



Pick of the week

Aster DM Healthcare Ltd.

Oct 28, 2024



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare Services	Rs 448.75	Buy in the band of Rs 445-454 and add more on dips to Rs 403	Rs 489	Rs 525	2-3 quarters

HDFC Scrip Code	ASTERDMEQNR
BSE Code	540975
NSE Code	ASTERDM
Bloomberg	ASTERDM: IN
CMP Oct 25, 2024	448.75
Equity Capital (Rs Cr)	499.5
Face Value (Rs)	10
Equity Share O/S (Cr)	49.95
Market Cap (Rs Cr)	22575
Book Value (Rs)	91.3
Avg. 52 Wk Volumes	1733880
52 Week High	558
52 Week Low	312

Share holding Pattern % (Sep, 2024)	
Promoters	41.9
Institutions	45.0
Non Institutions	13.1
Total	100



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 India after a sale of majority stake in its business in GCC (Gulf Cooperation Council). 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. The company has a diversified portfolio of healthcare facilities, consisting of 19 hospitals (beds capacity ~5000), 212 retail pharmacies and 232 labs and patient experience centers (PECs) in India. The Group operates in India under the “Aster Medcity”, “Aster MIMS”, “Aster Ramesh”, “Aster Prime”, “Aster Aadhar” and “Aster CMI” brands.

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 visible from its H1 FY25 numbers. Company expects its ARPOB to grow at 7-8% YoY driven by improvement in case mix, price hikes, tariff increases in its TPA agreements in the next 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 1700 beds (~35% of existing bed capacity) would get operationalised gradually by FY27.

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. These hospitals would be operating at lower EBITDA margin of around 13-15%, however it would be RoCE accretive as it entails minimal capex. Management is focused on improving profitability 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). On a consolidated basis, these ancillary businesses do impact its margin as it is operating at a relatively small scale. Management expects to achieve breakeven in diagnostics and pharmacies by FY25/FY26. GCC business was performing well in financial and operational parameters. Over the past many quarters, the company was closely assessing restructuring options for its GCC business to unlock value of its shareholders. Now, the company has sold its Gulf operations for about US\$ 1.2bn. Company distributed Rs 118 per share as special dividend (about 65% payout).

Over FY19-24, Aster DM’s India hospitals business has posted an impressive ramp-up (22%/37% sales/EBITDA CAGR). The company has an extensive plan of adding ~1,800 beds in India to reach 6,800 beds by FY27E through a mix of owned, leased and O&M facilities. We expect a better case mix, payor mix and tariff hikes to drive 7-8% ARPOB CAGR over FY24-27E. Currently, despite the improving trajectory, Aster DM’s EBITDA margin are lower than its listed peers. On account of healthy performance in India business and successful conclusion of the GCC stake; we believe there is a scope for rerating as it is a pure India business play and trades at reasonable valuation. Also if the unconfirmed reports about potential strategic merger of Aster DM Healthcare and Blackstone owned Care Hospitals to create a substantial healthcare conglomerate comes out to be true, it could rerate the stock.

We had issued stock update report on Aster DM dated March 20, 2023; both the targets were achieved within our investment horizon ([link](#)). We had issued stock update report on Aster DM dated Aug 28, 2023 and both the targets were achieved within our investment horizon. ([link](#))

Valuation & Recommendation:

Aster DM has exited its GCC business and remains a pure domestic play. For H1FY25, the company reported strong revenue growth along with robust operational performance. It was led by better volume, change in mix and higher ARPOB. 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 for the company. Moreover, it expects to breakeven its diagnostics and pharmacies business in India by FY25/FY26. We expect consolidated revenue/EBITDA/PAT to grow at CAGR of 17.5%/24%/40% over FY24-27E. It would be driven by healthy growth from existing facilities, better occupancy and ramp up of new hospitals. We think investors can buy the stock in the band of Rs 445-454 and add more on dips to Rs 403 (39.25x Sep-26E EPS) for base case fair value of Rs 489 (47.5x Sep-26E EPS) and bull case fair value is Rs 525 (51x Sep-26E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Total Revenue	1086	929	16.9	1002	8.4	3,699	4,420	5,195	6,012
EBITDA	219.8	145.1	51.5	163.7	34.3	578	760	935	1,102
PAT	105.8	52.9	100.0	81.0	30.6	216	376	486	602
RPAT	96.8	-30.8	-414.3	88.0	10.0	205	359	461	566
EPS (Rs)						4.1	7.2	9.2	11.3
RoE (%)						4.6	8.3	10.8	12.0
P/E (x)						109.1	62.3	48.6	39.5
EV/EBITDA (x)						41.6	28.9	23.7	20.0

(Source: Company, HDFC sec)

Q2FY25 Result Update

Overall numbers were strong for the quarter. Revenue for the quarter increased 17% YoY at Rs 1086.4cr. Operating margin improved 460bps YoY at 20.2%. Net profit stood at Rs 96.8cr as compared to net loss of Rs 30.8cr, a year ago. Other Income stood at Rs 35.2cr as against Rs 3.8cr in Q2FY24.

Company is on track to add ~1700 beds to reach to 6,800 beds by FY27 through a prudent mix of brownfield and greenfield projects which would result in Aster Medcity and Aster CMI hospitals expanding to 950 beds and 850+ beds respectively.

ARPOB per day increased 11.8% YoY at Rs 43,600 for H1FY25. Total operational beds stood at 3689 and occupancy stood at 69%.

Segmental highlights

Hospitals and clinics: Q2FY25 hospital sales stood at Rs 1051cr. Operating EBITDA for the hospital business grew 41% YoY to Rs 252cr in the quarter. Operating EBITDA margin stood at 24% (+320bps QoQ, 380bps YoY), beating street estimates by ~200bps. ARPOB for Q2FY25 grew 11% YoY to Rs 43000/day. Occupancy levels for Q2FY25 stood at 72% (70% in Q2FY24). ALOS declined to 3.2 days (3.5 days in Q2FY24).

Kerala cluster: Revenue for the quarter stood at Rs 560cr, (+11% YoY), with operating EBITDA at Rs 140cr (24.9% margin). ARPOB for Q2FY25 stood at Rs 40,600/day vs. Rs 36700/day in Q2FY24. Occupancy levels stood at 79%.

Karnataka and Maharashtra cluster: Revenues for the quarter stood at Rs 370cr with operating EBITDA at Rs 94cr (25.6% margin). ARPOB stood at Rs 57600/day vs. Rs 51400/day in Q2FY24. Occupancy levels in Q2FY25 stood at 68% vs. 64% in Q2FY24. Aster Whitefield hospital (Bangalore) achieved ~67% occupancy levels and ARPOB at Rs 70,000 in H1FY25.

AP and Telangana cluster: Revenues for the quarter stood at Rs 120cr, with operating EBITDA at Rs 19cr. ARPOB stood at Rs 29000/day vs. Rs 27500/day in Q2FY24. Occupancy stood at 59% vs. 52% in Q2FY24.

Labs and pharmacy revenue declined 10% YoY at Rs 68.3cr. The business generated a positive EBITDA of Rs 4cr in Q2FY25, as compared to a loss of Rs 1cr in Q1FY25. As of Sep, 2024, Aster DM has 232 labs and PECs, along with 212 pharmacies.

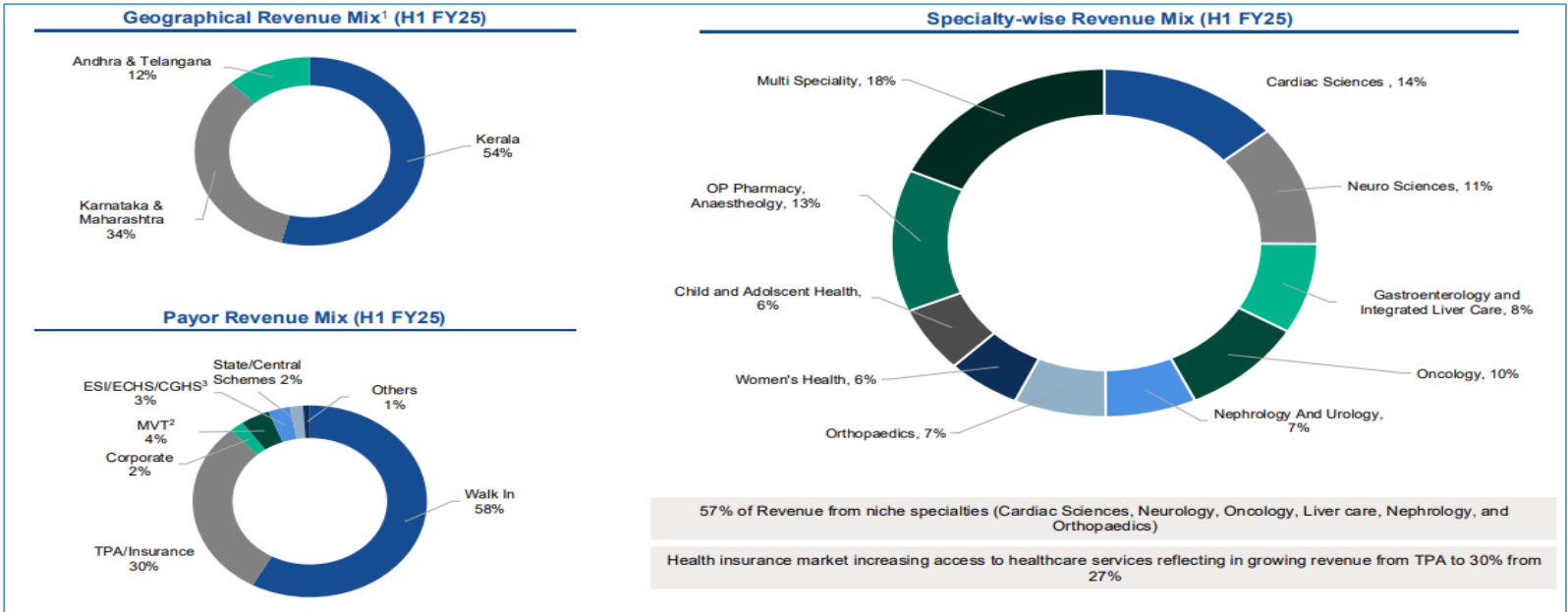
Q2FY25 Concall Highlights

- Aster DM continues to explore options and discussions are ongoing regarding M&A. According to the company, there will be more clarity, hopefully, in the next couple of quarters. Company intends to establish a leadership position in South India. It intends to expand further through acquisitions in Maharashtra and Tamil Nadu.
- Promoters: Roles and responsibilities: Ms. Alisha Moopen was the MD of the GCC business. She also works with the function heads of the India business. Dr. Zeba Moopen is involved in the strategic decisions of the Karnataka cluster.
- Promoter pledge: 98% of promoter shareholding is pledged currently. Promoter pledge is expected to reduce toward end of FY25E. The loan amount is quite small, but the amount of pledge appears optically higher, as the loans are based out of India.

- Planned expansion of adding ~1,700 beds (60% brownfield) by FY27E remains on track. Prime focus continues to be South India. Entry into North India, particularly Uttar Pradesh, would be a medium-to-long term strategy for Aster DM.
- The company believes the current management team is capable of growing the business and it might look to hire a new CEO only in the next 2-3 quarters. The CEO hiring will also depend on some transactions being explored by Aster DM. Changes in management: Ramesh Kumar, the erstwhile regional CEO of the Karnataka and Maharashtra cluster, has been appointed as the Chief Operating Officer.
- EBITDA margin: Aster DM expects to reach consolidated EBITDA margin of 21%+ in the next 2-3 years. For its hospital and clinic business, it expects to increase EBITDA margin to 24%+, over the same period, despite the ongoing expansion. For Aster DM, 70% of beds and 72% of sales are attributable to mature hospitals, wherein EBITDA margin are at 24-25%. Given a number of Aster DM's hospitals are maturing, it expects margin expansion to continue.
- In Q2FY25, Hospital operating EBITDA margin expanded 380bps YoY to 24%. This was driven by 200bps due to a reduction in material costs, 80bps on a reduction in manpower costs and 80-100bps due to savings in semi-variable overheads, resulting from operating leverage.
- Cluster-wise margins over the next few years: For the Karnataka cluster, Aster DM expects to reach 29-30% margins. It expects margins for the Kerala cluster to remain lower than Karnataka cluster by 300-400 bps. For AP/Telangana cluster, it expects to reach margin of mid-20%.
- Hospitals and clinics - Guidance: Aster DM expects to report a 7-8% ARPOB CAGR over the next 3-4 years. In Q2FY25, Aster DM's ARPOB grew at 11% YoY. Price hikes taken across different units and geographies contributed 300-350bps to the ARPOB growth. Aster DM also did a lot of work on technology such as the consolidation of ERP and other systems, leading to revenue augmentation. This contributed 100bps to ARPOB growth. Further increase will also come by adding new specialties, a change in scheme mix.
- Insurance patients: Revenue contribution from insurance patients increased more than 300bps YoY to 30% in H1FY25.
- Specialty mix: No single specialty accounts for 15%+ of total hospital revenues. Mature hospitals' operating margins expanded to 25% in H1FY25 from 22% in H1FY24.

- AP and Telangana cluster: 35-40% of sales in this cluster are derived from cardiac sciences. The endeavor has been to add more specialties, which has been driving higher occupancies. The company remains bullish about the prospects of this cluster.
- Women and children hospital: Aster wants to create the largest women and children hospital in Telangana to make its presence felt. It would have all the pediatric and maternity/fertility specialties. Aster DM expects ~70% of this facility's sales to be derived from pediatrics, with the rest being from maternity/fertility. The payback period for this facility would be in the range of 9-11 years; it would have a lease rent of 4-5% of sales. This hospital would be larger than Rainbow's existing flagship unit and would be a fully dedicated facility, only for pediatrics and gynecology. Aster DM expects to generate EBITDA margins of 30%+ at peak from this facility.
- Labs and pharmacies
In H1FY25, revenue from labs stood at Rs 66cr, while the pharmacy business generated revenue of Rs 64cr. Aster DM has outsourced some of its wholesale pharmacy business to improve margin.
Currently, Aster DM operates 232 labs and 212 pharmacies in India. Labs business: As of H1FY25, 28% of sales are attributable to Aster DM's hospitals versus 22% in H1FY24. The business achieved EBITDA breakeven in Q4FY24. Aster DM expects to reach breakeven in Pharmacy segment in FY26E. There are no major plans to increase the store count for now. There are individual shareholders, who own smaller percentages in the pharmacy business.
- Financials: Capex: Aster DM plans to add ~1,800 beds over the next three years, of which a bulk are brownfield in nature. Accordingly, it expects to incur a total capex of Rs 1450cr, of which it has already spent Rs 220cr and intends to deploy the balance over FY25-27E.
- RoU assets: RoU assets increased from Rs 600cr in FY24 to Rs 1300cr in H1FY25, due to Rs 350-400cr attributable to the new women and children hospital in Hyderabad and the balance due to the lease agreement at Aster CMI.
- Tax rate: Aster DM had an AED benefit for almost a decade. However, since most losses have been carried forward and the company entered into the new tax regime in FY24, it expects the current tax rate of 30-32% to continue.
- Other income was boosted by interest earned from the remaining portion of GCC proceeds. Net cash stood at Rs 1000cr.
- Aster DM expects O&M hospitals' EBITDA margin to improve to 15-18% over the next few years. The company is still working on understanding and calibrating the O&M model in Tier-2 and Tier-3 towns. Tirupati hospital (150 beds) is generating double-digit EBITDA margin. Margin profile for O&M hospitals are not expected to match those of mature hospitals. O&M hospitals currently have margins of around 11%, with management goal to increase to 17%.

- Given the evolving political landscape in Andhra Pradesh, management is confident about achieving strong growth in the upcoming quarters. By the end of FY27, an additional 1,700 beds will be added, raising total bed capacity to 6,500. Of these new beds, 60% will be added through Brownfield expansion. Aster CMI is expected to increase bed capacity to 850 while the Med City facility is projected to reach 950 beds by FY27.
- Management plans to reduce material consumption cost by an additional 100bps from the current 21% level. ARPOB growth in the upcoming quarters is anticipated to be driven by facilities in non-metro cities. Management expects ARPOB growth of 7-8% in the next 3-4 years
- For inorganic growth, the primary focus will remain on South India. Management targets generating 40% of revenue from the Karnataka cluster within the next 12-18 months. At the consolidated level, management aims to achieve EBITDA margin of about 21% in the next 2-3 years.
- Currently, Aster DM only has 30% of its bed capacity in metro cities, thus resulting in significantly lower ARPOBs than peers.
- Board recommended and paid Rs 118 per share special dividend on the back of sale of its GCC business as part of distribution strategy.
- For the planned bed addition of ~1,700 beds, Aster DM expects to incur a total capex of Rs 1200cr. Out of this, Rs 200cr has already been incurred. The remaining Rs 1000cr is expected to be incurred over FY25-27E.
- M&A outlook: Aster DM is looking at multiple opportunities, including merging with bigger hospital chains. The company is open to merging with a platform that would help accelerate growth. Promoters have no intent to sell their stake in the company. Aster DM is looking for a strategic partner along with capital infusion to grow the business.
It is actively seeking inorganic opportunities in existing states to become one of the top three players in the Indian health care services space. Aster DM is also looking for opportunities in neighboring states such as Maharashtra and Tamil Nadu. Aster DM is looking for hospitals, leases and land parcels with potential large capacities (350+ beds).



(Source: Company, HDFC sec)

Other Highlights

Over the next five years, the company aspires to be top three players in India. Company is able to get ARPOB increase of 8-10% in every year and that is sustainable.

In addition, there is a higher possibility of Aster DM partnering with strategic/financial investors in India owing to a cleaner structure. PE partner will kind help more on the inorganic front and some of the other new edge initiatives. So, it's more going to be an add-on to what existing strong growth plans are. It is getting a lot of interest from PE investors and evaluating the right strategic/PE partner.

Aster Capital, Trivendrum will be 450 beds greenfield hospital and Kasargod (north Kerala) of about 260 beds also greenfield project.

Aster DM aims to be among the top-3 players in India by ramping up its bed capacity and expanding its footprint over the next 5 years. The company is also open for inorganic opportunities. Aster DM is looking to expand in neighboring states such as Maharashtra and looking for opportunities in northern India in states such as Uttar Pradesh. Aster DM would be aiming for a bigger hospital (~400-500 beds), if the expansion is based in Metro cities.

O&M asset light: Aster DM has 4 hospitals (2 in Kerala, 1 in Andhra Pradesh and 1 in Karnataka) in this model. Two of these hospitals have done well and are operating at 10% EBITDA margin. Hospitals in this model generate low EBITDA margin, but are lucrative in terms of RoCE.

Aster DM Healthcare aims to increase its bed capacity to more than 10,000 over the next 3-5 years through acquisitions and organic growth. The hospital chain currently has around 5,000 beds, up from 4,800 last year.

Company recently became a pure-play Indian healthcare brand after its US\$ 1 billion separation from Dubai-based GCC was finalized earlier this month.

Aster DM will look to tap Uttar Pradesh for inorganic growth. UP is a huge market with a population of 24cr, there is a huge opportunity.

On the company's organic expansion plan, the company is going to do it in the next three years through a combination of brownfield and greenfield expansion. About 60% of the 1,700 new beds will be brownfield and 40% greenfield. These will include two new hospitals, including one in Trivandrum with 450 beds.

The newly operational O&M asset-light hospitals are expected to dilute the operating margin to an extent. However, this model is also expected to improve the RoCE to a certain extent with faster breakeven at the operating level. In FY2022, the India business forayed into an O&M asset-light model for hospitals. This model has a lower capex requirement and higher RoCE with faster breakeven than traditional

hospital models. At present, Aster India operates four hospitals with a total bed capacity of 528 beds under the O&M asset light model.

Few months ago, Supreme Court directed Central Govt. to fix standard rate for procedures. It will compare the rates of private and government hospitals. This move could impact private hospitals overall profitability. Supreme Court also warned that if a solution is not found, it will have to order the private hospitals to set the treatment rates fixed under the Central Government Health Scheme (CGHS).

Key Triggers

India Hospital Business

Aster DM Healthcare is a prominent healthcare provider with a network of hospitals, clinics, and pharmacies in India. Aster's network is primarily in the Southern states of India – Kerala, Karnataka, Andhra Pradesh, Telangana and Maharashtra. Aster has 19 hospitals with an installed capacity of 5000 beds (3800 operational beds) offering a wide range of healthcare services such as Cardiac, Orthopaedic, Neurology, Oncology, etc. For FY24, total revenue increased 23.5% YoY at Rs 3699cr. EBITDA was up 29% YoY at Rs 578cr. PBT was up 32% YoY at Rs 273cr. Net profit increased 27% YoY at Rs 205cr.

Company registered healthy margin 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. 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 ARPOB which could 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. For Greenfield projects in non-metro areas, capex per bed is Rs 1.2mn whereas for Brownfield projects, capex per bed would be Rs 0.6mn. Prices in Kerala cluster increased 3-3.5%. ARPOB growth in Kerala is projected to reach 7-8% in the next 2-3 years.

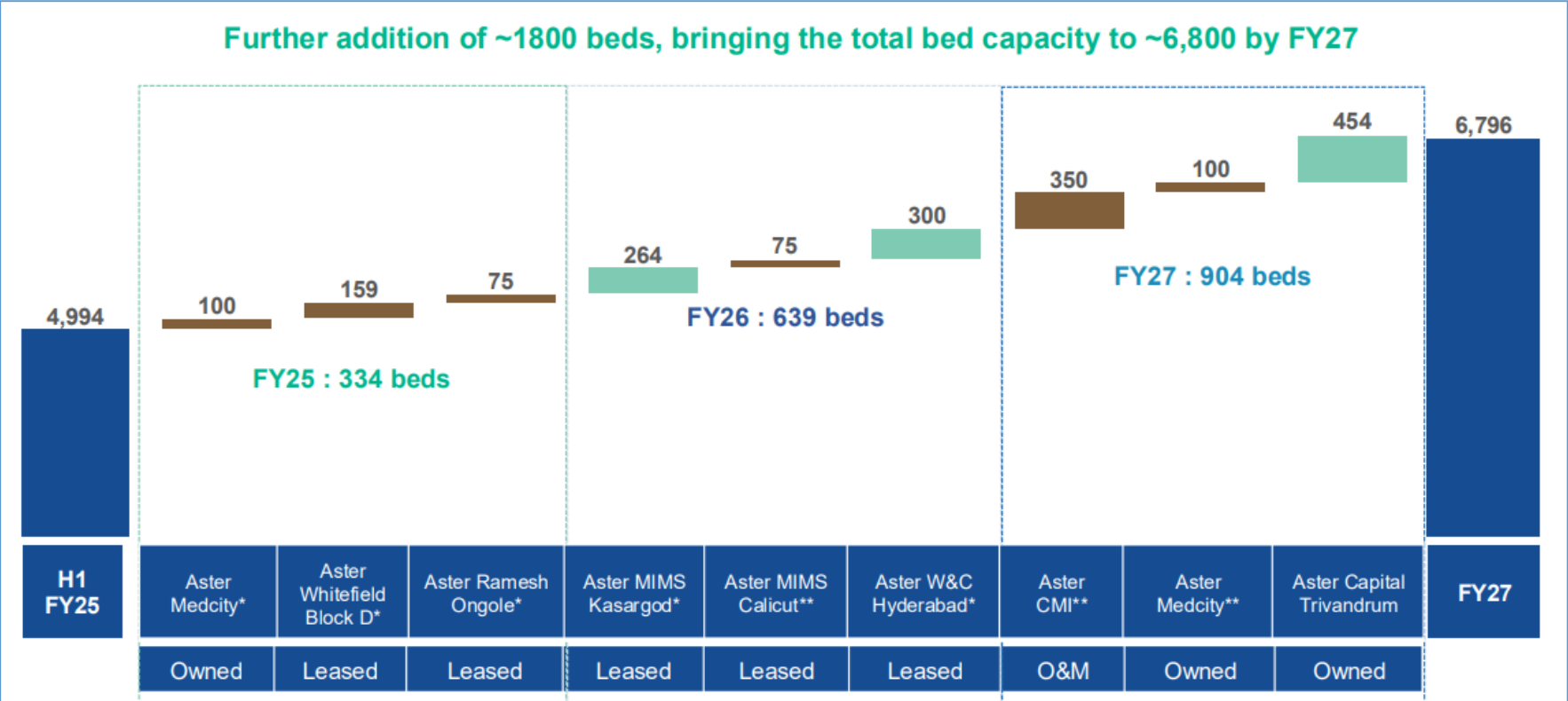
Cluster focused approach, improve maturity mix, pipeline of brownfield and greenfield expansion along with inorganic growth and ancillary business (lab and pharmacy) would further cement its position in India. Aster is also building hospital portfolio under O&M (asset light model) in India. The management 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 addition

Aster has been adding new beds in some of the hospitals which have reached almost full capacity. Company operationalized Aster Mother Hospital, (Areekode, Kerala), Aster Narayanadari (Andhra Pradesh) and Ramesh hospital in Vijayawada having total bed capacity of 340 beds in FY23. Pipeline of 1700 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. Post restructuring of GCC business, the focus will remain on growing its presence in South India. Company is open to expand 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-2023. 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 margin 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.

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 6.5% 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.



(Source: Company, HDFC sec)

Likely to enter into arrangement with Blackstone owned CARE Hospitals

As per the media reports the merger between the two will result in the formation of a new entity, likely to be named Aster DM Quality Care Pvt. Ltd. The merger will primarily involve a share swap, with an anticipated 50: 50 ratio, indicating an equal exchange of shares between Aster DM Healthcare and Care Hospitals. The new entity will benefit from an extensive network of hospitals, clinics, and healthcare facilities, broadening its geographical footprint and expanding its service offerings.

An open offer will likely follow the merger, in compliance with regulatory requirements. Azad Moopen of Aster DM Healthcare is expected to take on the role of executive chairman, with a joint management team overseeing the merged operations.

As of now, Care Hospitals is primarily owned by Blackstone. The private equity firm acquired a majority stake in Care Hospitals from TPG Rise funds in a deal completed in May 2023. The merger’s impact on the healthcare industry is expected to be substantial. The combined entity will likely challenge existing market leaders, intensifying competition in the sector.

Currently, Blackstone Inc., through its fund - BCP Asia II, holds 72.49% stake in Care Hospitals, while the TPG Group holds 24.16% stake through its special purpose vehicle - Centella Mauritius Holdings.

The proposed merger would propel the merged entity to become one of the largest hospital chains in the country, with a bed capacity of over 9,000. Blackstone, which acquired a majority stake in Care hospitals, will manage the merged entity along with Aster DM's promoters. While the combined entity will be at par on bed capacity with Apollo, margin profile would be lower than Apollo's hospital business. CARE Hospitals platform includes assets in India and Bangladesh and also (KIMS) Kerala Institute of Medical Sciences which were acquired by Blackstone in Oct-2023.

Annual Report FY24 Update

Average Revenue Per Occupied Bed (ARPOB) increased 10% to Rs 40,100 per day. Excluding O&M asset-light hospitals, ARPOB increased 14%, from Rs 37,000 to Rs 42,100. Company has witnessed a strong growth in ARPOB, growing at 5-year CAGR of 9% till FY24. The overall growth was attributed to three components - price hike, change in specialty mix and payor mix. The company believes that its ARPOB is at healthy levels as per industry standards considering 70% - 80% bed capacity is in Tier- 2 and 3 cities.

As of March, 2024, Aster India's net debt stood at Rs 556 crore. In FY24, the company invested Rs 392 crore in capital expenditure, with approximately 60% allocated to capacity expansion. Looking ahead, Aster DM plans to add nearly 1,700-1800 beds over the next three years, with 60% of this growth focused on brownfield projects. This approach will enable to efficiently expand capacity while preserving margin integrity. It includes the development of a 454-bed hospital, Aster Capital, in Thiruvananthapuram, a 264-bed facility at Aster MIMS Kasargod, and an additional 350 beds at the existing Aster CMI hospital.

As of FY24, Aster operated on a total of 4,867 beds across its hospitals in India. The company added 550+ beds last year, including 286 beds in Aster Whitefield, Bangalore and two new O&M hospitals- 148 beds in Aster PMF, Kollam and 100 beds in Aster G Madegowda, Mandya. It plans to increase its strength to 6,800 beds by FY27, aligning with its strategic roadmap to expand its footprint and become a top-three healthcare player in India.

Aster has a capital allocation strategy that aims to drive expansion in India through its ongoing and planned projects across different states. Major expansion projects include Aster Medcity (Kochi), Aster MIMS Kannur, Aster PMF (Kollam), Aster Whitefield Hospital (Bengaluru), Aster Ramesh Sanghamitra (Ongole), Aster MIMS Calicut, Aster CMI (Bengaluru), Aster MIMS Kasargod and Aster Capital Hospital (Trivandrum).

Company continued to maintain diversified speciality revenue mix through its diligent efforts to establish a sustainable business model. Top six specialties (Cardiac Sciences, Neurology, Oncology, Liver care, Nephrology, and Orthopaedics) contributed 58% of the total hospital revenue in FY24 with no single specialty accounts for more than 15% in FY24.

Investment Plan

Company added more than 10% to current bed capacity in FY24, reaching a total of 4,867 beds as of March, 2024. Company has added 550+ beds during the last year, including 286 beds in Aster Whitefield at Bangalore and 148 beds at Aster PMF and 100 beds at Aster G Madegowda. To capitalize on the opportunity of India's large population and low hospital bed density, the Company is making substantial capital investments, aiming to increase total bed capacity to 6,500+ by FY27. Aster DM plans to add approximately ~1,700 beds in the next three years through brownfield and greenfield projects. As per the strategy, out of total bed additions ~60% of beds will be the part brownfield expansion and 40% will be part of greenfield. This prudent mix of brownfield and greenfield is well thought through so that there will not be any major dilution of EBITDA margin in coming years.

Brownfield Expansion

Company will add 200 more beds at Aster Medcity in a phased manner, with 100 beds each in FY25 and FY27. This significant bed addition will result in expanding the total bed capacity to 950 beds in Aster Medcity. Another 350 beds will be added at Aster CMI in FY27, making Aster CMI the single largest hospital in Bengaluru with a total bed capacity of 850+ beds. The Company further aims to add 100 beds at Aster MIMS Kannur, 159 beds at Aster Whitefield and 75 beds at Aster Ramesh Ongole, 75 beds at Aster MIMS Calicut, as part of their brownfield expansion to yield better margins through operating leverage.

Greenfield Expansion

Company plans to add 718 beds under the greenfield expansion plan at two different cities with 264 beds at Kasargod and 454 beds at Trivandrum. The greenfield projects are progressing well, with the Kasargod and Trivandrum projects expected to be operationalised in FY26 and FY27 respectively.

Dr. Nitish Shetty, a seasoned healthcare management professional, was appointed as the CEO of Aster DM Healthcare India in Mar-2023. To improve operating margin, the company would look to reduce expenses and adopt cost-effective methods to ensure efficiency. It would also go for pay-per-use investment plan that allows to lease equipment instead of buying them. Company will enhance clinical specialities and procedures and implement revenue assurance measures to close revenue gaps.

To minimise expenditure, it has consolidated the hospital lab business with the help of Aster labs. Company has adopted a cluster-based approach that promotes resource sharing and consolidation within and across the clusters.

Hospital ownership models

In India, Aster DM's hospitals exist under three models - owned, O&M and O&M asset light. In the owned hospitals, Aster DM completely owns the land and constructs beds as well as installs medical equipment. In the O&M model, Aster DM takes the land from a third-party entity and then constructs interiors and installs beds and equipment. While there does not exist any difference in EBITDA margin profiles of these two models, owned hospitals usually take longer to achieve similar levels of RoCE. The third model is the O&M asset light model,

wherein Aster DM operates an already existing facility on behalf of the owners. According to this model, Aster DM does not construct beds or install medical equipment. However, it may conduct some hiring of clinical talent and augment the specialty mix to improve the hospital's performance. For Aster DM, EBITDA margins for these facilities are lower (15-17%), as these are located mostly in Tier-II and beyond markets, where ARPOBs are lower due to an absence of quaternary care specialties. However, these facilities are very fast in their RoCE ramp-up. An example of such a facility is the Tirupati Hospital, which commenced about 15 months ago and has already achieved RoCE levels of 10-12%. However, ARPOB of this hospital is lower at ~Rs 18000 per day.

Mature hospitals: In India, 75% of beds are in the mature hospitals. Currently, only four hospitals have commenced less than three years ago and are classified as new hospitals. The EBITDA margin for mature facilities is 21.3%, while ARPOB growth stood at 9-10% YoY. Aster DM expects to further improve EBITDA margins of mature hospitals by 200bps.

Kerala cluster: In terms of bed capacity, Aster DM ranked first in Kerala. The Kerala cluster mostly comprises owned hospitals and is operating at EBITDA margin of ~21%. Within Kerala, Aster MIMS hospital in Calicut generates EBITDA margin of 22-23%. Aster DM expects to improve Kerala EBITDA margins by 100-200bps over the next couple of years.

Karnataka cluster: Aster DM ranked third in Karnataka. In Karnataka, hospitals are operating at ~22% EBITDA margin, although most of the O&M asset light facilities are located in this cluster.

AP & Telangana cluster: In terms of bed capacity, Aster DM ranked second in AP and Telangana.

Kerala

Aster Medcity is a 759-bed quaternary care facility & one of the best hospital in Kochi, Kerala. The hospital has been delivering quality healthcare at affordable cost through its Centres of Excellence and a multi-specialty hospital since 2013. Kerala's first quaternary care hospital, Aster Medcity has also been accredited by NABH.

It offers quality healthcare under Centres of Excellence in Cardiac Sciences, Neurosciences, Orthopaedics & Rheumatology, Nephrology & Urology, Oncology, Women's Health, Child & Adolescent Health, Gastroenterology & Hepatology, and Multi-Organ Transplantation.

The 695 Beds multispecialty hospital, Aster MIMS is located in a prime location in Calicut. The hospital is renowned for its excellent medical care facilities, nursing and diagnostic service quality. Through its 25+ specialties, it provides in-depth expertise for advance medical and surgical interventions.

Aster MIMS hospital is located in the coastal city of Kannur and spreads over a 1.5- acre campus. The 302-bed multispecialty hospital is a first-of-its-kind in the city. The medical specialists, medical practitioners, nurses, technologists, and support staff of Aster MIMS Kannur is trained to handle challenging medical procedures.

Karnataka & Maharashtra

With nearly 500+ beds, the Aster CMI Hospital in Bengaluru is a modern facility that provides a full range of primary to quaternary care services through its Centres of Excellence in Complete Cancer Care, Cardiac Sciences, Neurosciences, Gastroenterology, Surgery and Allied Specialties, Integrated Liver Care, Organ Transplant, Urology and Nephrology, Orthopaedics, Women's Health, and Child & Health.

Aster Aadhar Hospital in Kolhapur is a 228-bed facility. It offers one of the best healthcare facilities in western Maharashtra in terms of infrastructure, skill sets, and doctoral legacies. The hospital provides quaternary care facilities through a multispecialty hospital with Centres of Excellence in Joint Replacements, Pulmonology, Cardiac Sciences, Neurosciences, Critical care, Nephrology & Urology, Oncology, Women's Health, Child & Adolescent Health, Gastroenterology & Integrated Liver Care, Multi-Organ Transplant, and Minimal Access Surgery. It is a NABH accredited facility, one of the first hospitals in the region to have received the certification.

Andhra & Telangana

It is a renowned multispecialty tertiary care chain located in coastal Andhra Pradesh. Established in 1988 with a 6-bed facility, Ramesh Hospitals now runs 5 hospitals in Vijayawada, Guntur, and Ongole, with a combined capacity of 739 beds. All of these facilities are NABH approved, and the Guntur site is JCI accredited. Since acquiring Ramesh Hospitals in 2016, Aster Ramesh has become a prominent NABL accredited healthcare service provider that has also received the nursing excellence certification. The extensive network of over 30 tele-medicine and outpatient outreach centres, spanning 5 districts of coastal Andhra Pradesh, contributes to success. It also offers academic programmes like DNB in Cardiology & Cardiothoracic, Radiology, Orthopaedics, Paediatrics, Obstetrics & Gynaecology, Critical care, and Neurology. Aster Ramesh Hospital is one of the few facilities in the area with a licence for liver, heart and kidney transplants in Guntur, with an overall success record of more than 95%.

Aster Pharmacy

Company has a network of 212 pharmacy across Kerala, Karnataka and Telangana. These pharmacies offer a wide range of items, including nutritional supplements, baby care products, skincare items, and home healthcare products.

Aster Labs

Aster Labs, the diagnostic and pathology wing of Aster DM Healthcare, offers comprehensive diagnostic services within south India through its network of 1 Reference Lab, 4 Satellite Labs, 3 Hospital Lab Managements (HLMs) and 52 Patient Experience Centres (PECs) in Karnataka and 8 Satellite Labs, 6 (HLMs) Hospital Lab Managements and 165 Patient Experience Centres (PECs) in Kerala, 2 Satellite Labs in Tamil Nadu (Coimbatore and Trichy). It has a total of 232 Labs and PECs in India.

GCC business stake sale

Aster DM, over last many quarters, was closely assessing restructuring options for its GCC business to unlock value of its shareholders.

In Nov-2023, Board had approved 100% sale of its GCC business for equity value of US\$ 1.01bn and EV of US\$ 1.3bn (Rs 10,600cr; ex-lease). Out of total US\$ 1.01bn proceeds - receipts of US\$ 99mn is subject to certain conditions. The sale transaction got concluded in Q4FY24. As directed earlier, 70% of total proceeds to be distributed (Rs 5900cr; Rs 118 per share) as dividend and rest to be utilized for inorganic initiatives and capex for India business. Further, based on EBITDA achieved by the GCC business, there is possibility of an additional earn-out of up to US\$ 70 million, to be paid post audit of FY24 financial information.

After deal closure, focus to completely shift to domestic execution

Over the past five years, Aster DM's India hospitals business has posted an impressive ramp-up (20%/38% sales/EBITDA CAGR). Aster DM has an extensive plan to reach about 6800 beds by FY27E, through a mix of owned, leased and O&M facilities. We expect better case mix, payor mix and tariff hikes to drive ~8% CAGR in ARPOB over FY24-27E. Aided by ramp up of labs and pharmacies, we bake in India sales/EBITDA CAGR of 17.5%/24% over FY24-27E. Currently, reported India hospital EBITDA margin at ~18% are much lower than its listed peers, most of whom operate in the 22-28% range. Improved profitability over the medium term will be critical to drive further rerating in domestic valuations.

Growing presence in India; promoter's extensive experience in the sector

The expanding footprint in India, supported by the promoter's extensive sector experience, has led to a significant improvement of Aster India's operational and financial profile over the last seven years. At present, the company operates 19 hospitals, 13 clinics, 212 pharmacies and 232 labs across six Indian states, particularly establishing a strong foothold in South India. It operates under various brands in the country, such as Aster Medcity, Aster MIMS, Aster Ramesh, Aster Prime, Aster Aadhar and Aster CMI, catering to different customer segments benefiting from its strong brand presence. The Group is promoted by Dr. Azad Moopen and family, with more than three decades of experience in the healthcare industry.

Nascent stage of operations for labs and pharmacy segment

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. Aligned with its expansion strategy to create a healthcare ecosystem and enhance its brand visibility, Aster's India business has increased its pharmacy and lab presence and currently operates 223 pharmacies (operated by ARPPL under brand license from Aster) and 232 labs. Operating on an asset-light model, Aster pharmacies operate on leased premises, minimising the capex costs. For Aster labs, the primary capex outlay is towards the reference and satellite labs, while a majority of the patient experience centres operate under a franchise model with a revenue-sharing arrangement. This segment (labs and wholesale pharmacy) currently contributes ~7-8% to the total revenue for the India business. However, the segment continued to incur operating losses (though witnessed significant improvement) due to nascent stages of its operations.

Aster DM had 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. 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.

On a consolidated basis, these ancillary businesses would not impact its margin materially as it is operating at relatively small scale. Minimal capital outlay would not impact India business' RoCE. The management expects to achieve breakeven in diagnostics and 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.

Higher geographic concentration risk

Aster India has a strong brand presence in South India, with the Kerala cluster being one of the highest contributors in terms of revenue and total bed capacity. It is followed by Karnataka, Maharashtra, Andhra Pradesh and Telangana clusters. Recent expansions in pharmacies and labs have also primarily been in these clusters.

While the established foothold in the South allowed the India business to achieve healthy operational parameters and revenue growth, such dependence on specific regions exposes to potential risks associated with regional economic downturns, competitive pressures or regulatory changes.

Key growth drivers for Healthcare

Increase in Healthcare Spending

There has been a shift in the mindset, and the population is more amenable to spending on health essentials, especially post COVID, such as regular health check-ups, monitoring, nutrition, and medical insurance. India's healthcare spending is 3.6% of GDP, including out-of-pocket and public expenditure, which is the least among BRICS countries: Brazil spends the most (9.2%), followed by South Africa (8.1%), Russia (5.3%), and China (5%).

Improving Insurance Penetration

With the increasing incidences of health issues and the need for essential healthcare services, healthcare costs have surged in the last few years. The growing health insurance market is playing a crucial role in improving healthcare access and financial protection for individuals and families. As the market continues to expand, driven by rising healthcare costs, supportive government policies, and technological advancements, it presents numerous opportunities for innovation and growth. Addressing challenges such as affordability and complexity will be key to ensuring that health insurance remains accessible and beneficial for all segments of the population.

Opportunities

Most of the healthcare infrastructure in India is based out of urban areas in India. With a significant increase in urban population, awareness and offtake of healthcare services for preventive and curative care would significantly increase, surging healthcare demand.

By 2026, 12.5% of India's population is expected to be aged 67 or older. It is anticipated that common ailments such as arthritis, hypertension, diabetes, asthma and heart disease will affect individuals over 60, with 66% of the elderly suffering from at least one of these conditions. Furthermore, according to estimations, over the next 15 years, around 15% of India's population, or approximately 220 million people, will reach the age of 60 or above. This increase in the elderly population will significantly strain the existing healthcare infrastructure over the next 20 to 30 years. However, with the growth in household income over the past 15 years, it has enabled individuals to access critical healthcare services.

Medical Tourism

India's burden of non-communicable diseases has been escalating and one of the key areas of concern is the growing incidence of cancer. Under-diagnosis, under-reporting, insufficient infrastructure, and limited awareness have exacerbated the problem.

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

India has emerged as a popular destination for medical tourism due to its cost-effectiveness, skilled medical professionals, and world-class facilities. Medical tourism industry in India is around US\$ 8-9bn. With ballooning healthcare cost in western countries, the estimated costs for foreign patients coming to India is ~1/5th-1/10th 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.

Revenue from international patient segment account for about 10% of the hospital revenue for listed players. Given that the companies have excellent facilities and some of the best and renowned medical professionals, they are able to deliver service of the highest standards and play a major role in attracting patients from all over the world.

Government incentives

The Indian government has focused on providing Universal Health Coverage through schemes such as Ayushman Bharat, National Health Mission, and Digital India, providing opportunities for public-private partnerships and investment in healthcare infrastructure, technology, and services.

Focus on Preventive Healthcare

Changes in lifestyle patterns have augmented incidences of non-communicable diseases, such as Diabetes, Cardiovascular diseases, and Cancer, which will continue to drive demand for specialized services. While communicable disease still poses a significant threat and account for 33% of the disease burden, non-communicable diseases now account for 55% of the disease burden of the country. As per government sources, India will have 90 million diabetics by 2025, one out of every four adults will have hypertension, and the NCD burden will cost India over US\$ 4.58 trillion by 2030. Thus, there is a growing emphasis on preventive healthcare initiatives, including awareness campaigns, vaccination drives, and screening programs, to address the burden of non-communicable diseases and improve overall health outcomes.

Outlook on Healthcare

The overall economic development and increasing population have propelled the healthcare sector to become one of India's largest sectors, both in revenue generation and job creation. The healthcare industry in India continues to play a crucial role in the nation's economic framework, making substantial contributions to growth and employment across diverse sectors such as hospitals, medical devices, clinical trials, telemedicine, medical tourism, health insurance and medical equipment.

In recent years, the sector has witnessed remarkable expansion, driven by factors such as improved coverage, service quality enhancements and substantial investments from both public and private entities. Government initiatives aimed at increasing healthcare spending and enhancing infrastructure have further propelled the industry's growth trajectory.

Expansion of Telemedicine Services: Telemedicine continues to witness significant growth with more healthcare providers adopting digital platforms to offer remote consultations and medical advice, especially in the wake of the COVID-19 pandemic.

Rise in Health Insurance Coverage: More individuals opt for health insurance coverage driven by increasing awareness of the financial risks associated with healthcare expenses and the availability of customized insurance products. The construction and expansion of hospitals, clinics and diagnostic centers continue to meet the rising demand for healthcare services, particularly in tier 2 and tier 3 cities.

Low health insurance penetration is one of the major impediments to the growth of the healthcare delivery industry in India, as affordability of quality healthcare facilities by the lower-income groups remain an issue. Health insurance coverage has increased from 17% in FY12 to approximately 38% in FY22.

Collaboration between the public and private sectors strengthens, facilitating investment in healthcare infrastructure, technology adoption and implementation of healthcare programs to address key healthcare challenges effectively.

Continuing demand supply gap for quality healthcare services and healthcare infrastructure

India currently has 1.3 hospital beds per 1,000 population. There is also a shortage of skilled health workers, with 0.65 physicians per 1,000 people (the World Health Organisation standard is 1 per 1,000 people) and 1.3 nurses per 1,000 people. India would need an additional 3 Million beds to achieve the target of 3 beds per 1,000 people by 2025.

Furthermore, another 1.54 million doctors and 2.4 million nurses will be required to meet the growing demand for healthcare in India.

Key Concerns

Project execution and Operational Risk: As significant capex is incurred for new hospitals, delay in ramp-up could impact revenue, EBITDA and affect cash flow 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. Execution in the newer geographies will remain critical with potential risk.

Few months ago, Supreme Court directed Central Govt. to fix standard rate for procedures. It will compare the rates of private and government hospitals. This move could impact private hospitals overall profitability. Supreme Court also warned that if a solution is not found, it will have to order the private hospitals to set the treatment rates fixed under the Central Government Health Scheme (CGHS).

Regulatory Headwinds

Hospitals, being most critical in nature, always need to comply with multiple regulatory guidelines and often make challenging readjustments at the ground level. It is subject to complex regulatory frameworks and policies that sometimes hinder innovation, investment, and quality improvement initiatives. 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.

Shortage of skilled healthcare professionals

India needs more skilled healthcare professionals, including doctors, nurses, and technicians. This shortage is further exacerbated by inevitable factors such as brain drain, uneven distribution of healthcare workers, and gaps in training and education, necessitating a higher focus on manpower retention through training, rewards, and recognition.

Increased Competition

The healthcare industry is witnessing strong demand, leading to increased competition and attracting multiple new entrants, including established business houses and private entrepreneurs. This influx of new players, coupled with other factors, may pose some challenges, including an adverse impact on profitability, concentrated market share, and growth potential of existing players. Consequently, there may be extended pressure on pricing strategies and added efforts to recruit and train competent medical professionals to maintain competitive edge and market share for sustained growth and profitability.

Promoter Pledge

Currently, the promoter holding stands at 42% and 98.8% of that is pledged. The pledge has been at the same levels since last few quarters. Management said that Promoter pledge is expected to reduce towards the end of FY25E.

Company Background

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. Company has a diversified portfolio of healthcare facilities, consisting of 19 hospitals (beds capacity 5000), 13 clinics, 212 retail pharmacies and 232 labs and patient experience centers (PECs) in India. The Group operates in India under the “Aster Medcity”, “Aster MIMS”, “Aster Ramesh”, “Aster Prime”, “Aster Aadhar” and “Aster CMI” brands.

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.

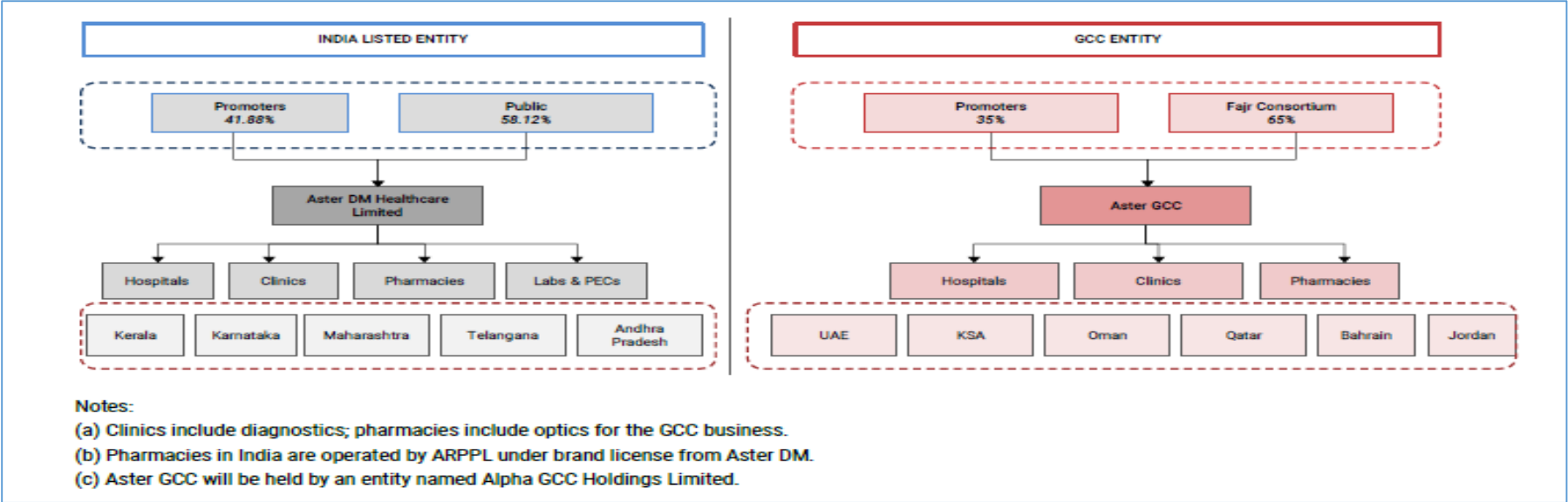
Peer Comparison

Company	Mcap (Rs cr)	Revenue (Rs cr)				EBITDA Margin (%)				PAT				RoE (%)			
		FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
Fortis Healthcare	43980	6298	6893	7966	9137	17.5	18.4	19.3	19.9	493	585	775	976	7.4	8.0	9.7	11.3
Aster DM Healthcare	22575	2994	3699	4420	5195	15.0	15.6	17.2	18.0	161	205	359	461	3.8	4.6	8.3	10.8
Apollo Hospitals	99860	16613	19059	22115	26211	12.3	12.5	14.0	14.6	819	899	1327	1792	11.4	13.8	17.7	20.8
Narayana Health	25280	4525	5018	5932	6852	21.8	23.4	23.0	23.5	607	789	809	937	27.2	28	24.3	22.2

Company	EV/EBITDA (x)				P/E (x)			
	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
Fortis Healthcare	39.9	34.9	28.5	23.5	89.2	75.2	56.7	45.1
Aster DM Healthcare	61.7	41.6	28.9	23.7	52.5	109.1	62.3	48.6
Apollo Hospitals	49.1	43.1	32.7	25.7	121.9	111.1	75.3	55.7
Narayana Health	26.0	22.3	20.1	18.0	41.6	32.0	31.2	27.0

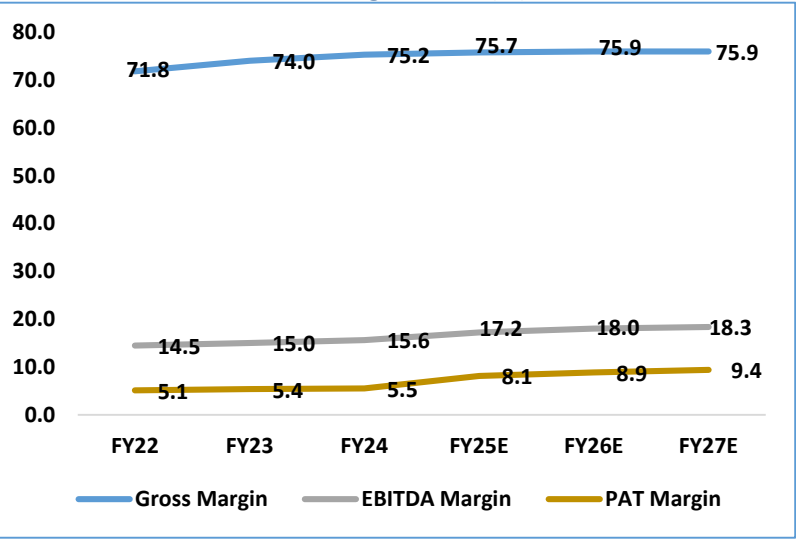
(Source: Company, HDFC sec)

Company Structure

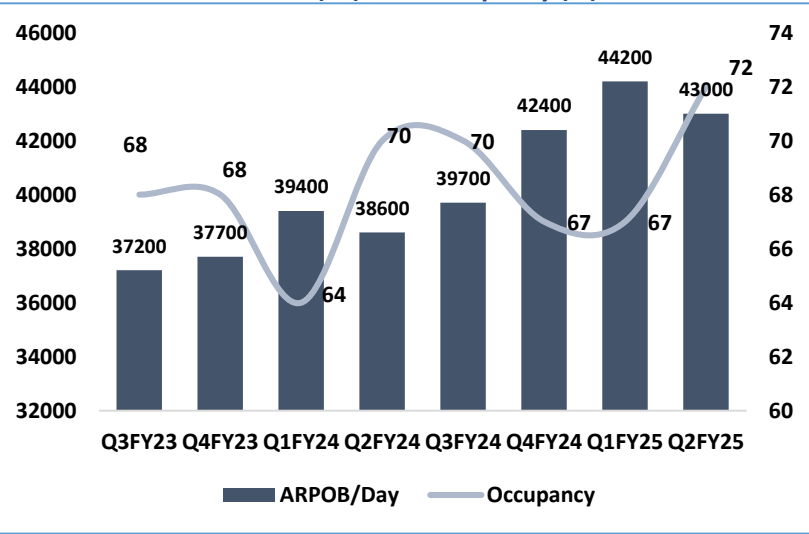


(Source: Company, HDFC sec)

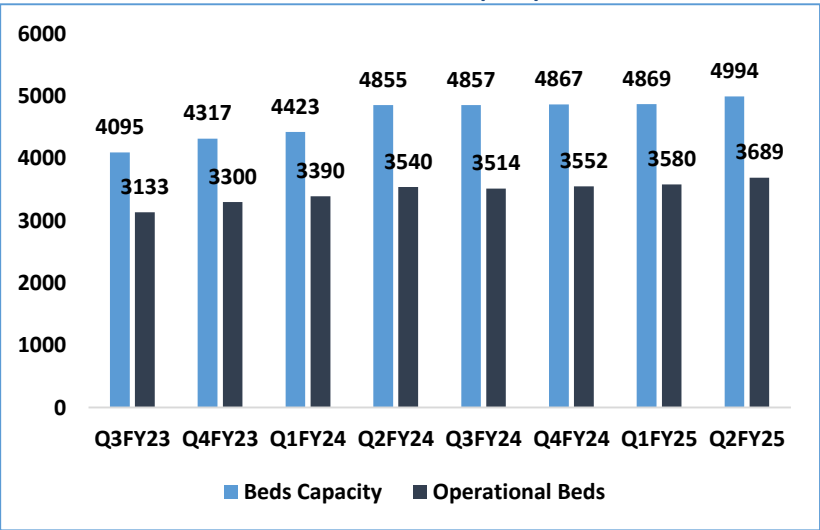
Margin Trend (%)



ARPOB (Rs) and Occupancy (%)



Beds Count (Nos)



(Source: Company, HDFC sec)

Financials

Income Statement

(Rs Cr)	FY24	FY25E	FY26E	FY27E
Net Revenues	3699	4420	5195	6012
Growth (%)	23.5	19.5	17.5	15.7
Operating Expenses	3121	3660	4260	4910
EBITDA	578	760	935	1102
Growth (%)	28.8	31.5	23.0	17.9
EBITDA Margin (%)	15.6	17.2	18.0	18.3
Depreciation	220	242	272	301
EBIT	358	518	663	801
Other Income	25	133	109	108
Interest expenses	110	118	99	80
PBT	273	532	673	830
Tax	57	149	175	215
PAT	216	376	486	602
Net Profit	205	359	461	566
Growth (%)	27.2	75.0	28.4	22.8
EPS	4.1	7.2	9.2	11.3

Balance Sheet

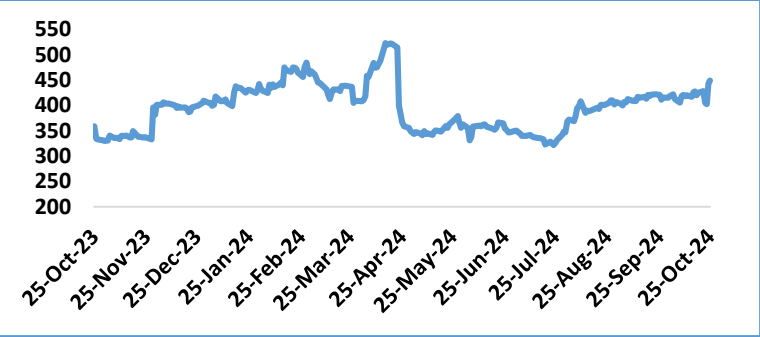
As at March	FY24	FY25E	FY26E	FY27E
SOURCE OF FUNDS				
Share Capital	500	500	500	500
Reserves	4061	3579	3980	4462
Shareholders' Funds	4560	4079	4480	4961
Minority's Interest	470	228	244	266
Long Term Debt	1511	1380	1230	1220
Net Deferred Taxes	52	52	52	52
Long Term Provisions & Others	86	131	148	205
Total Source of Funds	6679	5871	6154	6704
APPLICATION OF FUNDS				
Net Block & Goodwill	3366	3521	4113	4427
CWIP	170	231	231	231
Other Non-Current Assets	298	312	348	383
Total Non Current Assets	3834	4064	4692	5041
Current Investments	13	13	13	13
Inventories	111	170	213	247
Trade Receivables	233	317	384	453
Cash & Equivalents	113	2203	1723	1810
Other Current Assets	13688	230	289	362
Total Current Assets	14158	2933	2622	2887
Short-Term Borrowings	247	371	271	201
Trade Payables	459	533	643	749
Other Current Liab & Provisions	10606	223	247	275
Total Current Liabilities	11312	1127	1160	1225
Net Current Assets	2846	1806	1462	1663
Total Application of Funds	6679	5871	6154	6704

(Source: Company, HDFC sec)

Cash Flow Statement

(Rs Cr)	FY24	FY25E	FY26E	FY27E
Reported PBT	262	512	647	800
Non-operating & EO items	140	-5	-44	-13
Interest Expenses	410	118	99	80
Depreciation	967	242	272	301
Working Capital Change	-1,550	2,236	-20	-20
Tax Paid	-72	-149	-175	-215
OPERATING CASH FLOW (a)	158	2,956	779	932
Capex	-758	-700	-850	-600
Free Cash Flow	-600	2,256	-71	332
Investments	-127	0	0	0
Non-operating income	0	0	0	0
INVESTING CASH FLOW (b)	-885	-700	-850	-600
Debt Issuance / (Repaid)	1,285	-7	-250	-80
Interest Expenses	-210	-118	-99	-80
FCFE	475	2,130	-420	172
Share Capital Issuance	0	0	0	0
Dividend	-22	-40	-60	-85
Others	0	0	0	0
FINANCING CASH FLOW (c)	1,053	-165	-409	-245
NET CASH FLOW (a+b+c)	326	2,090	-480	87

Price chart



Key Ratios

	FY24	FY25E	FY26E	FY27E
PROFITABILITY RATIOS (%)				
EBITDA Margin	15.6	17.2	18.0	18.3
EBIT Margin	9.7	11.7	12.8	13.3
APAT Margin	5.5	8.1	8.9	9.4
RoE	4.6	8.3	10.8	12
RoCE	4.3	8.5	11.2	13
Solvency Ratio (x)				
Debt/EBITDA	3.0	2.3	1.6	1.3
D/E	0.4	0.4	0.3	0.2
PER SHARE DATA (Rs)				
EPS	4.1	7.2	9.2	11.3
CEPS	8.5	12.0	14.7	17.4
Dividend	119.0	0.8	1.2	1.7
BVPS	91.3	81.7	89.7	99.3
Turnover Ratios (days)				
Debtor days	126.8	22.7	24.6	25.4
Inventory days	69.9	11.6	13.5	14.0
Creditors days	170.1	41.0	41.3	42.3
VALUATION				
P/E (x)	109.1	62.3	48.6	39.5
P/BV (x)	4.9	5.5	5	4.5
EV/EBITDA (x)	41.6	28.9	23.7	20.0
EV/Revenue (x)	6.5	5	4.3	3.7

(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

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. These 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 cyclicalities 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.

Disclosure:

I, **Kushal Rughani, Research Analyst, MBA**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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