/31% revenue/EBITDA CAGR over FY20-23e with enhanced EBITDA margins of 38%-40% in FY22-23e.

Exhibit 142: Cayman facility's performance

Particulars	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21
Revenues	14.5	16.1	15.6	16.0	15.3	14.2	11.5	19.5	19.1
Margins	21%	24%	22%	24%	24%	29%	15%	46%	42%
ARPOBs	1.6	1.7	1.8	1.6	1.4	1.4	1.6	2.2	2.0
Discharges	576	727	660	641	696	584	323	627	590

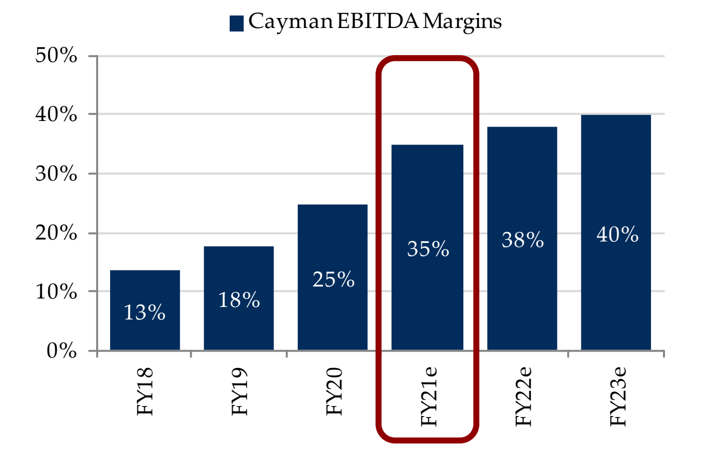
Source: Company, HSIE Research

Exhibit 143: We forecast ~12% revenue CAGR over FY20-23e



Source: Company, HSIE Research

Exhibit 144: Improved case mix, favorable pricing drove EBITDA margins higher in FY21e



Source: Company, HSIE Research

Cayman expansion is expected to be NPV accretive

Capital outlay of ~USD100mn for -50 bed facility – the new unit will focus mainly on oncology, critical care and day care services

- Encouraged by the good performance, management announced a greenfield expansion of 50 beds in Camana bay in Cayman Islands for ~USD100mn, which will be funded through mix of internal accruals and debt. The new unit is 30kms away from existing unit but strategically located closer to the airport, in the city centre, where domestic population resides.
- The total outlay of ~USD100mn (~USD8mn for land, ~USD15mn for medical equipments and rest for interiors, high-end system, civil work, etc.) is to be funded equally through debt (LIBOR + 1.8%) and internal accruals (likely to generate ~USD53mn cashflow in the next two years). While the facility will take 24 months to commence the operations, the radiotherapy center is expected to be commissioned in the next 12 months. We have not factored any revenues from the proposed expansion into our estimates for the next two years. NH does not expect cannibalization, except for a few diagnostics and outpatient services as the existing unit focuses more on elective and high-end surgeries.

The new facility will increase 4.4 beds per 1,000 in Cayman to 5.2 per 1,000 (vs. 2.5-2.7 in US/ UK)

- **Increase in competition poses a key risk –** The Cayman Island has a population of 66,000+. There are currently ~290 operating beds in the island, which translates to ~4.4 beds per 1,000 people. With proposed expansion of NH, this is likely to increase to ~5.2 beds per 1,000 (vs 2.5-2.7 for US/UK). With the increase, NH's market share will be close to ~50%. Aster DM Healthcare has also recently announced its intent to set up operations at Cayman which if executed will result in excess capacity in an already well-served market. Entry of Aster DM Healthcare remains a key risk to our DCF assumptions.
- The proposed unit will focus on oncology, critical care and day care services. We therefore base our DCF assumptions on ARPP (average revenue per patient) and patient discharges as key operating parameters.

Our DCF analysis assumes capital outlay of results in an NPV range of Rs-14 to Rs71 for the project.

We carry out a sensitivity analysis based on assumptions of key operating parameters - ARPP and patient discharges, capital outlay of USD75mn and WACC of 8% to arrive at an NPV range of Rs-14 to Rs71 for the project. Our base case scenario assumes ARPP of USD28,198 (vs. current ARPP of USD32,373 in Q3FY21) and patient discharges of 1,900 (vs. current annualized discharges of ~2,400), resulting in an NPV of Rs 25/sh.

Our base case scenario assumes an ARPP of USD28,198 and discharges of 1,900 and adds Rs25/sh to our target price

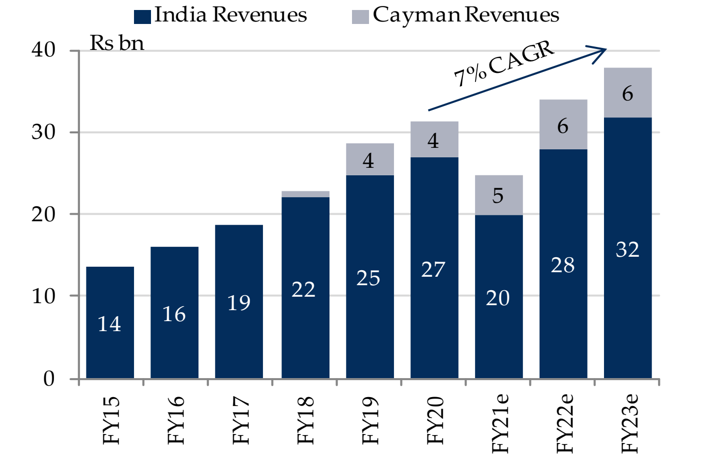
Exhibit 145: Sensitivity analysis

Cayman Expansion		ARPP (USD)				
Fair Value		24,000	26,000	28,198	30,000	32,000
Discharges (nos.)	1,300	-14	-10	-5	0	4
	1,600	-2	4	10	15	21
	1,900	11	18	**25**	31	37
	2,200	24	31	40	47	54
	2,500	36	45	54	62	71

Source: HSIE Research, Company

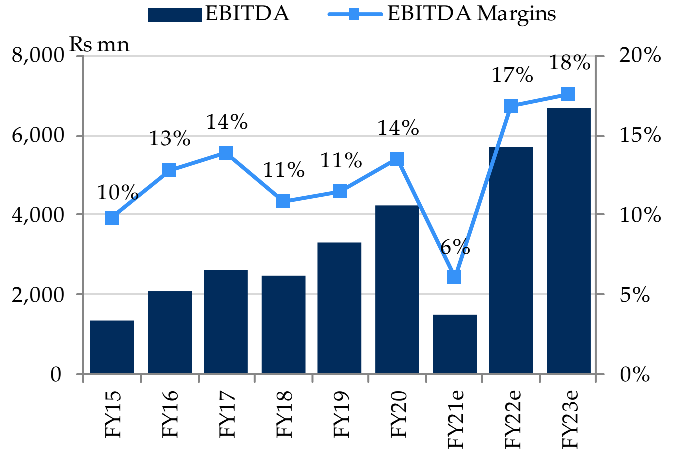
Financial Metrics

Exhibit 146: Revenues expected to grow at ~6%/12% CAGR over FY20-23e for India/Cayman business



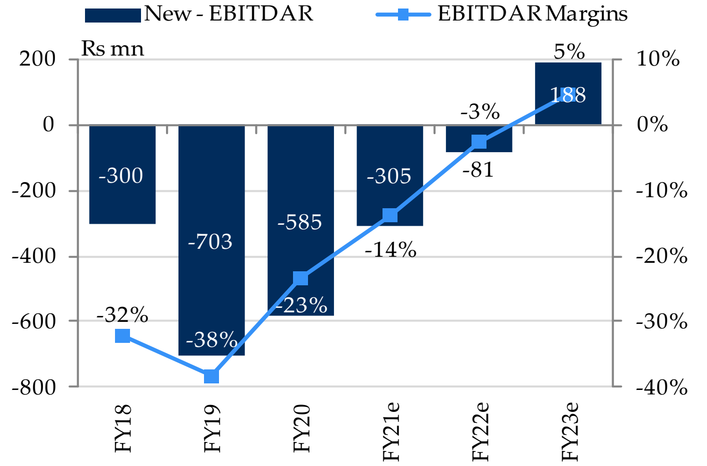
Source: Company, HSIE Research

Exhibit 147: EBITDA margins to expand by ~410bps to ~18% over FY20-23e



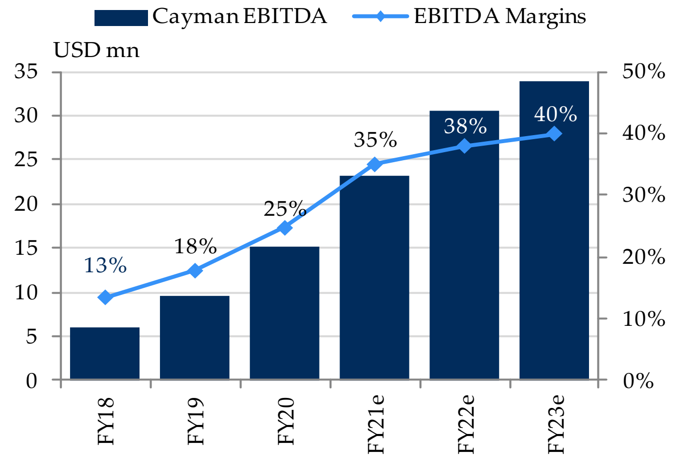
Source: Company, HSIE Research, Post Ind AS EBITDAs (adj. nos. pre-FY20)

Exhibit 148: New hospitals to turn EBITDAR positive by FY23e



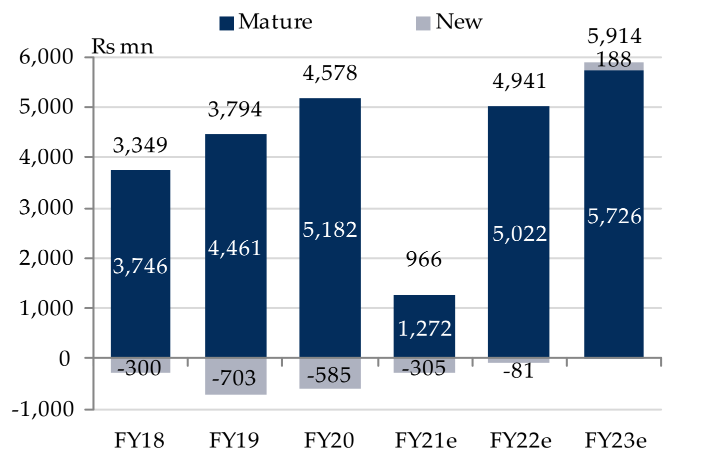
Source: Company, HSIE Research

Exhibit 149: Cayman facility margins to improve significantly from 25% in FY20 to 40% in FY23e



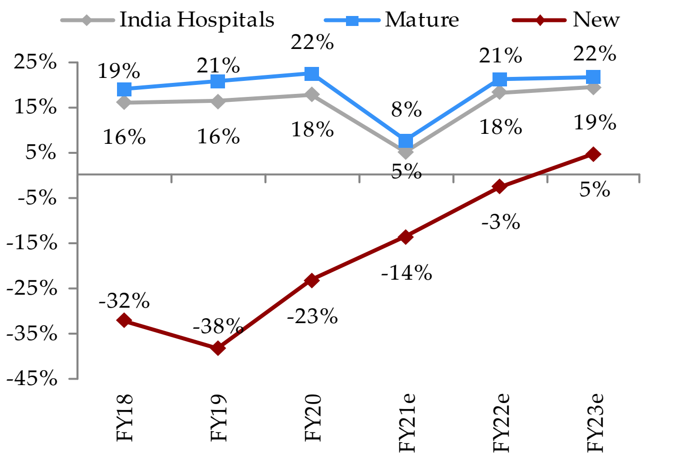
Source: Company, HSIE Research

Exhibit 150: EBITDAR breakdown – contribution of new units and other mature units to increase



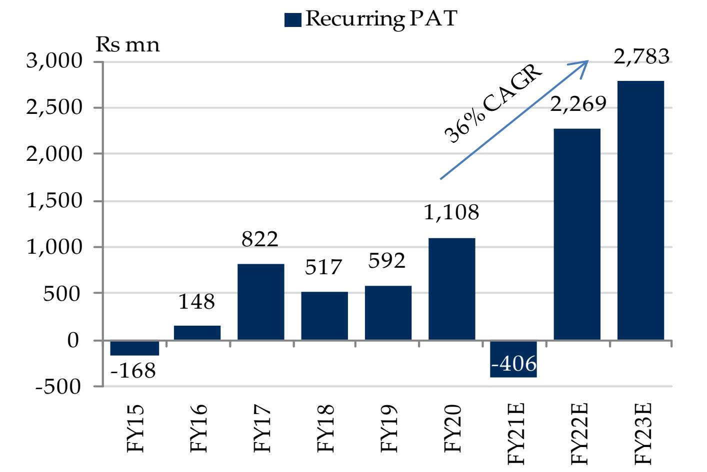
Source: Company, HSIE Research

Exhibit 151: India hospitals EBITDAR margin to expand by 150+bps over FY20-23e



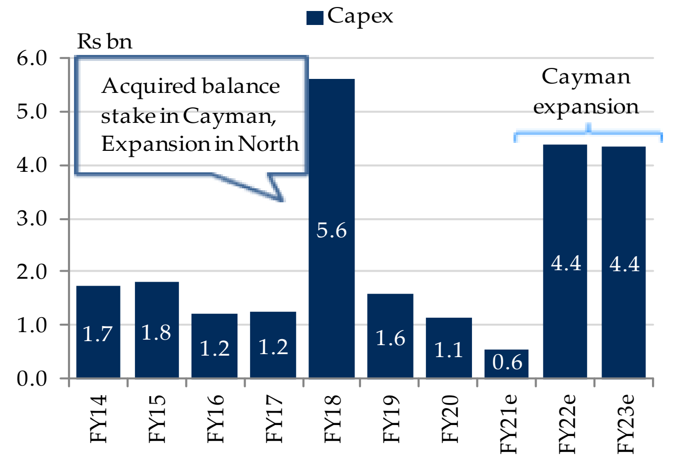
Source: Company, HSIE Research

Exhibit 152: PAT to grow 2.5x from FY20 levels; nil taxes at Cayman to drive net profit



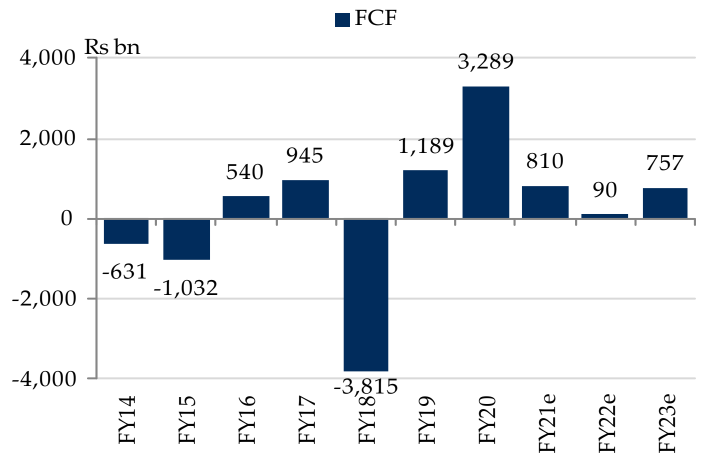
Source: Company, HSIE Research

Exhibit 153: Limited capex in India; Cayman expansion factored in estimates



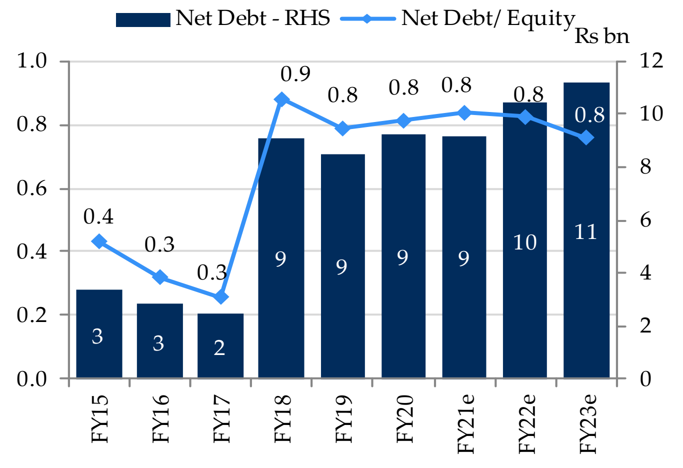
Source: Company, HSIE Research

Exhibit 154: NH to generate positive FCF despite additional investments in Cayman



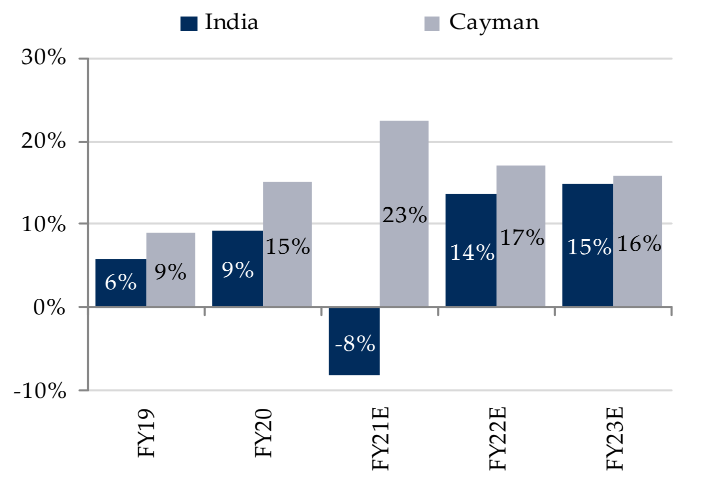
Source: Company, HSIE Research

Exhibit 155: Net debt/ equity remains comfortable below 1.0x despite additional borrowings



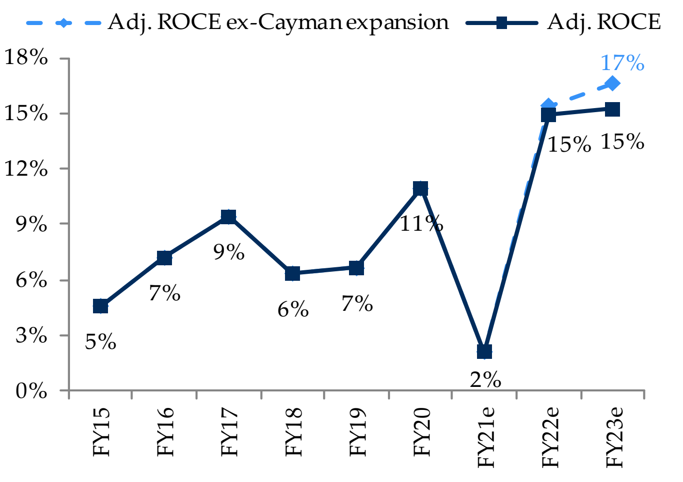
Source: Company, HSIE Research, Net debt includes lease liabilities

Exhibit 156: ROCE break down – Meaningful improvement in India; Cayman ROCE attractive despite Capex



Source: Company, HSIE Research

Exhibit 157: ROCE - Cayman expansion to dilute overall ROCE by ~140bps in FY23e



Source: Company, HSIE Research

Valuation and risks

After a 14% correction in the past two months, the stock is trading at 16x/ 14x FY22/23e EBITDA which is ~10-15% discount to its 5-yr historical average

The stock (up ~64%) has underperformed Nifty by 7% in the last one year

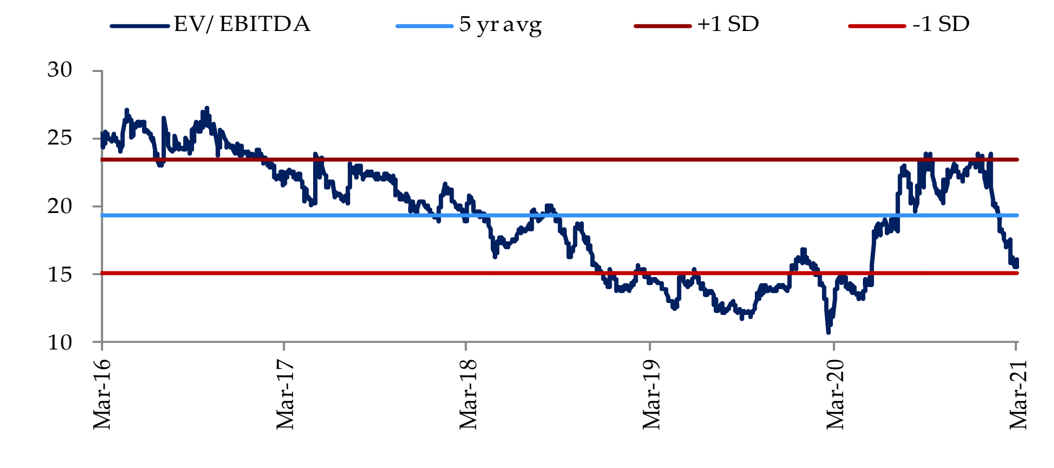
Our target price of Rs460/sh is based on SOTP valuation of (a) India hospitals business - 16x FY23 EV/ EBITDA; (b) Cayman operations - 12x FY23 EV/EBITDA; (c) Cayman expansion – NPV of Rs25/sh. We value NH's India business at 16x EV/EBITDA, ~10% discount to Apollo's hospital business. While ROCEs are comparable today, Apollo has a consistent track record, true pan India presence and diversified EBITDA base compared to NH. We assign 12x EV/EBITDA to existing Cayman operations, a discount of ~25% to the India business to factor divergent growth potential of that market. However, the ROCE of Cayman and the medium growth outlook are superior to that of India business.

Exhibit 158: SOTP valuation

Particulars	EBITDA	Multiple	Rs mn
India business	4,217	16.0	67,468
Cayman operations	2,476	12.0	29,714
Fair value	**6,693**		**97,300**
Less: Net Debt (excl. Cayman expansion)			6,051
Less: Lease liabilities			2,344
Implied Market Cap			**88,897**
No. of Equity shares			204.4
Fair Value per share (Existing operations)			**435**
Add: PV of Cayman expansion			25
Target Price			**460**

Source: HSIE Research

Exhibit 159: NH is trading at ~10-15% discount to its 5-yr avg. EV/ EBITDA multiple



Source: Bloomberg, HSIE Research

Risks

- **India** – Delay in business normalcy and turnaround of new units, adverse government regulations in terms of price control, and scheme implementation in West Bengal.
- **Cayman Islands** – Inability to sustain patient footfalls at existing units, extended payback period for the new unit, increased competition by entry of new player.

Financials

Consolidated Income Statement

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**16,138**	**18,782**	**22,809**	**28,609**	**31,278**	**24,885**	**33,911**	**37,985**
Growth (%)	18.3	16.4	21.4	25.4	9.3	-20.4	36.3	12.0
Operative Expenses	3,871	4,359	5,565	6,875	7,453	6,451	8,029	8,966
Gross Profit	12,267	14,423	17,244	21,734	23,825	18,434	25,882	29,019
Gross Margins	76.0	76.8	75.6	76.0	76.2	74.1	76.3	76.4
Employee cost	6,547	7,608	9,445	12,139	13,027	11,198	13,734	15,299
Other expenses	3,974	4,526	5,677	6,717	6,569	5,723	6,443	7,027
EBITDA	**1,746**	**2,289**	**2,123**	**2,878**	**4,229**	**1,512**	**5,705**	**6,693**
Growth (%)	43%	31%	-7%	36%	47%	-64%	277%	17%
Margins (%)	10.8	12.2	9.3	10.1	13.5	6.1	16.8	17.6
Depreciation	761	799	1,000	1,374	1,858	1,818	1,880	1,963
Other income	147	175	189	167	238	260	273	278
Interest	294	218	468	714	853	777	805	862
PBT	**727**	**1,433**	**850**	**957**	**1,647**	**-822**	**3,293**	**4,145**
Tax	301	524	290	341	423	-452	988	1,326
Effective tax rate (%)	41.4	36.5	34.1	35.6	25.6	55.0	30.0	32.0
Recurring PAT	**148**	**822**	**517**	**592**	**1,108**	**-406**	**2,269**	**2,783**
Extraordinary items	-110	-13	5	0	-109	0	0	0
MI/share of Profit/loss in JV	-4	-1	1	1	1	1	1	1
Reported PAT	**426**	**909**	**560**	**616**	**1,225**	**-370**	**2,305**	**2,818**

Source: Company, HSIE Research

Consolidated Balance Sheet

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	2,044	2,044	2,044	2,044	2,044	2,044	2,044	2,044
Reserves and surplus	6,716	7,587	8,314	8,768	9,316	8,910	10,612	12,699
Shareholder's funds	**8,760**	**9,631**	**10,357**	**10,811**	**11,360**	**10,954**	**12,656**	**14,743**
Minority Interest	**3**	**2**	**3**	**4**	**5**	**7**	**8**	**9**
Total debt	3,041	2,821	9,473	9,534	11,076	11,127	12,538	13,998
Total Liabilities	**13,550**	**14,206**	**21,723**	**22,380**	**24,487**	**24,198**	**27,381**	**31,001**
Net fixed assets	9,927	10,209	17,117	17,124	17,245	16,497	16,943	16,911
Capital work-in-progress	138	530	350	561	118	118	2,708	5,668
Total non-current assets	**12,704**	**13,452**	**20,563**	**21,097**	**23,046**	**21,940**	**24,630**	**27,229**
Investments	0	0	0	0	693	693	693	693
Inventories	497	524	836	832	602	750	929	1,041
Debtors	1,518	1,569	2,790	2,664	2,622	2,591	3,530	3,955
Cash & bank balance	138	262	333	965	1,027	1,133	1,288	1,974
Loans and Advances	221	383	221	293	417	450	486	527
Other current assets	485	278	612	519	503	541	583	629
Total current assets	**2,860**	**3,016**	**4,793**	**5,274**	**5,864**	**6,158**	**7,509**	**8,818**
Creditors	1,610	1,885	2,962	3,335	3,616	3,068	3,902	4,163
Provisions	118	122	243	266	330	330	330	330
Net current assets	**846**	**754**	**1,160**	**1,283**	**1,440**	**2,258**	**2,751**	**3,772**
Total net assets	**13,550**	**14,206**	**21,723**	**22,380**	**24,487**	**24,198**	**27,381**	**31,001**

Source: Company, HSIE Research

Consolidated Cash Flow

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Profit Before Tax	**510**	**1,353**	**804**	**934**	**1,613**	**-857**	**3,259**	**4,110**
Depreciation	761	799	1,000	1,374	1,858	1,818	1,880	1,963
Cash flow before WC	1,874	2,475	2,427	3,243	4,606	1,749	5,952	6,942
WC changes	217	84	-265	83	488	-842	-485	-500
Taxes paid	-350	-366	-339	-539	-660	452	-988	-1,326
Cash flow from operations	**1,741**	**2,194**	**1,823**	**2,786**	**4,433**	**1,360**	**4,480**	**5,117**
Organic Capex	-878	-1,186	-2,026	-1,495	-1,144	-550	-4,390	-4,360
Inorganic Capex	-323	-62	-3,603	-102	0	0	0	0
Cash flow from investing	**-1,502**	**-1,463**	**-5,338**	**-1,613**	**-1,885**	**-527**	**-4,365**	**-4,332**
Equity Capital Issues	0	0	1	4	1	0	0	0
Borrowings (net)	445	-246	3,466	276	-1,472	51	1,411	1,460
Interest paid	-264	-206	-316	-553	-509	-777	-805	-862
Dividends paid	0	0	0	0	-490	0	-567	-696
Cash flow from financing	**-264**	**-206**	**-316**	**-553**	**-998**	**-777**	**-1,372**	**-1,558**
Net change in cash	**-26**	**525**	**-3,831**	**621**	**1,550**	**56**	**-1,257**	**-773**
Beginning cash	-527	-108	172	-50	844	918	1,025	1,179
Closing cash	**-553**	**418**	**-3,516**	**563**	**2,390**	**974**	**-232**	**406**
Free cash flow	**540**	**945**	**-3,806**	**1,189**	**3,289**	**810**	**90**	**757**

Source: Company, HSIE Research

Key Ratios

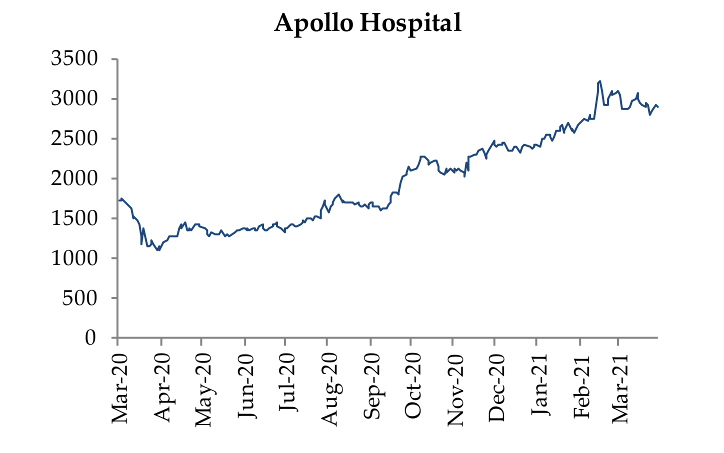
Year to March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)								
GPM	76.0	76.8	75.6	76.0	76.2	74.1	76.3	76.4
EBITDA Margin	10.8	12.2	9.3	10.1	13.5	6.1	16.8	17.6
APAT Margin	0.9	4.4	2.3	2.1	3.5	-1.6	6.7	7.3
RoE	5.2	9.9	5.6	5.8	11.0	-3.3	19.5	20.6
RoCE	7.2	9.4	6.3	6.6	10.9	2.1	14.9	15.2
EFFICIENCY								
Tax Rate (%)	41.4	36.5	34.1	35.6	25.6	55.0	30.0	32.0
Fixed Asset Turnover (x)	1.1	1.2	1.0	1.1	1.1	0.8	1.1	1.1
Inventory (days)	11	10	13	11	7	11	10	10
Debtors (days)	34	30	45	34	31	38	38	38
Other Current Assets (days)	9	4	9	6	4	6	5	5
Payables (days)	36	37	47	43	42	45	42	40
Other Current Liab & Provns (days)	6	5	7	5	6	7	6	5
Cash Conversion Cycle (days)	9	4	11	2	(5)	4	6	8
Debt/EBITDA (x)	1.6	1.1	4.3	3.0	2.2	6.1	1.8	1.7
Net D/E (x)	0.3	0.3	0.9	0.8	0.8	0.8	0.8	0.8
Interest Coverage (x)	3.8	7.6	2.8	2.3	3.1	(0.1)	5.1	5.8
PER SHARE DATA (Rs)								
EPS	0.7	4.1	2.5	2.9	5.4	(2.0)	11.1	13.6
Dividend	-	-	-	1.0	1.2	-	2.8	3.4
Book Value	43.0	47.5	51.0	52.9	55.6	53.6	61.9	72.1
VALUATION								
P/E (x)	559.0	100.1	159.3	140.2	74.8	(204.4)	36.5	29.8
P/BV (x)	9.4	8.5	8.0	7.7	7.3	7.6	6.6	5.6
EV/EBITDA (x)	49.1	37.3	43.4	31.8	21.8	60.9	16.4	14.1
EV/Revenues (x)	5.3	4.5	4.0	3.2	2.9	3.7	2.8	2.5
OCF/EV (%)	2.0	2.6	2.0	3.0	4.8	1.5	4.8	5.4
FCF/EV (%)	0.6	1.1	(4.1)	1.3	3.6	0.9	0.1	0.8
FCFE/Mkt Cap. (%)	1.6	0.9	3.9	1.9	2.2	1.0	1.8	2.7
Dividend Yield (%)	-	-	-	0.2	0.3	-	0.7	0.8

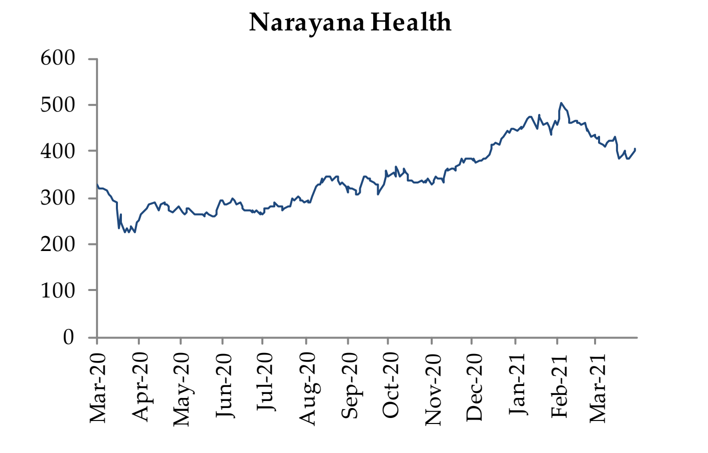
Source: Company, HSIE Research

Healthcare abbreviations

- **ALOS –** Average length of stay
- **ARPOB –** Average revenue per operating bed
- **ARPP –** Average revenue per patient
- **EBITDAR –** Earnings before interest, tax, depreciation, amortization, ***rent and corporate overheads***.
- **JCI** - Joint Commission International
- **NABH-** National Accreditation Board of Hospitals and Healthcare providers

1 Yr Price movement





Rating Criteria

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

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