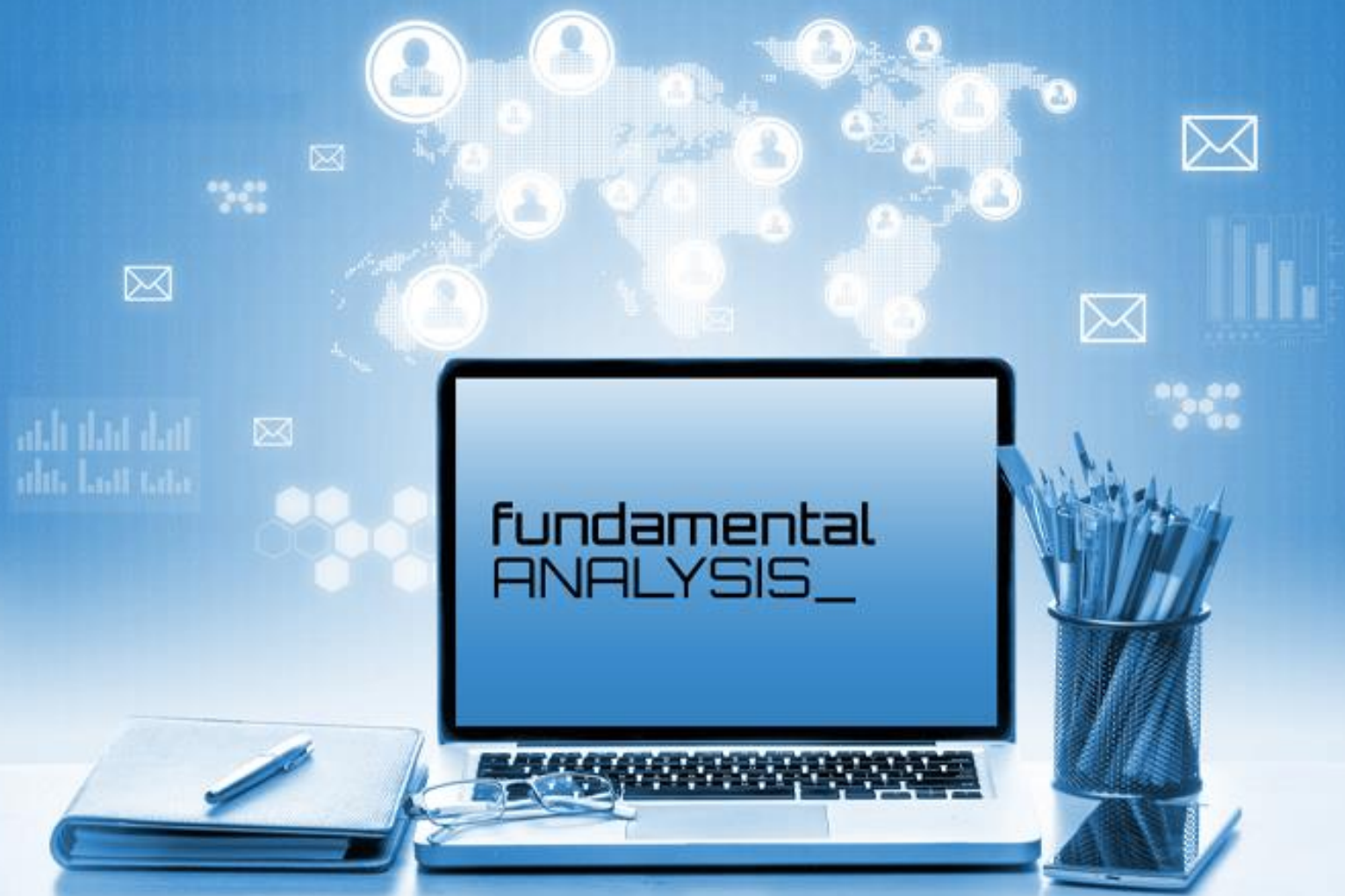


## Stock Note

# Kovai Medical Center & Hospital Ltd.

Feb 19, 2024





# Kovai Medical Center & Hospital Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare	Rs 3898	Buy in the band of Rs 3898-3947 & add more on dips to Rs 3462	Rs 4311	Rs 4676	2-3 quarters

HDFC Scrip Code	KOVMEDEQNR
BSE Code	523323
NSE Code	NA
Bloomberg	KMC IN
CMP Feb 16, 2024	3898.25
Equity Capital (Rs cr)	10.9
Face Value (Rs)	10
Equity Share O/S (cr)	1.09
Market Cap (Rs cr)	4265
Book Value (Rs)	714
Avg. 52 Wk Volumes	34167
52 Week High	4050
52 Week Low	1782

Share holding Pattern % (Dec, 2023)	
Promoters	56.43
Institutions	04.33
Non Institutions	39.24
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:

Kovai Medical (KMCH) is a Coimbatore-based company providing advanced healthcare services. Company operates a multispecialty hospital with 854 operating beds at Coimbatore equipped with latest tertiary health care facilities. The company also has its satellite centers at Ramnagar, Coimbatore (51 beds), Erode (103 beds), Sulur (111 beds) and Kovilpalayam (193 beds) including beds for ICUs, dialysis ward, etc. KMCH has also commenced a medical college with about 150 students intake each year with a 750-bed medical college hospital in the year 2019.

The main hospital at Coimbatore continued to be the major contributor to KMCH’s revenues with 70-75% of total revenue coming from this centre. During the second wave of Covid, KMCH had enhanced the medical infrastructure by commissioning 300 beds Hospital in Medical College Hospital. The Hospital has been certified by National Accreditation Board for Hospitals and Healthcare providers (NABH) for the delivery of high standards for safety and quality care to the patients. Operating beds as on Mar-2023 were at 1925 and ARPOB declined 17.5% YoY at Rs 17442 for FY23. This reduction was on account of the increased contribution from medical college hospital where ARPOB is lower than main hospital. In H1FY24, the ARPOB of the main centre stood at Rs 28,479 similarly, ARPOB for the other centres was between around Rs 11,000 to 19,000.

It was the fourth year of reporting on Education Services consequent to the commencement of KMCH Institute of Health Sciences & Research (KMCH Medical College). Revenue increased from Rs 27.8 crore in FY22 to Rs 67.1 crore in FY23, which also includes income from Allied Health Sciences and Diplomate of National Board courses. The segment revenue stood at Rs 63cr in 9MFY24 as compared to Rs 47cr in 9MFY23.

KMCH also focuses on quality education and training. The Medical College has good equipment like multi-slice CT scanner, MRI scanner, Cath lab equipment and good pathology services. In addition, the operation theatres have got equipment for not just complex surgeries but also for complex minimally invasive surgeries. The Medical College hospital has performed liver and pancreas surgeries and advanced orthopedic surgeries like Arthroscopy and joint replacement.

Company reported strong growth momentum in 9MFY24. Revenue grew 19.3% YoY at Rs 898cr. EBITDA margin improved 110bps YoY at 27.8%. Net profit increased 49.8% YoY at Rs 128cr. We expect healthy growth momentum to continue in the medium term led by better occupancy and shift towards complex surgeries etc.



## Valuation & Recommendation:

KMCH is well poised to capture the growing potential in the healthcare space in India. Strong revenue growth along with EBITDA margin expansion, improvement in return ratios and moderation in capex are some of the key triggers for the stock. KMCH has demonstrated robust performance with highest ever revenue and EBITDA in FY23. We estimate 23% revenue and 29% EBITDA CAGR along with strong improvement in RoE/RoCE over FY23-26E. EBITDA margin is likely to remain strong around 28-29% over the next 18-24 months, driven by operating leverage on the back of double-digit revenue growth and shift towards complex surgeries. Despite the fact that operational data available in the public domain is limited especially from a quarterly basis, we feel that the company can gradually improve the occupancy ratio, revenue and profitability. It is anyway available at cheaper valuation than its southern peers. We think investors can buy the stock in the band of Rs 3898-3947 and add more on declines to Rs 3462 (14.6x FY26E EPS and 8x EV/EBITDA) for base case target of Rs 4311 (18.25x FY26E EPS and 9.9x EV/EBITDA) and bull case target of Rs 4676 (19.75x FY26E EPS and 10.75x EV/EBITDA) over the next 2-3 quarters.

## Financial Summary

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Revenue	321	264	21.4	303	6.1	712	690	906	1,020	1,219	1,377	1,544
EBITDA	96	71	34.7	85	12.6	168	193	257	269	348	401	450
Depreciation	23	22	4.5	23	1.3	52	68	85	89	91	102	112
Other Income	5	4	32.4	4	14.0	11	12	12	16	20	25	32
Interest Cost	7	10	-27.7	8	-12.0	15	31	43	40	35	29	22
Tax	17	12	50.0	15	16.0	17	28	36	40	62	75	90
PAT	53	31	70.7	43	22.4	95	78	104	116	181	220	259
EPS (Rs)						86.5	71.1	95.2	106.5	165	201.3	236.4
RoE (%)						24.5	16.5	18.6	17.5	22.5	22.4	21.6
P/E (x)						45	54.7	40.8	36.5	23.6	19.3	16.5
EV/EBITDA (x)						23.9	20.8	15.6	14.9	11.6	10.1	8.9

(Source: Company, HDFC sec)

## Q3FY24 result update

- Revenue for the quarter increased 21.4% YoY at Rs 321cr. EBITDA increased 34.7% YoY at Rs 96.2cr. Net profit surged 71% YoY at Rs 53cr.
- Healthcare revenue grew 20% YoY at Rs 294.8cr. Medical Education segment revenue surged 44% YoY to Rs 26.2cr.
- For 9M FY24, total revenue grew 19.3% YoY at Rs 898cr led by better occupancy steady increase in ARPOB. EBITDA increased 24.7% YoY at Rs 250.2cr. Net profit was up 49.8% YoY at Rs 127.5cr.



- EPS for the quarter stood at Rs 48.5 and it stood at Rs 116.6 for 9MFY24.
- Capex for H1 FY24 stood at Rs 61cr. Company generated operating cash flow of Rs 141cr in H1FY24.

## Business and its outlook

Kovai Medical Center and Hospital (KMCH) is one of the few hospitals in India that has invested and efficiently leveraged cutting-edge technology to facilitate best-in-class healthcare delivery.

Kovai Medical Center and Hospital inaugurated a new treatment option for cancer. The treatment involves taking a needle under ultrasound or CT scan guidance into the centre of the tumour and destroying the tumour cells by freezing it with liquid nitrogen in a closed loop system. An Israeli company, IceCure Medical, has developed the ProSense Cryoablation System. Icecure has treated cancer in the kidney, lungs, and liver, and several other types of cancer. ProSense has several advantages. It is minimally invasive with optimal cosmetic outcomes, enables breast cancer patients and non-cancerous tumours to be treated relatively painlessly and is proven to have benefits not only for breast cancer but for lung, liver, renal and bone cancers. IceCure is the third system in India and the first in South India to be installed.

KMCH Main Center has 24 operation theatres and several modern equipment including Robotic Surgical System of the “da Vinci. Si”, Varian Trilogy Linear Accelerator, the world’s most advanced PET CT scan, 3rd Generation Dual Source CT Scanner (latest in technology), Endo Bronchial Ultrasound (EBUS), Extra Corporeal Membrane Oxygenation (ECMO) Machines, 4D ultrasound scanner, Bi plane Cath lab, Cardiac Electro Physiology Lab, Bone Mineral Densitometer, Digital Mammography, Various Laser Equipment, Ultramodern Video endoscope operating neuro microscope, Computer assisted navigation for Hip & Knee replacements, ESWL for the removal of urinary stones.

KMCH continues to be a leader in transplant surgeries which include lungs, kidney, liver, pancreas, bone marrow and cardiac transplants – vindicating the effectiveness of an extraordinarily curated and executed transplant program. Moreover, KMCH commenced The Center for Advanced Lung Diseases and Transplantation with the induction of senior pulmonologists.

As a responsible corporate citizen, KMCH’s passion for a healthy India has enabled it to extend its healthcare services far beyond pure business. KMCH opened a free Paediatric Oncology Ward in KMCH Medical College General Hospital, to cater to the needs of children with cancer, who cannot afford appropriate therapy. KMCH Medical College General Hospital provides outpatient and inpatient services in all specialties including General Medicine, Paediatrics, Psychiatry, Dermatology, TB and Respiratory Diseases, General surgery, Orthopaedics, ENT, Ophthalmology, Obstetrics & Gynaecology and Dentistry.



The hospital is actively involved in preventive health care too, through its health check-up programs, which are fairly popular in its region with various institutions and corporates subscribing to such health check-up schemes.

## **Healthcare**

KMCH continues to lead at the forefront of cancer care with multiple initiatives in Cardio-Oncology, Pediatric - Oncology and Head & Neck - Oncology. In a rare surgical feat at Kovai Medical Center and Hospital, the abnormal growth of uterus tumour was successfully removed in a single-stage operation that lasted five hours. A fifty-three-year-old woman had a tumour of her uterus which extended along her blood vessels and into the heart. This condition called intravascular leiomyomatosis (tumor) is usually non-cancerous and the patient gets cured by surgery alone. It is thought to arise from a uterine fibroid or from the blood vessels in the uterus and finds its way into the heart by growing through the blood vessels like a cast. Rarely these tumours can be cancerous. Less than 100 such cases have been reported in world literature. Unplanned surgery can be dangerous in these patients because of bleeding during surgery or the tumour clot detaching during surgery and lodging in the lungs which could be fatal.

The specialists from Kovai Medical Center and Hospitals, (KMCH), Coimbatore have successfully saved a two and a half months' old girl child with a rare congenital pancreatic disorder by an innovative treatment approach. KMCH child specialists team successfully managed the child and after several special tests including PET CT scan. In most of the cases, if the diagnosis is not made early the child may suffer permanent brain damage or even death.

## **Medical Education**

KMCH Medical College admitted its third batch of students amidst the pandemic. Third batch joined in March 2022 due to delayed holding of NEET. Company opened 750-bed new integrated KMCH Medical College General Hospital in the campus of the Medical College in Oct-2021. Empowered with a dedicated team of healthcare professionals including doctors, nurses and paramedics, the infrastructure includes 750 general beds including 50 ICU beds, 30 emergency beds and 16 operation theatres with medical equipment like CT scan, MRI, Cathlab, Ultra Sound and Digital X-Ray etc. The Medical College General Hospital offers 24x7 healthcare services to public.

KMCH Medical College admitted its Fourth batch under graduate course, which started in November 2022 due to little delayed holding of NEET. It currently has an annual intake of 150 students in its MBBS degree course with annual fees of Rs.14 lakh. Pursuing its mission of providing world class patient care, education and training, the KMCH Medical college is developing highly trained, skilled and competent and compassionate medical professionals by creating an environment that provides excellent learning environments with infrastructure and facilities that support student learning and overall growth to become outstanding medical professionals.





Established track record of the main hospital and new smaller hospitals

The promoters of KMCH, Dr. Nalla G Palaniswami and Dr. Thavamani Devi Palaniswami, have over four decades of experience in the medical profession in USA and India. The promoters have been involved in managing the day-to-day activities of the hospital supported by qualified and experienced management team.

KMCH established its main hospital in Coimbatore in 1985 as a tertiary care multi-specialty hospital catering to patients in Coimbatore and surrounding regions. It is one of the largest hospitals in the region and the company follows a hub and spoke model wherein the smaller satellite centers treat patients from the surrounding regions. The revenue from this main hospital contributed to about 77% of operating revenue in FY22 & ~80% of total operating revenue in FY23. The revenue from the peripheral hospitals, in view of the increasing patronage from the people, have also been able to improve the performance.

## Operating Parameters

Particulars	FY19	FY20	FY21	FY22	FY23
InPatient (#)	67450	76924	54586	72395	90124
OutPatient (#)	785200	915396	588626	814700	1099537
InPatient revenue (Rs cr)	433	486	488	644	676
OutPatient revenue (Rs cr)	192	210	180	233	275
Beds Capacity	1334	1390	1629	1854	2097
Operating beds	1256	1286	1202	1715	1925
Beds Occupancy	63.0	63.5	51.5	48.7	55.2
ARPOB (Rs)	15020	16270	21580	21150	17442
ALOS (days)	4.3	3.9	4.2	4.2	4.3
Revenue (Rs cr)					
Healthcare	625.6	697	668.4	877.5	952.6
Education	2.8	14.6	22.0	27.8	67.1
EBIT					
Healthcare	111.8	133.0	138.4	201.0	186.4
Education	-6.8	-6.4	-1.5	-7.0	24.2



## **Diversified revenue stream across specializations**

In the recent years, KMCH, being one of the few hospitals in the region providing organ transplantation, has been getting more referrals from Western Tamil Nadu and Kerala for such surgeries. KMCH operates over 24 operation theaters with 'Robotoc Surgical System, Advanced PET CT scan and technically advanced laboratories. Total business is spread across various areas. Neurology and Cardiology continue to remain the major contributors contributing to 23% of revenue in FY22 and 29% in H1FY23. None of the specialties contributed more than 20% of revenue and top five departments contributed to around 53% to total sales.

## **Infrastructure and Facilities**

KMCH has an adequate infrastructure that provides essential medical care to the needy patients. Infrastructure includes well equipped bio medical devices i.e. imaging systems, monitoring systems, laboratory instruments, medical implants, prostheses, and surgical tools for accurate diagnosis and correct treatment of diseases.

KMCH from the very inception places undeterred focus and commitment in providing highest quality of care and service to its patients. This has helped KMCH to establish a strong brand image and a leadership position in the respective market.

KMCH provides a wide range of services, including emergency care, trauma care, inpatient care, outpatient care, diagnostic services, and preventive care. The hospital employs highly trained and experienced medical professionals to ensure the best possible care. They aim to give each patient personalized care to make them feel comfortable.

## **Accreditation**

NABH (National Accreditation Board for Hospitals and Healthcare Providers) accreditation is a program that recognizes hospitals and healthcare providers for providing quality care. NABH accreditation ensures that hospitals and healthcare providers meet certain standards of patient safety and quality of care. It also helps to ensure that healthcare services are provided in a safe and efficient manner.

## **Mobile-based application and Telemedicine**

Healthcare delivery is also seeing an influx of mobile-based applications (mobile apps) to assist doctors as well as patients. These apps provide features such as self-diagnosis, drug references, hospital/doctor search, appointment assistance, electronic prescriptions, etc. Furthermore, they help patients to save their medical records and keep them updated regularly, monitor patient's health, give access to healthcare facilities, help in easy payments, can access their home healthcare device and much more.



Telemedicine is a technology designed to improve accessibility of healthcare services from remote locations. Telemedicine connects doctors at the main hospital and patients at remote locations or telemedicine centres. The doctor analyses the patient through telephonic conversation or video conferencing. Telemedicine or Telehealth is now in great demand because – a) it saves time to go to hospital which is both time consuming and for patients it is troublesome as well, b) saves lot of hospitalization money, c) no fear of infections, d) small diagnostic services or medicines could be at your doorstep.

#### Wearables and sensors

Growing healthcare awareness has resulted in people, especially millennials and Gen-Z, adopting wearables and sensors that keep track of the vitals of the user. Wearables and sensors also have data about the user's historical health records and send out alerts in case of any irregularities. This kind of technology is also used for patient condition monitoring and therapy delivery, etc. These devices are particularly useful in respiratory monitoring, monitoring of blood glucose and cardiac diseases, geriatric care, neonatal care, etc.

#### FY23/H1FY24 Update

This was the fourth year of reporting on Education Services consequent to the commencement of KMCH Institute of Health Sciences & Research (KMCH Medical College). Revenue increased from Rs 27.8 crore in FY22 to Rs 67.1 crore in FY23, which also includes income from Allied Health Sciences and Diplomat of National Board courses. The segment revenue stood at Rs 63cr in 9MFY24 as compared to Rs 47cr in 9MFY23.

Overall average revenue per operating bed (ARPOB) of KMCH reduced in FY23, however, stood comfortably at Rs 17,442 in FY23 from Rs 21,144 in FY22. This reduction was on account of the increased contribution from medical college hospital where ARPOB is lower than main hospital. In H1FY24, the ARPOB of the main centre stood at Rs 28,479 similarly, ARPOB for the other centres was between around Rs 11,000 to 19,000.

During FY23, the inpatient revenue from the main centre improved by 12% as the number of inpatients increased from 49,385 in FY22 to 57,690 in FY23. The occupancy too increased to 78% and the ARPOB stood at Rs 23,957 in FY23 which increased 19% in H1FY24 to Rs 28,479.

KMCH is planning to undertake capex in the range of Rs 250-300 crore in the medium term funded through a combination of term debt and internal accruals against which sufficient accruals are expected to be maintained on the back of improving operational parameters. The Department of Oncology plays a very important role in KMCH. They conducted several out-patient campaigns and screening programs to increase awareness and maintain regional leadership. The hospital has conducted conferences along with the critical care





society. The Departments of Oncology, Cardiology, Radiology, Hepato- Biliary Surgery, and Fetal Medicine are doing extremely well in conducting Continuing Medical Education programs.

Kovai medical center and Hospital also focuses on quality education and training. The Medical College has good equipment like multi-slice CT scanner, MRI scanner, Cath lab equipment and good pathology services. In addition, the operation theatres have got equipment for not just complex surgeries but also for complex minimally invasive surgeries. The Medical College hospital has performed liver and pancreas surgeries and advanced orthopedic surgeries like Arthroscopy and joint replacement.

KMCH continues to lead at the forefront of cancer care with multiple initiatives in Breast Cancer, Head & Neck Cancer, Paediatric Oncology, Haemato-oncology and upgraded Mammogram and PET scan. Its continued focus and development of dedicated breast clinic has made it one of India's best Breast Care centers in India. An advanced 3D Mammography system from Hologic, a world leader in mammography equipment, has been installed at KMCH and is extremely accurate and fast, with the better resolution. KMCH pledged free mammography facility for all woman police personnel of Coimbatore and in this regard performed 115 Mammograms in a day, which is the most done by any hospital in India.

Another exceptional feat was that KMCH became the first hospital in western Tamil Nadu to perform HLA-matched sibling peripheral blood stem cell transplantation on a 5-month boy for Primary hemophagocytic lympho-histiocytosis. KMCH has continues to be a source of Cardiology excellence. KMCH became the first center in Tamil Nadu and one of the first ten in India to start Cryoablation procedures. Cryoablation is the most advanced and safe treatment for complex cardiac arrhythmias. KMCH has brought this most advanced technology to Tamil Nadu and making AF ablation safer and more successful. The hospital provides critical care to over 1000 patients a year with top-notch medical infrastructure and an excellent team of specialist doctors and medical staff.



## FY23 operational update

Particulars	2022-23	2021-22	Increase/ (Decrease)	% Increase/ (Decrease)
Inpatients (Nos.)	90,124	72,395	17,729	24.49
Inpatients Revenue (₹ in Lakhs)	67,618.04	64,404.12	3,213.92	4.99
Outpatients (Nos.)	10,99,537	8,14,689	2,84,848	34.96
Outpatients Revenue (₹ in Lakhs)	27,526.06	23,252.09	4,273.97	18.38
KMCH IHSR (No. of Students)	600	450	150	33.33
AHS Courses (No. of Students)	736	756	(20)	(2.65)
Income from Educational Institutions (₹ in Lakhs)	6,711.99	2,783.52	3,928.47	141.13
Other Operating Income (₹ in Lakhs)	118.59	92.94	25.65	27.60
<b>Total</b>	<b>1,01,974.68</b>	<b>90,532.67</b>	<b>11,442.01</b>	<b>12.64</b>

- KMCH IHSR – KMCH Institute of Health Sciences and Research
- AHS – Allied Health Sciences Courses

Particulars	2022-23	2021-22
Bed Capacity at the end of the Period (In Nos.)	2,097	1,854
Operating Beds at the end of the Period (In Nos.)	1,925	1,715
Inpatient (In Nos.)	90,124	72,395
Outpatient - New & Review (In Nos.)	10,99,537	8,14,689
Bed Occupancy Rate	55.18%	48.66%
Average Length of Stay (In Days)	4.30	4.21
Average Revenue per occupied bed (in ₹ )	17,442	21,144

## Outlook on Healthcare

In the Union Budget 2023-24, the government allocated Rs 89,000 crore for healthcare expenditure, 2.7 percent increase from the previous year. A major focus in India's public health strategy has been combating tuberculosis (TB) and reducing its fatalities. The World Health Organization (WHO) has set targets to reduce TB deaths by 90 percent and new cases by 80 percent between 2015 and 2030. India has seen 24 percent decline in TB cases from 2015 to 2020 due to increased efforts. However, advancements in digital healthcare, such as artificial intelligence (AI) and telemedicine, have helped address this challenge. Global investments in digital healthcare have doubled to nearly \$57 billion in 2021. The pandemic has emphasized need to deliver medical care effectively in lower-acuity settings, including homes and primary health clinics. India's health-tech industry has grown significantly, outpacing other segments of the healthcare sector, and is projected to reach \$50 billion by 2047. Initiatives like the Ayushman Bharat Digital Mission (ABDM) have overcome this challenge by providing healthcare through telemedicine to remote or inaccessible areas. ABDM allows users to create an Ayushman Bharat Health account (ABHA), linking their health records and accessing government-provided healthcare services. It has already seen 100 million patients linking their health records and offers digital health services like e-Sanjeevani for telemedicine and



scan and share for OPD registration. The development of technologically-enabled medical devices, known as medtech, has been supported by both the private sector and the Indian government.

New health technologies such as wearable tech, telemedicine, genomics, virtual reality (VR), robotics and Conversational artificial intelligence (AI) continue to transform the landscape of the Indian healthcare system. India is on the verge of digital health revolution, with many healthcare companies beginning to adopt digital technologies spanning patient engagement, physician engagement etc.

Health insurance stimulates demand for healthcare services because the insured pays a premium for the policy and is reimbursed by the insurer if he or she requires treatment due to illness, sickness, or disease. To a large extent, insurance covers an individual's health expenses and lessens the burden of healthcare costs, thereby improving appetite to seek high-quality care. Consequently, as the health insurance market expands, so will the demand for healthcare services.

Health insurance coverage has increased from 17% in FY12 to ~36% in FY20. The share of Government-provided insurance is greater than that due to insurance policies availed of by individuals not covered under any schemes. Government or Government sponsored schemes, such as the Central Government Health Scheme (CGHS), Employee State Insurance Scheme (ESIS), Rashtriya Swasthya Bima Yojana (RSBY), Rajiv Arogyasri (Andhra Pradesh Government), and Kalaingar (Tamil Nadu government) account for ~75% of health insurance coverage provided. The remaining is through commercial insurance providers, both Government and private players.

### **Scaling up of Medical Value Travel (MVT)**

Indian healthcare industry has grown exponentially by addressing the medical value travel opportunity. India has emerged as one of the most preferred destinations for patients across the globe in seeking medical assistance. These patients come to India for their treatments and explore these tourist spots across the nation. Healthcare costs in India are extremely competitive compared to those in developed countries and other Asian countries. This is especially for expensive and high acuity surgeries like cardiac bypass, solid organ transplants, joint replacements, dental services, cosmetic surgery and bariatric surgery. The cost of travel and accommodation is also low as compared to developed nations. India also attracts medical tourists from other developing nations due to the lack of advanced medical facilities in many of these countries.

The cancer treatment cost mainly depends upon the type of cancer across the globe. India is the country where treatment packages are reasonable in comparison. India's burden of non-communicable diseases has been escalating and one of the key areas of concern is the growing incidence of cancer.



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. Limited awareness and lack of healthcare facilities/infrastructure are the major contributors to relatively late-stage diagnosis and low reported incidences. As a result, cancer related mortality rates in India are much higher than in developed countries as well as most upper / low middle income countries.

Availability of affordable, quality treatment makes India a preferred destination for foreign patients. With ballooning healthcare cost in western countries, the estimated costs for foreign patients coming to India is ~1/5th of the western countries depending upon the treatment. The increasing medical tourism demand is emerging from parts of the Middle East, Africa and Western Asia. India competes with Singapore, Thailand and Malaysia, which are also emerging as a medical tourism destination.

Treatments mostly sought after in India are for heart surgery, knee implant, cosmetic surgery and dental care, due to the low costs of these treatments in India. Medical tourism in India is driven by the private sector.

## India Healthcare

India's healthcare industry comprises hospitals, medical devices and equipment, health insurance, clinical trials, telemedicine and medical tourism. Healthcare has become one of India's largest sectors, both in terms of revenue and employment. The industry is growing at a robust pace owing to its strengthening coverage, service and increasing expenditure by public as well private players. The adoption of technology has massively transformed the healthcare space in India in the past few decades, with the pandemic further accelerating the trend. Covid-19 also stretched healthcare infrastructure and service delivery to their limits, setting the stage for more investments and the inclusion of advanced technology to combat future pandemics and existing life-threatening diseases. Technology advancements includes expanding the scope of wearable devices to track health conditions, developing patient-facing mobile health applications as well as greater integration of AI, robots, and blockchain technologies.

Government aims to develop India as a global healthcare hub. In the Union Budget 2023-24, the government allocated Rs 89,155 crore (US\$ 10.76 billion) to the Ministry of Health and Family Welfare (MoHFW). Pradhan Mantri Swasthya Suraksha Yojana (PMSSY) was allocated Rs 3,365 crore (US\$ 410 million), Human Resources for Health and Medical Education was allotted Rs 6,500 crore (US\$ 780 million), National Health Mission was allotted Rs 29,085 crore (US\$ 3.51 billion), Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) was allotted Rs 7,200 crore (US\$ 870 million).

Indian healthcare delivery industry to post a healthy 13-15% CAGR between FY23 and FY26, driven by long-term structural factors, strong fundamentals, and increasing affordability and potential of the Ayushman Bharat scheme (the national health insurance scheme launched in 2018 to provide access to healthcare for low income earners in India).



## Key Trends

### Lifestyle Diseases

With increasing urbanization and problems related to modern-day living in urban settings, currently about 50% of spending on in-patient beds is for lifestyle diseases and this has increased the demand for specialized care. In India, lifestyle diseases have replaced traditional health problems.

### Expansion to Tier II and Tier III cities

The development of hospitals in tier-II and tier-III cities in India has seen significant progress in recent years. Several new medical colleges and hospitals have been established in these regions, providing access to quality healthcare to a larger population. To encourage the private sector to establish hospitals in these cities, the Government has relaxed taxes on these hospitals for the first five years.

### Medical Robotics

Robots are revolutionizing the medical world, and mobile robotic applications are one specific use case with major impacts on patient experience. Robots can also be used for rehabilitation and physical therapy, elder-care assistance, autism, and simplifying surgery. In fact, surgical robots comprise the largest component of the medical robotics market.

### Digital Health Solutions

India has seen a growing acceptance of telemedicine post the pandemic. From telehealth to home testing and prescription delivery services, digital health companies now offer more convenient and accessible solutions that have revolutionized many patients ability to receive high-quality care and manage their health. Virtual care constituting teleconsulting, telepathology, teleradiology and e-pharmacy is experiencing a stimulus in India. Major hospitals have adopted telemedicine services and entered a number of Public Private Partnerships. The telemedicine can also help reduce the burden on India's already strained healthcare system by providing quicker and more efficient access to medical care.

## Industry Outlook

The Indian healthcare delivery industry has been growing at a CAGR of about 12-14% over FY16-20 and is estimated to reach about Rs 7.3 lakh crore by FY24E. Post abatement of COVID-19, the industry has witnessed a sharp recovery in top-line, driven by higher occupancy, the release of deferred non-COVID surgeries, higher ARPOBs, and increased bed capacity of hospital chains. Moving forward, prudent expansion plans of the hospitals, better health insurance penetration, increasing investments in the healthcare industry, and increasing public and private healthcare spends are expected to aid the Indian healthcare industry. Looking from the macro perspective, India still lags other developed and emerging economies in healthcare infrastructure, for instance, India only has 12 beds per 10,000





people as against the global median of 29 beds. In addition to the availability of this huge domestic opportunity, India has significant opportunity of growth from medical tourism as well. Treatments mostly sought after in India are high-end treatments pertaining to complex ailments like heart surgery, knee implant, cosmetic surgery and dental care, due to the low costs of treatments in India. India is a large and hugely under-penetrated market having attractive dynamics and strong growth prospects, driven by demographic shifts, changing consumption patterns, increasing affordability, favourable regulatory environment, and medical tourism. The private sector players are well positioned to leverage opportunity, given the low contribution of government spending. Improved cash accruals and cautious pattern of capex funding with adequate support in the form of equity infusion are expected to benefit the credit risk profiles of the entities operating in the healthcare industry, thus keeping outlook of the industry stable.

The Indian healthcare sector has become a major contributor to India's growth and employment, covering diverse segments like hospitals, medical devices, clinical trials, telemedicine, medical tourism, health insurance and medical equipment.

The sector is expanding rapidly, driven by enhanced coverage, services and growing investments by both public and private players. The government's initiatives to increase healthcare spending and improve healthcare infrastructure have further bolstered the industry's growth.

COVID-19 has not only brought challenges, but also presented several growth opportunities to the healthcare sector. The pandemic has highlighted the critical role of healthcare organisations and it has driven transformation by accelerating the pace of reforms in India's healthcare sector.

The healthcare sector has emerged as a significant contributor in generating job opportunities and adding to the country's GDP.

### **Revolutionizing Medical Education in India**

To improve the quality of life of citizens, access to affordable and quality healthcare services is extremely crucial. Over the last 9 years, the Indian government has taken several initiatives to address this pressing need, such as encouraging the establishment of new medical colleges and AIIMS (All India Institute of Medical Sciences). In just nine years, the number of medical colleges has risen by 70%, from a mere 387 in 2014 to 660 in 2023, along with an increase in the number of AIIMS from 7 to 22. India has witnessed a significant increase not only in medical colleges and AIIMS but also in the number of students being enrolled in medication education. Since 2014, there has been a 97% increase in the number of MBBS seats and 110% increase in the number of PG seats. This remarkable growth reflects the government's commitment to provide accessible and quality healthcare services to every citizen and the country's unwavering resolve to build a healthier nation.



## Company Background

Kovai Medical Center and Hospital Limited (KMCH) was incorporated under The Companies Act, 1956 and started its commercial operation in June 1990, with a capacity of 200 Bed Hospital in the outskirts of Coimbatore. Nurtured with Indian hospitality and a western mind set, KMCH has grown into 2,200 beds multi-locational, multidisciplinary Super specialty hospital, one of the best and trusted one in Southern India. The Main Center and the Medical College Hospital is located very proximate to the city airport.

KMCH is a Coimbatore-based public limited company providing advanced healthcare services. KMCH was promoted in the year 1985 by Dr Nalla G Palaniswami and his wife Dr Thavamani Devi Palaniswami. Company operates a multispecialty hospital with 854 operating beds at Coimbatore equipped with latest tertiary health care facilities. The company also has its satellite centers at Ramnagar, Coimbatore (51 beds), Erode (103 beds), Sulur (111 beds) and Kovilpalayam (193 beds) including beds for ICUs, dialysis ward, etc. From July 01, 2019, KMCH has also commenced a medical college with 150 students intake each year with a 750-bed medical college hospital. The company also has captive power from a solar power plant with an aggregate capacity of 5.25 MW catering to 80% (PY: 69%) of its power requirement in FY22. During the second wave of Covid, KMCH had enhanced the medical infrastructure by commissioning 300 beds Hospital in Medical College Hospital.

## **About Management**

Dr. Arun N Palaniswami has 17 years of experience. He was practicing medicine in the US for 9 years. Dr. Arun worked in hospital administration as director of quality control in KMCH for the last 8 years. Dr. Nalla G Palaniswami is Managing Director of KMCH. He has over 54 years of experience. Dr. Nalla holds qualifications as MBBS, MD AB (USA).

Dr. Thavamani Devi Palaniswami is Joint Managing Director of KMCH. She has over 46 years of experience. Dr. Thavamani holds qualifications as MBBS, AB (USA).

## Key Concerns

### **Geographical concentration**

KMCH has been in operation for around 30 years and continues to enjoy patronage in the Coimbatore region. The revenue profile of KMCH is heavily dependent on the main hospital at Coimbatore which contributes about 70% of revenue. Though KMCH, over the past few years has been starting peripheral centers at nearby areas, the flagship hospital is expected to be the key revenue and profitability driver for KMCH in the medium term mainly because, the peripheral centers are much smaller in size. Furthermore, to diversify revenue and revamping its brand image, the company has successfully set up a medical college comprising of 750 hospital beds.

### **Dependence of KMCH on the experienced team of doctors**

All the hospitals in KMCH have experienced and well-qualified doctors. Some of these doctors have been associated with the hospital for the past 25 years and have generated good patronage from the patients in Coimbatore. KMCH is highly dependent on these scarcely



available qualified medical professionals. Given the increasing competition and high rate of attrition during COVID-19 period leading to scarcity of medical professionals, the ability of the hospital to retain its current pool would be important.

## **High Attrition Rate**

The high attrition rate in hospitals makes it difficult to plan and allocate human resources. Healthcare specialists are finding opportunities abroad more lucrative and rewarding, prompting them to leave. The highest attrition rate in the country is in the Healthcare sector.

Government regulating prices for critical medical treatment (including that of medical devices) which private hospital charges from patient remains a risk to revenue and margin. Any adverse government policy intervention (viz. price caps, mandatory participation in govt. schemes etc.)

Any execution hiccups may lead to slower than expected ramp up in its new centres/hospitals.

Company is dependent upon its existing promoters, partners, senior management team and senior specialist doctors. Loss of any of them would be a risk.

**Competitive Intensity:** 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.

The occupancy rate improved to 55% as of March, 2023, from 49% in the previous year and was sustained at the same level in H1FY24.

**High burden of Regulatory requirements:** The establishment of a hospital necessitates various licenses and statutory approvals, which act as a barrier for private players seeking to expand their operations. From a regulatory standpoint, there are numerous requirements from numerous authorities that can be burdensome when compared to global norms such as single window clearance. Simplification of these requirements would be helpful, as would more consultation and understanding between regulatory authorities and healthcare providers. It is critical to recognize that private healthcare service providers cannot be compared to other businesses.

**Capital Intensive Industry:** Healthcare remains an industry that demands significant capital infusion. The fundamental requirements for running a medical facility, such as land, construction for specialised interiors, medical equipment is expensive. The industry's high capital requirements make it difficult to enter or scale up operations. Furthermore, the upkeep and improvement of medical treatment



# Kovai Medical Center & Hospital Ltd.

technologies necessitates a significant ongoing expenditure. After a company has managed the initial capital expenditure required to commission a facility, the task of balancing day-to-day expenses with competitive healthcare prices for services becomes difficult. As a result, the basic cost of operating a hospital is quite high, stretching the viability of healthcare providers.

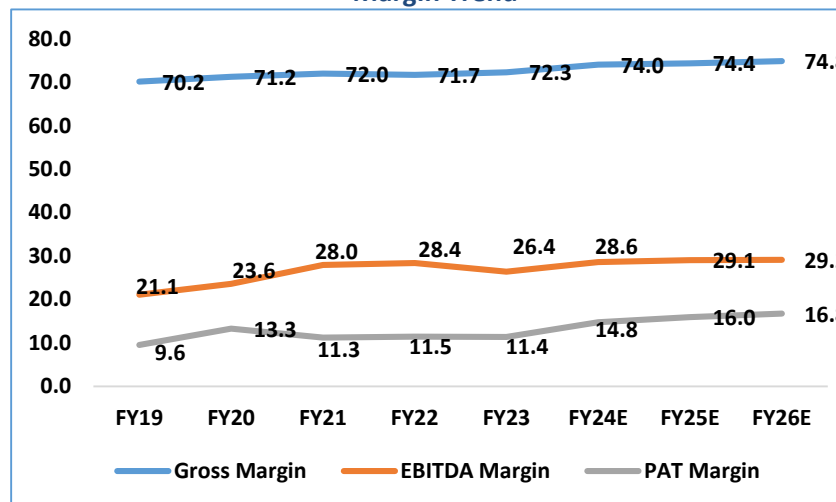
## Peer Comparison

Company	Mcap (Rs cr)	Revenue (Rs cr)				EBITDA Margin (%)				PAT (Rs cr)				RoE (%)			
		FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Kovai Medical	4265	906	1020	1219	1377	28.4	26.4	28.6	29.1	104	116	181	220	18.6	17.5	22.5	22.4
Narayana Hrudayalaya	27897	3701	4525	5164	5759	17.7	21.3	22.0	21.8	351	607	760	773	26.2	33.5	30.6	24.2
Fortis Healthcare	32780	5718	6298	6881	7734	18.7	17.5	18.0	19.2	555	589	609	751	9	8.8	8.2	9.5

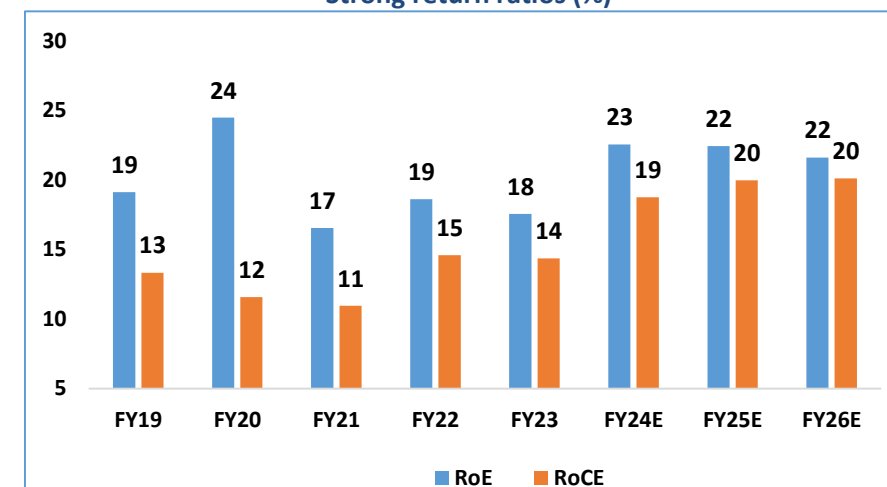
Company	EV/EBITDA (x)				P/E (x)			
	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Kovai Medical	15.6	14.9	11.6	10.1	40.8	36.5	23.6	19.3
Narayana Hrudayalaya	43.0	29.0	24.8	22.5	79.5	46.0	36.7	36.1
Fortis Healthcare	31.0	32.8	28.2	23.0	59.1	55.7	53.8	43.6



Margin Trend

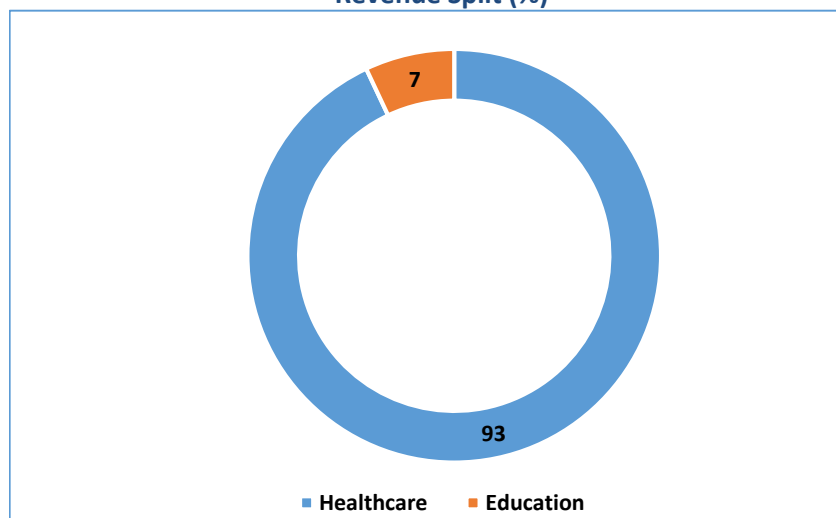


Strong return ratios (%)

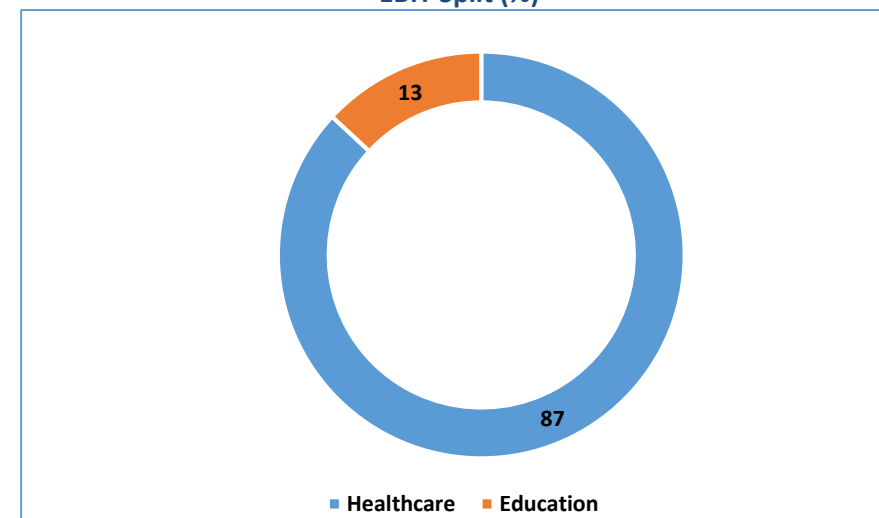


(Source: Company, HDFC sec)

Revenue Split (%)



EBIT Split (%)



(Source: Company, HDFC sec)





# Kovai Medical Center & Hospital Ltd.

## Financials

### Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Revenue	690	906	1020	1219	1377	1544
Growth (%)	-0.8	31.2	12.6	19.5	13.0	12.1
Operating Expenses	497	649	750	870	976	1093
<b>EBITDA</b>	<b>193</b>	<b>257</b>	<b>269</b>	<b>348</b>	<b>401</b>	<b>450</b>
Growth (%)	14.9	33.2	4.7	29.3	15.0	12.4
EBITDA Margin (%)	28.0	28.4	26.4	28.6	29.1	29.2
Depreciation	68	85	89	91	102	112
EBIT	125	172	180	258	299	338
Other Income	12	12	16	20	25	32
Interest expenses	31	43	40	35	29	22
PBT	106	141	156	243	296	349
Tax	28	36	40	62	75	90
<b>PAT</b>	<b>78</b>	<b>104</b>	<b>116</b>	<b>181</b>	<b>220</b>	<b>259</b>
Growth (%)	-17.8	33.9	11.8	55.0	22.0	17.5
<b>EPS</b>	<b>71.1</b>	<b>95.2</b>	<b>109.4</b>	<b>165</b>	<b>201.3</b>	<b>236.4</b>

### Balance Sheet

As at March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>SOURCE OF FUNDS</b>						
Share Capital	10.9	10.9	10.9	10.9	10.9	10.9
Reserves	499	598	708	872	1070	1304
Shareholders' Funds	510	609	719	883	1080	1313
Long Term Debt	551	483	447	398	315	255
Net Deferred Taxes	33	34	36	37	37	37
Long Term Provisions & Others	49	53	55	58	65	73
<b>Total Source of Funds</b>	<b>1143</b>	<b>1180</b>	<b>1257</b>	<b>1375</b>	<b>1496</b>	<b>1677</b>
<b>APPLICATION OF FUNDS</b>						
Net Block & Intangibles	1078	1090	1111	1130	1159	1207
Non Current Investments	12	10	1	8	26	38
Long Term Loans & Advances	3	5	34	37	44	51
<b>Total Non Current Assets</b>	<b>1093</b>	<b>1105</b>	<b>1145</b>	<b>1174</b>	<b>1229</b>	<b>1296</b>
Current Investments	0	0	0	0	0	0
Inventories	10	13	14	23	30	38
Trade Receivables	14	19	25	33	38	47
Short term Loans & Advances	1	1	1	1	2	3
Cash & Equivalents	155	198	249	328	393	500
Other Current Assets	8	6	8	13	17	24
<b>Total Current Assets</b>	<b>188</b>	<b>238</b>	<b>297</b>	<b>399</b>	<b>480</b>	<b>611</b>
Short-Term Borrowings	32	28	26	20	18	15
Trade Payables	16	14	27	33	38	43
Other Current Liab & Provisions	87	114	127	138	150	164
Short-Term Provisions	4	7	6	6	7	7
<b>Total Current Liabilities</b>	<b>139</b>	<b>163</b>	<b>185</b>	<b>198</b>	<b>214</b>	<b>230</b>
Net Current Assets	49	75	112	201	267	382
<b>Total Application of Funds</b>	<b>1143</b>	<b>1180</b>	<b>1257</b>	<b>1375</b>	<b>1496</b>	<b>1677</b>

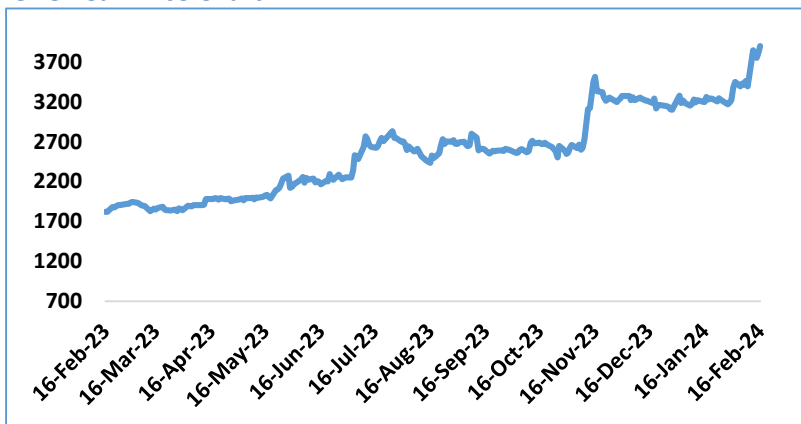


# Kovai Medical Center & Hospital Ltd.

## Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	106	141	156	243	296	349
Non-operating & EO items	-12	-12	-16	-20	-25	-32
Interest Expenses	31	43	40	35	29	22
Depreciation	68	85	89	91	102	112
Working Capital Change	15	43	31	-10	-1	-8
Tax Paid	-22	-39	-37	-62	-75	-90
<b>OPERATING CASH FLOW ( a )</b>	<b>186</b>	<b>262</b>	<b>263</b>	<b>276</b>	<b>324</b>	<b>353</b>
Capex	-181	-99	-127	-110	-130	-160
Free Cash Flow	5	163	136	166	194	193
Investments	-12	-12	-16	-10	-28	-21
Non-operating income	12	12	16	20	25	32
<b>INVESTING CASH FLOW ( b )</b>	<b>-181</b>	<b>-99</b>	<b>-127</b>	<b>-100</b>	<b>-133</b>	<b>-149</b>
Debt Issuance / (Repaid)	70	-72	-39	-45	-75	-50
Interest Expenses	-31	-43	-40	-35	-29	-22
FCFE	44	47	57	85	91	121
Share Capital	0	0	0	0	0	0
Dividend/Buyback	0	-3	-7	-16	-23	-25
<b>FINANCING CASH FLOW ( c )</b>	<b>39</b>	<b>-119</b>	<b>-86</b>	<b>-97</b>	<b>-126</b>	<b>-96</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>44</b>	<b>44</b>	<b>50</b>	<b>79</b>	<b>66</b>	<b>108</b>

## One Year Price Chart



## Key Ratios

	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Profitability (%)</b>						
Gross Margin	72.0	71.7	72.3	74.0	74.4	74.8
EBITDA Margin	28.0	28.4	26.4	28.6	29.1	29.2
EBIT Margin	18.1	19.0	17.7	21.2	21.7	21.9
APAT Margin	11.3	11.5	11.4	14.8	16.0	16.8
RoE	16.5	18.6	17.5	22.5	22.4	21.6
RoCE	11.0	14.6	14.4	18.8	20.0	20.1
<b>Solvency Ratio (x)</b>						
Net Debt/EBITDA	2.2	1.2	0.8	0.3	-0.2	-0.5
D/E	1.1	0.8	0.7	0.5	0.3	0.2
Net D/E	0.8	0.5	0.3	0.1	-0.1	-0.2
<b>PER SHARE DATA</b>						
EPS	71.1	95.2	109.4	165	201.3	236.4
CEPS	133.3	173.3	193.0	247.8	294.1	339
BV	466	557	675	807	987	1200
Dividend	5.0	8.0	10.0	13.5	18.5	20.5
<b>Turnover Ratios (days)</b>						
Debtor days	7	8	9	10	10	11
Inventory days	6	5	5	7	8	9
Creditors days	21	14	24	25	26	26
<b>VALUATION (x)</b>						
P/E	54.7	40.8	36.5	23.6	19.3	16.5
P/BV	8.3	7.0	5.8	4.7	3.8	3.2
EV/EBITDA	20.8	15.6	14.9	11.6	10.1	8.9
EV / Revenues	5.8	4.4	3.9	3.3	2.9	2.6
Dividend Yield (%)	0.1	0.2	0.3	0.3	0.5	0.5
Dividend Payout (%)	7.0	8.4	9.4	8.2	9.2	8.7

(Source: Company, HDFC sec)



# Kovai Medical Center & Hospital Ltd.

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### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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