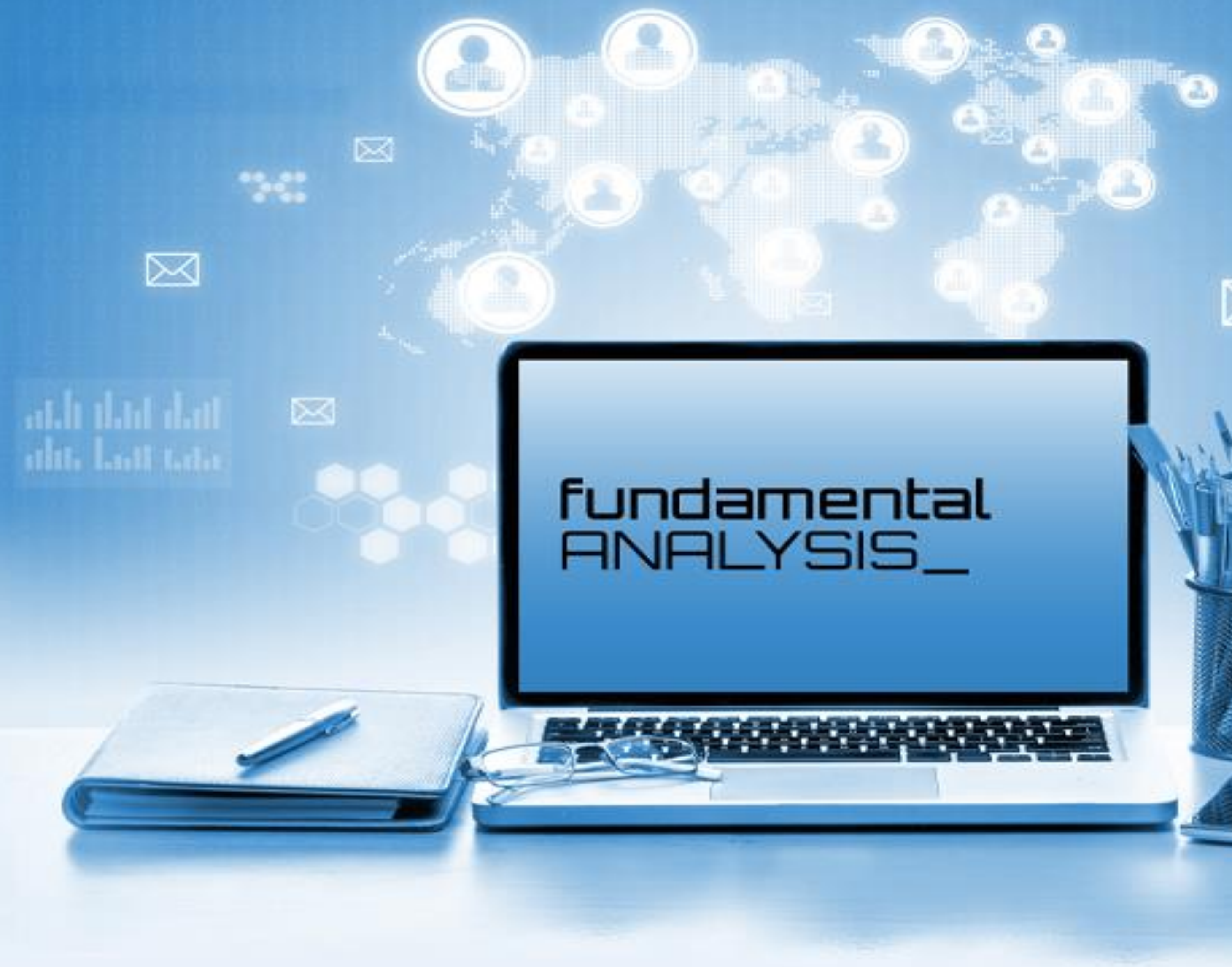
Stock Update

Aster DM Healthcare Ltd.

Aug 28, 2023



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Aster DM Healthcare Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare Facilities	Rs 320.2	Buy in the band of Rs 317-323 & add more on dips to Rs 282-288 band	Rs 350	Rs 374	2-3 quarters

HDFC Scrip Code	ASTERDMEQNR
BSE Code	540975
NSE Code	ASTERDM
Bloomberg	ASTERDM IN
CMP Aug 25, 2023	320.2
Equity Capital (Rs cr)	499.5
Face Value (Rs)	10
Equity Share O/S (cr)	49.9
Market Cap (Rs cr)	15,997
Book Value (Rs)	89.0
Avg. 52 Wk Volumes	565735
52 Week High	336.7
52 Week Low	201.3

Share holding Pattern % (June 2023)	
Promoters	41.9
Institutions	47.4
Non Institutions	10.7
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Aster DM Healthcare Limited is one of the largest integrated private healthcare service providers operating in GCC (Gulf Cooperation Council) and India. With an inherent emphasis on clinical excellence, its healthcare services encompass primary to quaternary care models which include clinics, hospitals, mobile health, telehealth, and home care services. GCC contributes 75% of revenues while India accounts for the remaining share. The company has a diversified portfolio of healthcare facilities, consisting of 33 hospitals (bed capacity 5866), 127 clinics, 527 retail pharmacies and 229 labs and patient experience centers (PECs) in India & GCC.

The company registered healthy margins in India owing to maturity of hospitals, improving case mix and cost efficiencies which comes with large format hospitals in metros and tier-1 cities. Better sweating of assets has improved its revenue and profitability, which is seen from increase in its revenue and EBITDA share. Company expects its ARPOB to grow at 8-10% YoY driven by improvement in case mix, price hikes, tariff increases in its TPA agreements every 2-3 years. Aster's hospitals in India have reached almost full capacity; and it has kicked-off low capex brownfield (including O&M) and greenfield expansion coupled with inorganic acquisitions. Pipeline of 1665 beds (~38% of existing bed capacity) would get operationalised gradually by FY27. This expansion strategy complemented by its digital strategy bodes well for the company.

Cluster focused approach, improvement in maturity mix, pipeline of brownfield and greenfield expansion along with inorganic growth and ancillary business (lab and pharmacy) would further cement its position in India. Aster is also building hospital portfolio under O&M (asset light model) in India. While these hospitals would be operating at lower EBITDA margins of around 13-15%, it would be RoCE accretive as it entails minimal capex. The management is focused on improving the bottomline by increasing OP-IP (Out-patient In-patient) conversion, increasing ARPOB (Average Revenue per Occupied Bed), adding higher margin specialties in select hospitals.

To expand its healthcare offerings and its patient base, the company is actively expanding Aster Labs and pharmacy distribution network in India (asset light model). These are an extension of the hospitals which will connect the patients especially for primary care with its hospitals. On a consolidated basis, these ancillary businesses would not impact its margins considerably as it is operating at relatively small scale. The focus currently is more on creating an ecosystem. Minimal capital outlay would not impact India business RoCE. The management expects to achieve breakeven in diagnostics by FY24, and break even in pharmacies by FY25. Benefits of creating an ecosystem would accelerate when its digital platform (MyAsterApp) goes live in India – which will tie together - hospitals, pharmacies, labs and online consultation.

GCC business is performing well in financial and operational parameters. Over the past many quarters, the company has been closely assessing restructuring options for its GCC business to unlock value of its shareholders. The management has provided clarity that it plans to sell of its GCC business entirely and would separate it from the India-listed company. The GCC restructuring is likely to be announced very soon. The entire proceeds from the sale will accrue to the Indian entity; it plans to distribute a portion of the proceeds received from sale as special dividend. The GCC entity is consolidated under their Mauritius entity and hence no capital gains tax will be payable. Given the delay in this stake sale, successful execution of this deal is critical to further rerating.

We had issued stock update on Aster DM dated March 20, 2023; both the targets were achieved within our investment horizon. On account of healthy performance in India business and successful conclusion of the GCC stake sale could unlock value for shareholders; we believe there is a scope for rerating.

Valuation & Recommendation:

We are positive on India business due to ramping up of operation in newer facilities, improving specialty mix and better operational efficiencies. Asset light O&M expansion would be RoCE accretive. Moreover, it expects to breakeven its diagnostics and pharmacies business in India by FY24 & FY25 respectively. Calibrated expansion in GCC, partnerships and recent acquisitions would expand its offerings and has improved its brand image in GCC region; thereby commanding better valuation. Even after the recent run-up in the stock price, it trades at ~9.5x FY25E EV/EBITDA, which is 25-40% discount to Indian peers. We expect revenue/EBITDA/PAT to grow at CAGR of 14.1%/18.3%/38.3% over FY23-25E. **We think the base case fair value of the stock is Rs 350 (10.25x FY25E EV/EBITDA, 21.5x FY25E EPS) and the bull case fair value is Rs 374 (10.75x FY25E EV/EBITDA, 23x FY25E EPS) over the next two-three quarters. Investors can buy the stock in the band of Rs 317-323 and add more on dips to Rs 282-288 band (8.75x FY25E EV/EBITDA, 17.5x FY25E EPS). At CMP, the stock trades at 9.5x FY25E EV/EBITDA, 19.7x FY25E EPS.**

Financial Summary

Particulars (Rs cr)	Q1FY24	Q4FY22	YoY-%	Q4FY23	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Total Operating Income	3215.4	2662.1	20.8	3262.3	-1.4	8,608.4	10,253.3	11,932.9	13,593.9	15,530.3
EBITDA	387.7	292.1	32.7	505.6	-23.3	1,062.8	1,483.3	1,565.3	1,876.0	2,189.8
PAT	27.2	80.2	-66.1	181.9	-85.1	174.3	600.5	474.3	644.2	891.4
Adjusted PAT	14.9	68.5	-78.2	170.8	-91.2	147.7	526.0	424.9	574.2	813.3
Diluted EPS (Rs)	0.3	1.4	-78.2	3.4	-91.2	3.0	10.6	8.5	11.5	16.3
RoE-%						4.4	14.4	10.1	12.1	15.0
P/E (x)						108.3	30.3	37.5	27.9	19.7
EV/EBITDA (x)						19.3	13.8	13.6	11.1	9.3

(Source: Company, HDFC sec)

Q1FY24 Result Review:

Aster DM Healthcare reported healthy revenue growth of 20.8% YoY to Rs 3215.4cr on the back of resilient performance in India and robust growth in GCC hospitals & pharmacies. Increase in the number of beds through commissioning of new hospitals coupled with robust ARPOBD growth supported healthy topline. In a seasonally weak quarter, GCC business reported revenue to the tune of Rs 2377cr (+18.2%/-3.3% YoY/QoQ) supported by healthy in-patient count & ARPOBD growth in hospital segment and strong growth in pharmacies. India business posted topline of Rs 838cr (+28.7%/+4.2% YoY/QoQ) on the back of decent occupancy and ARPOBD growth. The company reported EBITDA of Rs 387.7cr (+32.7%/-23.3% YoY/QoQ). EBITDA margins expanded 109bps QoQ and stood at 12.1% (vs 15.5% in Q4FY23). EBITDA growth was impacted due to loss from new hospitals. Excluding new hospitals and non-recurring restructuring costs, the company's EBITDA was at Rs 404cr (up 38% YoY). It posted adjusted PAT of Rs 14.9cr, -78.2%/-91.2% YoY/QoQ. PAT was lower on account of on-cash tax adjustment as new tax regime is implemented in GCC.

Coming to the segmental performance for the quarter, GCC hospitals reported healthy revenue of Rs 1090cr (+19.4%/flat YoY/QoQ). Higher ARPOB coupled with improvement in in-patient volumes supported healthy growth. It reported 51% occupancy as against 49% in Q4FY23 (vs 51% in Q1FY23). ARPOBD stood at Rs 204,000 (+5% YoY). GCC hospitals EBITDA expanded 103bps/193bps YoY/QoQ to 15.6%. GCC clinics posted revenue of Rs 626cr, +16.4%/-8.5% YoY/QoQ impacted by lower out-patient volumes. It reported margin of 18.2% vs 22.1% in Q4FY23. GCC Pharmacies revenue acceleration was driven by a combination of existing stores sales as well as newer stores. GCC pharmacies reported healthy topline of Rs 817cr, up 23.8%/2.3% YoY/QoQ, driven by combination of newer stores and new initiatives like e-pharmacy, home delivery. Higher footfalls and improvement in revenue per patient also supported healthy revenue growth. It posted EBITDA margin of 9.3% as against 16% in Q4FY23 (vs 8.8% in Q1FY23). The company successful launched Zest Pharmacy. Its digital initiatives continue to yield impressive outcomes, enhancing patient experiences and contributing to revenue growth.

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
GCC Revenue (Rs cr)	1,656	1,895	1,878	1,462	1,828	1,768	1,910	1,822	1,896	2,032	2,121	2,011	2,059	2,421	2,458	2,377
EBITDA Margin (%)	7.2%	13.9%	19.7%	8.9%	12.2%	15.7%	15.1%	11.5%	12.7%	14.6%	18.1%	10.3%	9.3%	13.8%	15.4%	11.1%
PAT Margin (%)	1.0%	8.0%	7.5%	-3.0%	2.6%	5.9%	6.9%	2.5%	4.4%	6.0%	10.1%	2.4%	-0.2%	4.5%	5.0%	-1.5%

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
India Revenue (Rs cr)	431	427	402	299	415	459	481	550	609	618	607	651	757	771	804	838
EBITDA Margin (%)	12.8%	11.7%	7.2%	4.3%	11.6%	11.1%	9.8%	12.9%	16.7%	16.5%	13.0%	12.9%	16.8%	14.9%	15.8%	14.7%
PAT Margin (%)	0.6%	0.2%	0.1%	-2.7%	-0.8%	-0.6%	-1.4%	-0.1%	1.2%	1.3%	0.5%	0.9%	2.4%	1.2%	2.0%	1.7%

(Source: Company, HDFC sec)

India hospital business reported robust revenue growth of 27.1%/7.1% YoY/QoQ to Rs 797cr driven by operationalizing of additional capacities, improvement in ARPOBD and higher in-patient count. Occupancy levels stood at 68% as against 66% in Q4FY22. Overall occupancies improved to 67% (excl. O&M). ARPOBD during the quarter was at Rs 39,400 (+8.5%/4% YoY/QoQ). EBITDA expanded 203bps/182bps YoY/QoQ and stood at 17.8%.

In order to expand its healthcare offerings for its patient base, the company is actively expanding Aster Labs and pharmacy distribution network in India. Aster Labs established its presence in Karnataka, Kerala, Maharashtra, Tamil Nadu, Andhra Pradesh, and Telangana. As of Jun 30, 2023, there are 1 reference lab, 14 satellite labs, and 214 patient experience centres (PEC). Customer centric approach and offering lab services as a part of creation of ecosystem would see its benefits in the coming quarters. With respect to the Aster Pharmacy branded retail stores, operated by Alfaone Retail Pharmacies Private Limited or ARPPL, there are 255 pharmacies as of Jun'23. Labs & Wholesale Pharmacy business posted revenue of Rs 64cr (+6.7% QoQ) and EBITDA loss of Rs 8cr (much of loss is attributed to labs vertical). It wants to create an ecosystem through hospitals, pharmacies and labs.

Key Triggers:

India Business – the growth engine:

Aster has 18 hospitals with an installed capacity of 4423 beds (3391 operational beds) offering a wide range of care services such as Cardiac, Orthopaedic, Neurology, Oncology, etc. During FY23, India business reported healthy topline of Rs 2983cr (up 25.1% YoY) and EBITDA of Rs 453cr (up 28.3% YoY). EBITDA margins improved from 14.8% in FY22 to 15.2% in FY23. India's contribution to group EBITDA has increased to ~29% compared to 15% FY21. The company registered healthy margins in India owing to maturity of hospitals, improving case mix and cost efficiencies which come with large format hospitals in metros and tier-1 cities. Its net profit came in at Rs 147cr, up 145% YoY. Revenue from India hospitals and clinics, excluding the O&M asset-light hospitals stands at Rs 2,819cr, up 20% YoY in FY23. Margins stood at 18.7% in FY23 vs 17.4% in FY22.

Better sweating of assets has improved its revenue and profitability, which is seen from increase in its revenue and EBITDA share. Improvement in the maturity mix profile of hospitals would improve overall margins. Better case mix with focus on offering specialties in select hospitals, price hikes (5-10%) across certain therapies and expansion in Tier 1 cities have improved its ARPOBD in FY23 which stood at Rs 36,500, up 9% YoY. Company expects its ARPOB to grow at 8-10% YoY driven by improvement in case mix, price hikes, tariff increases in its TPA agreements every 2-3 years. Adopting Cluster approach also helps in consolidation and sharing of resources within the cluster and across the cluster. Kerala cluster has been operating at 80%+ occupancies and has seen steady improvement in margins. AP-Telangana cluster would see double digit EBITDA margin as occupancies improves gradually. Moreover, medical value tourism could find traction due to specialties focus - paediatric, neurology (specifically Gene therapy), orthopaedic and women health related specialties.

Cluster focused approach, improve maturity mix, pipeline of brownfield and greenfield expansion along with inorganic growth and ancillary business (lab and pharmacy) would further cement its position in India. Aster is also building hospital portfolio under O&M (asset light model) in India. The management is focused on improving the bottomline by increasing OP-IP conversion, increasing ARPOB, adding higher margin specialties in select hospitals. With expansion of other business verticals – Aster Labs & Pharmacy on track, the company plans to create a healthcare ecosystem around its hospitals, improving its occupancy and enhancing its brand image.

Healthy pipeline of bed additions

Aster has been adding new beds in some of the hospitals which have reached almost full capacity. It operationalized Aster Mother Hospital, (Areekode, Kerala), Aster Narayanadari (Andhra Pradesh) and Ramesh hospital in Vijayawada having total bed capacity of 340 beds in FY23. The company commenced operation of 100-bed Aster Madegowda Hospital in Mandya, Karnataka from Apr'23. It commenced operations at Madegowda Hospital in Mandya, Karnataka (100 beds) in Q1FY24. The Phase 2 development of Aster Whitefield Hospital in Bangalore comprising of 275 beds, is nearing completion and is expected to be operational in Sep'23. 140 beds in Kollam is expected to be operational in Q2FY24. Aster's hospitals in India have reached almost full capacity; and it has kicked-off low capex brownfield (including O&M) and greenfield expansion coupled with inorganic acquisitions. Pipeline of 1665 beds (~38% of existing bed capacity) would get operationalised gradually by FY27. It plans to open 550-bed super-specialty hospital in Trivandrum, with its first phase of 350 beds expected to be operational by FY27. It is adding 100 beds in Aster MIMS Hospital Kannur and 100 beds in Aster Medcity Kochi. Works have begun in the upcoming 200-bed project at Aster Hospital Kasargod and Phase 1 of Aster Hospital in Trivandrum with 350 beds. Post restructuring of GCC business, the focus will remain on growing in South India; it is open to expanding outside of South India. Aster DM remains open to M&A in the hospitals space in India to gain scale.

Aster DM has now turned aggressive to add hospitals through asset light expansion by taking over operations and management (O&M) of hospitals. Aster Narayanadri Hospital in Tirupati achieved breakeven within the first quarter of its operations. The company entered into hospital O&M agreement with Padmavathy Medical Foundation which is 130-bed tertiary super specialty hospital in Kollam District, Kerala and commenced operations in Aug'23. Aster DM added total 530 beds under O&M asset-light model in less than two years. It plans to acquire 2-3 more hospitals of 300-400 beds. While these hospitals would be operating at lower EBITDA margins of around 13-15%, it would be RoCE accretive as it entails minimal capex. It also helps to increase referral cases to its Aster DM's flagship hospitals that operates multi-specialties and complex cases.

The company has been making creeping investment and acquiring stake in existing profitable hospitals (bought remaining 22.69% stake in Sainath Multispeciality Hospitals Private Limited, additional 6.49% stake in Ramesh Hospital). It acquired additional stake in Malabar Institute of Medical Sciences Ltd (MIMS), increasing the holding to 77.9%. It also bought stake in company to expand its bed capacity in the future (bought Cantown Infra Developers LLP that owns land next to Aster MIMS Kannur). This expansion strategy complemented by its digital strategy bodes well for the company.

Hospital Pipeline:

Hospitals	Location	Planned Beds	Expected Completion	Present Status	Owned/leased/O&M
Aster Whitefield Specialty Hospital (Phase 2)	Bengaluru, Karnataka	275	Q2FY24	Pre-operational	Leased
Aster MIMS Kannur (Expansion)	Kannur, Kerala	100	FY25	Construction	Owned
Aster Medcity (Expansion)	Kochi, Kerala	100	FY25	Construction	Owned
Aster MIMS Kasargod	Kasargod, Kerala	200	FY25	Construction	Leased
Aster KLE	Bengaluru, Karnataka	500	FY26	Design	O&M
Aster Capital Hospital (Phase 1)	Trivandrum, Kerala	350	FY27	Construction	Owned

(Source: Company, HDFC sec)

Labs & Pharmacy – to create healthcare ecosystem

Aster DM Healthcare continues to remain committed to widen its presence in India with asset-light model. In order to expand its healthcare offerings for its patient base, the company is actively expanding Aster Labs and pharmacy distribution network in India. These are an extension of the hospitals and which will connect the patients especially for primary care with its hospitals. The segment reported topline of Rs 217cr (up 72.2% YoY) and EBITDA margin of -12.9% in FY23.

Aster Labs – diagnostic vertical - has built strong presence in Karnataka, Kerala and Andhra Pradesh. It has 1 Reference Labs, 14 Satellite Labs and 214 Patient Experience Centres (PECs). Aster labs works on hub and spoke model, in which the processing lab is situated in the centre where the samples are processed and the Patient Collections centres are spread across the geography which feed in the processing labs. Patient Collections centres are majority franchisee owned, hence works on asset light model. Given the recent competition in diagnostic space, the company has scaled down its earlier expansion targets. Aster Labs is likely to breakeven by Q4FY24 given the increased focus on B2C pick up points, increasing collections centers and home collections.

Aster DM has entered into an agreement with Alfaone Retail Pharmacies Private Limited (ARPPL) to license the 'Aster Pharmacy' brand to run the retail stores and online pharmacy operations. It introducing Retail Pharmacies (shop-in-shop) in One Aster centers providing bouquet of services like Wellness, Preventive Health checkup, Medicine dispensing among others. As on Jun'23, it has 255 operational pharmacies and set target of 300 stores in the near future. Aster pharmacies are on leased out premises so the only capex cost is interiors. To strengthen its position, it would be focusing more on private labels, FMCG and wellness product sales which command higher margins. Aster plans its e-commerce foray in FY24.

On a consolidated basis, these ancillary businesses would not impact its margins as it is operating at relatively small scale. The focus currently is more on creating an ecosystem. Minimal capital outlay would not impact India business' RoCE. The management expects to achieve breakeven in diagnostics by FY24, and break even in pharmacies by FY25. Benefits of creating an ecosystem would gather stream when its digital platform (MyAsterApp) goes live in India – which will tie together - hospitals, pharmacies, labs and online consultation.

GCC business on healthy footing; more of investment now:

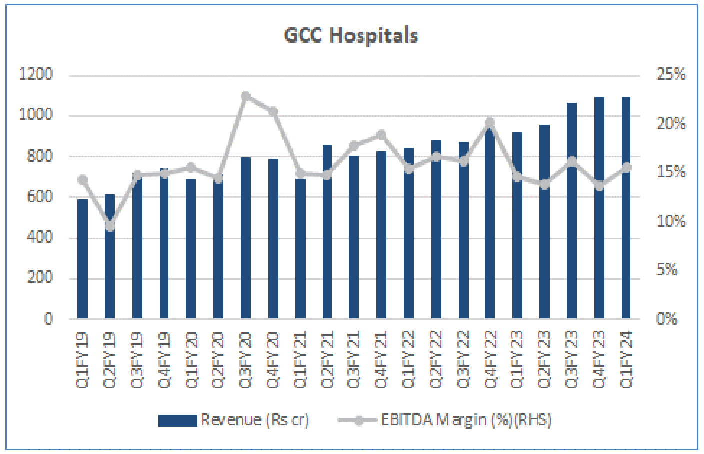
Aster provides diverse range of in-patient services through its 15 hospitals in GCC with 1443 bed capacity. It also possesses one of the largest network of clinics in UAE, operating to the highest quality of standards and offers affordable health care. The company has a total of 115 clinics. Aster has a huge pharmacy network of 272 stores catering to its customers a wide range of products including nutritional supplements, baby care, personal care, medical device, rehabilitation products etc. GCC business posted revenue of Rs 8950cr in FY23 (up 13.7% YoY). It reported EBITDA margin of 12.4% vs 14.4% in FY22. New hospitals - Aster Hospital (Sharjah), Aster Royal Hospital (Muscat) and Aster Hospital Sonapur impacted margins & profitability. The Sanad hospital has shown sustained profitability in Q1FY24. Aster Medcare Royal hospital is expected to be commissioned by Q4FY24 with 126 beds. Recovery in in-patient & out-patient volumes coupled with increase in ARPOBD lifted its margins. The utilization of the bed capacity in new hospitals is expected to improve revenue and EBITDA performance in coming quarters.

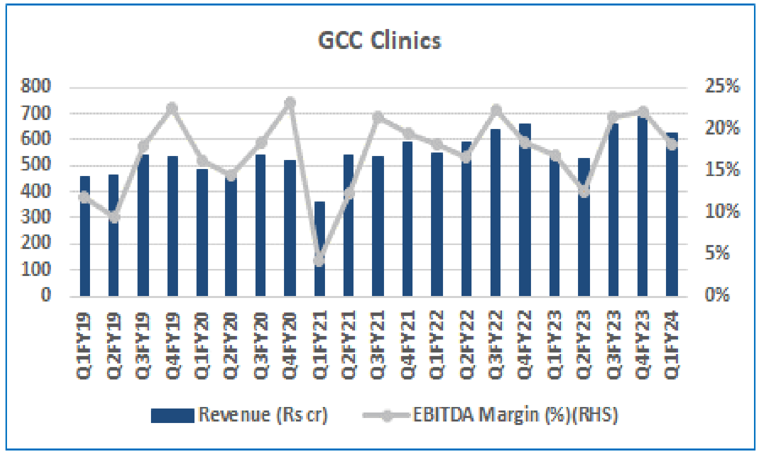
In the last couple of quarters, Aster DM has been firming its presence in GCC. Aster Pharmacy, the retail arm of Aster DM Healthcare, has entered a strategic partnership with UAE's largest online food delivery and q-commerce platform Talabat to bring prescription medicines directly to the front door of patients in Dubai. Medcare Hospital LLC, a step-down material subsidiary of Aster DM acquired 60% stake in Skin III Limited. Skin III Limited (Dubai) is a leader in offering IV Drips (Vitamin and Detox) and other Aesthetics Procedures (HydraFacial, laser hair Removal etc). This acquisition would enable to meet the cosmetic and aesthetic needs of patients and is a relatively high margin non-insurance business with significant growth potential. Aster has launched pharmacy operations in Saudi Arabia with Al Hokair Group and plans to create a network of 250 pharmacies in the next five years; and is expected to launch in Oct'23. The company entered into a partnership with Sukoon which is a leading insurance provider in UAE to launch two new health insurance plan with Aster products. Aster Pharmacy in partnership with Spinneys, which is one of the leading grocery stores in UAE has launched Zest Pharmacy, which is a premium wellness concept in the UAE. Leveraging on cutting-edge diagnostic technology, Zest Pharmacy offers personalized health insights and plans through its innovative stations. All these partnerships and acquisitions would expand its offerings and improve its brand image in GCC region. GCC business is performing well in financial and operational parameters. As the company is in the process of restructuring the business; the valuation it commands would be key monitorable.

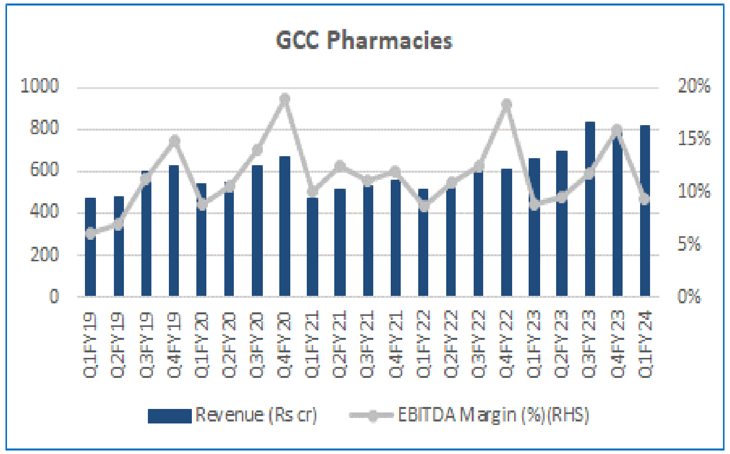
Hospital Pipeline:

Hospitals	Location	Planned Beds	Expected Completion	Present Status	Owned/leased
Annex Building	Saudi, KSA	59	Q2FY24	Pre-Operational	Owned
Aster Royal Hospital	Dubai, UAE	126	Q4FY24	Design	Leased
Aster Hospital	Doha, Qatar	60	Q4FY25	Design	Leased

(Source: Company, HDFC sec)







(Source: Company, HDFC sec)

All eyes now on GCC Restructuring:

Aster DM, over last many quarters, has been closely assessing restructuring options for its GCC business to unlock value of its shareholders. Strategic options in terms of the right corporate structure along with aligned growth levers are being evaluated and worked upon. The management has provided clarity that it plans to sell of its GCC business entirely and would separate it from the India-listed company. Investment bankers received interest and indicative terms from potential buyers of the GCC business. The company continues to be engaged in discussion with shortlisted bidder. The shortlisted counterparty and its consortium of investors are actively working on key terms. The GCC restructuring is likely to be announced very soon. The management highlighted that the entire proceeds from the sale will accrue to the Indian entity. The GCC entity is consolidated under their Mauritius entity and hence no capital gains tax will be payable. It plans to distribute the proceeds received from sale as special dividend. Going forward, there would be two separate business – GCC & India business. Irrespective of the restructuring, the promoters are expected to hold stake in both the business; and the associated synergies is expected to continue post restructuring as well. GCC restructuring is expected to unlock value for the shareholders but we await more clarity on timelines and valuation.

Concerns:

Project execution and Operational Risk: As significant capex is incurred for new hospitals, delay in ramp-up will impact revenues, EBITDA and affect cashflow generation. Even though the company has adopted asset-light mode of expansion, a bulk of their expansion requires construction of structures and heavy capex. Any delay in commissioning or expansion (reaching breakeven) of new facilities may impact overall growth, thus impacting overall financials. Execution in the newer geographies will remain critical with potential risk.

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 that 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.

Regulatory Risk: The healthcare industry is subject to many domestic and international regulations. The company is exposed to the future regulatory risk associated with changing healthcare laws in the GCC and in India. For the provision of healthcare services, medical establishments such as hospitals and clinics are subject to receiving different types of government licenses and approvals. Inability to secure such licenses and permits would impact its operational performance.

About the company:

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 in India. With an inherent emphasis on clinical excellence, its healthcare services encompass primary to quaternary care models which include clinics, hospitals, mobile health, telehealth, and home care services. 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 by healthcare professionals and patients. GCC contributes 75% of revenues while India accounts for the remaining share. The company has a diversified portfolio of healthcare facilities, consisting of 33 hospitals (bed capacity 5866), 127 clinics, 527 retail pharmacies and 229 labs and patient experience centers (PECs); of which 18 multi-specialty hospitals, 12 clinics, 255 pharmacies, 1 reference labs, 14 satellite labs, 214 PECs are in India.

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. Aster DM continues to invest in digital initiatives including in their app 'myAster' offering tele-consulting, diagnostic, e-pharmacy & wellness services to patients in UAE which is also expected to be mirrored in India. While the capital allocation would be more towards India business, it will continue to maintain growth and leadership position in some of its core market like UAE, Oman, Qatar.

1. Count includes 3 O&M Asset Light Hospitals with a capacity of 390 beds; 2. Pharmacies in India operated by ARPPL under brand license from Aster; 3. 1 reference lab, 14 satellite labs, 214 patient experience centers

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Financials

Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	**8608.4**	**10253.3**	**11932.9**	**13593.9**	**15530.3**
Growth (%)	**-0.5**	**19.1**	**16.4**	**13.9**	**14.2**
Operating Expenses	7545.6	8770.0	10367.6	11718.0	13340.6
EBITDA	**1062.8**	**1483.3**	**1565.3**	**1876.0**	**2189.8**
Growth (%)	**-15.5**	**39.6**	**5.5**	**19.8**	**16.7**
EBITDA Margin (%)	**12.3**	**14.5**	**13.1**	**13.8**	**14.1**
Depreciation	617.6	640.6	780.4	858.0	881.5
EBIT	**445.2**	**842.7**	**784.8**	**1017.9**	**1308.3**
Other Income	50.0	50.7	78.3	88.4	93.2
Interest expenses	293.7	257.0	329.2	325.4	314.4
PBT	**201.5**	**636.3**	**533.9**	**780.9**	**1087.1**
Tax	27.2	35.8	59.6	136.7	195.7
RPAT	174.3	600.5	474.3	644.2	891.4
APAT	**147.7**	**526.0**	**424.9**	**574.2**	**813.3**
Growth (%)	**-46.6**	**256.0**	**-19.2**	**35.1**	**41.6**
EPS	3.0	10.6	8.5	11.5	16.3

Balance Sheet

As at March (Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	497.0	497.2	499.5	499.5	499.5
Reserves	2875.4	3456.2	3948.6	4522.7	5336.0
Shareholders' Funds	**3372.5**	**3953.4**	**4448.1**	**5022.2**	**5835.5**
Minority's Interest	**461.7**	**529.2**	**412.4**	**479.7**	**560.2**
Long Term Debt	4029.7	3939.3	4466.7	4296.7	4126.7
Net Deferred Taxes	129.2	143.9	192.5	192.5	192.5
Long Term Provisions & Others	433.4	396.8	660.7	660.1	723.1
Total Source of Funds	**8426.3**	**8962.7**	**10180.4**	**10651.3**	**11438.0**
APPLICATION OF FUNDS					
Net Block & Goodwill	6754.7	7028.7	9076.3	8918.3	8736.7
CWIP	928.1	977.7	255.1	255.1	255.1
Other Non-Current Assets	308.2	418.4	582.7	666.4	751.6
Total Non Current Assets	**7991.0**	**8424.8**	**9914.1**	**9839.8**	**9743.5**
Current Investments	24.1	6.6	11.3	11.3	11.3
Inventories	849.0	1025.7	1305.6	1452.5	1659.4
Trade Receivables	2019.0	2020.5	2336.3	2756.0	3233.7
Cash & Equivalents	281.4	379.6	428.6	660.2	1021.1
Other Current Assets	455.5	664.0	839.8	782.1	936.1
Total Current Assets	**3629.0**	**4096.5**	**4921.6**	**5662.1**	**6861.6**
Short-Term Borrowings	773.9	967.8	1233.6	1223.6	1193.6
Trade Payables	2029.9	2118.1	2987.8	3091.2	3361.4
Other Current Liab & Provisions	389.9	472.7	433.9	535.8	612.1
Total Current Liabilities	**3193.7**	**3558.6**	**4655.3**	**4850.6**	**5167.1**
Net Current Assets	435.3	537.9	266.3	811.5	1694.5
Total Application of Funds	**8426.3**	**8962.7**	**10180.4**	**10651.3**	**11438.0**

RETAILRESEARCH

Aster DM Healthcare Ltd.

Cash Flow Statement

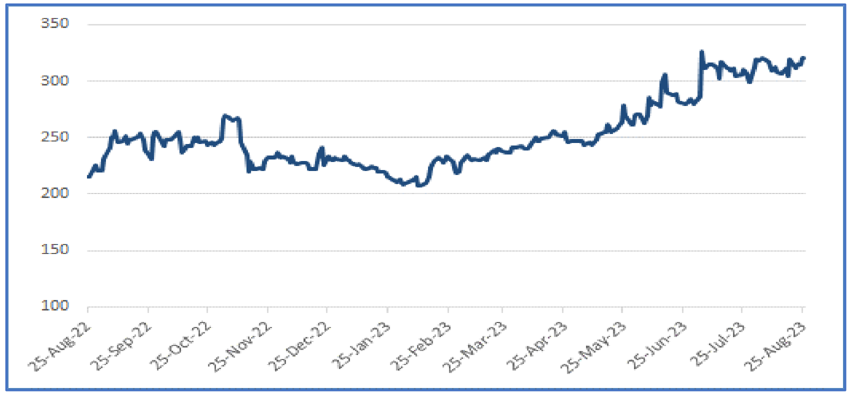
(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	205.1	636.9	535.1	780.9	1,087.1
Non-operating & EO items	272.3	241.3	163.0	-149.7	-86.8
Interest Expenses	289.5	254.3	326.5	325.4	314.4
Depreciation	617.6	640.6	780.4	858.0	881.5
Working Capital Change	195.8	-402.4	87.9	-240.9	-425.2
Tax Paid	-11.1	-57.1	-59.0	-136.7	-195.7
OPERATING CASH FLOW (a)	**1,569.1**	**1,313.5**	**1,834.0**	**1,437.1**	**1,575.3**
Capex	-386.4	-543.9	-839.0	-700.0	-700.0
Free Cash Flow	1,182.7	769.6	995.0	737.1	875.3
Investments	-12.5	17.5	-4.6	0.0	0.0
Non-operating income	65.9	-36.8	-128.3	0.0	0.0
INVESTING CASH FLOW (b)	**-333.1**	**-563.3**	**-971.9**	**-700.0**	**-700.0**
Debt Issuance / (Repaid)	-943.1	-516.3	-945.7	-180.0	-200.0
Interest Expenses	-163.5	-122.5	-149.0	-325.4	-314.4
FCFE	76.2	130.7	-99.7	231.7	360.9
Share Capital Issuance	0.8	0.6	0.0	0.0	0.0
Dividend	-9.4	-20.1	-27.3	0.0	0.0
Others	-1.0	-27.1	304.6	0.0	0.0
FINANCING CASH FLOW (c)	**-1,116.1**	**-685.4**	**-817.4**	**-505.4**	**-514.4**
NET CASH FLOW (a+b+c)	**119.9**	**64.8**	**44.7**	**231.7**	**360.9**

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E
PROFITABILITY RATIOS (%)					
EBITDA Margin	12.3	14.5	13.1	13.8	14.1
EBIT Margin	5.2	8.2	6.6	7.5	8.4
APAT Margin	1.7	5.1	3.6	4.2	5.2
RoE	4.4	14.4	10.1	12.1	15.0
RoCE	5.4	9.9	8.3	9.8	12.1
Solvency Ratio (x)					
Debt/EBITDA	4.5	3.3	3.6	2.9	2.4
D/E	1.4	1.2	1.3	1.1	0.9
PER SHARE DATA (Rs)					
EPS	3.0	10.6	8.5	11.5	16.3
CEPS	15.3	23.4	24.1	28.7	33.9
Dividend	0.0	0.0	0.0	0.0	0.0
BVPS	67.5	79.1	89.0	100.5	116.8
Turnover Ratios (days)					
Debtor days	93.0	71.9	66.6	68.4	70.4
Inventory days	38.4	33.4	35.7	37.0	36.6
Creditors days	70.5	73.8	78.1	81.6	75.8
VALUATION					
P/E (x)	108.3	30.3	37.5	27.9	19.7
P/BV (x)	4.7	4.0	3.6	3.2	2.7
EV/EBITDA (x)	19.3	13.8	13.6	11.1	9.3
EV/Revenue (x)	2.4	2.0	1.8	1.5	1.3
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)

One Year Price Chart:



(Source: Company, HDFC sec)

HEMANSHU VIJAY PARMAR

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