

# Stock Update

## Aster DM Healthcare Ltd.

April 21, 2022





# Aster DM Healthcare Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare Facilities	Rs 182.0	Buy in the band of Rs 180-185 & add more on dips to Rs 160-163 band	Rs 205	Rs 224	3 quarters

HDFC Scrip Code	ASTERDMEQNR
BSE Code	540975
NSE Code	ASTERDM
Bloomberg	ASTERDM IN
CMP April 20, 2022	182.0
Equity Capital (Rs cr)	499.5
Face Value (Rs)	10.0
Equity Share O/S (cr)	49.9
Market Cap (Rs cr)	9091.1
Book Value (Rs)	72.1
Avg. 52 Wk Volumes	1315089
52 Week High	237.0
52 Week Low	139.5

Share holding Pattern % (March 2022)	
Promoters	37.9
Institutions	19.6
Non Institutions	42.5
Total	100.0



HDFCsec Retail research  
stock rating meter

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

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

Aster DM Healthcare Ltd has a unique business model among Indian healthcare service providers with a strong established presence in GCC (Gulf Cooperation council) and India. The company has a diversified portfolio of healthcare facilities, consisting of 27 hospitals (bed capacity 5080), 118 clinics and 323 retail pharmacies; of which 14 multi-specialty hospitals, 9 clinics and 90 pharmacies are in India. The company has built assets in the GCC based on an asset-light model (operations on leased premises). Its most established and mature units enjoy higher EBITDA margin and RoCE. A firm presence in GCC helps the company in pursuing aggressive expansion in India albeit via an asset light model (adding brownfield facilities with low capex investment). India growth strategy would be through a combination of focused cluster approaches, new revenue streams (labs & pharmacy) and inorganic growth opportunities.

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. The company has lined up a slew of expansion plans across hospitals (in GCC 200+ beds, in India 400+ beds by FY23), diagnostics and pharmacies in India. The management targets India business to grow to a level of 40-50% of overall revenue (current 9MFY22: 27%) in the next four years. Aster DM continues to invest in digital initiatives including in their app '1 Aster' offering tele-consulting, diagnostic, e-pharmacy & wellness services to patients in UAE which is later expected to be mirrored in India. The company, in the past few quarters, has been closely assessing various restructuring options for its GCC business to unlock value for its shareholders. Strategic options in terms of the right corporate structure along with aligned growth levers are being evaluated and worked upon.

We had issued an [initiating coverage](#) & [stock update](#) report on the company. We have revised the estimates for FY22 and FY23 and introduced FY24 estimates. At current market price, the stock trades at an attractive valuation of ~6.5x FY24E EV/EBITDA, which is at a steep discount to Indian peers. Such a discount could be due to lower contribution from India region and high capital outlay in Cayman. We believe such high discount is unwarranted given the stable operating performance and likely increase in share from India business. On account of renewed focus on India expansion and likely restructuring of operations in GCC, there is scope for re-rating.

### Valuation & Recommendation:

Aster DM Healthcare is well positioned to leverage its extensive experience of working in a 100% insurance market in the GCC to derive better margins and increasing share of insurance segment in the Indian market. The company could witness healthy topline and footfall growth in GCC as its digital CRM initiatives saw lot of activations due to connection between hospitals, clinics, pharmacies. Rise in crude oil prices could



spur higher spend on medical treatment in the GCC. Improving maturity mix of India hospitals, operationalising of additional beds and expansion phase of newer verticals (Labs & Pharmacy) could improve India’s business share. The company plans to create a healthcare ecosystem around its hospitals; improving its occupancy and enhancing its brand image. The strategy for India is to unlock value through an integrated care delivery (digital) platform which will connect hospitals, clinics, diagnostics chain, pharmacy and home care. We expect revenue/EBITDA/PAT to grow at 11.8%/19%/65% CAGR over FY21-24E. Possible restructuring in GCC (especially Saudi hospital) and Cayman expansion plans are key monitorables in the near term. **We think the base case fair value of the stock is Rs 205 (7x FY24E EV/EBITDA, 15.5x FY24E EPS) and the bull case fair value is Rs 224 (7.5x FY24E EV/EBITDA, 16.8x FY24E EPS) over the next three quarters. Investors can buy the stock in the band of Rs 180-185 (6.3x FY24E EV/EBITDA, 13.7x FY24E EPS) and add more on dips to Rs 160-163 band (5.75x FY24E EV/EBITDA, 12x FY24E EPS).**

### Financial Summary

Particulars (Rs cr)	Q3FY22	Q3FY21	YoY-%	Q2FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2649.6	2227.6	18.9	2504.3	5.8	8,651.9	8,608.4	10,170.7	11,223.9	12,033.6
EBITDA	397.1	327.9	21.1	342.8	15.8	1,257.6	1,062.8	1,423.9	1,649.9	1,793.0
Depreciation	160.9	157.3	2.3	156.4	2.9	585.9	617.6	636.5	690.3	723.9
Other Income	11.5	5.7	102.3	9.1	26.6	37.9	50.0	45.8	50.5	54.2
Interest Cost	66.9	62.1	7.8	61.4	9.0	359.7	293.7	265.5	259.8	241.4
Tax	13.1	7.8	68.9	7.6	73.4	15.4	27.2	51.1	78.8	123.5
PAT	167.6	106.4	57.5	126.6	32.4	334.5	174.3	516.5	671.6	758.4
Adjusted PAT	148.3	92.4	60.5	106.9	38.8	276.6	147.7	453.8	589.2	665.0
EPS (Rs)	3.0	1.9	60.5	2.1	38.8	5.5	3.0	9.1	11.8	13.3
RoE-%						8.5	4.4	12.6	14.3	14.0
P/E (x)						33.0	61.5	20.0	15.4	13.7
EV/EBITDA (x)						11.2	12.8	9.4	7.8	6.7

(Note: Consolidate figures; Source: Company, HDFC sec)

### Q3FY22 Result Review:

Aster DM Healthcare reported healthy revenue of Rs 2649.6cr (up 18.9% YoY, constant currency growth of ~18% YoY) as both regions – GCC & India – reported healthy topline driven by decent in-patients and out-patient volume growth. Clinics & Pharmacies business in GCC reported sharp jump on year-on-year and sequential basis. The company posted EBITDA of Rs 397cr (up 21.1%/15.8% YoY/QoQ). EBITDA margins expanded 26bps/130bps YoY/QoQ and stood at 15%. Strong operational performance of India business (due high footfalls and higher ARPOBD) and GCC clinics business (higher out-patient volumes) lifted EBITDA margins. Low raw material costs and change in case mix supported margin expansion on sequential basis. It reported adjusted PAT of Rs 148.3cr, up 60.5%/38.8% YoY/QoQ.



Coming to the segmental performance for the quarter, GCC hospitals reported slight weakness in its numbers. GCC hospitals posted revenue of Rs 868cr (+8.4%/-1.1% YoY/QoQ). Despite 500bps YoY increase in occupancy level to 52% (51% in Q2FY22), its topline growth was muted due to lower ARPOBD (down 2.3% YoY). GCC hospitals EBITDA margin fell 160bps YoY to 16.2% (16.7% in Q2FY22) due to a combination of softness in Medicare, seasonality and operating losses from a new hospital. In-patient & out-patient volumes grew by 13.3% YoY & 31.7% YoY respectively. Both GCC Pharmacies and GCC Clinics reported a stellar performance driven by increased RT-PCR testing due to omicron surge. The GCC clinics segment reported topline of Rs 637cr (+18.8%/7.6% YoY/QoQ) driven by higher volumes (up 41.7%/13.3% YoY/QoQ) although revenue per patient declined considerably. Its EBITDA margins increased to 22.3% vs 21.5% in Q3FY21 (16.6% in Q2FY22). GCC Pharmacies reported revenue to the tune of Rs 608cr (up 15%/17% YoY/QoQ) on account of higher out-patient footfalls. EBITDA margins expanded 135bps/154bps YoY/QoQ and stood at 12.5% in Q3FY22.

India business reported a robust revenue growth of Rs 618cr (up 34.3%/1.5% YoY/QoQ) driven by high occupancy, operationalizing of additional capacities and improvement in ARPOBD. Occupancy levels stood at 65% as against 61% in Q3FY21 (vs 70% in Q2FY22). ARPOBD saw a growth of 12.4%/1.8% YoY/QoQ and stood ~Rs 33600. High patient count (in-patient & out-patient volumes up 37.3% YoY and 55.3% YoY respectively) supported healthy topline and lifted EBITDA margins. EBITDA margins stood at 16.8% as against 13% in Q3FY22 (vs 18.4% in Q2FY22). India business saw healthy improvement at PAT level. The company continues to remain committed to widen its presence in India with various brownfield/ greenfield projects. With over 400 beds to be operationalized in India in FY23, the management targets India business to grow to a level of 40-50% of overall revenue (current 9MFY22: 27%) in the next four years.

In order to expand its healthcare offerings for its patient base, the company is actively expanding Aster Labs and pharmacy distribution network in India. Aster Labs, its diagnostics vertical, continues to enhance its presence in both Karnataka and Kerala. As of Dec-end 2021, there are 1 reference lab, 8 satellite labs and 57 patient experience centers (PEC). It has an aggressive growth plan for this vertical and aims to reach 33 labs and around 400 experience centers by the end of FY23. The company 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. From current 90 pharmacies, Aster DM plans to reach 300 pharmacies by FY23-end.

Aster continues to invest in digital initiatives including in their app '1 Aster' offering tele-consulting, diagnostic, e-pharmacy & wellness services to patients in UAE which is later expected to be mirrored in India. The management further stated that the company is in active discussions to on-board strategic investors for GCC business.





### Quarterly Trend

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
GCC Revenue (Rs cr)	1,847	1,658	1,656	1,895	1,878	1,462	1,828	1,768	1,910	1,822	1,896	2,032
EBITDA Margin (%)	16.9%	8.3%	7.2%	13.9%	19.7%	8.9%	12.2%	15.7%	15.1%	11.5%	12.7%	14.6%
PAT Margin (%)	11.0%	1.7%	1.0%	8.0%	7.5%	-3.0%	2.6%	5.9%	6.9%	2.5%	4.4%	6.0%

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
India Revenue (Rs cr)	354	371	431	427	402	299	415	459	481	550	609	618
EBITDA Margin (%)	10.7%	7.0%	12.8%	11.7%	7.2%	4.3%	11.6%	11.1%	9.8%	12.9%	16.7%	16.5%
PAT Margin (%)	0.3%	-0.7%	0.6%	0.2%	0.1%	-2.7%	-0.8%	-0.6%	-1.4%	-0.1%	1.2%	1.3%

(Source: Company, HDFC sec)

### Key Triggers:

#### Focus on India Business expansion; creating a healthcare ecosystem:

Aster has 14 hospitals with an installed capacity of 3920 beds (2907 operational beds) offering a wide range of care services such as Cardiac, Orthopaedic, Neurology, Oncology, etc. The company is focused to enhance its presence in India and improve its revenue share. With over 400 beds to be operationalized in India in FY23, the management targets India business to grow to a level of 40-50% of overall revenue (current 9MFY22: 27%) in the next four years. As a part of the company's growth strategy, it has taken up multiple projects (especially brownfield projects which are expected to operationalise in FY23). Aster Mother Hospital, 300-bed hospital, in Kerala is being taken over for O&M with 140 beds expected to be operationalised in Q1FY23. There is also a likely brown field expansion coming up attached to Aster MIMS, Calicut which shall add additional 70 beds to the existing 680 capacity beds. These projects adding 210 beds will cost only Rs 40cr. The company also announced a 200-bed multispecialty tertiary care greenfield hospital on a leased land at Kasargod (Kerala), entailing a capex of Rs 140cr, which is expected to be complete in the next 2 years. It is also planning to add 100 beds in Aster MIMS Kannur with a cost per bed of Rs 35 lakhs; for which land has already been procured. Recently, the company signed a non-binding Memorandum of Understanding (MOU) with Government of Tamil Nadu to explore the possibility of setting up of hospitals, labs and pharmacies in Tamil Nadu. Also, with covid related restrictions out of the way, the company would leverage its GCC network to promote medical value tourism to India.

#### Projects in Pipeline:

Hospitals	Location	Type	Planned Bed	Expected Completion Year	Present Status	Owned / Leased/O&M
Aster Hospital (Phase 1)	Trivandrum, Kerala	Greenfield	350	FY26	Design	Owned
Aster Hospital	Chennai, TN	Greenfield	500		Under Review	Leased
Aster Whitefield Multi Speciality Hospital (Phase 2)	Bangalore, KA	Brownfield	275	Q2 FY23	Construction	Leased



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Aster KLE	Bangalore, KA	Greenfield	500	FY26	Design	O&M
Aster MIMS Kasargod	Kasargod, Kerala	Greenfield	200	FY25	Design	Leased
Aster MIMS Kannur (Expansion Phase 1)	Kannur, Kerala	Greenfield	100	FY25	Design	Leased
Aster Mother Hospital	Areekode, Kerala	Brownfield	140	Q1 FY23		O&M

(Source: Company, HDFC sec)

Sweating of existing assets (operationalizing more beds), adding O&M on brownfields coupled with already greenfield projects in pipeline would pave the way towards the 40-45% revenue share. 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. The strategy for India is to unlock value through an integrated care delivery (digital) platform which will connect hospitals, clinics, diagnostics chain, pharmacy and home care. Creation of separate clusters and managerial position heading these clusters would create a focused approach in improving India’s business. India growth strategy would be through a combination of focused cluster approaches, new revenue streams and inorganic growth opportunities.

### India - Hospitals Maturity Mix

0-3 Years	Q1FY21	H1FY21	9MFY21	FY21	Q1FY22	H1FY22	9MFY22
Hospitals	2	2	2	3	3	3	3
Revenue (Rs cr)	45	104	174	240	84	177	272
Revenue Mix (%)	15%	15%	15%	15%	16%	16%	16%
Operational Beds	331	374	374	404	404	411	440
Operational Beds (%)	13%	14%	14%	15%	15%	15%	15%
ARPOBD (Rs)	24880	25100	26800	28600	31800	32500	32800
Occupancy (%)	60%	65%	65%	63%	75%	73%	72%
EBITDA (Rs cr)	1	3	6	13	8	21	34
EBITDA %	2.2%	2.9%	3.4%	5.4%	9.5%	11.9%	12.5%

Over 3 Years	Q1FY21	H1FY21	9MFY21	FY21	Q1FY22	H1FY22	9MFY22
Hospitals	10	10	10	10	10	10	10
Revenue (Rs cr)	250	588	958	1382	441	934	1428
Revenue Mix (%)	85%	85%	85%	85%	84%	84%	84%
Operational Beds	2155	2290	2282	2282	2288	2365	2467
Operational Beds (%)	87%	86%	86%	85%	85%	85%	85%
ARPOBD (Rs)	30590	29900	29900	30400	30100	31800	32400
Occupancy (%)	41%	49%	53%	55%	70%	70%	68%
EBITDA (Rs cr)	18	71	130	187	74	176	275
EBITDA %	7.2%	12.1%	13.6%	13.5%	16.8%	18.8%	19.3%

(ARPOBD= Average Revenue Per Occupied Bed per day, Source: Company, HDFC sec)



### **Pharmacy and Diagnostics – Key lever for India Business:**

Aster DM Healthcare continues to remain committed to widen its presence in India with asset-light model. In order to expand its healthcare offerings for its patient base, the company is actively expanding Aster Labs and pharmacy distribution network in India. Aster Labs, its diagnostics vertical, continues to enhance its presence in both Karnataka and Kerala. As of Dec 31, 2021, there are 1 reference lab, 8 satellite labs and 57 patient experience centers (PEC). It has an aggressive growth plan for this vertical and aims to reach 33 labs and around 400 experience centers by the end of FY23. Aster Labs conducts more than 2500 testes in clinical biochemistry, clinical pathology, hematology, histopathology, cytogenetics, microbiology and molecular biology. It also offers curated wellness packages for diverse consumer groups. Currently the focus would be to create an ecosystem to provide one-stop solution for the patients in the geographies where it has hospitals, right from primary care to the quaternary care. At present, major part of the diagnostics business comes from hospitals (75-80%) which takes up large part of the profits. The company is focused to improve its B2C business (franchisee-led PECs) going forward which would increase its EBITDA margins. The management expects that the current 20-25% non-aster related business would grow to 40-45% by the end of next fiscal, thereby reaching the breakeven stage and likely generate positive EBITDA.

Aster DM has ventured into the wholesale pharmacy business by acquiring a majority stake in the Hindustan Pharma Distributors Private Limited. Through this wholesale pharmacy vertical, it intends to optimize supply chain function which will benefit hospitals business. Aster has entered into an agreement with Alfaone Retail Pharmacies Private Limited (ARPPL) to license the 'Aster Pharmacy' brand to run the retail stores and online pharmacy operations. Initially the pharmacy stores would be setup at around 10 kms radius around Aster Hospitals. There would be 2 store formats – 300 sqft and 500 sqft with 80:20 ratio. Pharmacy stores would focus on private labels, FMCG and non-pharma product sales which would boost gross margins. From current 90 pharmacies, Aster DM plans to reach 300 pharmacies by FY23-end. Launching e-pharmacy is also in works. Physical pharmacy locations would be complemented by an app to supply pharma and non-pharma products. Given high competition intensity and cash-burn rate at initial period; e-pharmacy might not gain traction to a greater extent. The strategy of expanding diagnostics and pharmacy is on track with significant growth plans over the coming quarters.

### **Active discussions regarding restructuring of the company's business (demerger or sale of GCC Business):**

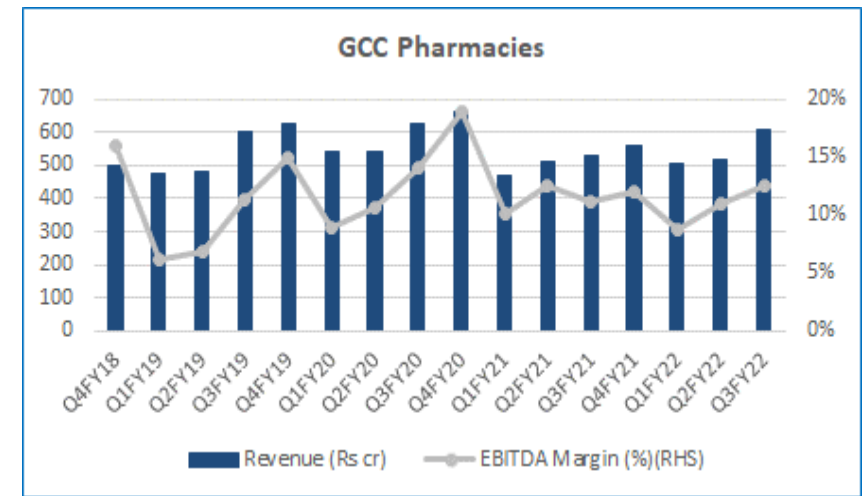
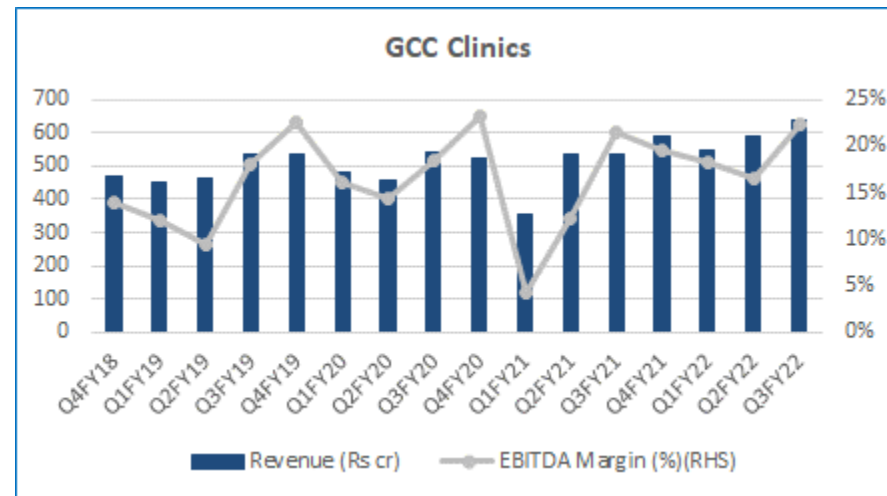
Aster DM, in the past few quarters, has been closely assessing various restructuring options for its GCC business to unlock value of its shareholders. Strategic options in terms of the right corporate structure along with aligned growth levers are being evaluated and worked upon. The management is evaluating various options - demerger, sale or partial sale of underperforming assets (Saudi Hospital). The management in the recent earnings concall highlighted that the company is in active discussions to on-board strategic investors for GCC business. The company is committed to work in the said direction, as the board of directors recently constituted a committee to review the corporate structure and explore options for enhancing value. The company would utilize the proceeds from the reorganization towards debt reduction and/or distribute higher dividend payouts; or perhaps use it for expansion in India.



### Improvement in GCC clinics & pharmacies:

Aster Clinics has now become the largest and most widespread network of clinics across the Middle East. The company has 95 clinics present in UAE, 6 clinics present in Oman, 6 clinics present in Qatar and 2 clinics in Bahrain. Clinics are the nucleus of Aster DM’s business and act as initial touch-points for the patients. Clinics have played a key role in expanding Aster’s brand presence, particularly in new locations and geographies and increasing volumes in hospitals by acting as a referral network. The asset light nature of clinics along with higher return ratios versus hospitals has helped Aster expand its network of clinics rapidly without affecting its balance sheet. Clinics are also crucial for pharmacies; as many pharmacies are attached to clinics.

Aster Pharmacy has one of the largest presence in healthcare retail across the GCC healthcare landscape with 233 pharmacies; offering the entire gamut of curative, nutritive, baby products, lifestyle, wellness products, FMCG products, cosmetics, personal & homecare products. After undergoing rationalization of pharmacy stores, it is looking to set up the stores in malls (independent standalone pharmacies, less reliant on their clinics) which has witnessed quicker breakeven. It is actively working on shifting the pharma and non-pharma mix. The company sees opportunity to scale up non-pharma bucket to 30-40% from current ~25%. Moving away from just filling customers’ prescription to be able to provide vitamins, necessary supplement, FMCG products would help in improving its margins. It is also doing lot more distribution to supermarkets and large accounts like duty-free, which would also support the margins. The company is taking initiatives to bring traction on e-pharmacy side. The company has adopted brick and click approach to improve its penetration through both onsite and digital route. Unlike in India, there are few players in the e-pharmacy space in GCC, which would improve its medium term growth outlook. The company would witness healthy topline and footfall growth as its digital CRM initiatives saw lot of activations due to connection between hospitals, clinics, pharmacies.



(Source: Company, HDFC sec)





### **Digital Transformation - taking strides in the right direction:**

Aster DM has been making some strategic investments in bolstering its digital backbone. Aster DM has launched an app “1 Aster”, which is a unified mode of engagement with their patient base for their health and wellness needs. This app allows patients to book appointments, seek virtual consults, access medical records (reports & prescription), provide tele-consultant and chronic disease management to support patient healthcare needs. Initial response of the app, in terms of increase in patient base and repeated customers, is quite positive. The company did a limited launch and is looking to enhance the feature set. Teleconsultation is already live and e-pharmacy services is in works. Over the next few quarters, diagnostics and home care feature will be added.

The company is working towards a larger patient engagement framework through a digital customer relationship management (DCRM) module launched across its clinics, hospitals and pharmacies which would allow a seamless experience for the patients across all modes of engagement, i.e., in person or through the app/portal. It is also actively working towards launching e-pharmacy which will further bolster the offerings in patient care. It would also be launching a Data Lake Digital across Aster, to leverage native data across its verticals which shall help in unlocking cross-vertical opportunities and engagement. Data integration besides unlocking various opportunities immediately, will support and enable the 1 Aster online engagement platform. Aster DM is focused on creating an omni-channel health platform for its patients in UAE. Post its successful launch in the UAE, the company would replicate this omni-channel care model in core markets of India, in a phased manner (expected by Q3-Q4 FY23).

### **Concerns:**

**High Dependence on the GCC region:** The company has historically generated more than 80% of its consolidated revenue from its GCC operations and is significantly dependent on its operations in the UAE. Although revenue mix concentration has reduced from 89% in FY15 to 81% in FY21 from GCC states (73% in 9MFY22), it is still high. GCC economy is largely dependent on trade, tourism, oil and real estate. Any slowdown or change in GCC regulations can impact growth in revenue and/or profitability. The GCC business is also highly seasonal, where volumes decline in summer months as expats travel out during that period. To mitigate the concentration of revenue mix, the company has expanded its operations in India by increasing its capacities through additional beds. The company has plans to venture into the western hemisphere through in multi-speciality hospital in Caribbean (Cayman Island). Any adverse changes in regulations in GCC including tax rates (like the recent introduction of 9% corporate tax by the UAE wef June 2023) would impact company’s revenue and profit trajectory.

**Cayman Expansion could be an overhang:** The company is now venturing to the western hemisphere through in multi-specialty hospital in Caribbean. It signed a long-term agreement with Cayman Island government to build Aster Cayman Medcity, a 150-bed, multispecialty



hospital in the next three years. This expansion project would entail \$120-130 million capex. Currently the company is critically analyzing and evaluating how to proceed with the Cayman project. Appropriate strategic partnerships to bring funding and expertise from USA is being explored. Entering a region where a large peer has a strong presence and has expansion lined up cast doubt over the capital allocation. Aster DM could perhaps take longer time to break even, if it proceeds with the Cayman project.

**Project execution and Operational Risk:** As significant capex is incurred for new hospitals, delay in ramp-up will impact revenues, EBITDA and affect cashflow generation. Any delay in commissioning or expansion (reaching breakeven) of new facilities may impact overall growth, thus impacting overall financials. Execution in the newer geographies will remain critical with potential risk.

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

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

**Pandemic-related risk:** Any repeat of pandemic in India/GCC could adversely impact the occupancy levels and ARPOBD of the hospital business.

#### About the company:

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



Aster operates in multiple segments of the healthcare industry, including hospitals, clinics, retail pharmacies and provides healthcare services to patients across economic segments in several GCC states through its brands. The company's brands are widely recognized in GCC states both by healthcare professionals and patients. GCC contributes ~73% to revenues (9MFY22) while India accounts for the remaining share. The company has a diversified portfolio of healthcare facilities, consisting of 27 hospitals (bed capacity 5080), 118 clinics and 323 retail pharmacies; of which 14 multi-specialty hospitals, 9 clinics and 90 pharmacies are in India.

The company is actively expanding Aster Labs and pharmacy distribution network in India as a part of its omni-channel offering. Aster Labs has set up 1 reference lab, 8 satellite labs and 57 patient experience centres (PEC). The company 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.

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. The management targets India business to grow to a level of 40-50% of overall revenue in the next four years. Aster DM continues to invest in digital initiatives including in their app '1 Aster' offering tele-consulting, diagnostic, e-pharmacy & wellness services to patients in UAE which is also expected to be mirrored in India. In the past few quarters, the management has been closely assessing various restructuring options for its GCC business to unlock value of its business.



\* Pharmacies in India operated by ARPPL under brand license from Aster  
\*\* 1 reference lab, 8 satellite labs, 57 patient experience centers



# Aster DM Healthcare Ltd.

### Peer Comparison:

	Mcap (Rs cr)	Revenue				EBITDA Margin (%)				APAT			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
<b>Aster DM Healthcare</b>	<b>9,091</b>	<b>8,608</b>	<b>10,171</b>	<b>11,224</b>	<b>12,034</b>	<b>12.3</b>	<b>14.0</b>	<b>14.7</b>	<b>14.9</b>	<b>148</b>	<b>454</b>	<b>589</b>	<b>665</b>
Apollo Hospitals	68,700	10,560	14,778	16,975	19,796	10.8	15.5	15.8	16.3	150	984	1209	1602
Fortis Healthcare	20,448	4,030	5,799	6,417	7,108	10.0	19.1	19.3	19.9	-111	372	531	672
Narayana Hrudayalaya	14,596	2,582	3,657	4,137	4,680	7.1	17.0	18.1	18.8	-14	334	404	501

	P/E			EV/EBITDA		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
<b>Aster DM Healthcare</b>	<b>20.0</b>	<b>15.4</b>	<b>13.7</b>	<b>9.4</b>	<b>7.8</b>	<b>6.7</b>
Apollo Hospitals	73.9	57.8	43.4	31.4	26.7	22.1
Fortis Healthcare	55.1	38.5	30.4	20.2	18.1	15.8
Narayana Hrudayalaya	43.8	36.7	29.9	23.8	19.8	16.9

(Source: Bloomberg estimates, Company, HDFC sec)



## Financials - Consolidated

### Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>8651.9</b>	<b>8608.4</b>	<b>10170.7</b>	<b>11223.9</b>	<b>12033.6</b>
<b>Growth (%)</b>	<b>8.7</b>	<b>-0.5</b>	<b>18.1</b>	<b>10.4</b>	<b>7.2</b>
Operating Expenses	7394.3	7545.6	8746.8	9574.0	10240.6
<b>EBITDA</b>	<b>1257.6</b>	<b>1062.8</b>	<b>1423.9</b>	<b>1649.9</b>	<b>1793.0</b>
<b>Growth (%)</b>	<b>45.7</b>	<b>-15.5</b>	<b>34.0</b>	<b>15.9</b>	<b>8.7</b>
<b>EBITDA Margin (%)</b>	<b>14.5</b>	<b>12.3</b>	<b>14.0</b>	<b>14.7</b>	<b>14.9</b>
Depreciation	585.9	617.6	636.5	690.3	723.9
<b>EBIT</b>	<b>671.7</b>	<b>445.2</b>	<b>787.4</b>	<b>959.6</b>	<b>1069.1</b>
Other Income	37.9	50.0	45.8	50.5	54.2
Interest expenses	359.7	293.7	265.5	259.8	241.4
<b>PBT</b>	<b>349.9</b>	<b>201.5</b>	<b>567.6</b>	<b>750.4</b>	<b>881.8</b>
Tax	15.4	27.2	51.1	78.8	123.5
PAT	334.5	174.3	516.5	671.6	758.4
<b>Adjusted PAT</b>	<b>276.6</b>	<b>147.7</b>	<b>453.8</b>	<b>589.2</b>	<b>665.0</b>
<b>Growth (%)</b>	<b>-17.0</b>	<b>-46.6</b>	<b>207.1</b>	<b>29.8</b>	<b>12.9</b>
EPS	5.5	3.0	9.1	11.8	13.3

### Balance Sheet

As at March (Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCE OF FUNDS</b>					
Share Capital	496.8	497.0	497.0	497.0	497.0
Reserves	2775.3	2875.4	3329.2	3918.4	4583.4
<b>Shareholders' Funds</b>	<b>3272.1</b>	<b>3372.5</b>	<b>3826.2</b>	<b>4415.4</b>	<b>5080.4</b>
<b>Minority's Interest</b>	<b>446.4</b>	<b>461.7</b>	<b>529.5</b>	<b>617.5</b>	<b>716.9</b>
Long Term Debt	4341.6	4029.7	4049.7	3829.7	3529.7
Net Deferred Taxes	122.7	129.2	119.2	109.2	99.2
Long Term Provisions & Others	500.5	433.4	463.9	534.4	573.0
<b>Total Source of Funds</b>	<b>8683.2</b>	<b>8426.3</b>	<b>8988.5</b>	<b>9506.2</b>	<b>9999.1</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	7123.6	6754.7	6648.2	6648.0	6444.0
CWIP	736.0	928.1	978.0	868.0	898.0
Other Non-Current Assets	450.1	308.2	354.0	386.7	411.8
<b>Total Non Current Assets</b>	<b>8309.7</b>	<b>7991.0</b>	<b>7980.3</b>	<b>7902.7</b>	<b>7753.8</b>
Current Investments	11.6	24.1	24.1	104.1	204.1
Inventories	961.0	849.0	1003.1	1076.3	1153.9
Trade Receivables	2366.4	2019.0	2229.2	2398.5	2571.6
Cash & Equivalents	177.1	281.4	511.7	877.9	1247.5
Other Current Assets	579.6	455.5	529.4	584.3	626.4
<b>Total Current Assets</b>	<b>4095.7</b>	<b>3629.0</b>	<b>4297.5</b>	<b>5041.1</b>	<b>5803.5</b>
Short-Term Borrowings	770.1	773.9	773.9	753.9	713.9
Trade Payables	1293.9	2029.9	2089.9	2244.8	2373.8
Other Current Liab & Provisions	1658.1	389.9	425.5	438.8	470.5
<b>Total Current Liabilities</b>	<b>3722.1</b>	<b>3193.7</b>	<b>3289.3</b>	<b>3437.6</b>	<b>3558.2</b>
Net Current Assets	373.6	435.3	1008.2	1603.5	2245.3
<b>Total Application of Funds</b>	<b>8683.2</b>	<b>8426.3</b>	<b>8988.5</b>	<b>9506.2</b>	<b>9999.1</b>





# Aster DM Healthcare Ltd.

## Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	349.9	205.1	567.6	750.4	881.8
Non-operating & EO items	176.8	272.3	-44.1	-6.2	-21.0
Interest Expenses	353.6	289.5	265.5	259.8	241.4
Depreciation	585.9	617.6	636.5	690.3	723.9
Working Capital Change	-177.3	195.8	-318.7	-89.5	-101.7
Tax Paid	-65.7	-11.1	-51.1	-78.8	-123.5
<b>OPERATING CASH FLOW ( a )</b>	<b>1,223.3</b>	<b>1,569.1</b>	<b>1,055.8</b>	<b>1,526.0</b>	<b>1,601.0</b>
Capex	-508.3	-386.4	-580.0	-580.0	-550.0
Free Cash Flow	714.9	1,182.7	475.8	946.0	1,051.0
Investments	-9.2	-12.5	0.0	-80.0	-100.0
Non-operating income	-140.9	65.9	0.0	0.0	0.0
<b>INVESTING CASH FLOW ( b )</b>	<b>-658.4</b>	<b>-333.1</b>	<b>-580.0</b>	<b>-660.0</b>	<b>-650.0</b>
Debt Issuance / (Repaid)	-217.4	-943.1	20.0	-240.0	-340.0
Interest Expenses	-209.7	-172.9	-265.5	-259.8	-241.4
FCFE	287.8	66.7	230.3	446.2	469.6
Share Capital Issuance/ (Buy Back)	1.0	0.8	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0
Others	-248.7	-1.0	0.0	0.0	0.0
<b>FINANCING CASH FLOW ( c )</b>	<b>-674.8</b>	<b>-1,116.1</b>	<b>-245.5</b>	<b>-499.8</b>	<b>-581.4</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-109.9</b>	<b>119.9</b>	<b>230.3</b>	<b>366.2</b>	<b>369.6</b>

## One Year Price Chart:



(Source: Company, HDFC sec)

## Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
<b>PROFITABILITY RATIOS (%)</b>					
EBITDA Margin	14.5	12.3	14.0	14.7	14.9
EBIT Margin	7.8	5.2	7.7	8.6	8.9
PAT Margin	3.2	1.7	4.5	5.2	5.5
RoE	8.5	4.4	12.6	14.3	14.0
RoCE	9.5	5.4	9.4	10.9	11.7
<b>SOLVENCY RATIOS (x)</b>					
Debt/EBITDA	4.1	4.5	3.4	2.8	2.4
D/E	1.6	1.4	1.3	1.0	0.8
<b>PER SHARE DATA (Rs)</b>					
EPS	5.5	3.0	9.1	11.8	13.3
CEPS	17.3	15.3	21.8	25.6	27.8
Dividend	0.0	0.0	0.0	0.0	0.0
BVPS	65.5	67.5	76.6	88.4	101.7
<b>TURNOVER RATIOS (Days)</b>					
Debtor days	92.7	93.0	76.2	75.2	75.4
Inventory days	35.7	38.4	33.2	33.8	33.8
Creditors days	48.7	70.5	73.9	70.5	70.0
<b>VALUATION</b>					
P/E (x)	33.0	61.5	20.0	15.4	13.7
P/BV (x)	2.8	2.7	2.4	2.1	1.8
EV/EBITDA (x)	11.2	12.8	9.4	7.8	6.7
EV/Revenues (x)	1.6	1.6	1.3	1.1	1.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0	0.0

(Source: Company, HDFC sec)



## HDFC Sec Retail Research Rating description

### Green Rating stocks

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### 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 cyclical 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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