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Initiating Coverage

Aster DM Healthcare Ltd.

10-May-2021

RETAIL RESEARCH

Aster DM Healthcare Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare Facilities	Rs. 147.95	Buy at LTP and add on dips to Rs 134-135 band	Rs. 163	Rs. 180	2 quarters

HDFC Scrip Code	ASTERDMEQNR
BSE Code	540975
NSE Code	ASTERDM
Bloomberg	ASTERDM IN
CMP May 07, 2021	147.95
Equity Capital (Rs cr)	499.5
Face Value (Rs)	10.0
Equity Share O/S (cr)	49.9
Market Cap (Rs cr)	7390.4
Book Value (Rs)	65.5
Avg. 52 Wk Volumes	391456
52 Week High	180.0
52 Week Low	82.8

Share holding Pattern % (Mar 2021)	
Promoters	37.9
Institutions	19.3
Non Institutions	42.8
Total	100.0

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Our Take:

Aster DM Healthcare Ltd has a unique business model among Indian healthcare service providers with a strong established presence in GCC (Gulf Cooperation council) and India. While the India expansion remains on an investment curve, a firm presence in GCC helps the company in pursuing aggressive expansion in both GCC and India albeit via an asset light model. The company has a diversified portfolio of healthcare facilities, consisting of 26 hospitals (bed capacity 4873), 115 clinics and 225 retail pharmacies; of which 13 multi-specialty hospitals and 9 clinics are in India. The business model is further diversified through the company's different formats within hospitals and clinics targeting different economic segments – Medcare, Aster and Access.

Aster's quality of medical care and track record of building long term relationships with its doctors and other medical professionals has enabled it to build a strong brand across its area of operations and gain consumer confidence. Aster continues to focus on expanding its operational capacity through inorganic growth in the GCC and Indian healthcare market.

Valuations & Recommendation:

Aster DM Healthcare Ltd, over 30 years, has created a healthcare eco-system across two key geographical regions. Being present in GCC and India, Aster drives multiple operational as well as strategic synergies. While in GCC, it offers services across hospitals, clinics & pharmacies, providing primary, secondary and tertiary/quaternary care, it leverages its brand to source quality medical professionals through its India operations. We are positive on Aster's integrated business model and expect a gradual improvement in margins and RoCE on the back of higher occupancy and capacity optimisation in new assets once pandemic related risk wanes-off.

GCC is a lucrative healthcare market for Aster given low capex intensity and strong margin resulting in high RoCE. India market continues to be the growth engine. We expect profitability to see a sharp improvement over next 2-3 years led by improving maturity mix in UAE and India hospitals, margin expansion in Indian operations, restructuring strategy of clinics portfolio and improvement in occupancy ratio on the back of increasing need for healthcare services. Going forward, we remain optimistic about the opportunities available in India and the GCC markets in healthcare industry. With investment strategies in place and a team of excellent doctors with a common vision of providing quality healthcare service, we believe that Aster DM is well poised for sustainable growth. **We believe the base case fair value of the stock**

is Rs 163 (14.5x FY23E EPS; 7.4x FY23E EV/EBITDA) and the bull case fair value of the stock is Rs 180 (16x FY23E EPS; 7.9x FY23E EV/EBITDA) over the next two quarters. Investors can buy the stock at LTP and add on dips to Rs 134-135 band (12x FY23E EPS; 6.5x FY23E EV/EBITDA). At the LTP of Rs 147.95, the stock is trading at 13.2x FY23E EPS; 6.9x FY23E EV/EBITDA.

Financial Summary (Consolidated)

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	2258.9	2321.7	-2.7	2267.7	-0.4	7,962.7	8,738.5	8,663.9	9,963.0	11,089.3
EBITDA	327.9	385.1	-14.8	271.1	21.0	863.1	1,257.6	1,078.5	1,374.9	1,541.4
Depreciation	157.3	139.8	12.5	152.9	2.9	306.5	585.9	624.8	656.6	662.7
Other Income	6.7	4.2	60.8	9.0	-25.1	34.6	37.9	33.2	39.9	44.4
Interest Cost	62.1	71.5	-13.1	74.6	-16.7	179.2	359.7	289.2	256.7	232.2
Tax	7.8	8.2	-5.6	10.3	-24.6	42.9	15.4	30.0	45.1	69.1
PAT	107.5	151.4	-29.0	42.3	154.3	369.1	334.5	167.8	456.3	621.8
Adjusted PAT	92.4	139.1	-33.6	32.9	181.3	333.4	276.8	137.6	410.7	559.6
EPS (Rs)	1.9	2.8	-33.6	0.7	181.3	6.6	5.5	2.8	8.2	11.2
RoE-%						11.0	8.5	4.1	11.4	13.6
P/E (x)						22.3	26.9	53.7	18.0	13.2
EV/EBITDA						11.3	9.8	10.9	8.4	7.3

(Source: Company, HDFC sec)

Q3FY21 Result Review:

Aster DM healthcare reported a decline in revenue of 2.7% YoY to Rs 2259cr, while corresponding constant currency decline was 6%. This is largely on account of reduction of revenue in GCC where hospitals occupancy and average length of stay (ALOS) has been affected by COVID-19 disruptions. Q3 revenues stayed flat QoQ. India revenues grew 10.6% QoQ (up 7.5% YoY) to Rs 459cr. However, GCC revenues de-grew 2.9% QoQ (down 5.1% YoY) to Rs 1800cr.

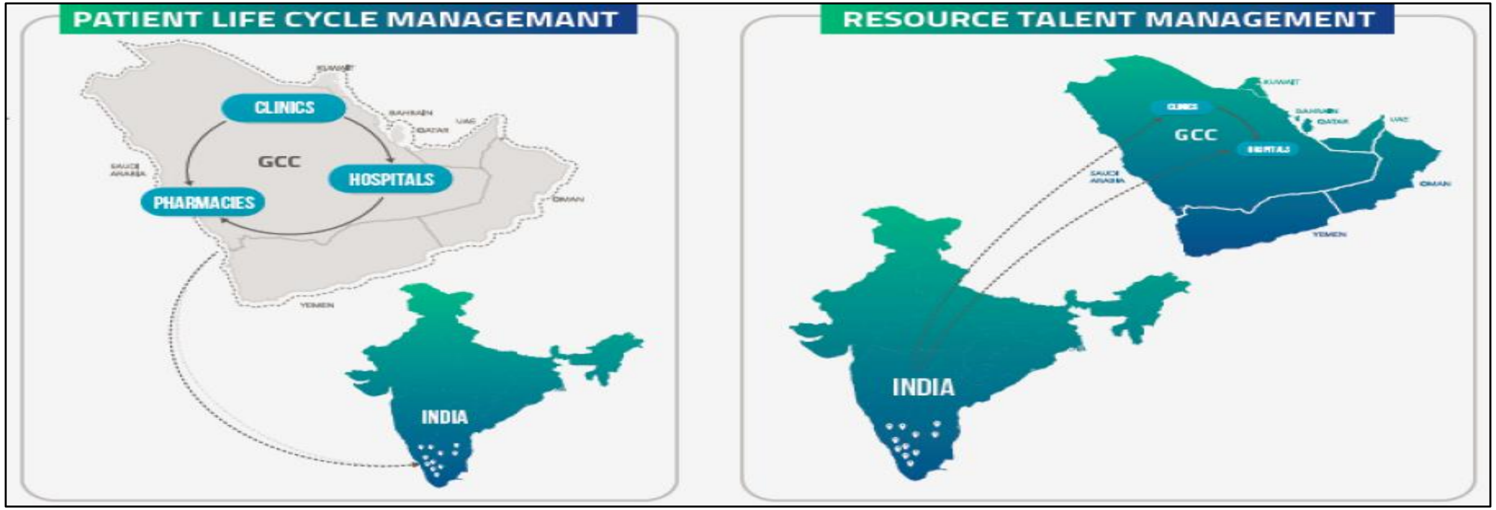
Coming to the segmental performance for the quarter, the hospital occupancy during the period dropped to 47% in GCC compared to 61% in Q3FY20, resulting in drop in EBITDA margins. EBITDA decreased by 21% YoY to Rs 143cr in Q3FY21. However, in India, the situation in many of the geographies normalized with both out-patients and in-patients coming back. Revenue was up 7.6% YoY, but EBITDA declined marginally by 3.2% YoY due to the increase in material cost. The GCC clinic segment reported topline of Rs 536cr during Q3 compared to Rs 543cr in Q3FY20, the EBITDA margins increased to 21.4% in Q3 compared to 18.4% in the previous financial year. The increase in margins is mainly on account of increase in RT-PCR testing carried out at the clinics. Pharmacy business in GCC saw a significant drop to Rs 529cr, down 15% YoY. The dip in EBITDA and the EBITDA margins was mainly on account of reduction of footfalls during the quarter.

The company reported an EBITDA of Rs 328cr, down 14.8% YoY (in constant currency terms – down 18%). EBITDA margins expanded 256 bps QoQ to 14.5% due to low other expenditure. During the current quarter, reduced footfalls in all segments impacted profitability. PAT decreased by 33.6% YoY to Rs 92cr as compared to Rs 139cr during Q3 last year. With various cost optimization initiatives undertaken during the year across manpower cost and procurement of material, the management expects better profitability as footfalls of outpatient and inpatient increases once COVID impact wanes off. On the Balance sheet front, the group's net debt stood at Rs 2488cr as at Dec 31, 2020 compared to Rs 2783cr as at March 31, 2020.

Triggers:

Integrated Healthcare provider enjoying operational and strategic synergies:

Aster DM healthcare has a strong presence across hospitals, clinics & pharmacies, providing primary, secondary and tertiary/quaternary care. The company has also positioned itself across segments different economic segments through brands including Medcare, Aster and Access. Aster DM healthcare is an integrated healthcare provider enjoying strong brand equity due to its diversified revenue sources from multiple geographies and multi-economic segment operations. In GCC, it has presence in key residential areas that ensures patient flow across clinics, hospitals and pharmacies as it is well respected brand. Aster is also able to negotiate better terms of trade with insurance companies given its 3-tier structure and brands across economic segments like Medcare (premium brand), Aster (mid-end) and Access (Budget). Clinics (including attached pharmacies) are located close to hospitals in a Hub and Spoke like model. Aster, over 30 years, has created a healthcare eco-system across two key geographical regions. Being present in GCC and India, Aster drives multiple operational as well as strategic synergies. While in GCC, it offers services across hospitals, clinics & pharmacies, it leverages its brand to source quality medical professionals through its India operations. The company primary care clinics in GCC acts as initial touch-points in the patient journey, while pharmacies and hospitals continue to deliver efficient healthcare. For complex tertiary care, patients are transferred to their hospitals in India. GCC network promotes medical tourism to India. Synergies are available through centralized procurement of high value medical equipment across facilities in both GCC states and India. It has a strong patient endorsement across its multiple offerings. Aster is able to attract and retain quality doctors as they are monetarily incentivized and also given flexibility to move between Aster's network of hospitals and clinics and also between GCC and India.



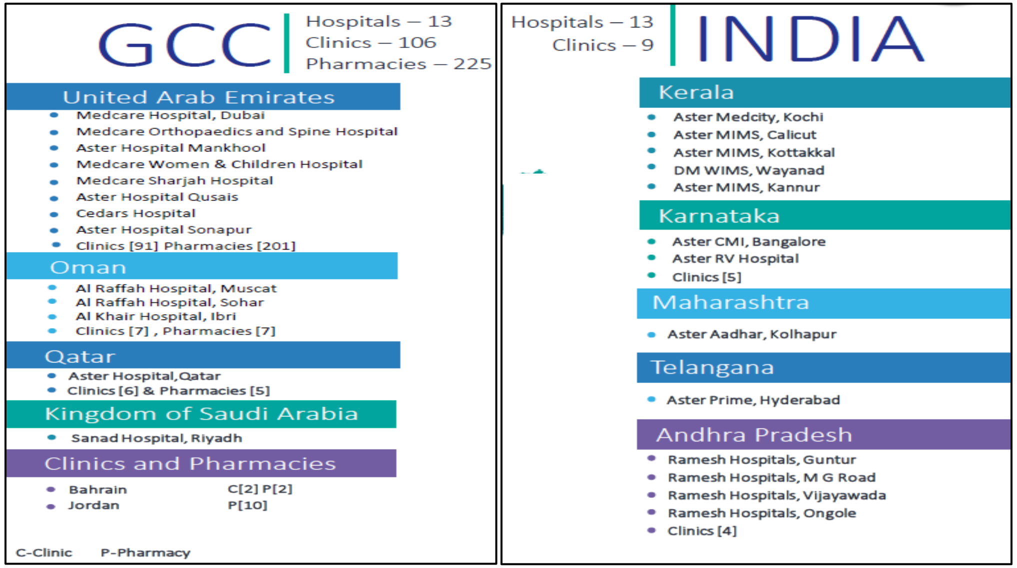
(Source: Company, HDFC sec)

Established presence in GCC with strong brand equity:
Aster DM Healthcare is a renowned brand in GCC across the healthcare value chain from clinics, pharmacies to hospitals. The company commenced operations in GCC in 1987 as a single doctor clinic in Dubai and has emerged as one of the largest private healthcare providers in GCC. The company has a diversified portfolio of healthcare facilities, consisting of 13 hospitals, 106 clinics and 224 retail pharmacies in GCC states as of Dec 2020; constitute ~82% of overall revenue. In the past five years, it has aggressively expanded its business across three segments, generating a revenue CAGR of 15% over FY15-20. EBITDA growth during the same period was subdued due to aggressive expansion and reducing profitability at the Sanad Hospital in Saudi Arabia.

Aster is well placed to capitalise on steady growth in the healthcare sector in GCC states due to its early mover advantage, brand stickiness across the healthcare space and strategy of offering different brands to cater to a diverse group of customers and existing track record. In

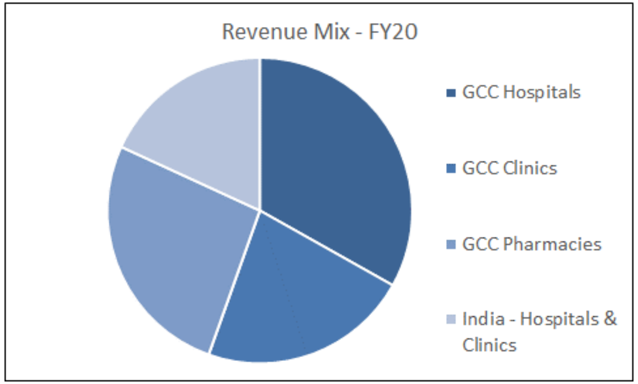
Dubai, the group's share in out-patients and in-patient as a percentage of private hospitals was 15% and 23% respectively. The company's Medcare and Aster brands address the needs of the upper and middle income segments in GCC states, respectively, while the Access brand offers affordable healthcare services to blue collar expatriate workers and lower income segment in GCC states. Similarly, the presence of pharmacies at multiple locations across various GCC states also enhances the visibility of Aster's brands. The company's long-standing presence in GCC states has helped it to gain an understanding of the respective markets, regulatory environments and has contributed towards the success of its GCC operations.

Geographical Footprint:



(Source: Company, HDFC sec)

Revenue Mix:



Strong foothold in the GCC hospitals segment with asset-light network:

Aster DM Healthcare is one of the leading private hospital operators in the GCC where it operates 8 hospitals in the UAE, 3 in Oman, and one each in Qatar & Saudi Arabia. The company has 945 operational beds with installed capacity of 1,165 as on Dec 2020. GCC hospitals offer a range of advanced medical care and emergency services, including cardiology, dental, gastroenterology, neurology, obstetrics & gynecology, orthopedics, pediatrics, plastic surgery and allied services, such as radiology. The company has built assets in the GCC based on an asset-light model (operations on leased premises) and its most established and mature units enjoy higher EBITDA margin (14%+) and RoCE (25%).

Legislative developments such as mandatory health insurance in a couple of countries and extended visas to expats is likely to provide a strong tailwind to tertiary and quaternary care treatments in GCC countries. Aster's GCC hospital revenues (34% of FY20) grew at 17.7% CAGR over the last three years on the back of aggressive expansion across segments driven by to higher demand, greater capacity optimisation, improved mix and growing insurance penetration. Aggressive increase in operational beds (facilities) over the last four years (which constitutes ~35% of total) facilitated breakeven at a faster pace. Further expansion which is focused on 'Aster' brand in UAE & Oman (225 beds – operational by end of FY22) are strategically aligned to benefit from higher insurance penetration in mid-income population/expats. Profitability from GCC will improve as, legacy issue with respect to the company's operation in Sanad Hospital (Saudi Arabia) is behind it. Restructuring of the operation by focusing on increasing the revenue contribution from private insurance/walk-in cash patients after having faced a haircut in collections from the Government has led by higher revenue visibility. The company is planning to add another 69 beds in the same complex, which has been put on hold due to COVID-19 disruptions.

Hospitals	Location	Commencement/ Acquisition Year	Bed Capacity	Operational Beds	Owned/ Leased
Medcare Hospital	Dubai, UAE	2007	64	55	Leased
Al Raffah Hospital	Muscat, Oman	2009	86	72	Leased
Al Raffah Hospital	Sohar, Oman	2010	80	69	Leased
Medcare Orthopaedics and Spine Hospital	Dubai, UAE	2012	33	27	Leased
Aster Hospital Mankhool	Dubai, UAE	2015	126	108	Leased
Medcare Women and Children Hospital	Dubai, UAE	2016	112	95	Leased
Medcare Hospital	Sharjah, UAE	2017	128	111	Leased
Sanad Hospital	Riyadh, KSA	2011	218	218	Owned
Aster Hospital	Doha, Qatar	2017	61	30	Leased
Aster Hospital Qusais	Dubai, UAE	2018	158	99	Leased

Ibri Hospital, Oman	Ibri, Oman	2019	31	24	Leased
Cedars Hospital	Dubai, UAE	2019	18	12	Leased
Aster Hospital Sonapur	Dubai, UAE	2020	50	25	Leased

Projects in Pipeline:

Hospitals	Location	Type	Planned Beds	Expected Completion Year	Present Status	Owned / Leased/O&M
Aster Hospital	Sharjah, UAE	Greenfield	80	Q2 FY22	Construction	Leased
Aster Hospital	Muscat, Oman	Greenfield (Relocation)	145	Q4 FY22	Construction	Leased
Sanad Hospital	Riyadh, Saudi Arabia	Expansion	69	-	Temporary Hold	Owned

(Source: Company, HDFC sec)

Clinics – nucleus of GCC business:

Clinics are the nucleus of Aster DM's business and act as initial touch-points for the patients. These clinics are typically located in residential pockets and have consulting doctors across specialties like Gynaec, Paediatric, Ortho, General Medicine, Dentistry, etc. Aster Clinics has now become the largest and most widespread network of clinics across the Middle East. Clinics have played a key role in expanding Aster's brand presence, particularly in new locations and geographies and increasing volumes in hospitals by acting as a referral network. Around 15-20% of the hospital business comes from in-house clinics. The asset light nature of clinics along with higher return ratios versus hospitals has helped Aster expand its network of clinics rapidly without impacting its balance sheet. Aster Clinic business has posted a sales CAGR of ~17% over FY15-20 with the number of clinics increasing from 69 in FY15 to 108 in FY20 (107 clinics in GCC as of Dec 2020).

Aster Clinics has become a friendly neighbourhood family clinic that abides by highest quality standards, setting new benchmarks in healthcare. Strong footfalls in terms of out-patients visits at ~11% CAGR over FY17-20 due to well respected brand and presence across key residential areas. The company is one of the largest chains of clinics in the GCC, catering to all income levels through its three brands, Medcare, Aster and Access. Unlike India, where insurance does not cover outpatients, insurance schemes in the GCC cover both inpatients and outpatients thereby providing a steady stream of patients to clinics. The business also has benefitted from the mandatory health insurance policy in the GCC. Clinics play a vital role in geographical and brand expansion; Aster has followed a clinic-led model to expand in new locations and geographies and does not set up hospitals without having clinics in that geography. Clinics are also crucial for pharmacies; as many pharmacies are attached to clinics and account for ~50% of the pharmacy revenues. Aster clinics have demonstrated a steady-state margin profile of ~14%+ and has achieved a ~30% RoCE.

GCC Pharmacies – steady business with strong RoCEs:

Aster Pharmacy has been a market leader in the healthcare business with operations spanning across a wide portfolio of health & wellness services in multiple countries. Aster operates a network of 236 retail pharmacies across GCC states and is the largest retail pharmacy chain in the UAE. Offering the entire gamut of curative, nutritive, baby products, lifestyle, wellness products, FMCG products, cosmetics, personal and homecare products, Aster Pharmacy has become a household name in the UAE & has emerged as the brand of choice amongst pharmacies. Most pharmacies are integrated with clinics, which ensure higher footfalls and faster breakeven. Retail GCC pharmacies contribute ~28% to the revenues in FY20. The pharmacy business posted a revenue growth at 9.8% CAGR over FY17-20, led by organic expansion of new stores and through acquisition & product mix. Aster's pharmacy division has been one of its most stable businesses during volatile periods given low upfront capex and start-up costs. The pharmacy business EBITDA margin has seen a gradual improvement 10.7% in FY20, led by product mix & selection and exclusive tie-ups. Pharmacy is very low working capital business and generates strong cash flows, recording ~44% RoCE in the last two years.

Aster Pharmacy has evolved & established itself as a responsible healthcare provider by venturing into new businesses like Aster Opticals, Aster Nutrition Stores & launch of its own brands in the near future; thereby transforming from a chain of pharmacies to a larger business entity, 'Aster Retail'. These verticals will not only cater to the growing demand for high-quality products in the fields of eye care & lifestyle nutrition but will bring Aster further closer to its consumers. Aster DM through its online portal Aster Online (UAE's first online pharmacy) is likely to enhance customer experience. Customers can upload prescriptions through the website/app and can get medicines delivered from the nearest local pharmacy. While the online pharmacy is relatively nascent and does not contribute meaningfully to Aster's revenues, over the next few years, its online strategy can help reduce costs and improve margins once the business gains scale. Asteronline.com was upgraded with marketplace capabilities, integrated clinic offerings with prescription upload feature & health packages. Retail pharmacy is Aster's most profitable division with RoCEs being superior to hospitals and clinics. Margin expansion through improvement of product mix is one of the key levers of growth for the pharmacy division.

Expanding presence in India – asset light expansion would help to improve RoCE:

Aster DM Healthcare's India revenues grew at 30.7% CAGR over FY15-20 mainly due to lower base and aggressive expansion. In a shorter time span, Aster has established a network of 13 hospitals (2656 operational beds as of Dec 2020) and 9 clinics mainly in Tier II, Tier III cities of south India. The company is now looking to expand its network in metros and Tier I cities, which is likely to improve its overall average revenue per operating bed (ARPOB). Hospitals in India offer a wide range of care services such as Cardiac, Orthopaedic, Neurology, Oncology, etc. The company witnessed a significant rise in inpatients and outpatients count in its Indian hospitals – 13% and 12.6% CAGR respectively over FY17-20. Operations in India have resulted in stable EBITDA margins of around 11%, however due to continuous expansion and few specific issue (floods in Kerala) RoCE has remained - at low single digits.

Hospitals	Location	Commencement/ Acquisition Year	Bed Capacity	Operational Beds	Owned/ Leased/O&M
Aster Aadhar Hospital	Kolhapur, MH	2008	176	151	Owned
MIMS Kozhikode	Kozhikode, KL	2013	678	517	Owned
MIMS Kottakkal	Kottakal, KL	2013	244	186	Owned
Aster CMI	Bengaluru, KA	2014	509	326	O&M
Aster Medcity	Kochi, KL	2014	670	455	Owned
Prime Hospitals - Ameerpet	Hyderabad, TG	2014	158	112	Leased
DM WIMS Wayanad	Wayanad, KL	2016	NA	NA	O&M
Dr. Ramesh Guntur	Guntur, AP	2016	350	175	Leased
Dr. Ramesh - Main Centre	Vijaywada, AP	2016	184	160	Leased
Dr. Ramesh - Labbipet	Vijaywada, AP	2016	54	50	Leased
Dr. Ramesh Sanghamitra-Ongole	Ongole, AP	2018	150	150	Owned
MIMS Kannur	Kannur, KL	2019	302	237	Owned
Aster RV Hospital	Bengaluru, KA	2019	233	137	O&M

Projects in Pipeline:

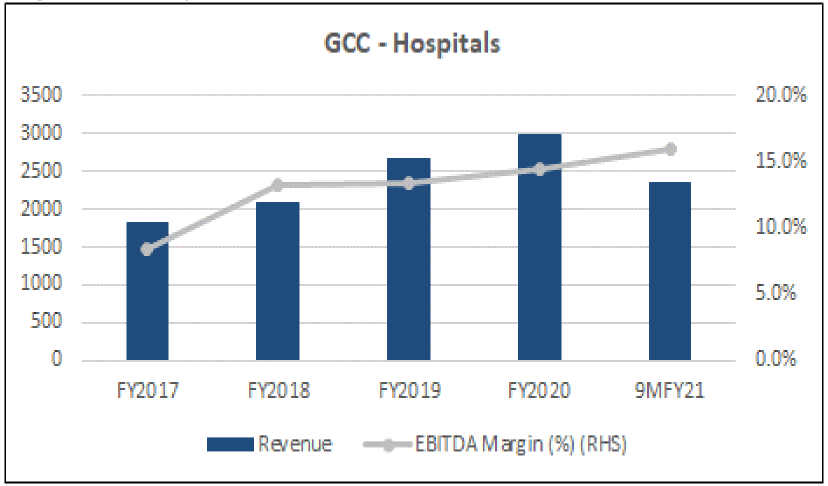
Hospitals	Location	Type	Planned Beds	Expected Completion Year	Present Status	Owned / Leased/O&M
Aster Aadhar	Kolhapur, MH	Expansion	60	Q2 FY22	Construction	Owned
Aster Hospital	Chennai, TN	Greenfield	500	Q4 FY21	On Hold	Leased
Aster Whitefield Women& Children Hospital (Phase 1)	Bangalore, KA	Brownfield	40	-	Completed	Leased
Aster Whitefield Multi Speciality Hospital (Phase 2)	Bangalore, KA	Brownfield	310	Q1 FY23	Construction	Leased
Aster KLE	Bangalore, KA	Greenfield	600	-	On Hold	O&M

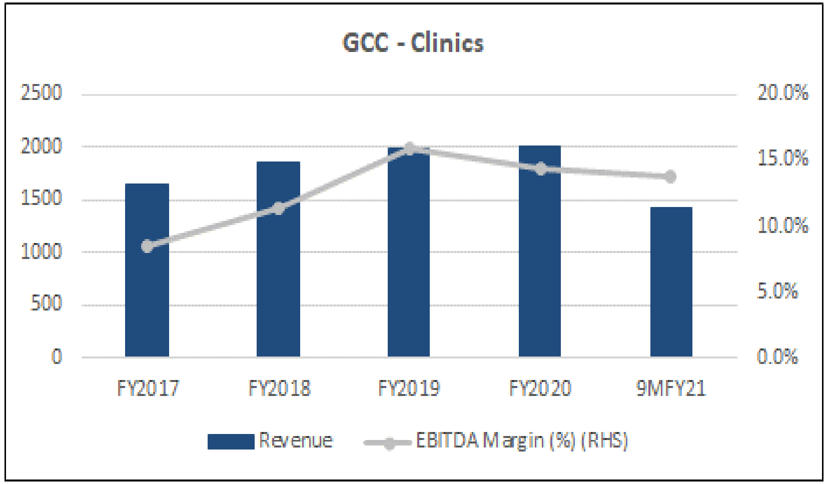
(Source: Company, HDFC sec)

Aster DM Healthcare Ltd.

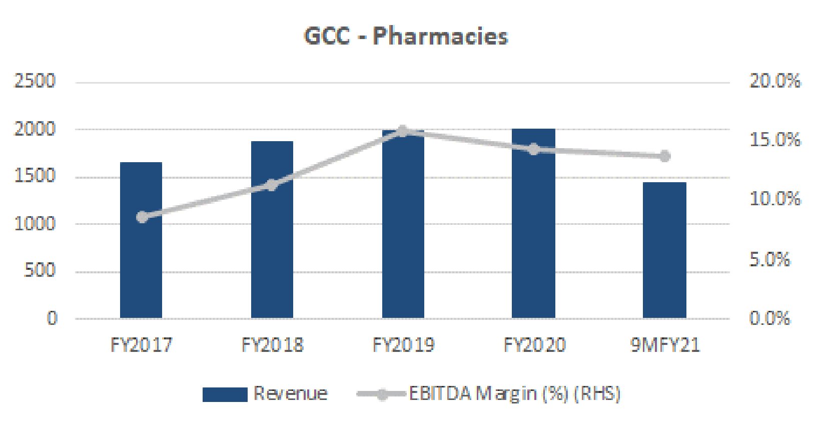
India is geographically well positioned for medical tourism from the GCC states, MENA region and South-East Asia and is highly competitive in terms of healthcare costs compared to developed countries. Besides quality care, India offers treatments at fraction of the cost compared to US and other developed nations. Aster Medcity Kochi and Aster CMI Bengaluru hospitals are preferred destinations for medical tourism with international airports. 15-20% of these hospital's revenue is from medical tourists; yields significantly high ARPOB. The company also plans to build/expand 4 hospitals in India within the next 2 years, with focus on building and expanding facilities in Bengaluru, Chennai and Kolhapur. Aster has followed a mix of organic expansion through asset heavy, O&M model as well as acquisitions in the past to expand in India which has led to low RoCEs. Moving forward, Aster is planning to expand in India only through asset light O&M models where Aster pays the asset owner revenue share/rental in lieu of leasing the asset. The planned expansion of 1,500 beds at Bengaluru and Chennai and both are through lease and on an O&M-based model with no significant upfront capex on land & building.

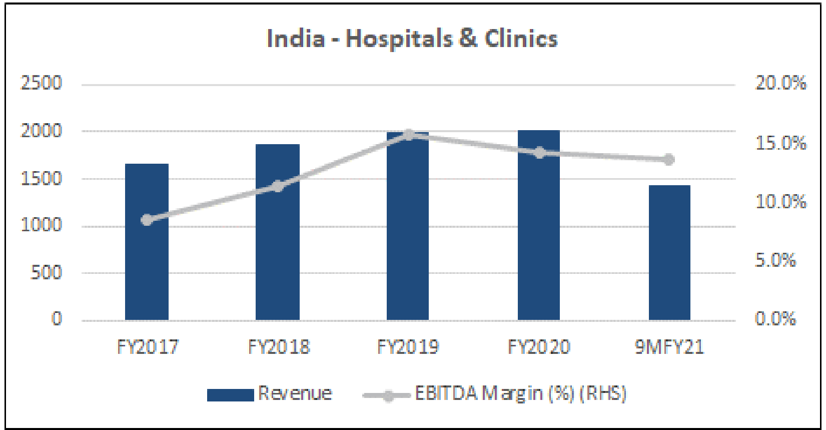
Segment-wise performance:





RETAIL RESEARCH





(Source: Company, HDFC sec)

High margin Homecare Business, Teleconsultation services and Diagnostics – to strengthen brand image and add to the topline: Aster DM healthcare has ventured into less-capital intensive Home care business. The company has acquired Wahat Al Aman Home Health Care LLC, Abu Dhabi which offers home care services wherein nurses are deputed at residence of the patients to provide healthcare services. Currently, the business has a presence in Abu Dhabi and has started operations in Kerala, Kannur, where it has hospital presence. Due to the outbreak of COVID-19, there has been a surge in demand for home care services. While the current focus is on extending care to the discharge patients through home care, the company will gradually scale up its offering in India to include nursing, pharmacy lab service and Home ICU – high margin revenue services.

Covid-19 has led to significant disruptions in the way a business is run, digital transformation being a major one. Aster DM has been proactive and has taken this opportunity to improve and increase its digital presence. The company was among the first to start Tele-Health Centres for patient consultations. There has been a sharp uptake in the teleconsultation services due to COVID-19 pandemic. Although the company has started with a pilot version offering consultations to international patients, it is more of a value-added services/facility which will form a part of its portfolio of offerings. The company has also ventured into diagnostic business. The diagnostics industry in India is largely fragmented with only a few organized firms. Due to its strong presence in South India, the company will expand its presence in the state of

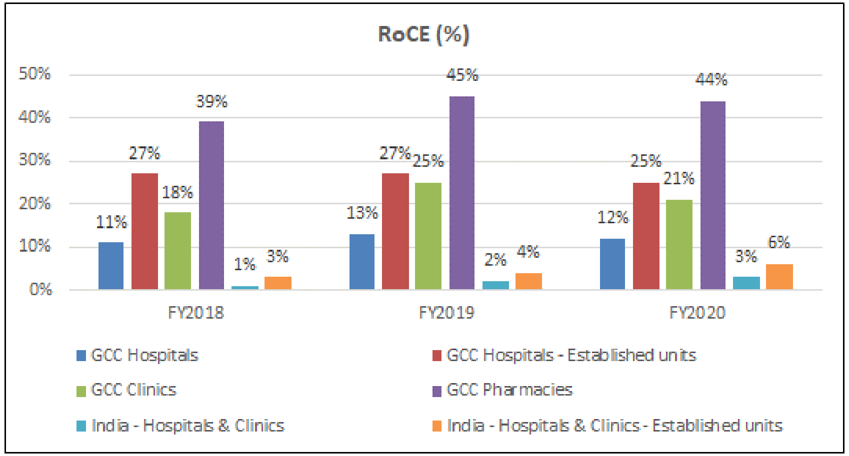
Kerala and Karnataka. Bulk of their presence initially would be through franchisee centers with no capex outlay. Setting up of reference labs later would result in some capital investment. While the segment is at nascent stage and due to the ongoing pandemic, operations will be scaled up gradually. In the long run, we believe this business has strong potential to grow and contribute meaningfully to the top line.

Rationalisation and Expansion Plans – Entering into Cayman Island:

Aster plans to expand and strengthen its brand with the help of its geographical presence in GCC Countries and in India. The company intends to increase its revenue share from India operations by optimally utilising the beds and also adding new units. Presently the company has 26 hospitals in India and GCC put together. Apart from its ongoing expansion plans in pipeline in India and GCC, the company has now ventured to the western hemisphere through in multi-speciality hospital in Caribbean. The company signed a long-term agreement with Cayman Island government to build Aster Cayman Medcity, a 150-bed, multispecialty hospital in the next three years. This expansion project would entail $120-130 million capex. Being close to the USA mainland with 90 minutes flight time from Miami, the project would cater to America and Canada apart from the entire Caribbean Islands and South America. This project will allow the company to provide quality healthcare at the affordable cost to the population in USA and the neighbouring country; adding geographical diversification and at the same time allowing it to increase addressable market. In line with the company’s strategy of discontinuing loss making operations, Aster has closed down its operations in Philippines and Kuwait and the focus is now on sweating the present assets well and putting into operation the unutilized beds.

Improvement in return ratios:

Aster derives ~81% of revenues from GCC countries. In the last six years, the company has expanded its hospitals, clinics and pharmacy count by almost 2x. However, despite aggressive expansion, the RoCE has remained healthy (hospitals- 13%; established hospitals - 21%), clinics - 25% and pharmacies - 44% due to asset light and integrated business model, greater occupancy owing to strong brand equity, along with healthy ARPOB and targeted strategy. We believe RoCE will improve further due to continuing improvement in occupancy and operational leverage at new assets. Unlike the GCC where most hospitals are on lease, most hospitals in India are owned, thus translating to lower RoCE from Indian operations - 3%, (established units - 6%). The company will follow an asset-light model or O&M and also consolidate existing operations. As Indian business increases and less matured operational units (0-3 years) see sizeable volumes; RoCE of the group will improve over the next two-three years.



(Source: Company, HDFC sec)

Industry Insights & Triggers:

GCC Healthcare Industry:

The healthcare market in the GCC is estimated to be worth US$ 104.6 billion in 2022, and expected to grow at a CAGR of 6.6% from 2018-2022. The expanding and ageing population, high prevalence of non-communicable diseases (NCDs), rising cost of treatment and increasing penetration of health insurance are some key factors spurring the growth of the healthcare market in the region. The UAE and Oman are likely to witness growth at higher rates in anticipation of a fast-growing population implementation of mandatory health insurance and above-average medical inflation rates. Health insurance penetration has witnessed significant growth on the back of the introduction of mandatory health insurance in Abu Dhabi, nearly a decade ago, and, more recently, in Dubai and Sharjah, with a shift toward private healthcare. Inbound medical tourism also continues to drive developments in infrastructure, as well as the adaptation of state-of-the-art technologies and reforms in quality of care. Dubai and Abu Dhabi are at the forefront amongst the GCC nations in attracting medical tourist

The private sector in GCC is playing an important part in the development of the healthcare industry, encouraged by mandatory health insurance and other reforms. Private players are also incentivized through public-private partnerships (PPP) to invest and manage operations while the public sector becomes the regulator. Although there is enormous room for growth, the GCC population is only spending around half of what mature markets spend on healthcare. As such, there are several factors creating investible opportunities in healthcare like, enhanced focus on critical diseases, wider geographic footprint and capacity build through digitization and value-based healthcare. The opportunities for Public Private Partnership in healthcare is driving growth of smart hospital initiatives utilizing new-age technology such as Artificial Intelligence, Blockchain and Robotics. In UAE and Saudi Arabia, in particular, there is a rapid rise in private sector investment in healthcare. To meet the growing demand for healthcare services, additional beds are being arranged in private hospitals and this is likely to improve opportunities for investment.

Indian Healthcare Industry:

Indian healthcare sector is expected to reach US$ 372 bn by 2022, growing at a CAGR of 22% from 2016-22. Rising income levels, ageing population, growing health awareness and changing attitude towards preventive healthcare is expected to boost healthcare services demand in future. Growth in health insurance coverage and increase in medical tourism will further aid demand of healthcare delivery market. Further, there is immense scope for enhancing healthcare services penetration in India, thus presenting ample opportunity for development of the healthcare industry. The launch of 'Ayushman Bharat' demonstrates the Indian government's commitment to provide 'healthcare for all' and it is aligned to the United Nations Sustainable Development Goals. India is expected to rank amongst the top three healthcare markets in the world in terms of incremental growth by 2020. India is geographically well positioned for medical tourism from the GCC states, MENA region and South-East Asia and is highly competitive in terms of healthcare costs compared to developed countries. Besides quality care, India offers treatments at fraction of the cost compared to US and other developed nations.

Concerns:

High Dependence on the GCC region: Company has historically generated more than 80% of its consolidated revenue from its GCC operations and is significantly dependent on its operations in the UAE. Although revenue mix concentration has reduced from 89% in FY15 to 81% in FY20 from GCC states, it is still high. GCC economy is largely dependent on trade, tourism, oil and real estate. Any slowdown or change in GCC regulations can impact profitability. The GCC business is also highly seasonal, where volumes decline in summer months as expats travel out during that period. To mitigate the concentration of revenue mix, the company has expanded its operations in India by increasing its capacities through additional beds. The company has also ventured into to the western hemisphere through in multi-speciality hospital in Caribbean (Cayman Island). However, venturing into this area when the Indian market is yet to be fully exploited warrants an explanation.

Operational Risk: As significant capex incurred for new hospitals, clinics and pharmacy, delay in ramp-up will impact EBITDA and affect cashflow generation. Any delay in commissioning or expansion (reaching breakeven) of new facilities may impact overall growth, thus impacting overall financials.

Retention of key talent: The attrition of key talented personnel and inability to attract, retain a sufficient number of qualified doctors, nurses and other healthcare professionals, could have a material adverse effect on business, financial condition and results of operations. Aster DM Healthcare avails services from doctors which are not employees of the company, inability to maintain relations with them could impact its business.

High competition: The healthcare sector is competitive, as increasing healthcare providers (newer and existing hospitals, low-cost nursing homes, etc) try to establish themselves among patients. Increasing subsidies from the government and improvement in services from the government hospitals may cause attrition in patients and disrupt business sustainability. With the advancing technology and newer medical interventions, several hospitals are evolving with their services as well.

Promotor Pledge: The promoter has recently pledged 10.44% of his stake. This creates uncertainty about the trend in this and possibility of turbulence in stocks prices if the loan is not serviced in time.

Company Profile:

Aster DM Healthcare Limited is one of the largest integrated private healthcare service providers operating in GCC (Gulf Cooperation Council) countries - which comprise the United Arab Emirates (UAE), Oman, Saudi Arabia, Qatar, Kuwait, Bahrain and Jordan and is an emerging player in India. With an inherent emphasis on clinical excellence, the company is one of the few entities that has a strong presence across primary, secondary, tertiary and quaternary healthcare. The company reaches out to all sections of society through its differentiated healthcare services offered under ‘Aster’, ‘Medcare’ and ‘Access’ brands.

Aster operates in multiple segments of the healthcare industry, including hospitals, clinics, retail pharmacies and provides healthcare services to patients across economic segments in several GCC states through its brands. The company’s brands are widely recognized in GCC states both by healthcare professionals and patients. GCC contributes ~81% to revenues while India accounts for the remaining share. The company has a diversified portfolio of healthcare facilities, consisting of 26 hospitals (bed capacity 4873), 115 clinics and 225 retail pharmacies; of which 13 multi-specialty hospitals and 9 clinics are in India. The business model is further diversified through the company’s different formats within hospitals and clinics targeting different economic segments – Medcare, Aster and Access. It has an employee base of 21091 employees as of FY20, including 3086 doctors, 7263 nurses and 10742 other employees (including pharmacists)

The company operates the largest number of medical centers/polyclinics in CGG and has the largest chain of retail pharmacies in the UAE. A majority of the company's hospitals and clinics provide secondary and tertiary healthcare services to patients. In addition to providing core medical, surgical and emergency services, some of the company's hospitals provide complex and advanced quaternary healthcare in various specialties, including cardiology, oncology, radiology, ophthalmology, neurosciences, paediatrics, gastroenterology, orthopaedics and critical care services. Aster's quality of medical care and track record of building long term relationships with its doctors and other medical professionals has enabled it to build a strong brand across its area of operations and gain consumer confidence. Aster DM Healthcare continues to emphasize its focus on expanding its operational capacity through inorganic growth in the GCC and Indian healthcare market.
Azad Moopen, a doctor turned entrepreneur from Kerala is the promoter of Aster and its current MD and CEO.

Business Matrix:

GCC	FY2017	FY2018	FY2019	FY2020	9MFY21
Bed Capacity	668	875	1101	1111	1165
Operational Beds	615	761	913	908	945
ALOS (Days)	3	2	2	1.9	2.1
Occupancy	60%	53%	56%	56%	54%
Outpatients (in mn)	0.9	1.23	1.42	1.61	1.06
In-Patients (in Nos)	46,200	69,800	82,500	91,900	63,500
ARPOBD (Rs)	1,30,000	1,48,000	1,61,000	1,65,300	1,66,500

India	FY2017	FY2018	FY2019	FY2020	9MFY21
Bed Capacity	3983	3887	4340	3693	3708
Operational Beds	2836	2777	2977	2530	2656
ALOS (Days)	3.8	3.6	3.6	3.5	3.9
Occupancy	60%	65%	63%	61%	54%
Outpatients (in mn)	1.5	1.6	1.72	1.98	0.95
In-Patients (in Nos)	1,11,500	1,31,800	1,35,500	1,61,600	99,200
ARPOBD (Rs)	22,100	23,700	26,100	27,700	29,400

Aster DM Healthcare Ltd.

Operational Matrix:

In-patients Counts (in '000)	FY2017	FY2018	FY2019	FY2020	9MFY21
GCC Hospitals	46	70	83	92	64
India - Hospitals	112	132	136	162	99
Total	**158**	**202**	**219**	**254**	**163**

Out-Patients Visits (in million)	FY2017	FY2018	FY2019	FY2020	9MFY21
GCC Hospitals	0.92	1.20	1.40	1.61	1.10
GCC Clinics	4.18	4.90	5.40	5.68	3.10
GCC Pharmacies	8.53	9.20	9.60	9.80	5.60
India - Hospitals & Clinics	1.45	1.70	1.80	2.07	1.00
Total	**15.08**	**17.00**	**18.20**	**19.16**	**10.80**

(Source: Company, HDFC sec)

Peer Comparison:

	Mcap (Rs cr)	Sales				EBITDA Margin (%)				PAT			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Aster DM Healthcare	7,390	8,739	8,664	9,963	11,089	10.8	14.4	12.4	13.8	334	168	456	622
Apollo Hospitals	47,605	11,247	10,588	13,204	15,245	14.1	10.7	15.0	15.7	257	92	736	1059
Fortis Healthcare	17,583	4,632	4,002	5,303	5,922	13.2	10.4	16.0	17.2	58	-84	285	404
Narayana Hrudayalaya	8,420	3,128	2,530	3,510	3,900	13.5	6.5	16.0	16.7	119	-34	241	308

	RoE (%)				PE				EV/EBITDA			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Aster DM Healthcare	8.5	4.1	11.4	13.6	26.9	53.7	18.0	13.2	9.8	10.9	8.4	7.3
Apollo Hospitals	13.6	2.6	15.1	19.0	179.5	470.2	68.3	46.9	33.2	44.2	25.4	21.0
Fortis Healthcare	0.9	-1.0	4.1	5.6	303.7	negative	63.3	44.3	31.0	46.6	22.9	19.0
Narayana Hrudayalaya	10.7	-4.3	18.8	20.0	66.5	negative	37.8	29.3	21.7	55.0	16.1	13.9

(Source: Company, Bloomberg estimates, HDFC sec)

Aster DM Healthcare Ltd.

Financials (Consolidated)

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**7962.7**	**8738.5**	**8663.9**	**9963.0**	**11089.3**
Growth (%)	18.5	9.7	-0.9	15.0	11.3
Operating Expenses	7099.7	7480.9	7585.3	8588.1	9547.9
EBITDA	**863.1**	**1257.6**	**1078.5**	**1374.9**	**1541.4**
Growth (%)	**40.8**	**45.7**	**-14.2**	**27.5**	**12.1**
EBITDA Margin (%)	**10.8**	**14.4**	**12.4**	**13.8**	**13.9**
Depreciation	306.5	585.9	624.8	656.6	662.7
EBIT	**556.6**	**671.7**	**453.8**	**718.3**	**878.7**
Other Income	34.6	37.9	33.2	39.9	44.4
Interest expenses	179.2	359.7	289.2	256.7	232.2
PBT	**412.0**	**349.9**	**197.8**	**501.4**	**690.9**
Tax	42.9	15.4	30.0	45.1	69.1
RPAT	**369.1**	**334.5**	**167.8**	**456.3**	**621.8**
APAT	**333.4**	**276.8**	**137.6**	**410.7**	**559.6**
Growth (%)	-16.4	-17.0	-50.3	198.4	36.3
EPS	6.6	5.5	2.8	8.2	11.2

Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	505.2	499.5	499.5	499.5	499.5
Reserves	2708.5	2772.6	2910.2	3320.9	3880.5
Shareholders' Funds	**3213.8**	**3272.1**	**3409.7**	**3820.4**	**4380.0**
Minority's Interest	**466.1**	**446.4**	**476.6**	**522.2**	**584.4**
Long Term Debt	1965.7	4341.6	4014.1	3694.1	3444.1
Net Deferred Taxes	140.8	122.7	131.4	121.4	111.4
Long Term Prov & Others	474.2	500.5	520.0	533.8	569.5
Total Source of Funds	**6260.5**	**8683.2**	**8551.8**	**8691.9**	**9089.3**
APPLICATION OF FUNDS					
Net Block & Goodwill	4288.6	7123.6	6737.4	6605.8	6518.0
CWIP	550.0	736.0	884.6	884.6	884.6
Other Non-Current Assets	472.9	450.1	423.8	473.6	524.3
Total Non Current Assets	**5311.4**	**8309.7**	**8045.8**	**7964.0**	**7926.9**
Current Investments	2.3	11.6	24.6	74.6	124.6
Inventories	732.2	961.0	949.5	1037.2	1154.5
Trade Receivables	2028.7	2366.4	2183.8	2483.9	2764.7
Cash & Equivalents	341.1	177.1	282.1	195.3	264.2
Other Current Assets	512.4	579.6	503.2	532.3	592.4
Total Current Assets	**3616.7**	**4095.7**	**3943.2**	**4323.4**	**4900.5**
Short-Term Borrowings	641.9	770.1	674.5	674.5	644.5
Trade Payables	1014.1	1293.9	1186.8	1255.6	1336.8
Other Current Liab & Prov	1011.7	1658.1	1575.9	1665.5	1756.9
Total Current Liabilities	**2667.6**	**3722.1**	**3437.2**	**3595.5**	**3738.1**
Net Current Assets	949.1	373.6	506.0	727.9	1162.4
Total Application of Funds	**6260.5**	**8683.2**	**8551.8**	**8691.8**	**9089.3**

Aster DM Healthcare Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	412.0	349.9	197.8	501.4	690.9
Non-operating & EO items	189.7	176.8	37.6	-53.7	-40.4
Interest Expenses	168.6	353.6	289.2	256.7	232.2
Depreciation	306.5	585.9	624.8	656.6	662.7
Working Capital Change	-422.1	-177.3	100.7	-251.0	-270.2
Tax Paid	-53.8	-65.7	-30.0	-45.1	-69.1
OPERATING CASH FLOW (a)	**600.9**	**1,223.3**	**1,220.2**	**1,064.9**	**1,206.0**
Capex	-537.4	-508.3	-400.0	-525.0	-575.0
Free Cash Flow	63.5	714.9	820.2	539.9	631.0
Investments	22.4	-9.2	-15.6	-50.0	-50.0
Non-operating income	-187.4	-140.9	0.0	0.0	0.0
INVESTING CASH FLOW (b)	**-702.4**	**-658.4**	**-415.6**	**-575.0**	**-625.0**
Debt Issuance / (Repaid)	292.9	-217.4	-423.2	-320.0	-280.0
Interest Expenses	-175.4	-200.1	-289.2	-256.7	-232.2
FCFE	180.9	297.5	107.8	-36.8	118.9
Share Capital Issuance	2.4	1.0	0.0	0.0	0.0
Dividend	0.0	-9.7	0.0	0.0	0.0
Others	14.6	-248.7	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**134.4**	**-674.8**	**-712.4**	**-576.7**	**-512.2**
NET CASH FLOW (a+b+c)	**32.9**	**-109.9**	**92.2**	**-86.8**	**68.9**

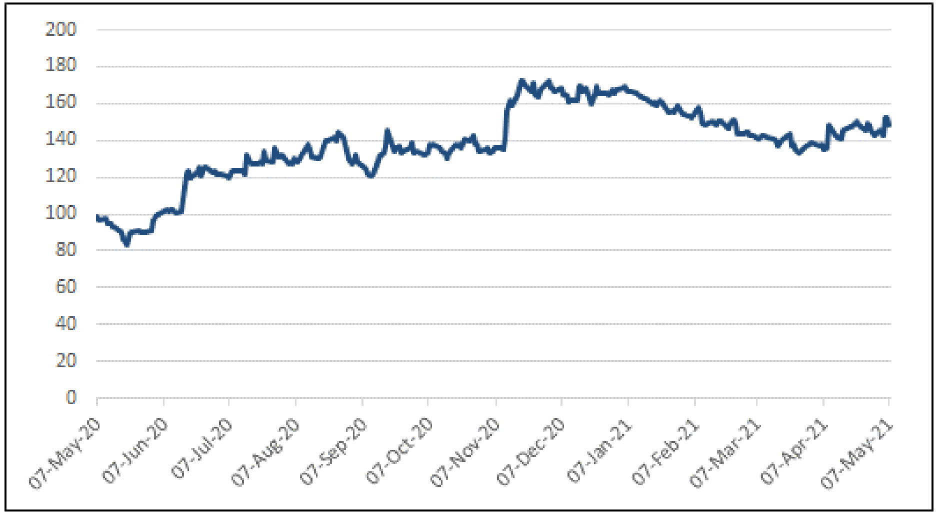
Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	10.8	14.4	12.4	13.8	13.9
EBIT Margin	7.4	8.1	5.6	7.6	8.3
APAT Margin	4.2	3.2	1.6	4.1	5.0
RoE	11.0	8.5	4.1	11.4	13.6
RoCE	10.9	10.0	5.9	9.3	11.1
Solvency Ratio					
Debt/EBITDA (x)	3.0	4.1	4.3	3.2	2.7
D/E	0.8	1.6	1.4	1.1	0.9
PER SHARE DATA					
EPS	6.6	5.5	2.8	8.2	11.2
CEPS	12.7	17.3	15.3	21.4	24.5
Dividend	0.0	0.0	0.0	0.0	0.0
BVPS	63.6	65.5	68.3	76.5	87.7
Turnover Ratios (days)					
Debtor days	81.9	91.8	95.8	85.5	86.4
Inventory days	31.2	35.4	40.2	36.4	36.1
Creditors days	42.6	48.2	52.3	44.7	42.7
VALUATION					
P/E	22.3	26.9	53.7	18.0	13.2
P/BV	2.3	2.3	2.2	1.9	1.7
EV/EBITDA	11.3	9.8	10.9	8.4	7.3
EV/Revenues	1.2	1.4	1.4	1.2	1.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout	0.0	0.0	0.0	0.0	0.0

(Source: Company, HDFC sec)

Aster DM Healthcare Ltd.

One Year Price Chart



(Source: Company, HDFC sec)

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