HEALTHCARE

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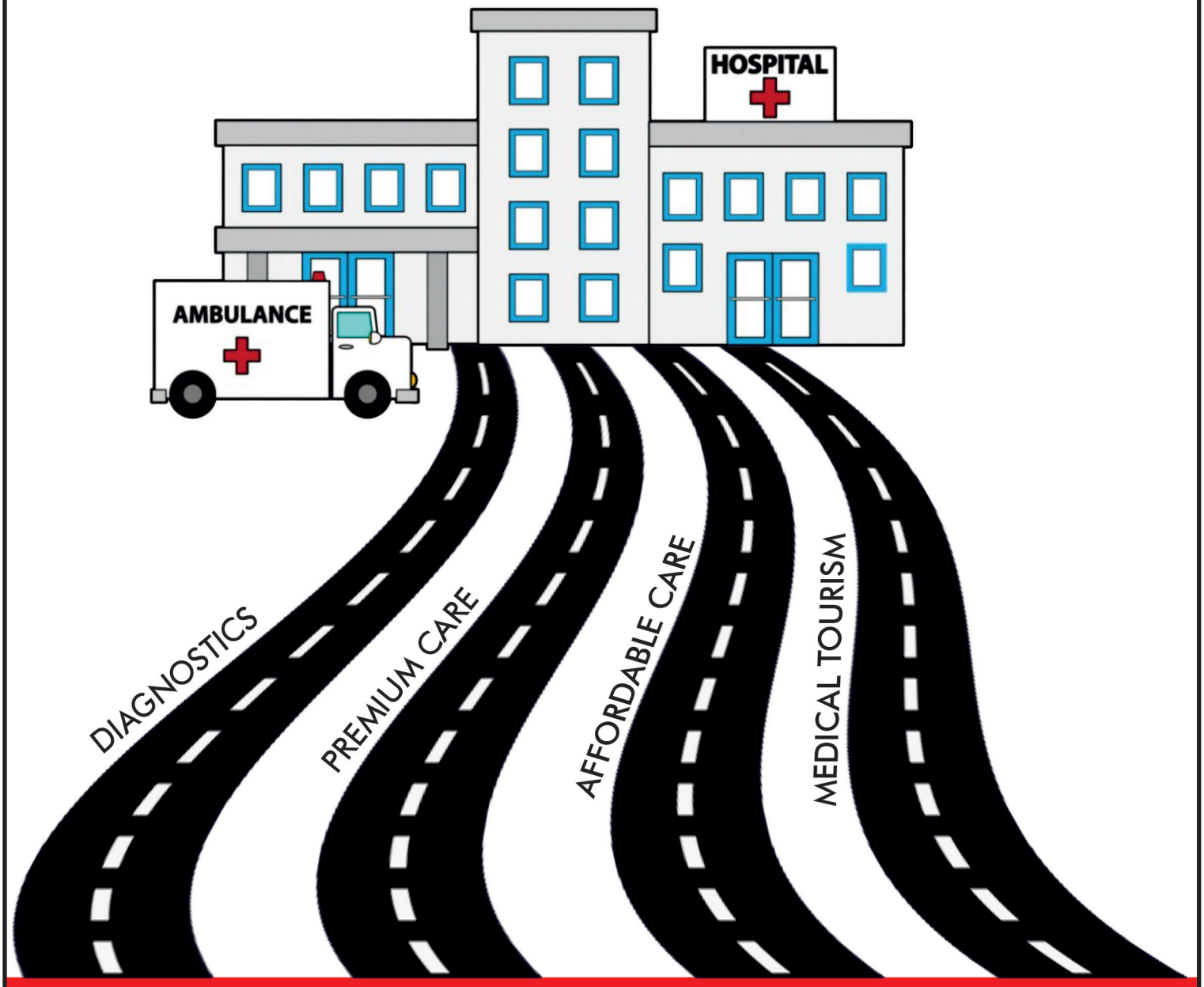

Primed for the next leg

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CONTENTS

COMPANIES

THEMATIC | August 17, 2023

Primed for the next leg

Low healthcare penetration in India represents a multi-decade opportunity for private sector hospitals. Favorable demographic shifts, rising share of non-communicable diseases and improving ability to pay are structural demand drivers. Inadequate healthcare infrastructure and limited fiscal space with governments allow private hospitals to dominate. Share of larger chains should go up from ~12% led by better ability to invest and attract clinical talent, increasing need for complex procedures and disproportionate share of insured and medical tourism patients. Improved cash generation led by rising share of mature hospitals augurs well as leading players enter the next bed addition phase (~38% over FY24-27E). High share of brownfield projects (~59%) and home markets (~78%) in expansion plans provides comfort on margins/RoCE and should help sustain valuations. We initiate Apollo, Max, Fortis and KIMS with BUY. NH and Max are top picks followed by Fortis, Apollo and KIMS.

Multi-decadal opportunity for private sector

Demand-supply mismatch for hospitals (bed density half of global median) is unlikely to be bridged soon. Rising life expectancy and improving health awareness are key demographic drivers. Health insurance penetration pick-up (22% to 38% over 2015-21) and government schemes have improved ability to pay. Rising share of NCDs (70%+ of deaths) call for greater tertiary care intervention. Private sector stands to benefit given inadequate healthcare infrastructure and limited fiscal space with governments.

Share of large hospital chains to grow consistently

Private hospitals account for ~60% of the market but share of large hospital chains is low at ~12%. This should rise led by: (a) superior ability to invest in bed addition and attract clinical talent, (b) increasing affluence and health insurance penetration in India, (c) disproportionate share of fast-growing medical tourism revenue pool. Coverage companies are set to add ~38% to bed capacity over FY24-27. This should translate into higher market share over time as these new hospitals mature.

Well-positioned to execute on expansion plans

Expansion via brownfield projects (59%) and in home markets (78%) involves faster breakeven and maturity given latent demand and established brand equity. Growth/margin headroom in current networks (~32% of beds in ramp-up phase) would help offset upfront costs. This along with limited dependence on external capital would keep margins/RoCE in the 20-25% range. Our analysis suggests that NH and Max are best-placed followed by Fortis, Apollo and KIMS.

RoCE resilience to support valuations at new normal

Hospital valuations correlate best with RoCE. Sector RoCE expansion of 1,300bps over FY19-23 was the primary driver of recent re-rating. Valuations should sustain given ability of sector leaders to maintain 20-25% RoCE while building longer-term growth headroom via bed addition. Our reverse DCF analysis indicates that stocks are pricing in 8-13% revenue CAGR over FY23-50E with stable margins; achievable given healthcare under-penetration and growing role of the private sector in healthcare delivery. NH and Max provide an optimum balance of bed addition and ability to absorb the same, making them our top picks.

Key Recommendations

Apollo Hospitals	**BUY**
Target Price: ₹5,720	Upside: 16%
Max Healthcare	**BUY**
Target Price: ₹670	Upside: 26%
Fortis Healthcare	**BUY**
Target Price: ₹415	Upside: 30%
Narayana Hrudayalaya	**BUY**
Target Price: ₹1,280	Upside: 29%
KIMS	**BUY**
Target Price: ₹2,165	Upside: 14%

Exhibit A: Indian hospitals: head-to-head comparison

	Apollo	Fortis	KIMS	Max	NH
Scale	●	◕	◑	◑	◕
Competitive positioning	●	◕	●	●	◕
Expansion	◕	◕	◑	◕	◕
Non-hospital businesses	◕	◑	○	◑	○
Financial strength	◕	◑	◕	●	◑
Overall	◕	◑	◑	◕	◕

Source: Company, Ambit Capital research

Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

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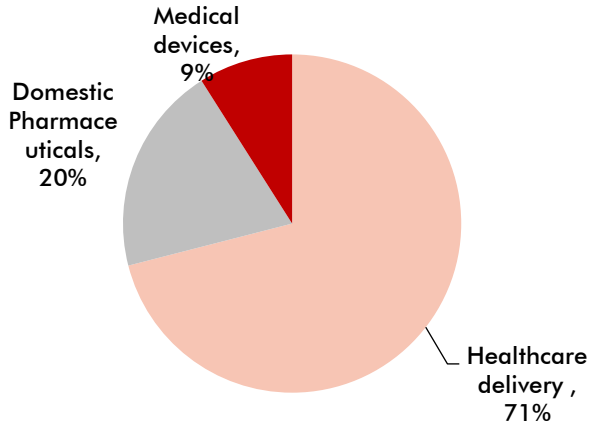
Multi-year runway for private sector

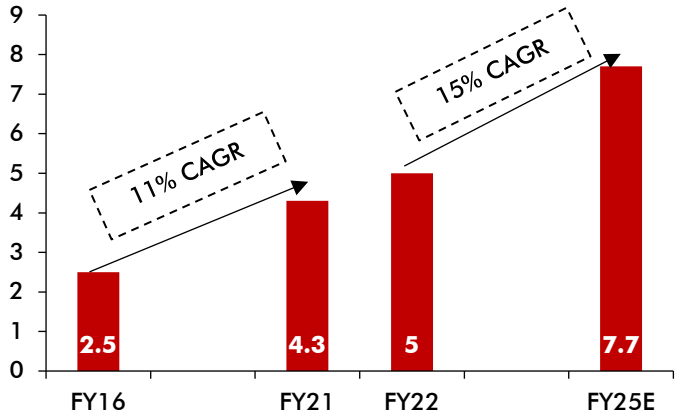
Healthcare delivery services is the biggest segment of the Indian healthcare market, accounting for ~71% of the opportunity. Crisil Research forecasts this segment will grow at ~15% CAGR over FY22-25, to ~₹7.7tn. Favourable demographic shifts, rising share of non-communicable diseases and increasing affordability/ability to pay are key structural drivers. Rising health awareness post-Covid has only added to demand growth. On the other hand, India lags most developed and developing countries on healthcare infrastructure and spend. This demand-supply mismatch is unlikely to be bridged soon. Given limited fiscal headroom with central/state governments, the private sector is likely to remain a key beneficiary of industry growth.

Exhibit 1: Healthcare delivery is the biggest segment in the Indian healthcare market



Source: CRISIL, Ambit Capital research

Exhibit 2: Indian healthcare delivery services market to grow at ~15% CAGR over FY22-25



Source: CRISIL, Ambit Capital research

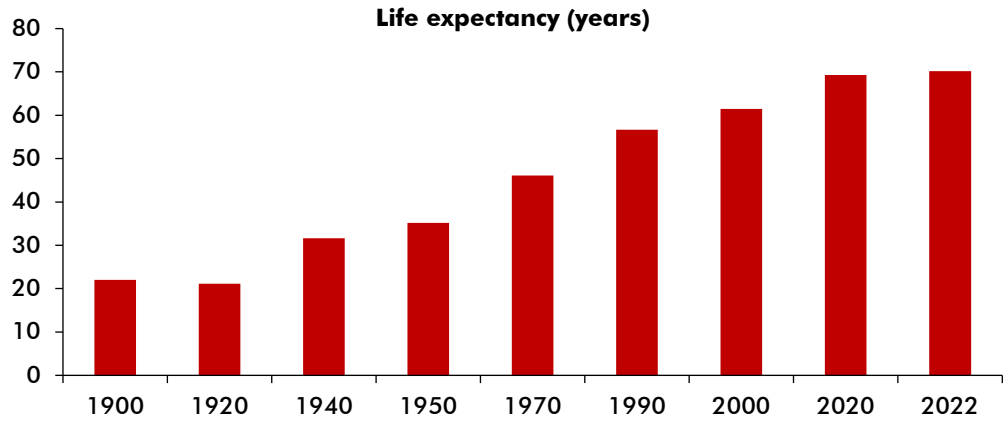
Multiple demand drivers

Demographic factors, rising salience of non-communicable ailments in the disease mix and improving ability to pay are primary drivers of demand for healthcare delivery services. Rising life expectancy has led to rising share of people aged over 50/60 in the population while urbanization has led to better awareness on health. Meanwhile, rising income levels, Health insurance penetration and various central/state government schemes have improved ability to pay for healthcare. Besides boosting overall demand, changing disease mix and better affordability appear to benefit the organized, larger hospitals disproportionately.

Rising life expectancy and ageing population

Life expectancy for India in 2022 stands at 70.19 years as per UN estimates. This has doubled from around 35.21 years in 1950 and is expected to improve further to 81.96 years by 2100. Healthier lifestyles and improvement in medical care have contributed to this increase, which, in turn is likely to drive rising demand for healthcare delivery services in future.

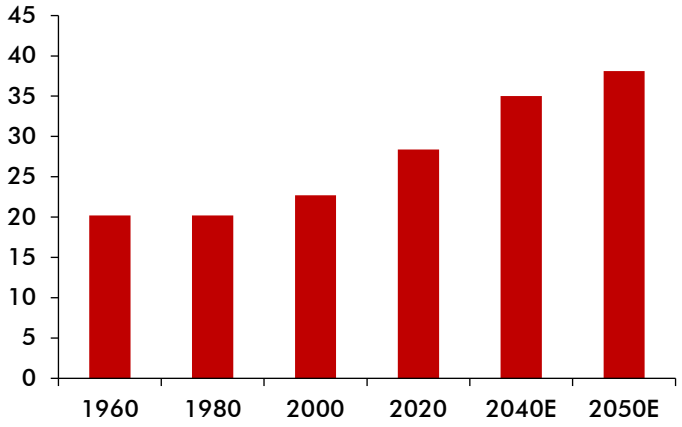
Exhibit 3: Life expectancy in India has doubled over 1950 to 2022



Source: Statista, Ambit Capital research

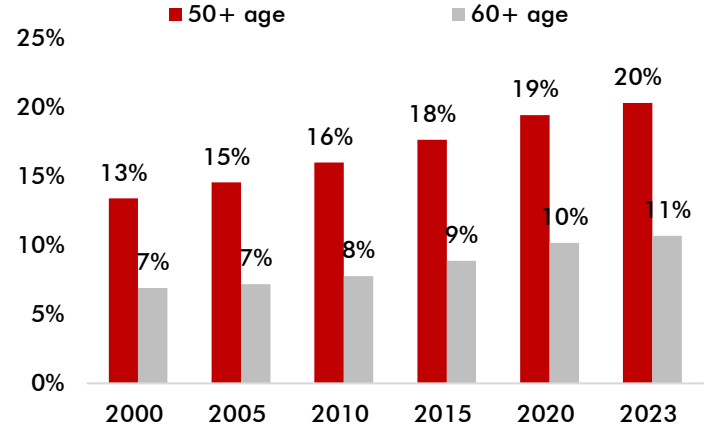
Improved longevity has in turn led to rising share of 50+/60+ aged population in the country. The share of people aged over 50/60 years in India's population has increased from 13%/7% in 2020 to ~20%/11% currently. The median age of an Indian is likely to increase from 28.7 years to 38.1 years by 2050.

Exhibit 4: Median age of an Indian is increasing



Source: UN database, Ambit Capital research

Exhibit 5: Rising share of 50+/60+ aged population



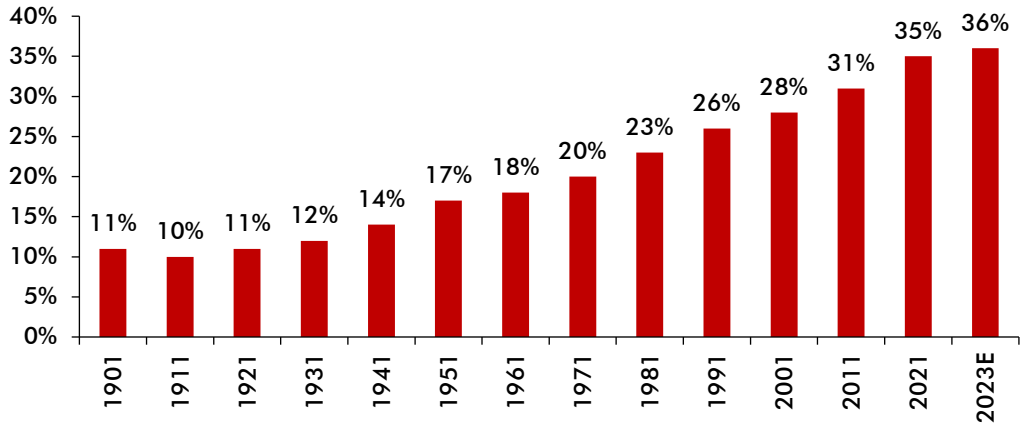
Source: UN database, Ambit Capital research

An ageing population augurs well for medical treatment demand, particularly for chronic ailments such as cardiovascular issues, oncology, diabetes and knee/joint problems etc. These are typically higher in revenue intensity and should translate into higher inpatient flow, admission charges and improving case mix in hospitals.

Increasing health awareness

Healthcare enterprises are typically concentrated in urban areas due to better income profile and availability of doctors and other trained healthcare staff. This has led to the hospitalization rate for in-patient treatment and walk-in out-patients being higher in cities vs. rural areas. Besides the traditional metros viz. Mumbai, Delhi, Chennai and Kolkata, growth in cities such as Bengaluru and Hyderabad has seen emergence of new healthcare micro-markets. As urbanization continues to grow in India and more people migrate from rural to urban areas, awareness regarding availability and accessibility of healthcare services should also improve. This along with improving literacy levels should, in turn, drive higher hospitalization rates.

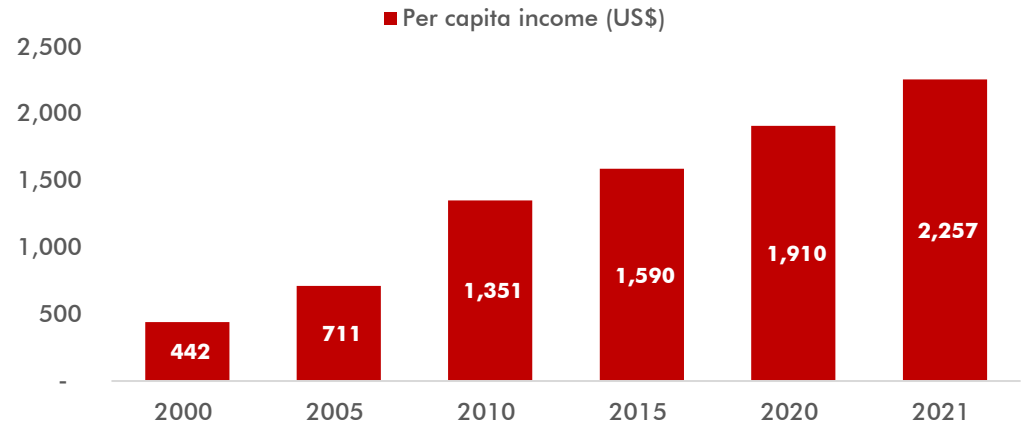
Exhibit 6: Urban population in India (% of total population)



Source: CRISIL Research, Ambit Capital research

This trend is particularly relevant for private healthcare delivery companies. Urbanization is usually accompanied by improving living standards and pick-up in purchasing power. This should translate into greater willingness and ability to pay for better quality healthcare services, thereby widening the target population for corporate hospitals that operate at the higher end of the pricing curve.

Exhibit 7: Affordability is improving

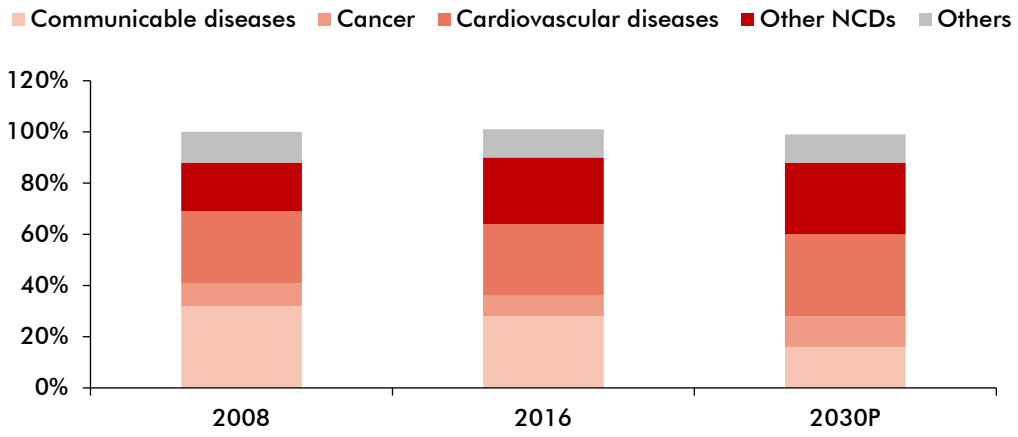


Source: UN database, Ambit Capital research

Disease mix shift towards non-communicable diseases

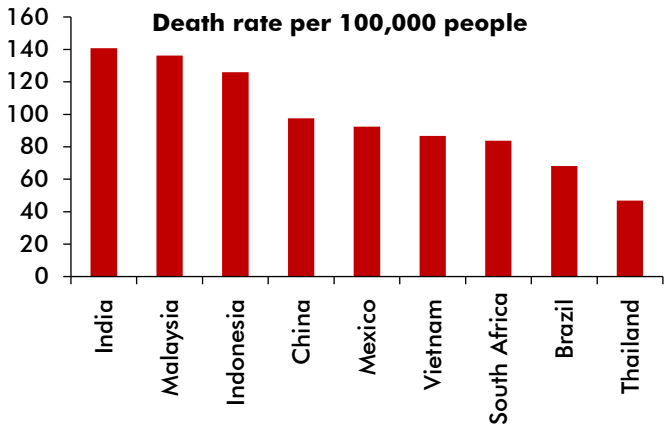
The prevalence of lifestyle-related illnesses or non-communicable diseases (NCDs) in India has increased rapidly in recent years. Share of NCDs in the overall disease burden rose from 30% in 1990 to 55% in 2016. These accounted for ~62% of deaths in 2016 and their share in deaths is estimated to increase further to ~72% by 2030.

Exhibit 8: Share of non-communicable diseases in death is set to increase to ~84% in 2030 from ~68% and ~72% in 2008 and 2016 respectively



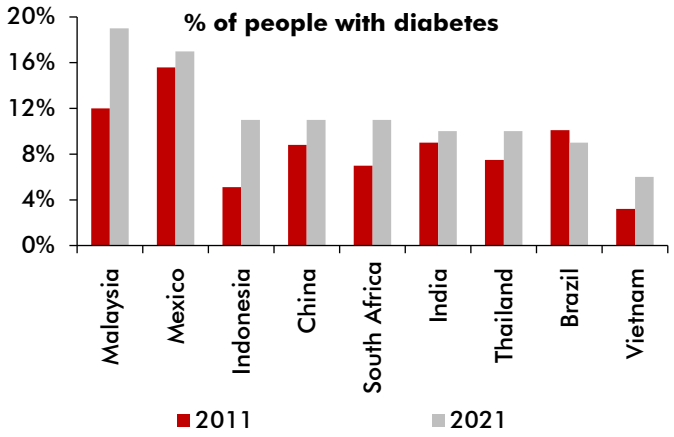
Source: CRISIL Research, Ambit Capital research

Exhibit 9: India has one of the highest death rates due to coronary heart disease



Source: World Population Review, Ambit Capital research

Exhibit 10: Nearly 140m diabetics live in India, i.e. ~10% of population



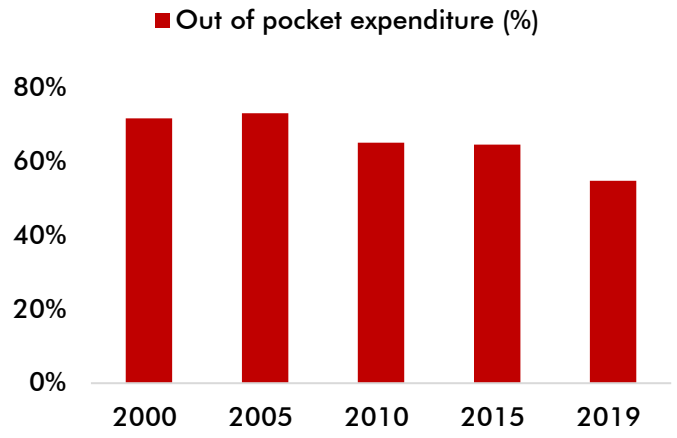
Source: World Population Review, Ambit Capital research

This trend augurs well for the larger private sector players. Treatment of NCD-related complications would typically require greater tertiary care intervention that the unorganized, secondary care providers are unable to service adequately. Most private sector hospitals are investing in segments such as oncology, organ-transplants, cardiac-health etc. in order to capitalize on this shift.

Rising health insurance penetration

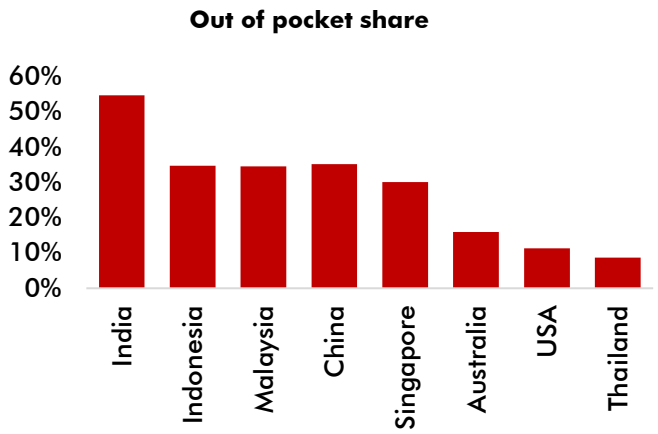
Health insurance penetration in India remains low, with ~36% of the population having some form of health coverage. The rest of the country depends on out-of-pocket (OOP) spending for its healthcare needs.

Exhibit 11: Indians' share of out-of-pocket spend on healthcare has been declining...



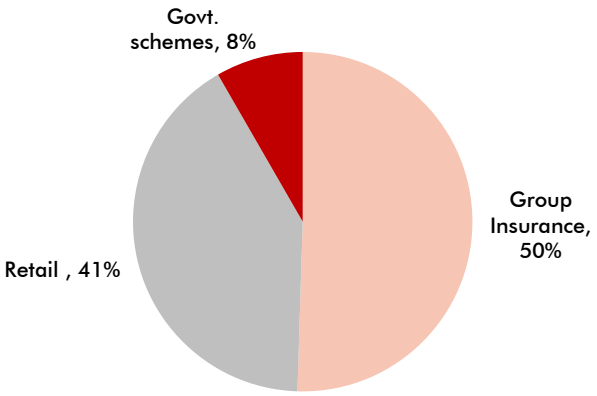
Source: World Bank, Ambit Capital research

Exhibit 12: ...but remains higher than in developed and most developing countries



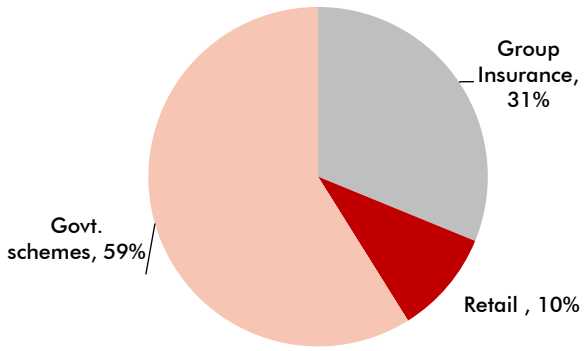
Source: World Bank, Ambit Capital research

Exhibit 13: Retail and group health insurance account for ~90% of the premiums (FY22)...



Source: Company, Ambit Capital research

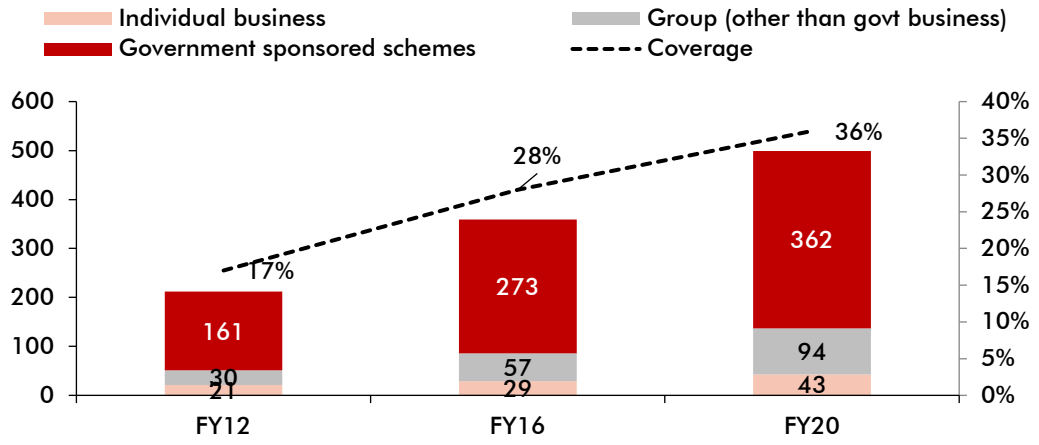
Exhibit 14: ...however, these schemes cover only a third of the insured (FY22)



Source: Company, Ambit Capital research

However, penetration has increased at a fast pace over the last five to ten years. Health insurance premiums have grown at ~19% CAGR over FY17-22 CAGR led by Family Floaters (+26%), Group Insurance (+20%) and launch of government schemes such as PM-JAY (+14%) in 2018. As per the Insurance Regulatory and Development Authority (IRDA), ~515m people in India had health insurance as of FY21 vs. ~288m in FY15. This implies penetration rate of ~38%. Post Covid, demand for health insurance has picked up. People also appear to be taking higher insurance covers. The IRDA estimates that insurance coverage should increase to ~46% by FY25.

Exhibit 15: Growing health insurance penetration to boost demand



Source: CRISIL Research, Ambit Capital research

PM-JAY scheme aims at providing coverage to weaker sections of society

Pradhan Mantri Jan Arogya Yojana (PMJAY) is a healthcare scheme launched by the Government of India in September 2018 to provide financial protection and healthcare coverage to the economically vulnerable sections of society. It is an important initiative towards providing universal health coverage to its citizens and improving their health outcomes. PM-JAY provides cashless cover of up to ₹500,000 to each eligible family per year for specific secondary and tertiary care conditions. The scheme covers all expenses related to medical examination, treatment, and consultation, pre-hospitalization, medicines and medical consumables, non-intensive and intensive care services, diagnostic and laboratory investigations, medical implantation services, accommodation and food services, complications arising during treatment, and post-hospitalization follow-up care for up to 15 days. The scheme covers more than 100 million families (approximately 500 million beneficiaries) across the country. However, while it has led to an increase in the number of people with insurance coverage, it covers a segment of the population that is not a target for corporate hospital chains.

Exhibit 16: PMJAY eligibility criteria

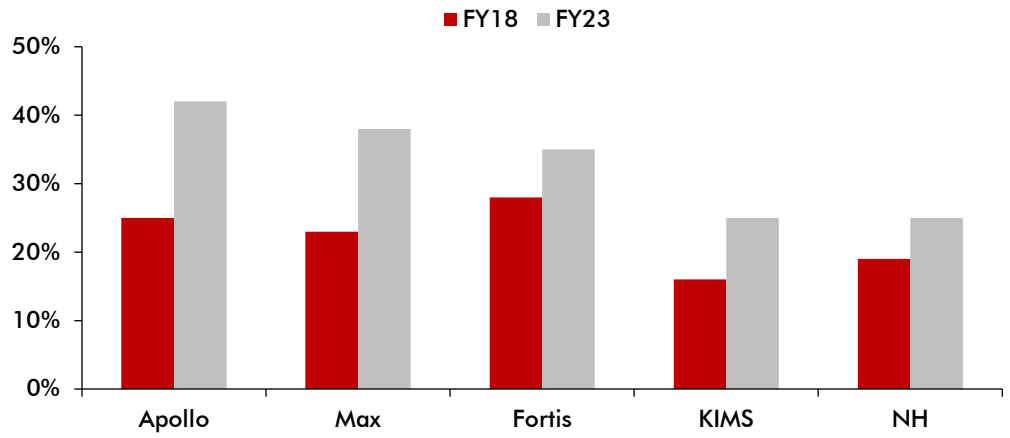
People entitled to avail PMJAY		People not entitled to avail PMJAY
Rural	**Urban**	
Households with only kuccha walls and roof	Beggar	Those who have mechanised farming equipment.
No adult member in the age group between 16 and 59 years.	Domestic worker	Who owns a two, three or four-wheeler
No adult male member in the age group between 16 and 59 years.	Ragpicker	Those who hold a Kisan card.
Disabled member and no-abled bodied member in the household.	Cobbler/Street Vendor/Hawker/other service providers on the street.	Government employees.
SC and ST	Plumber/Construction Worker/Mason/Painter/Labour/Welder/Security Guard/Coolie	Those who own a motorised fishing boat.
Landless households and major sources of income are through manual casual labour.	Sweeper/Mali/Sanitation Worker	Those who are earning more than ₹.10,000 per month.
Destitute	Artisan/Handicrafts Worker/Tailor/Home-based Worker	Those who are working in government-run non-agricultural enterprises.
Manual scavenger families	Driver/Transport Worker/Conductor/Cart or Rickshaw Pullers/Helper to Drivers or Conductors	Those who own more than 5 acres of agricultural land.
Living through alms	Shop Workers/Peon in Small Establishment/Assistant/Helper/Attendant/Delivery Assistant/Waiter	Those who own landline phones or refrigerators.
Primitive tribal groups	Mechanic/Electrician/Repair Worker/Assembler	Those who live in decently built houses.
Bonded labourers	Chowkidar/Washer-man	

Source: Company, Ambit Capital research

Crowding up effect should benefit organized players disproportionately

Health insurance improves ability to pay and disproportionately benefits the larger, organized players. People with adequate health insurance cover opt to go to better hospitals as out-of-pocket payouts decline. They also tend to visit hospitals and opt for elective procedures sooner than uninsured people, who tend to avoid expensive surgeries to the extent possible. Rising penetration of insurance is thus likely to remain a structural driver of demand for healthcare services as well as consolidation of share in the hands of larger, organized players. However, this is largely limited to penetration of private health insurance schemes.

Exhibit 17: Share of private health insurance in revenues of leading hospital chains has increased over the last five years

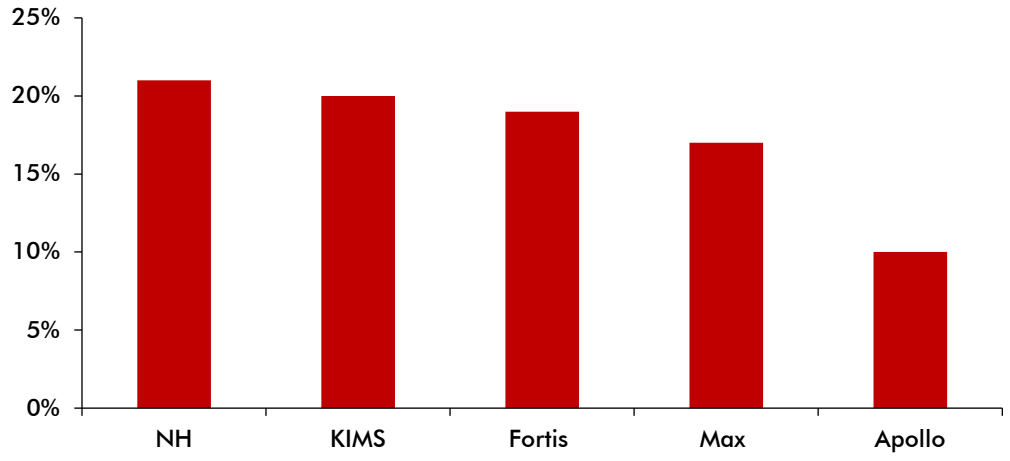


Source: Company, Ambit Capital research

With respect to public insurance schemes, there is some divergence in impact.

- Many of the larger, private sector hospitals do not cater much to patients covered by public healthcare schemes. Lower pricing (30-40% lower vis-à-vis rack rates) and longer receivables days relative to self-pay and private insurance scheme patients make this an unattractive segment for companies such as Apollo Hospitals and Max Healthcare.
- On the other hand, companies such as KIMS, which position themselves as affordable providers of care (pricing 15-20% below peers), consider patients covered by these schemes as an important target segment. Pricing is not as different for them and they are able to stand out in terms of quality of care among hospitals that target this patient pool.

Exhibit 18: NH and KIMS have highest share of government scheme patients in revenues among peers



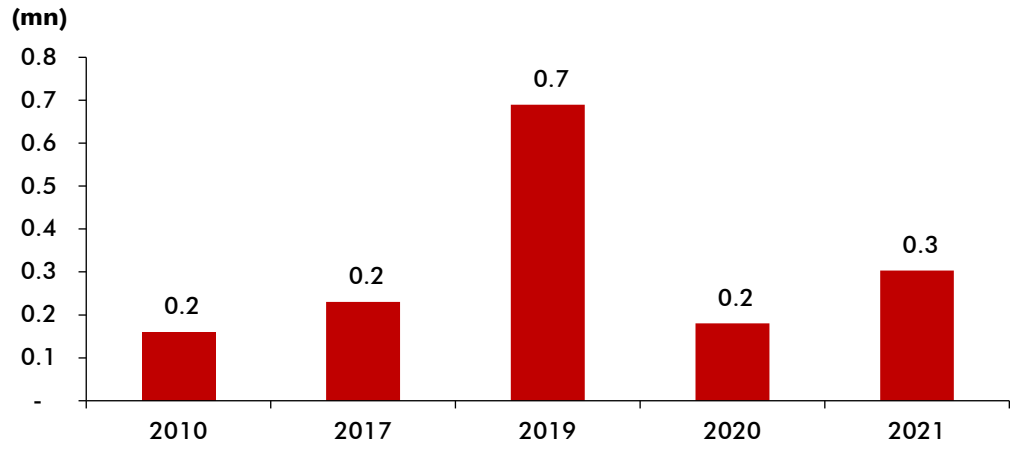
Source: Company, Ambit Capital research

Longer term, private hospitals at all price points stand to benefit from rising health insurance penetration. Thailand is a key case in point. The country rolled out a universal healthcare coverage system that provides a basic level of IPD and OPD care to all Thai citizens via government insurance schemes in 2001. This took insurance coverage to ~99% vs. 70-80% before the roll-out. Large, private hospitals in Thailand such as BDMS and Bumrungrad do not cater to patients under these schemes. However, there was a significant increase in patient flow to public and smaller, private sector hospitals. The resultant overcrowding, long waiting periods etc. prompted patients with better ability to pay or with private insurance to move to prefer the larger hospitals. In India, public hospitals do not offer similar quality of care as in Thailand and many other Asian countries. Private hospitals remain the preferred option for people with ability to pay. As ability to pay increases – be it driven by rising income levels, private insurance coverage or government schemes – this crowding up of patients into better hospitals should benefit the organized players, irrespective of how they are positioned on affordability.

Medical value travel adding another string to the bow

India is not as meaningful a player in medical value travel or medical tourism as Thailand or Singapore. However, inflow of international patients for medical tourism has picked up considerably over the last decade. India was ranked tenth out of the top-46 countries based on the Medical Tourism Index 2020-21. It also ranks 12th in the top-20 wellness tourism markets in the world and is the fifth most popular wellness tourism destination in the Asia-Pacific region.

Exhibit 19: Medical tourists arriving in India took a hit during Covid but is picking up again



Source: Ministry of Tourism, Ambit Capital research

Ministry of Tourism data shows that proportion of medical tourists in India's total foreign tourist arrivals grew from 2.2% (0.11m tourists) in 2009 to 6.4% (0.62m tourists) in 2019. The number dipped sharply in 2020 due to Covid-19 related travel restrictions but has already more than doubled off that low base in 2021. The following factors make India an attractive destination for medical value travel:

Low cost of treatment: This is the primary, albeit not the only, consideration for patients who have to travel for treatment. India offers significantly lower prices for common medical procedures relative to other Asian countries.

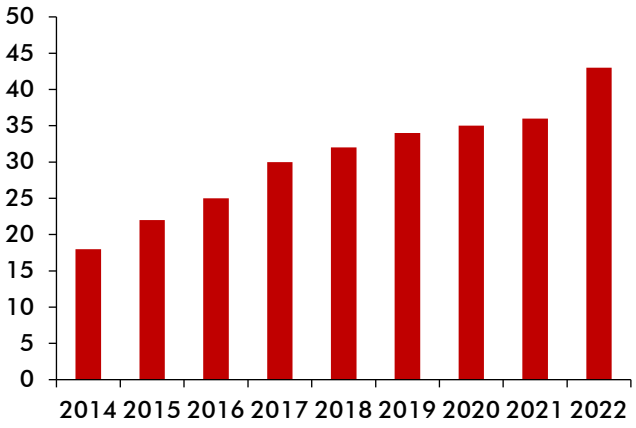
Exhibit 20: Country-wise cost of treatment procedures (US$)

	USA	Korea	Singapore	Thailand	Malaysia	India
Heart valve replacement	170,000	39,900	16,900	17,200	13,500	**9,500**
Heart bypass	144,000	26,000	17,200	15,000	12,100	**7,900**
Angioplasty	57,000	17,700	13,400	4,200	8,000	**5,700**
Knee replacement	50,000	17,500	16,000	14,000	7,700	**6,600**
Hip replacement	50,000	21,000	13,900	17,000	8,000	**7,200**
Dental implant	2,800	1,350	2,700	1,720	1,500	**900**

Source: 2021 Niti Aayog report, Ambit Capital research

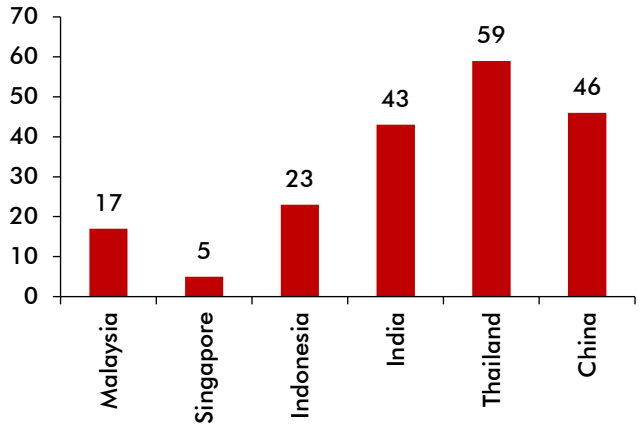
- **High-quality services provided by the organized sector**: Larger Indian hospitals have been upgrading their facilities as well as developing ability to do more complex medical procedures. The country is also known for highly skilled medical practitioners and surgeons. India has 43 hospitals currently accredited by the Joint Commission International (JCI) lagging only Thailand (59) and China (46) on this front. The number of JCI-accredited hospitals has more than doubled over the last eight years. It also has 657 hospitals accredited by the National Accreditation Board for Hospitals & Healthcare Providers (NABH).

Exhibit 21: Number of JCI-accredited hospitals in India has increased consistently over the years



Source: JCI, Ambit Capital research

Exhibit 22: India has the third-highest number of JCI-accredited hospitals in Asia, after Thailand



Source: JCI, Ambit Capital research

Strength in allied sectors such as pharmaceuticals, diagnostics and rehabilitation services also help in creating a good ecosystem for provision of high-quality medical care.

- **Government initiatives are favourable**: The Indian government's "Heal in India" program aims to establish the country as a prominent player in the global healthcare industry and promote medical value travel. The "Medical Value Travel" digital portal provides a comprehensive platform to access integrated healthcare services in India. It provides end-to-end assistance to international patients while also increasing global exposure and visibility for Indian healthcare providers and professionals. There is also an ongoing initiative to establish uniformity in treatment packages and processes for foreign nationals

Where do patients come from?

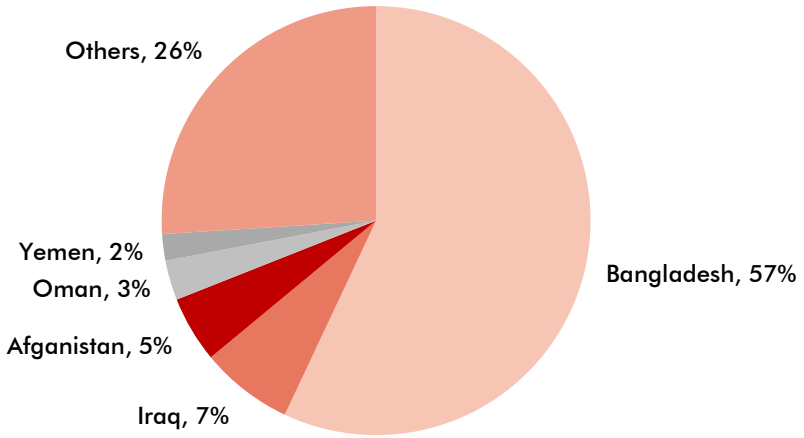
India gets a majority of its medical tourism flow (~94%) from African, West, and South Asian countries. Bangladesh accounted for ~57% of medical tourists in 2019 followed by Iraq (7%), Afghanistan (5%), Oman (3%) and Yemen (2%). India did not receive any medical tourists from Nepal and Bhutan, while Maldives and Sri Lanka accounted for ~1% and ~0.6% respectively. Patient flow from Afghanistan has stopped in recent years but the flow from other countries has picked up once again after Covid. Number of patients coming in from the UK and Canada has also been on the rise due to long waiting periods for treatment in these regions.

Exhibit 23: Medical tourism - Thailand leads others, India is making gradual progress

Country	JCI accredited facilities	Approx. average saving (% vs US)	Main source of patients	Popular treatment option
India	43	~85%	Africa, Sri Lanka, Bangladesh, Afghanistan	Cardiology, orthopaedics, nephrology, oncology, neuro surgery
Thailand	59	~75%	Middle East, Indo China, expatriates	Alternative medicine, cosmetic surgery, dental care, gender realignment, heart surgery, obesity surgery, oncology, orthopaedics
Malaysia	17	~80%	Indonesia (mainly)	Cardiology, oncology, orthopaedic, obstetrics, and gynaecology
Singapore	5	~70%	Malaysia, Indonesia, expatriates	Cardiology, ophthalmology, oncology, anti-ageing
Indonesia	23	na	na	Cosmetic surgery, dentistry procedures
Taiwan	6	~40-55%	na	Orthopaedics, fertility treatment, cardiology, cosmetic surgery

Source: Company, Ambit Capital research

Exhibit 24: Bangladesh leads contribution to India's medical tourism volumes



Source: CRISIL Report, Ambit Capital research; Based on CY19 data as CY20 & CY21 were impacted by Covid-19

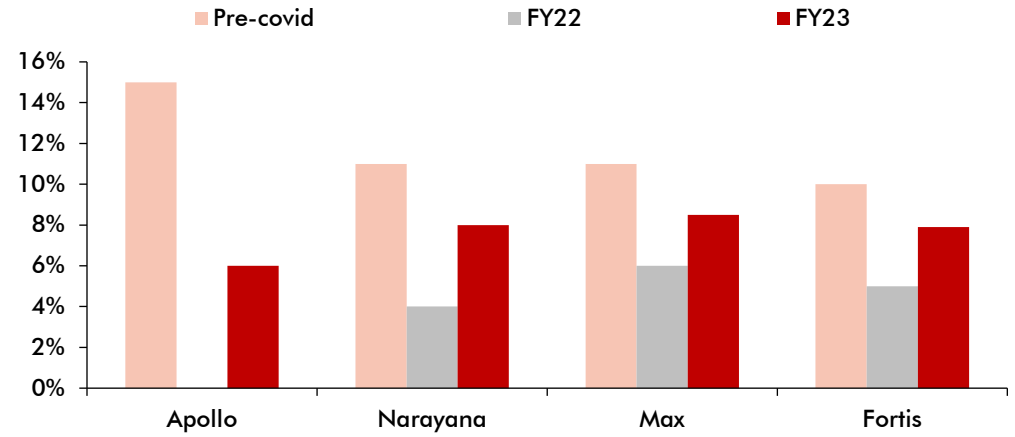
Larger hospitals get a disproportionate share

Larger hospitals typically get a high share of international patients. Revenue intensity and profitability are typically higher for this group, making it an attractive revenue stream and a key driver of margins. There are two common factors behind these:

- Patients who travel long distances for treatments typically come for more critical procedures, thereby improving the case mix, and
- They typically go to flagship hospitals in larger cities which are more accessible for international travelers. Pricing and margins in these hospitals are usually higher relative to those in smaller cities.

Average realization is also higher due to absence of discounts that have to be given to insurance-covered patients. But this is generally offset by the higher cost of servicing this patient flow – in terms of setting up separate blocks, payments made to facilitators etc. Leading Indian hospitals used to get between 10-15% of revenues from international patients before the Covid-19 outbreak. Patient flow is once again picking up after the pandemic and is close to pre-pandemic levels. As companies invest more in building capability to do high-end, complex medical procedures (for e.g. proton therapy offered by Apollo Hospitals in Chennai), this trend should continue.

Exhibit 25: Leading hospital chains used to get 10-15% of revenues from international patients pre-Covid. On the recovery path now

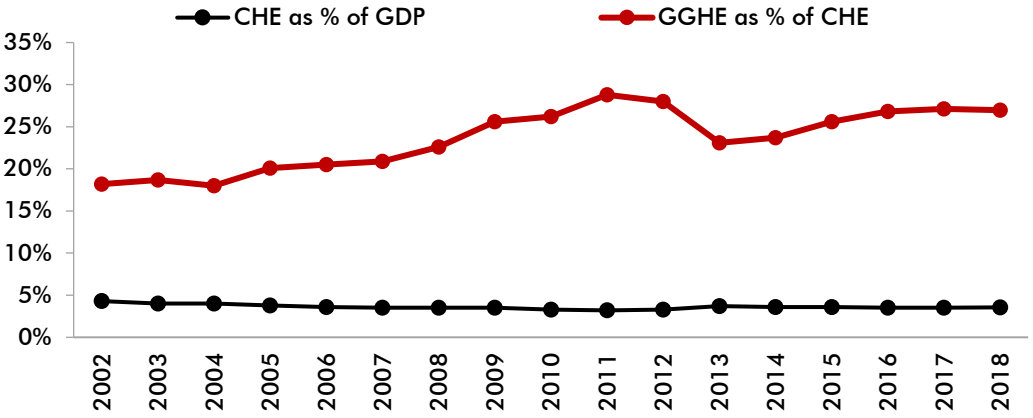


Source: Company, Ambit Capital research

Supply side remains constrained

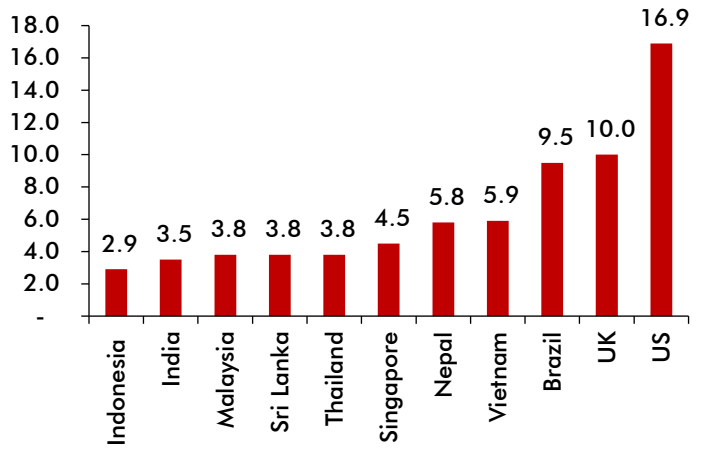
India's healthcare spending overall and on a per capita basis has been growing but remains well below other countries. Investment trails not just developed countries such as the USA and UK but also developing countries such as Brazil, Nepal, Vietnam, Sri Lanka, Malaysia and Thailand. Share of government spending on total healthcare spend has been rising but is still low at ~27%.

Exhibit 26: Govt. expenditure as a % of current healthcare expenditure has been rising over the years



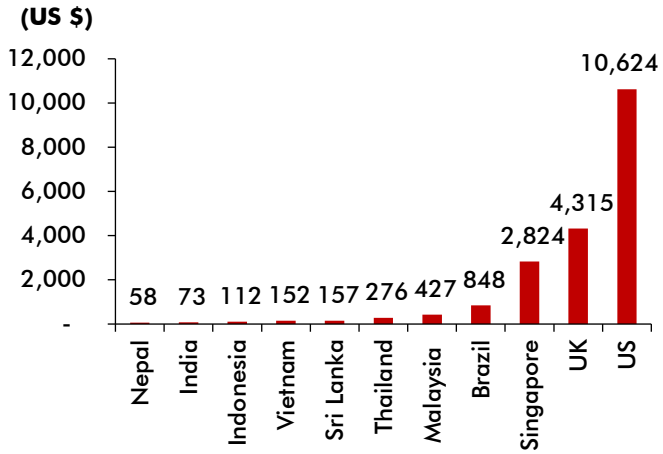
Source: CRISIL Report, WHO Global Healthcare Expenditure Database; Note: CHE: Current healthcare expenditure; GGHE: General government healthcare expenditure

Exhibit 27: Lags on healthcare spend (% of GDP)...



Source: CRISIL, Ambit Capital research

Exhibit 28: ...and per capita spend too

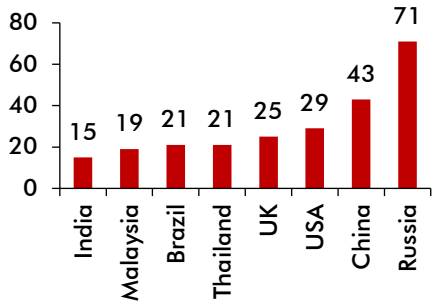


Source: Company, Ambit Capital research

Thus, India's healthcare infrastructure and personnel are significantly lower than other developed and developing nations – viewed in terms of ratio of beds/physicians/nurses to population.

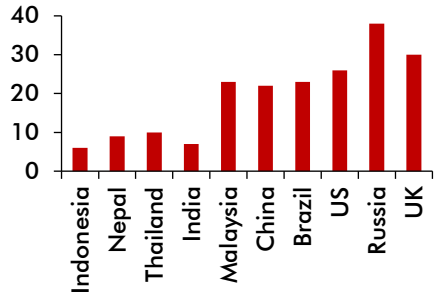
- India's bed density of 15 per 10,000 people is almost half of the global median of 29 beds.
- Similarly, availability of physicians and nurses also lags, at 7 per 10,000 people and 18 per 10,000 people vs. global median of ~18 and ~39 respectively.

Exhibit 29: Hospital beds (per 10,000 population)



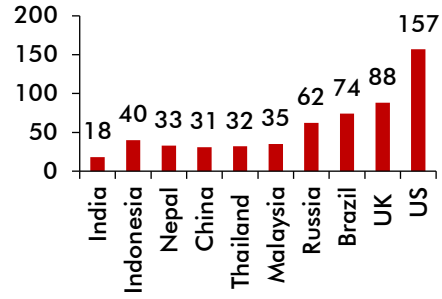
Source: CRISIL Report, Ambit Capital research

Exhibit 30: Physicians (per 10,000 population)



Source: CRISIL Report, Ambit Capital research

Exhibit 31: Nurses (per 10,000 population)



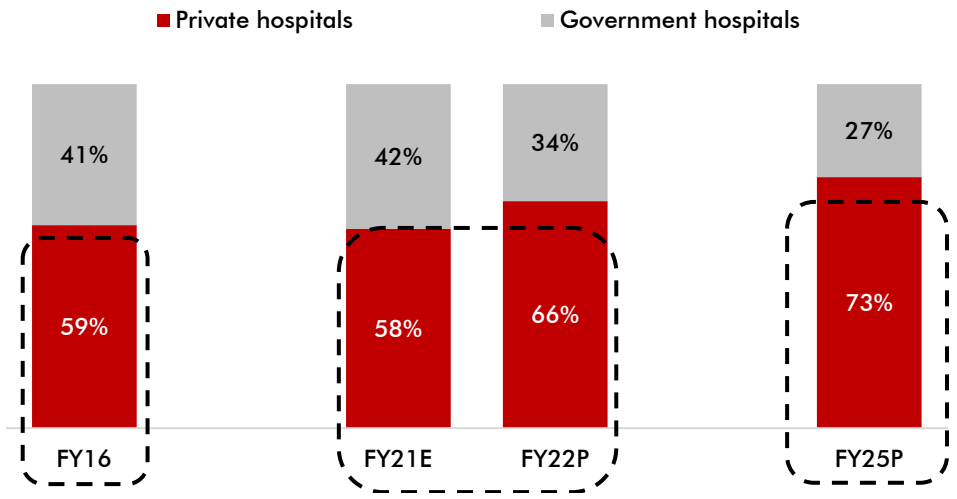
Source: CRISIL Report, Ambit Capital research

High capital intensity along with the shortage in supply of doctors, nurses and other medical staff would continue to keep supply of good-quality hospital beds much lower than demand. This augurs well for the hospitals business.

Private sector is likely to remain dominant

In India, healthcare services are largely dominated by the private sector. Government share of spending has remained consistently low – currently at ~27%. Limited fiscal headroom and other social needs imply that the situation is unlikely to change meaningfully over the medium term. Barring a few instances, the central and state governments appear to be focusing on becoming payers rather than providers of care. Hospitals / bed additions would therefore likely be dominated by the private sector in future as well. Private hospitals currently account for around two-third of the healthcare delivery market in value terms. This is likely to increase to ~73% over the next few years.

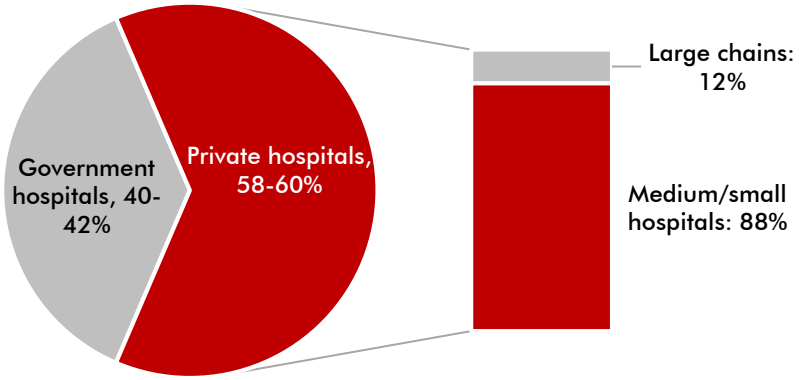
Exhibit 32: High share (in value terms) of private hospitals in India; expected to increase further by FY25



Source: CRISIL Report

Within private hospitals, large chains that have facilities across multiple states/cities account for only ~12% of the market. The rest is accounted for by standalone, small and medium-sized hospitals – many of which primarily offer secondary/higher-secondary care services.

Exhibit 33: Private hospitals make up 58-60% of the market by value, out of which large chains make up ~12% (FY21)



Source: CRISIL Report

Share of larger incumbents likely to grow consistently

This is likely to change gradually over a period of time. Share of larger hospital chains offering tertiary and quaternary care services would likely to increase on the back of the following factors:

- Rising share of NCDs in the disease mix would likely increase the need for more complex procedures that the larger hospitals are better equipped to offer
- Increasing affluence and higher penetration of health insurance could also see more patients opting for larger hospitals as affordability improves
- Larger hospitals are likely to get a disproportionate share of the fast-growing medical value travel revenue pool
- High capital intensity in the business and established brand equity of incumbents make it difficult for new entrants to make a big difference in the near-to-medium term. Larger hospital chains are able to fund bed expansion much better given high cash generation in their mature beds that limits dependence on external capital.

- Finally, availability of good-quality medical staff viz. doctors, nurses, radiologists, anesthetists etc. is also a key constraint in setting up new hospitals to service the rising demand. Attrition is particularly high among nurses. Larger hospital chains, with relatively deeper pockets and strong brand equity among patients and the medical fraternity, are better placed to hire and retain such professionals as compared to smaller, emerging players

Focus likely to remain on tertiary care

Hospitals can be broadly classified into primary, secondary and tertiary/quaternary care services based on the size of the facility and nature of services provided. Investment required and gestation period keep increasing as one moves towards the right on this scale. On the other hand, competitive intensity is least in tertiary care and highest in primary-care. Larger corporate hospitals in India are primarily focused on providing tertiary and quaternary care services with some secondary/higher-secondary care services. Apollo Hospitals is the only company that has a concerted effort to build a franchise in primary and secondary care segments via its subsidiary, AHLL. This could change as more hospital-chains try to move the relationship with patients from a transactional one to one based on ongoing engagement.

Exhibit 34: Listed hospitals are primarily focused on tertiary care with some secondary care presence. Apollo Hospitals is the only one with some focus on primary/secondary care via AHLL

	Primary care	Secondary care	Tertiary care
Services	Only medical services, no surgeries	Medical services, relatively simpler surgeries	Complex surgical services with sophisticated equipment Medical services are provided too but small part of operations
Disciplines/Specialty	Mostly multi-specialty	Mostly multi-specialty	Single or multi-specialty
Type of patient	Only outpatient	Inpatient (short-stay) and outpatient	Primarily inpatient
No of beds	0	<150	Usually 200+ though there are a few smaller facilities too – primarily the ones that were set up in the past
Interplay with each other	Depends on secondary/tertiary care hospitals for further diagnosis and treatment	Depends on tertiary care hospitals for diagnostic and therapeutic support Could work as spokes for tertiary hubs	Depends on other tertiary/secondary care hospitals for patient referrals and to manage workload
Investment	Low	Medium	High
Competitive intensity	High	Medium-to-High	Low-to-Medium in most locations
Ailments/Conditions			
Acute infections	Fever	Typhoid/ jaundice	Hepatitis B,C
Accidents/ injuries	Dressing	Fracture	Trauma, knee/joint replacements, brain haemorrhage
Heart diseases	High cholesterol	Strokes	Cardiac arrest, heart attacks, heart transplants, defects like hole in heart, valve replacements
Maternity/Child-care	Diagnosis/check-ups	Normal delivery/caesarean	Normal delivery/ caesarean/ post-delivery complications such as brain fever etc.
Cancer	Lump diagnosis/check-ups	Tumour – medical, surgical, and radiation therapy	Medical, surgical and radiation therapy

Source: CRISIL, Ambit Capital research

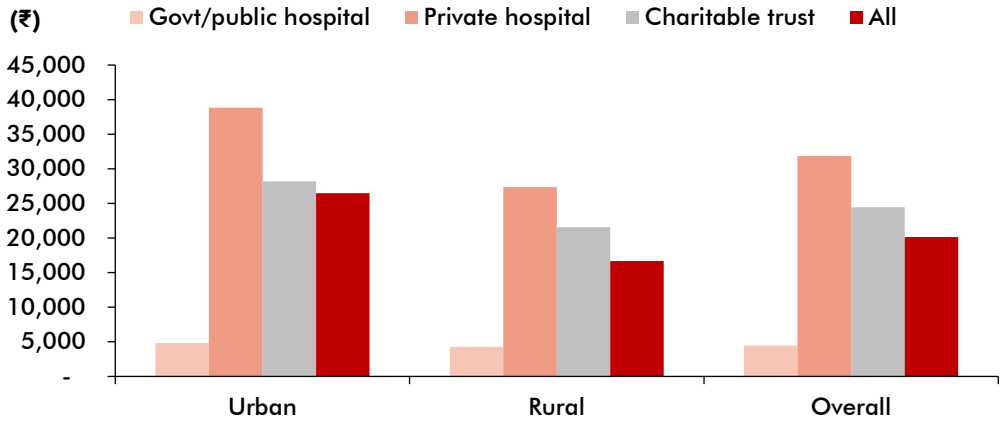
Larger city assets remain more attractive

Private sector hospitals in India continue to face significant challenges when trying to expand to Tier 2 and Tier 3 cities. Things have improved over the last 10-20 years but business models of the larger, listed hospital companies remain better suited for the larger cities.

We outline below the key challenges that hospital chains face in Tier II/III cities.

- **Lack of Infrastructure**: Most such cities lacked the necessary infrastructure such as reliable power supply, roads, transportation networks etc. to support the kind of hospitals these companies wished to set up. Lack of proper waste management facilities in these cities also posed challenges for hospitals. Things have improved on this front and this is no longer as big a deterrent to setting up hospitals in smaller cities as it used to be in the past.
- **Limited availability of skilled manpower**: Tier 2 and Tier 3 cities may not have an adequate pool of doctors, nurses and other healthcare professionals that hospitals need. Such qualified personnel typically tend to migrate to larger cities given better earning power, infrastructure and quality of life for themselves and family members. This can make it difficult for hospitals to provide similar quality service as in the larger cities. Our interactions with industry indicate some improvement on this front over the last five to ten years. However, it still remains a constraint relative to the larger cities.
- **Lower ability to pay**: Ability to pay remains materially lower outside larger cities. Moreover, those with ability to pay typically travel to the nearest large city/metro for elective healthcare procedures given availability of more hospitals and well-known doctors. Addressable patient pool is also limited to the local population unlike hospitals in larger cities such as Delhi, Mumbai, Chennai etc. The latter cater to patients from other parts of India as well as other countries. These factors continue to keep healthcare spending at a lower level in Tier 2/3 cities and translate into lower ARPOBs for hospitals.

Exhibit 35: Average medical expenditure per hospitalization case in India



Source: NSS Report 2017-18, CRISIL Research

- On the other hand, capital and operating costs involved in setting up and running a high-end hospital in smaller cities are not lower to the same extent. Upfront outlay on land and building (30-60% of investment) is lower. However, medical equipment cost (30-40% of hospital set-up spend) does not vary much across locations. This leads to lower peak margins and RoCE relative to hospitals in larger cities.

Exhibit 36: Capital cost/bed for various types of hospitals

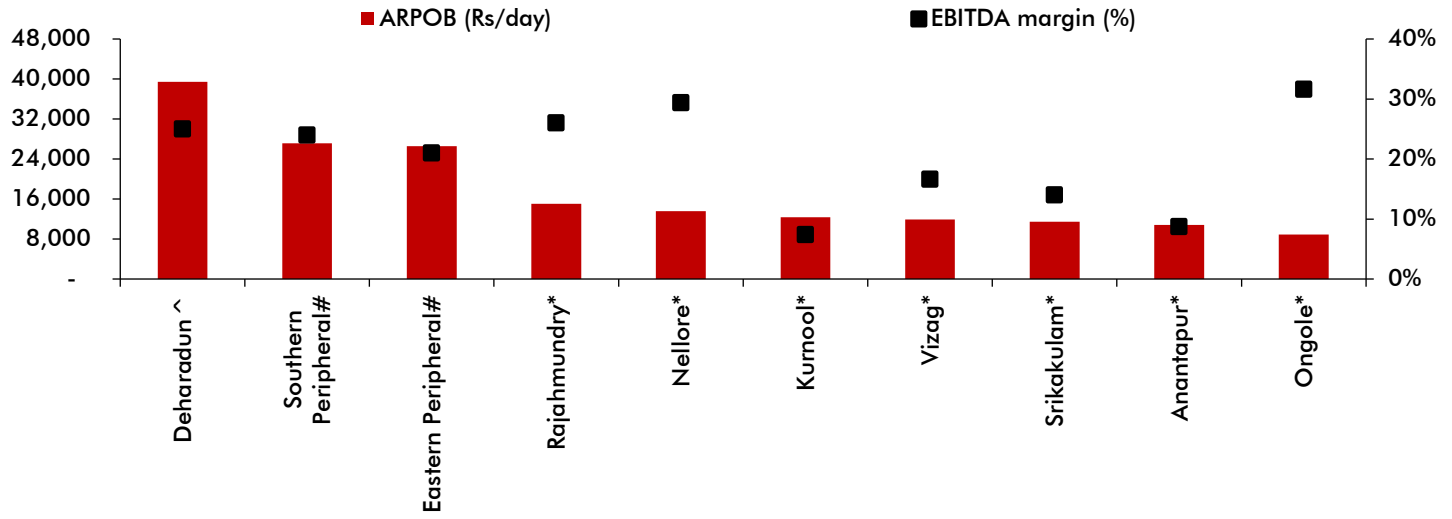
Capital cost / bed (₹ mn) (ex-land)	Secondary care hospital	Tertiary/Quaternary care hospital
Tier - I	5-8	10-15
Tier – II	2.5–5	5-8
Tier - III	1-2.5	2.5-5

Source: CRISIL report

Things are changing for the better

There has been meaningful improvement in infrastructure and ability to pay in many non-metro cities over the last decade. This has led to improvement in availability of doctors and other medical staff as well. Companies such as KIMS, Max and Apollo Hospitals have been able to establish profitable operations in several smaller cities such as Lucknow, Dehradun, Nellore, Kondapur, Rajahmundry etc.

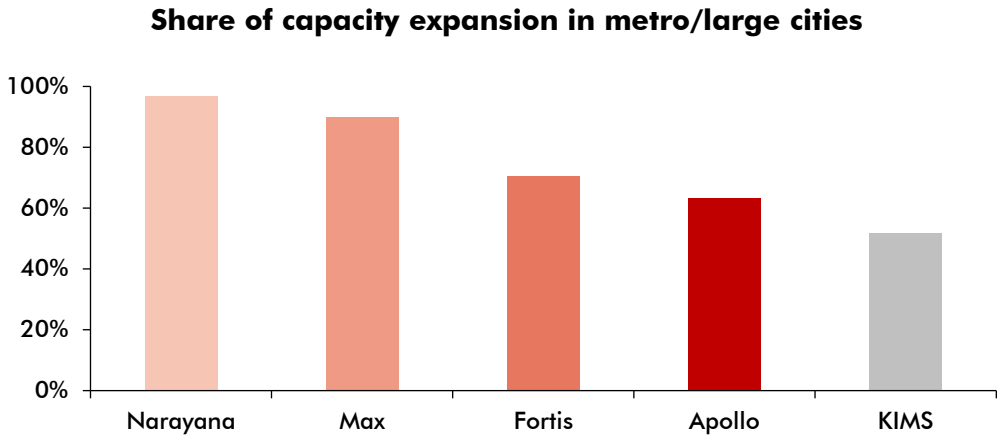
Exhibit 37: Hospitals in smaller cities – mixed bag in terms of profitability



*Source: Company, Ambit Capital research; Note: data as of FY21 (from KIMS' RHP); *KIMS' hospitals, #NH hospital clusters, ^Max's hospital*

Larger-city hospitals however continue to have a higher ceiling given ability to attract the best medical talent as well as patients from outside – both international and from other places in India. This reflects in capacity expansion plans of most hospital chains. Majority of new bed additions planned over the next five years are in larger cities.

Exhibit 38: Over 50% of planned bed expansion over FY24-27 for leading hospital chains are in metros/large cities



Source: Company, Ambit Capital research

Gearing up for next expansion phase

Most Indian hospital chains are set to enter another bed expansion phase over the next four to five years. Operating and financial metrics behave very differently through investment and consolidation phases. In this section, we analyse the maturity profile of hospital chains' current networks, their expansion plans and ability to navigate the same. Our analysis suggests that the industry is much better placed going into this round of expansion. This is due to high share of brownfield projects and home markets in bed addition plans. Low debt on balance sheets, high cash generation of mature hospitals and headroom in current bed capacity also provide comfort. Margins and RoCE are likely to sustain in the 20-25% range for most companies despite the step-up in investment and upfront losses on new beds. NH and Max appear best placed followed by Fortis, Apollo and KIMS.

Hospital chains go through alternate phases

Hospital companies typically go through alternate phases of "Investment" (large bed addition) and "Consolidation" (limited bed addition as occupancy scales up post commissioning) several times during their evolution. Operating and financial metrics behave very differently through these two phases and so do valuations. We look at these two phases below:

Investment phase: meaningful bed addition

This refers to periods where hospitals undertake sizable addition in installed and operating bed capacity. It has been and is likely to remain quite common for hospitals in India given the high demand-supply gap for quality tertiary care and limited government participation in bridging the same. This phase is characterized by step-up in capex related to new bed addition. The impact on operating and financial metrics can be summarized as under:

- Occupancy is low to begin with and is the primary metric that managements work towards improving. This could result in longer length of stay, greater reliance on segments such as government schemes and lower-intensity procedures in order to make sure that occupancy improves in order to absorb the high upfront fixed overheads. These usually transfer into some ARPOB dilution unless geographic or case mix changes materially as a result of the expansion.
- Margins take a hit as a new hospital could take anywhere between 6-12 months (brownfield) to 2-3 years (green-field) post commissioning to achieve EBITDA breakeven and 5-6 years for margins to align with those in more mature hospitals. Operating cashflow could take a hit in the early years of this phase too.
- RoCE contracts due to a combination of long gestation period, margin pressure and increase in capital employed. Typically, it takes close to two years post the initial investment (in land/building) for a new hospital to be commissioned. This along with the five to six years lead time for margins to align with mature hospitals imply that return ratios could take a few years to recover to earlier levels.

Consolidation phase: reaping what is sown

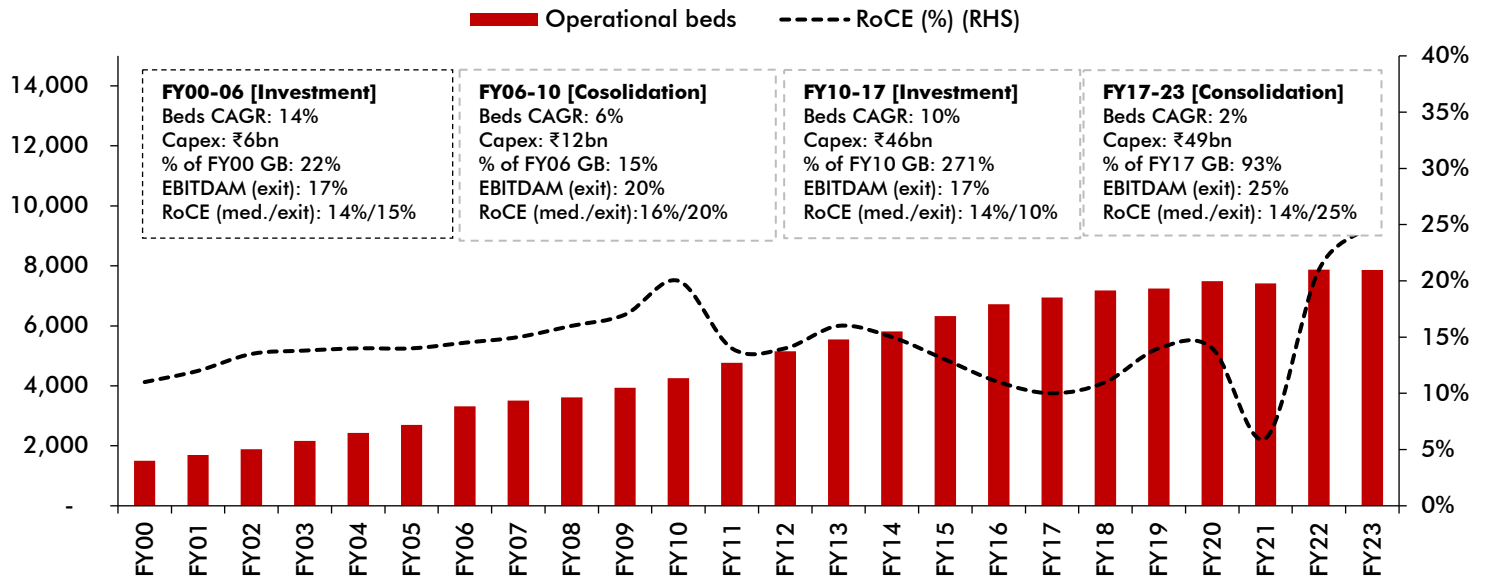
This refers to periods where hospitals have limited bed addition plans and ample headroom to grow in already commissioned hospitals. This phase is characterized by limited capex on new bed addition and improving operating/financial metrics:

- Blended occupancy is low to begin with due to bed additions during the investment phase but improves through this phase. As occupancy gets closer to the 50-60% mark, managements are able to work on levers such as length of stay (push lower), case mix (prioritize higher-intensity procedures) and payer mix (deprioritize government scheme funded business) in order to optimize bed usage. Pricing also could be a lever at this stage as there is limited pressure on bed occupancy. Consequently, ARPOBs usually see sharp improvement.
- Margins improve as occupancy picks up. Rate of improvement is slow to start with but increases meaningfully towards the end of this phase as all levers, viz. ALOS, case mix, payer mix, pricing come together at the same time and add to the occupancy-led operating leverage upside.

- RoCE improves too driven by a combination of limited capex and improving margins. During this phase, most well-run tertiary care hospitals are able to achieve 25-30% RoCE irrespective of which population segment they are targeting – as seen with almost all Indian hospitals currently.

We use Apollo Hospitals as a proxy to demonstrate how various operating and financial metrics evolve over alternate Investment and Consolidation phases.

Exhibit 39: Apollo Hospitals went through alternate phases of investment and consolidation over last two decades. Margins and RoCE fluctuate meaningfully through these phases. Exit values of consolidation phases reflect attractive financial profile of mature hospital chains

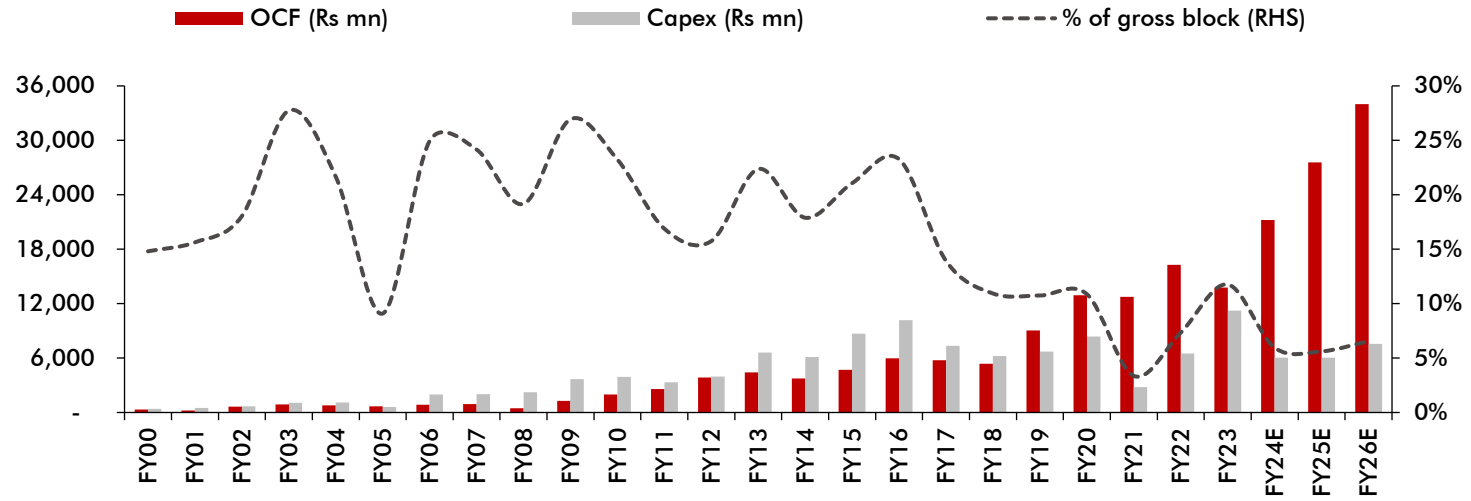


Source: Company, Ambit Capital research | Note: RoCE is for the hospitals business alone

Apollo's evolution over the last two decades throws up a few interesting insights.

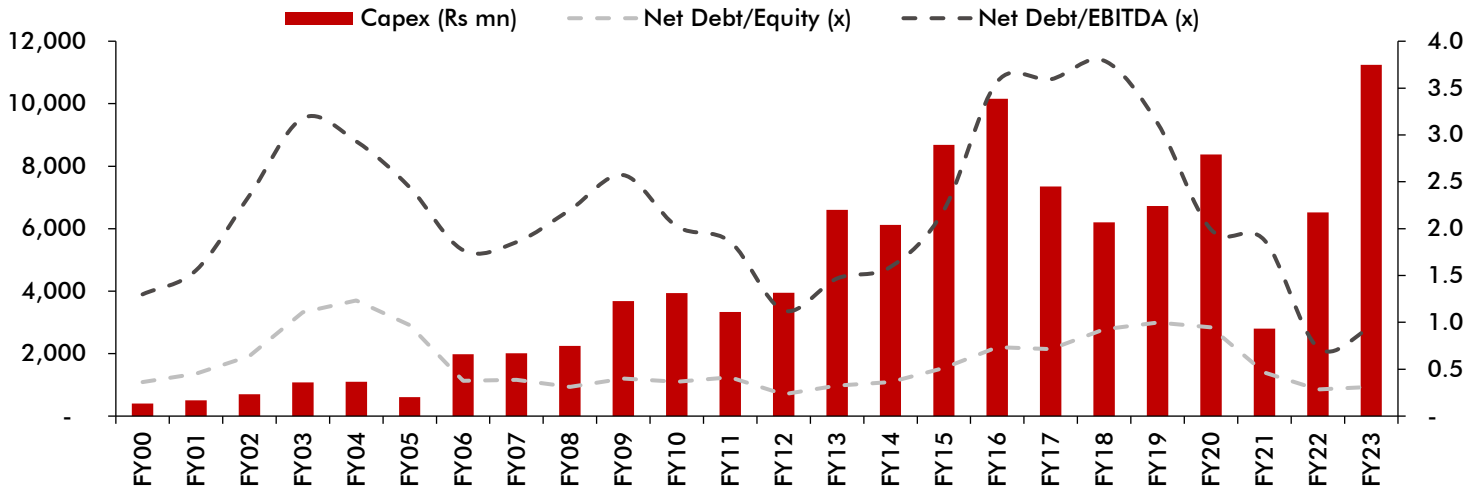
- **More discerning approach to capacity addition**: Apollo went through two alternate cycles of investment and consolidation since FY2000. The investment and consolidation phases are a lot easier to separate in the second cycle. This appears to be by design and is applicable to most other hospital chains as well. In the past, new bed/hospital addition used to happen on a continuous basis. In contrast, companies now appear to prioritize optimizing current bed capacity before embarking on new projects in a big way.
- **Peak margins and RoCE have shifted higher**: A mature hospital was always attractive from a margin and RoCE perspective. But it appears to have improved on both fronts over the last five to ten years. Apollo ended the FY06-10 investment phase with EBITDA margin and RoCE in the ~20% range. In contrast, EBITDA margin and RoCE touched 25% levels in FY23 and could improve a bit further before the next phase of expansion starts pulling them down. Structural improvements in ability to pay (and hence pricing), ALOS (allows to turn around a bed many more times through a year) and case mix have been key drivers.
- **Capex beyond bed addition**: Apollo's bed count increased only ~2% CAGR over FY17-23. But the company still incurred cumulative capex of ~₹49bn (93% of FY17 gross block) over this period. Organized players have stepped up investment in upgrading existing hospitals. Apollo's investment in proton-therapy, Max's new management adding/upgrading clinical capabilities in network hospitals etc. are examples of non-bed-related capex. Such investment is easier to absorb given the already established brand equity of the hospital, improved ability to attract better clinical talent and hence patients and better pricing.
- **Scale brings added comfort on balance sheet**: Apollo's ability to fund expansion internally has consistently improved over the years. Balance sheet position and cash generation are much stronger in FY23 than they were at the beginning of the last bed expansion phase. Cash generation is high in mature hospitals and as this cohort grows, dependence on external capital declines.

Exhibit 40: Apollo Hospitals' ability to fund bed addition has improved over the years in line with rising cash generation at its growing mature hospitals cohort. This is now allowing it to fund initiatives in digital health



Source: Company, Ambit Capital research

Exhibit 41: Apollo's leverage position is more comfortable going into the next expansion phase, as mature hospitals continue growing and generating cash



Source: Company, Ambit Capital research

These factors should continue playing out and make it easier for larger hospital chains to navigate future expansion phases than in the past.

Individual hospitals have long runway

The lifespan of a greenfield tertiary care hospital can be split into two phases post commercialization: (a) New (Year 0-10) and (b) Mature (beyond Year-11). Most Indian hospitals provide a breakdown of their business in line with this framework. We believe hospitals in the "New" cohort can further be broadly classified into three phases, viz. (a) Phase-I (0-3 years), (b) Phase-II (3-6 years) and (c) Phase-III (6-10 years). Growth drivers change over this time frame and profitability and return ratios vary materially across phases. In the table below, we outline how a typical greenfield hospital evolves over the years post commissioning. A brownfield hospital and certain greenfield hospitals (for e.g. one set up by an established player in a core market) could scale up much faster through these phases.

Exhibit 42: Typical evolution of a tertiary care, greenfield hospital in India

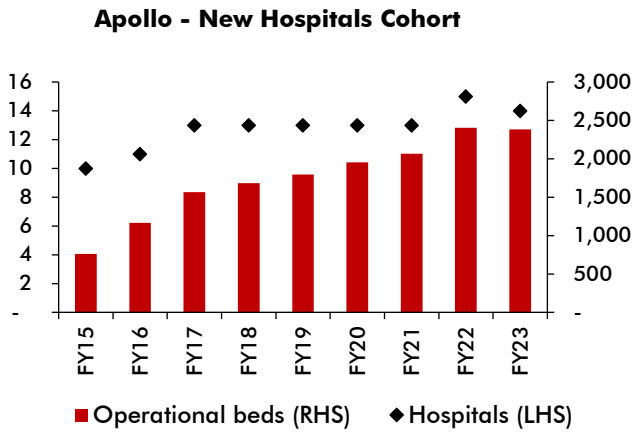
	New			Mature
	Phase-I	Phase-II	Phase-III	
Years post commissioning	0-3	4-6	7-10	11 & beyond
Characteristics	Heavy drag: low occupancy and high fixed-costs leads to bleeding at all levels	Ramp-up begins: limited incremental fixed cost, high operating leverage upside	Sweet-spot: confluence of occupancy gains, ALOS optimization and case/payer mix improvement	Cash-cows: growth/margin gains settle at lower levels, high cashflow & RoCE
Operating Metrics				
- Occupancy	Low, rising gradually	Steady rise (typically hits '50-60% range)	Steady / gradual rise as other levers take over	Steady, limited scope to increase
- ALOS	High, steady	High, gradual decline	Steady decline – conscious attempt in a bid to optimize bed utilization	Steady-state, mostly case mix led
- Case/payer mix	High share of govt. scheme patients and lower-intensity procedures as focus is on filling beds	Improving but still not at a stage where these become meaningful levers	Falling share of government schemes and lower-intensity procedures	Continues to improve, a key lever
- Pricing	Steady	Steady, inflation-linked increase	Steady, inflation-linked increase	Greater willingness / ability to take price hikes
Financial Metrics				
- Revenue growth	Very high	High	Moderate-to-high	Low-to-moderate
- EBITDA margins	Negative to marginally positive, brownfield hospitals break-even faster	Positive, sharp uptick as operating leverage kicks in. Still lower than steady-state	Good improvement, flow-through to net margins	Steady in a range, marginal improvement
- Cash flow	Negative	Cash break-even, some cash generation	Cash generation picks up	High cash generation despite some re-investment requirements
- Return on Capital	Negative, drag on blended metrics	Remains subdued, gradually improving	Inflection phase for RoCE, sees rapid improvement	High RoCE assets
Key driver(s)	Occupancy	Occupancy	ALOS, case & payer mix, pricing	Pricing, case & payer mix

Source: Ambit Capital research

- **New cohort**: Companies such as Apollo Hospitals and Narayana Hrudayalaya consider hospitals that are less than ten years old as new hospitals. We use this as the starting point of our analysis. However, operating and financial metrics of a new hospital as well as drivers of performance vary materially through this phase. We therefore split the "New" cohort further into three distinct phases:
  - **Phase-I**: This is the first three years post commissioning. Fixed costs are fully loaded while occupancy is still low in the sub-50% range. Even in cases where occupancy picks up fast, it is usually driven by sub-optimal ALOS, case and payer mix as management focus is primarily on getting beds occupied as soon as possible. EBITDA margins are usually negative and approach break-even point towards the end of this phase.
  - **Phase-II**: The next three years (Years 4-6) see substantial margin improvement on the back of improved occupancy and resultant operating leverage. Incremental investment in usually limited and the hospital breaks even at net profit level during this phase.
  - **Phase-III**: The next four years (Year 7-10) represent the sweet spot for hospitals. Revenue growth, margin improvement and cash generation play out together and it is usually the inflection point for RoCE as well. It is also the phase that is most underappreciated on the street as occupancy is already in the ~60% range and there is no perceptible improvement on this metric. However, as the risk of beds staying empty go down, managements start using other levers such as: (a) ALOS: push down to increase number of surgical procedures per bed; (b) case mix: deprioritize lower-intensity procedures and (c) payer mix: reduce share of government scheme business.

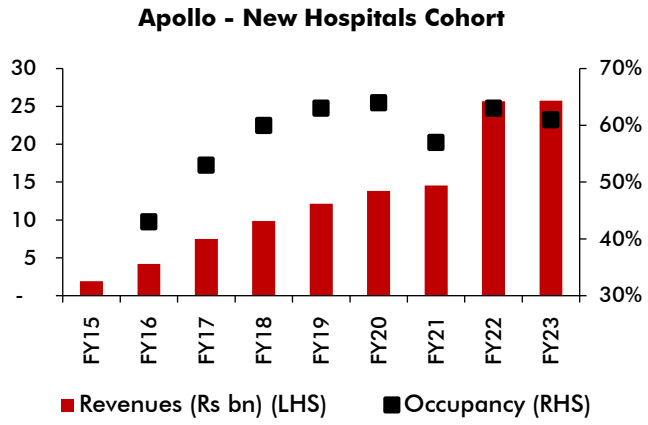
Data from Apollo Hospitals' new hospitals cohort (hospitals commissioned in FY13 and later) provides a real life example of how the above plays out. EBITDA margins were negative to low-single-digit range over FY13-18 (years 1-6 post commissioning) before improving sharply to ~18% in FY23. Initial margin improvement was driven by rising occupancy. But the most recent leg up has come with occupancy staying more or less flat as other levers (ALOS, case mix etc.) started playing out.

Exhibit 43: Operational bed count in Apollo's new hospitals has increased consistently over the years, leading to upfront investment being absorbed better



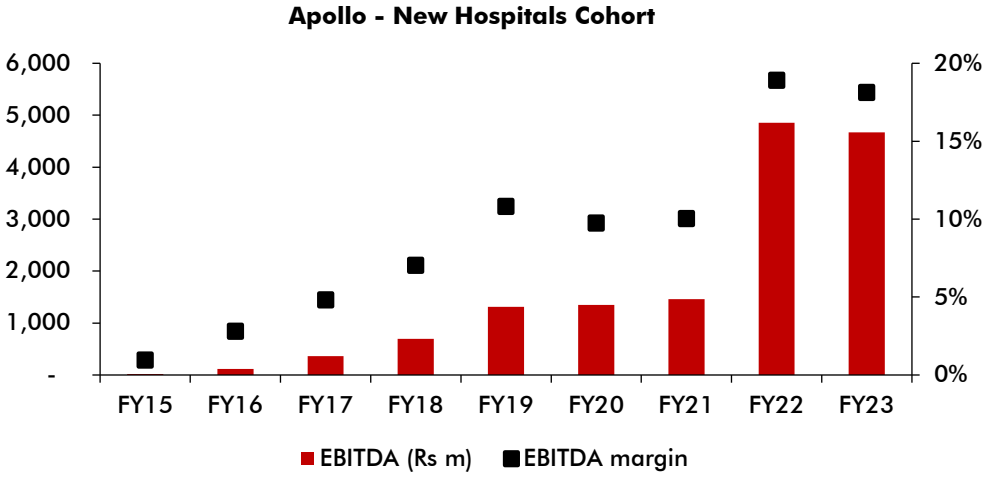
Source: Company, Ambit Capital research

Exhibit 44: Revenue growth is led not just by occupancy improvement – multiple additional levers play out once occupancy hits ~60% levels



Source: Company, Ambit Capital research

Exhibit 45: EBITDA margin trajectory in Apollo's new hospitals reflects meaningful gains during Phase 3 (years 6-10 post commissioning)

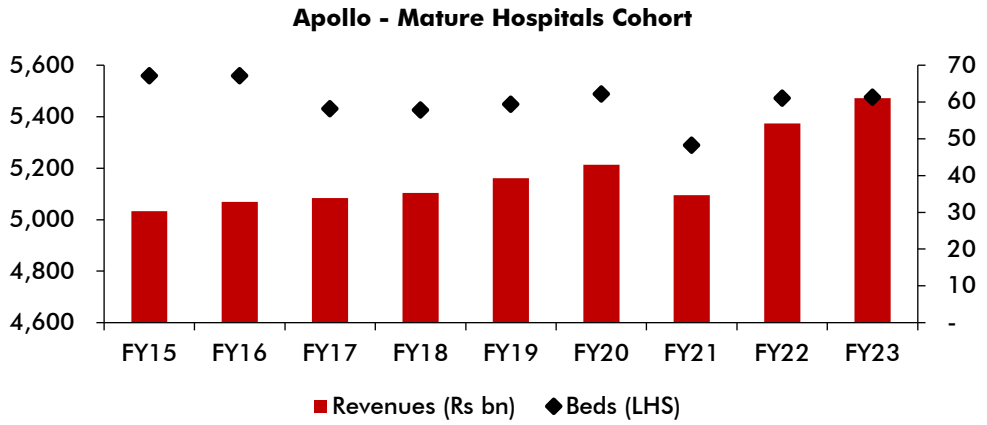


Source: Company, Ambit Capital research

- **Mature cohort**: Once a hospital crosses the 10-year post commissioning mark, it becomes a cash cow. Revenue growth settles in the low-to-mid-single digit range and margin improvement is limited. Pricing and case/payer mix are key levers during this phase. Cash generation and RoCE remain high despite some reinvestment requirement. Companies usually look for opportunities to add bed capacity through debottlenecking or brownfield bed additions in order to address latent demand that can no longer be serviced effectively from this hospital.

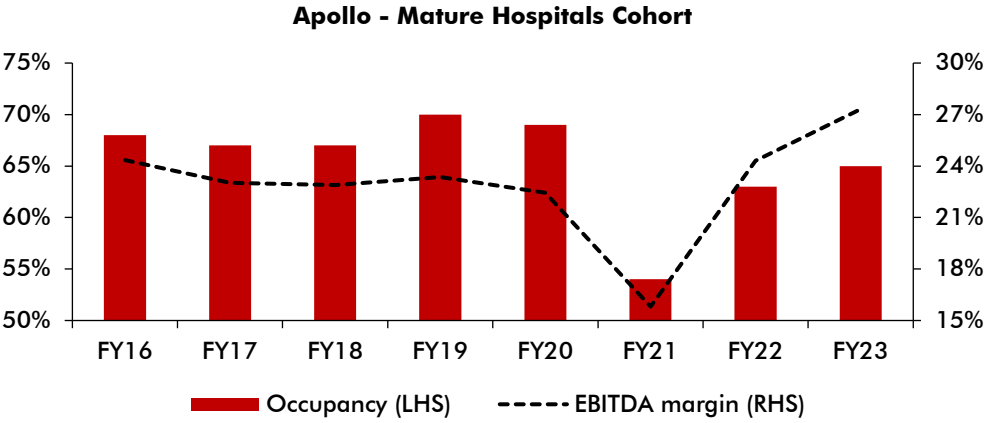
Here again, we use data from Apollo Hospitals as an example. Apollo's mature hospitals cluster (commissioned before FY13) continues to clock ~9% revenue CAGR despite virtually flat bed addition and occupancy over FY16-23. This is driven by lower ALOS and case mix improvement besides some price hikes. EBITDA margin for this set of hospitals improved by ~300bps over this period to 27% in FY23.

Exhibit 46: Apollo Hospitals' mature hospitals saw revenue growth of ~9% CAGR over FY15-23 despite virtually similar operational bed count



Source: Company, Ambit Capital research

Exhibit 47: EBITDA margin for Apollo's mature hospitals improved by ~400bps over the last seven years despite occupancy declining by ~300bps



Source: Company, Ambit Capital research

Growth and margin improvement for hospitals is thus clearly not just linked to adding beds and raising occupancy levels. There are many more levers that are underappreciated by the street. These would continue allowing hospital chains to beat expectations on topline as well as margins and cashflows. This analysis also highlights that despite high capital intensity, hospitals are structurally high-RoCE businesses, viz. 25-30% levels for mature assets. It is usually investment in new hospitals/beds and other businesses that drag down blended return on capital metrics from time to time. Improvement is usually just a matter of time for companies that execute well.

How do coverage companies stack up as next investment phase beckons?

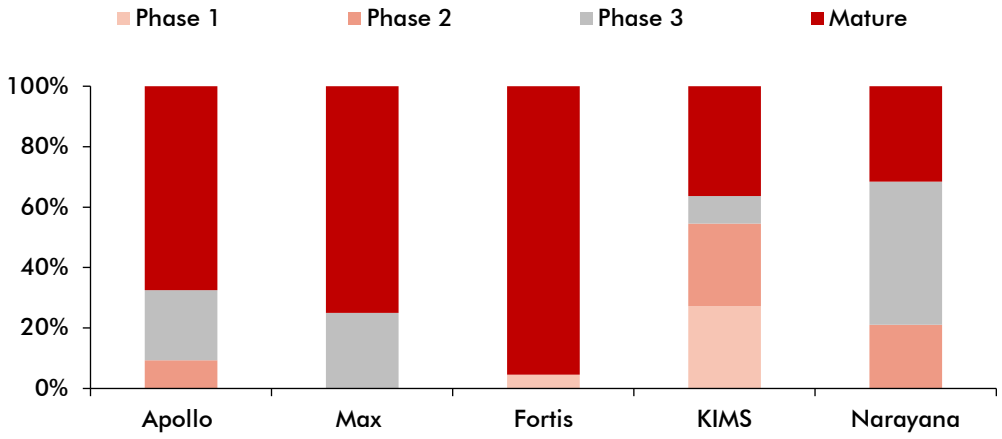
We take a granular look at the networks of our five coverage hospitals through this framework in the table below. This provides a much better handle on potential for growth and margin expansion. It also helps set apart hospitals that are a drag purely due to timing from those that are lagging due to execution challenges.

Exhibit 48: Mature beds account for over 50% of all leading Indian hospitals' capacity. Expansion plans announced indicate that the industry is moving into the next Investment phase

Company	Pre-commissioning*	New			Mature
	(up to FY27)	Phase-I	Phase-II	Phase-III	
Apollo Hospitals					
No. of hospitals	3	0	4	10	29
No. of beds (% of total)	1,930 (23%)	0 (0%)	1,245 (16%)	1,139 (14%)	5,471 (70%)
Max Healthcare					
No. of hospitals	4	0	0	3	9
No. of beds (% of total)	2,840 (81%)	0 (0%)	0 (0%)	956 (28%)	2,456 (72%)
Narayana Hrudayalaya					
No. of hospitals	1	0	4	9	6
No. of beds (% of total)	1,550 (27%)	0 (0%)	970 (18%)	1,624 (29%)	2,868 (53%)
Fortis Healthcare					
No. of hospitals	1	0	0	0	21
No. of beds (% of total)	1,500 (34%)	0 (0%)	0 (0%)	0 (0%)	4,271 (100%)
KIMS					
No. of hospitals	3	4	3	1	4
No. of beds (% of total)	2,125 (53%)	936 (23%)	1,234 (31%)	200 (5%)	1,630 (41%)

*Source: Company, Ambit Capital research; *We assume only capacity expansion announced by companies. % of beds is calculated on current capacity*

Exhibit 49: Max and Fortis have the highest share of mature hospitals



Source: Company, Ambit Capital research

Who is best-placed to navigate the expansion phase?

Leading hospital chains are set to enter a fresh expansion phase over the next four to five years. Step-up in capex is already visible and commissioning of new beds is likely to gain momentum over FY25-27. Ability to absorb this expansion is likely to be key to sustaining current valuations. In this section, we assess how our coverage companies are placed on this front. Our analysis suggests that NH and Max Healthcare are best-placed to navigate the expansion phase. These two companies provide an optimum mix of bed addition (that creates headroom to grow in future) and ability to absorb the same with limited impact on margins and return on capital metrics. We consider three factors in our assessment.

- Scale and time frame of bed addition: is the planned bed addition meaningful relative to the current base? Is bed addition front or back-ended?
- Nature of expansion: brownfield vs. greenfield, in dominant markets or new markets?
- Headroom available in current network: Can growth in existing beds offset upfront margin pain on new bed addition?

Exhibit 50: NH and Max appear best placed to navigate the next expansion phase - these companies have the optimum mix of bed addition that create longer-term growth headroom and margin/RoCE resilience

Parameter	Apollo	Max	Fortis	NH	KIMS
Scale and timeframe of expansion					
	Least aggressive (21% of FY23 capacity Back-ended (71% over FY26-27)	most aggressive (81% of FY23 capacity Front-ended (55% over FY24-25)	Middle of the pack (34% of FY23 capacity) Evenly spread out over FY24-27	Not very aggressive (27% of FY23 capacity) Back-ended (68% over FY26-27)	Second most aggressive (54% of FY23 capacity Front-ended (74% over FY24-25)
Nature of expansion					
	Mostly greenfield (68%), 41% in new markets	Mostly brownfield (~87%), greenfield in a dominant market	Mostly brownfield, just one greenfield in a dominant market	Mix of brownfield (65%) and greenfield in dominant markets	Mostly greenfield in new markets (67%), some brownfield
Headroom in current network					
	30% of bed capacity still not mature, can see occupancy, margin gains	Limited room for occupancy gains Efforts to reduce exposure to government scheme patients may help	Some room for occupancy gains Efforts to improve efficiencies in current network could help	Highest: ~47% of beds are in hospitals that are not mature yet	Turnaround in acquired Sunshine hospitals to help offset upfront costs on new beds
Overall					

Source: Company, Ambit Capital research Note: - Strong; - Relatively Strong; - Average; - Relatively weak

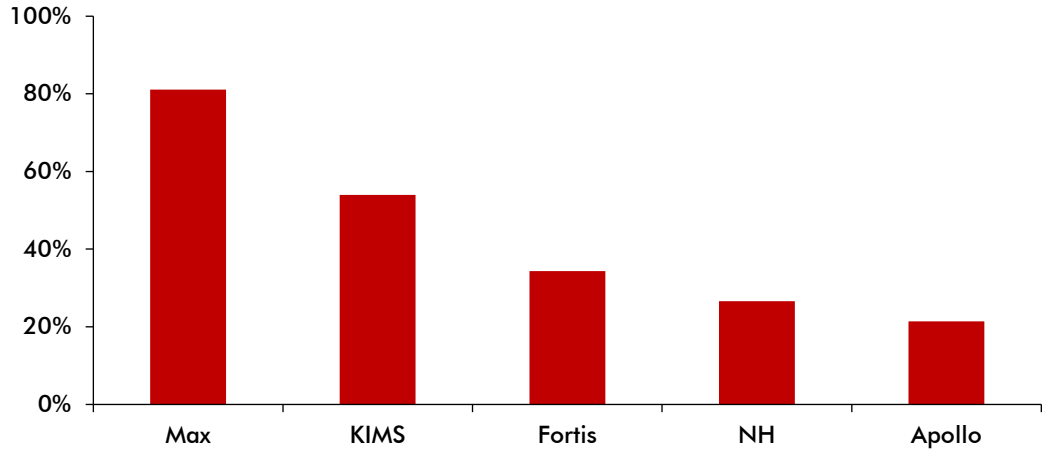
We evaluate each of the above in detail below.

Scale of expansion

We evaluate how meaningful the planned bed addition is relative to current capacity beds. Higher the bed addition target, greater the likely pressure on profitability and return on capital metrics. However, it also adds to growth headroom in the future as well as ability to keep attracting good doctors.

Max Healthcare and KIMS would be adding the most capacity relative to its current base over the FY24-27 time frame while Apollo Hospitals would be adding the least.

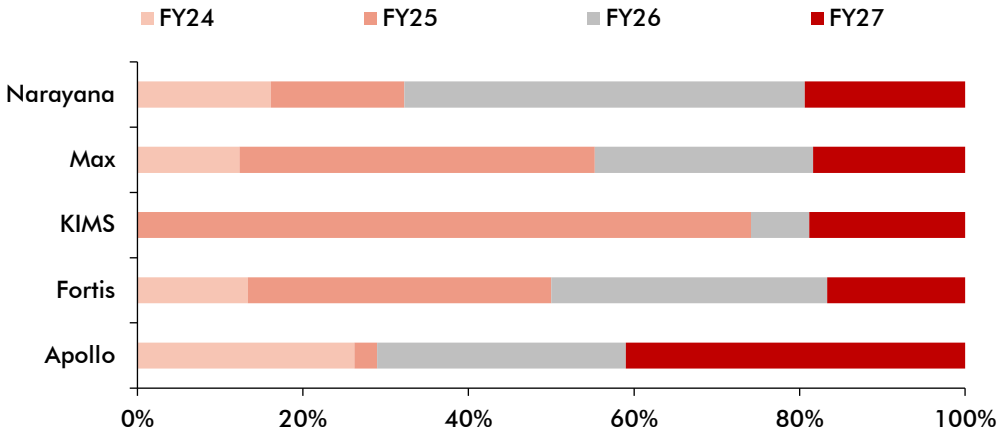
Exhibit 51: Max Healthcare and KIMS have the most aggressive expansion plans over FY24-27



Source: Company, Ambit Capital research

We also assess whether planned bed addition is front or back-ended. This helps figure out which company has more breathing space before the new beds start impacting financials. Bed addition and capex do not always correspond on timing. It takes close to two years to commission a hospital once land is acquired and construction work starts. Capex is therefore front-ended but impact on operating costs is visible only with a lag. For instance, Max Healthcare will incur 45-50% of planned bed addition related capex over FY23-24 whereas only ~14% of planned bed addition would be over this period.

Exhibit 52: Bed addition is likely to be front-ended for Max and KIMS whereas most of Apollo's beds would be commissioned only over FY26-27



Source: Company, Ambit Capital research

Capacity addition is likely to be front-ended for KIMS and Max Healthcare – 74% and 55% of new beds are likely to be added over FY24-25. On the other hand, Apollo Hospitals and Narayana Hrudayalaya would add only ~23% and ~32% of planned new beds over FY24-25. Fortis' bed addition would be more or less even through the next five years given that it is mostly brownfield in nature.

Nature of expansion: brownfield vs. greenfield

Capacity addition can be brownfield or greenfield in nature. Brownfield expansion involves adding beds in or alongside an existing hospital whereas a greenfield project involves building a new hospital from scratch. There are pros and cons to each approach and a hospital chain has to adapt both approaches through its evolution. However, from a near-to-medium-term financial perspective, it is easier to absorb brownfield expansion as against large greenfield projects.

Exhibit 53: Hospital expansion – brownfield projects break even and mature fastest followed by greenfield projects in markets of dominance

Expansion	Break-even	Maturity	Comment
Brownfield	6-12 months	2-3 years	Latent demand implies quick pick-up in occupancy
Greenfield - dominant market	15-18 months	4-5 years	Rub-off effect of the brand in the market allows faster scale-up and lower costs on marketing and promotion Example: Apollo's Proton hospital at OMR, Chennai was commissioned in 1QFY20 EBITDA break-even in second year, currently operating at ~28-30% EBITDAM
Greenfield - other markets	24-36 months	7-10 years	Requires additional effort and time to seed the brand and get patients in Typically, breaks even in the third-year, achieves ~10-15% EBITDAM by year 3/4. Can reach ~25-30% EBITDAM by years 7-10 Example: NH's hospitals in Delhi and Gurugram are at mid-teens EBITDAM currently – commissioned in 2017 Apollo's hospital in Navi Mumbai is a notable exception – managed to achieve EBITDA break-even in the second year itself

Source: Ambit Capital research

Brownfield projects usually scale up much faster and take less time to break even and reach maturity. The existing hospital already has an established patient base and doctors attached to it. Latent demand is high and often not serviced as occupancy levels are running high. This leads to quick uptick in patient flow once new beds are available. EBITDA breakeven is usually achievable within two to four quarters. There are some challenges too. Limited space to expand, outdated infrastructure and the need to maintain operations during the expansion process often make it difficult to plan large, brownfield expansion. Greenfield projects typically involve greater upfront capital expenditure and also take longer to scale up post commissioning. However, they also have advantages such as the ability to design a facility that meets modern healthcare standards. It also allows companies to expand into new markets, which may be inevitable at some point when their markets of dominance get saturated. We further split greenfield expansion into two categories viz.

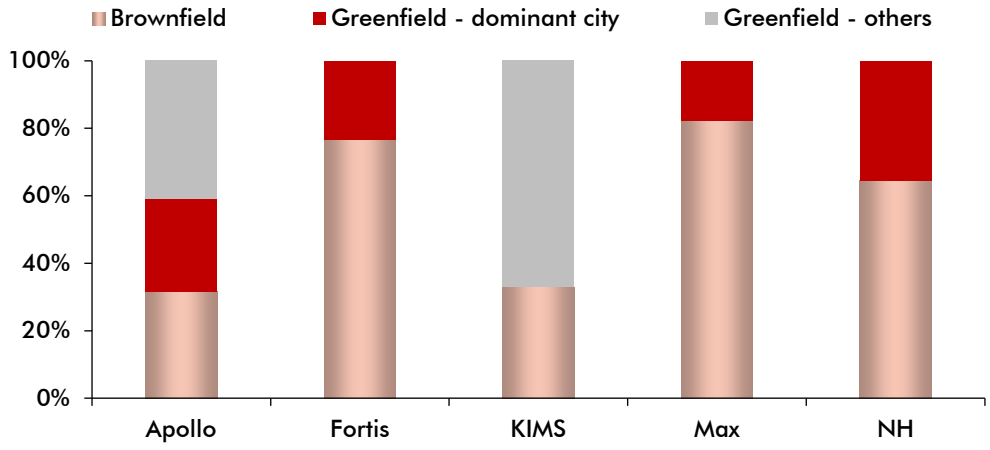
- **Projects in cities of dominance,** i.e. where the brand is already established. In such cases, the hospital is likely to have an existing patient base and established reputation in the community. This makes it easier to attract patients and staff (albeit not as easy in the case of brownfield projects) as well as build relationships with local healthcare providers. Some examples include: Apollo Hospitals in Chennai/Hyderabad, Narayana in Bengaluru/Kolkata, and Max in Delhi/NCR.

Apollo's Proton care hospital at OMR in Chennai is a case in point. Despite heavy upfront capex and operating expenses related to offering proton care therapy, this hospital achieved EBITDA breakeven in the second year itself.

- **Projects in new cities or where the hospital chain has limited presence**: Setting up a greenfield hospital in a new city or one where the brand is not very well-known relative to peers may require significant marketing and branding efforts to build awareness and establish a reputation in the community. Engaging with doctors is also likely to be more difficult or expensive.

Narayana's hospitals in Delhi and Gurugram are cases in point. Despite being in an attractive market, these hospitals took close to five years to break even post commissioning in 2017. EBITDA margins are still in the mid-teen range as compared to 20-23% for the company's mature hospitals cohort and 32-33% for its flagship hospital in Bengaluru.

Exhibit 54: FY24-27 bed addition plans – Fortis and Max have high share of brownfield projects while KIMS and Apollo have major greenfield projects



Source: Company, Ambit Capital research

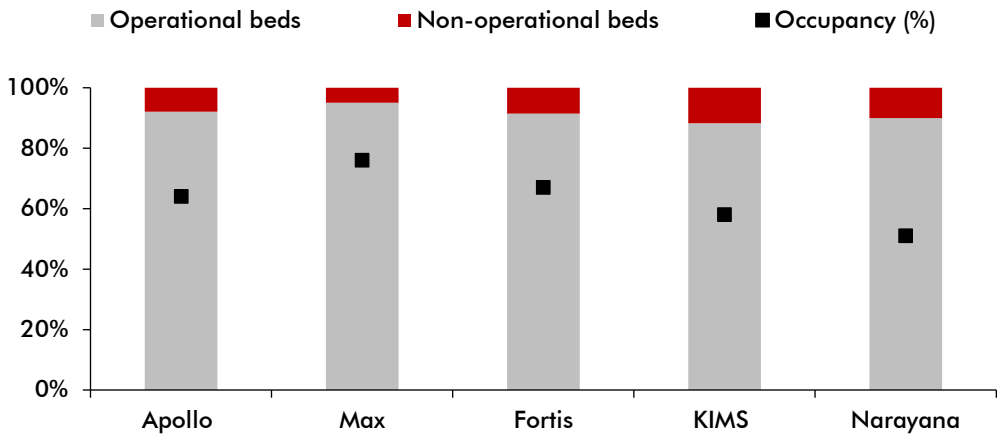
Max and Fortis appear best-placed on this front whereas KIMS and Apollo Hospitals are at slightly higher risk given greenfield projects in new/less dominant cities.

- Max (82%) and Fortis (77%) plan to add a majority of its new beds via the brownfield route. The rest of Max's expansion is also via a greenfield project in its core Delhi/NCR market. This should limit adverse impact on margins.
- NH's bed addition would also entirely be brownfield (Bengaluru mainly) and greenfield projects in Kolkata, Cayman Islands and possibly Raipur, where the hospital is already well-established.
- KIMS and Apollo Hospitals have 44% and 67% of their planned bed additions in new micro-markets, viz. Bengaluru, Mumbai etc. for KIMS and Gurugram, Mumbai for Apollo. These projects may take a bit longer to ramp up, putting some pressure on margins in the interim. Apollo has demonstrated the ability to scale up such products faster than the norm – for instance, in Navi Mumbai (break-even in year-2) and Lucknow (break-even in year-1). But it is difficult to foresee whether it can replicate this with a large project in Gurugram, where many large hospital chains already have facilities.

Headroom available in current network

Driving occupancy higher and activating non-operational capacity beds are two key growth levers that most hospital chains have beyond new bed addition. Upside on these fronts could help offset the early pain from adding new hospitals. Headroom on occupancy allows more patients to be treated in existing hospitals, translating into margin/RoCE expansion. Similarly, activating non-operational capacity beds allows a company to add beds with the least incremental investment. NH (50%) appears best placed from an occupancy perspective while KIMS (27%) has highest scope to activate non-operational beds.

Exhibit 55: Driving occupancy higher and activating non-operating bed capacity are key levers for most hospitals



Source: Company, Ambit Capital research

Besides headline numbers on occupancy and non-operational beds, we also look at spread of a company's hospitals across the maturity curve in order to assess who is better placed on this front.

- For example, a hospital in Phase-II of the "New" stage may be operating at high occupancy but can get higher patient-flow by activating levers such as ALOS reduction, case mix, payer mix etc. Years 6-10 is usually the sweet-spot for hospitals with above-average revenue growth and margin expansion.
- On the other hand, a hospital may be operating at low occupancy despite having a large share of its beds further ahead on the maturity curve. This implies that there may be structural reasons such as sub-optimal operating theatre beds to census beds ratio, limited room to add new beds etc. behind its inability to ramp up on occupancy beyond a certain point.

Exhibit 56: Indian hospitals' existing bed capacity maturity profile

Company	New hospitals			Mature hospitals
	Phase-I (Yr. 1-3)	Phase-II (Yr. 4-6)	Phase-III (Yr. 7-10)	(Yr. 11 & beyond)
Apollo	0%	16%	14%	70%
Fortis	2%	0%	0%	98%
KIMS	**23%**	**31%**	5%	41%
Max	0%	0%	**28%**	72%
Narayana	0%	18%	**29%**	53%

Source: Company, Ambit Capital research

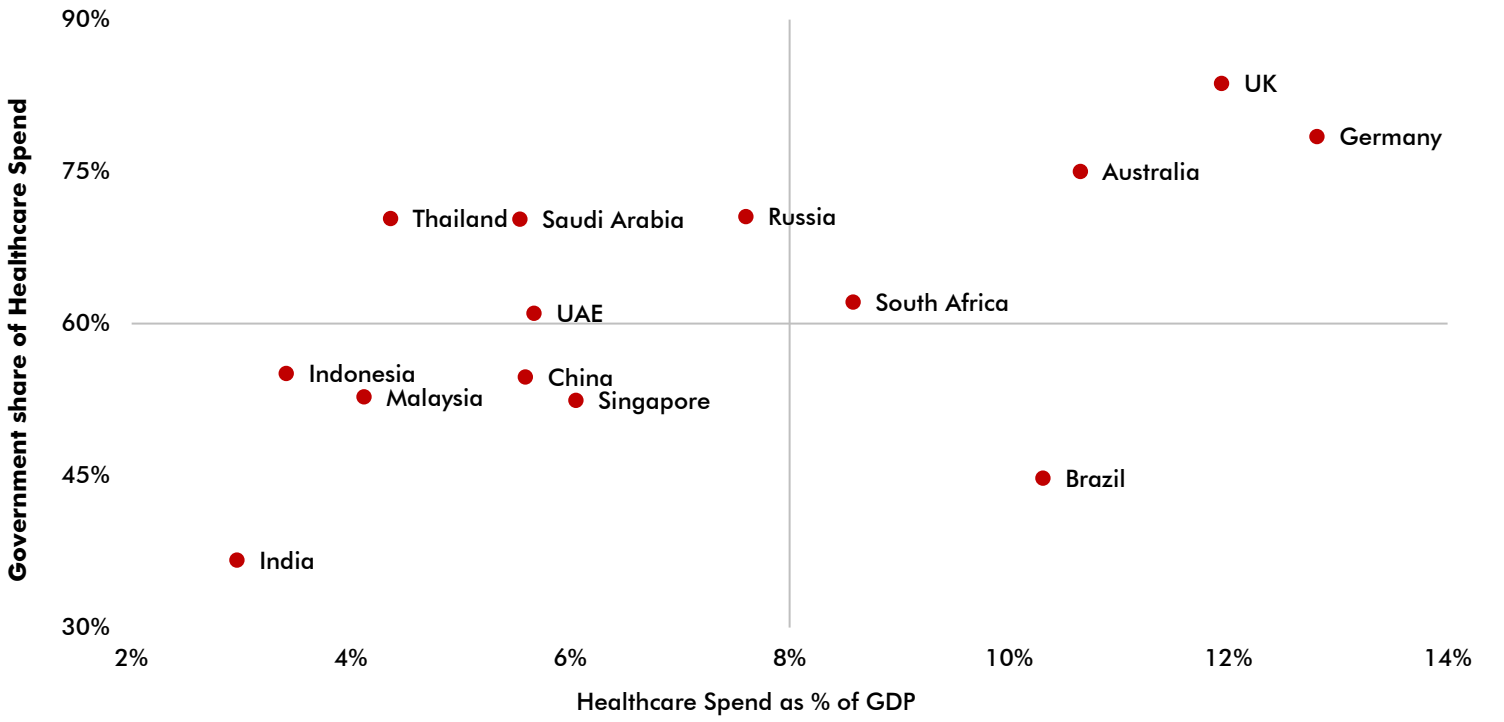
Head-to-Head – markets and businesses

In this section, we compare the healthcare delivery ecosystem in India with those in some other Asian countries. India is closest to Indonesia with similarities on demand drivers, limited third-party coverage of healthcare spend and high dependence on private sector players. Lower penetration of healthcare and greater space for the private sector to play in reflects in higher growth rates and bed expansion plans for Indian hospital chains vs. peers in markets such as Thailand, Singapore and Malaysia. Every country has a mix of geographically spread out and concentrated businesses. Services are offered at various price points and industry leaders are able to gain share at the cost of the long tail. The Indian industry appears to be evolving in the same manner. We also compare leading Indian companies with each other across various parameters.

India lags on healthcare penetration

India lags most developed and developing countries on penetration of healthcare delivery services. In any market, the common enablers or constraints to increasing penetration are public spend on healthcare, the population's ability to pay and availability of skilled, medical staff. India appears to be behind most Asian countries on each front.

Exhibit 57: India lags most developed and developing countries on healthcare spend. Government participation in healthcare spend is also at the lower end



Source: Companies, Ambit Capital research

Exhibit 58: India is closest to Indonesia with similarities on demand drivers, limited third-party coverage of spend and high dependence on the private sector.

Parameter	India	Indonesia	Singapore/Malaysia	Thailand
Penetration	**Low**	**Low**	**High**	**High**
Key demand drivers	▪ Rising share of NCDs ▪ Urbanization & greater awareness ▪ Ageing population + increasing longevity	▪ Ageing population + greater longevity ▪ Urbanization & changing lifestyles	▪ Ageing population + increasing longevity ▪ Rising share of NCDs Limited primary care	▪ Ageing population+ increasing longevity ▪ Medical tourism, especially from ME ▪ Geopolitical tensions in Russia, Myanmar that boost expat stay
Ability to pay	**Low but rising** ▪ Private Health insurance penetration is a key driver ▪ Govt. schemes exist but not as comprehensive in most Asian countries	**Low** ▪ Largely out-of-pocket spend, private Health insurance penetration is rising off low levels ▪ Govt. coverage is low	**High** ▪ Comprehensive universal healthcare program funded partly by the government and partly by mandatory insurance	**High** ▪ Well-established universal healthcare coverage model ▪ Rising penetration of private Health insurance (as top-up)
Medical tourism	**Low** ▪ Sub-10% of revenues for most players post-Covid ▪ Bangladesh, Africa, Sri Lanka are key source of patients	**Low** ▪ Mostly dependent on local patients	**High** ▪ Patients primarily from Malaysia, Indonesia and expats	**High** ▪ Go-to destination among Asian countries ▪ 20%+ of revenues for most large private hospitals ▪ ME, Indo-China and expats are key sources of patients
Healthcare infrastructure	**Underinvested**	**Underinvested**	**Fair**	**Underinvested**
Public hospitals	▪ Underinvested, poor quality of care ▪ Low occupancy despite subsidized/free treatment	▪ Underinvested and quality of care is poor ▪ Private sector is the go-to option for those who can afford to pay	▪ Good quality of care and run at high occupancy	▪ Good quality, go-to option for most residents ▪ High occupancy and waiting times are long
Private sector business models	▪ Mix of cluster-based, large-city and pan-India businesses ▪ Mostly multi-specialty though some single-specialty models are catching on ▪ Mostly focused on premium customers though some affordable-care models are emerging	▪ Larger, private hospitals are mostly city-centric with patients traveling from smaller towns to cities for treatment ▪ Focus primarily on local patients with ability to pay (cash, private insurance)	▪ Mostly multi-specialty and focused on premium patient population ▪ Small country, so by default	▪ Mostly Bangkok-centric multi-specialty hospitals with some presence in provinces ▪ Premium and affordable-care models exist ▪ Medical tourism is a key driver
Key listed-players	▪ Apollo Hospitals ▪ Max Healthcare ▪ Fortis Healthcare ▪ Narayana Hrudayalaya ▪ KIMS	▪ Mitra Keluarga ▪ Siloam Holdings	▪ IHH Bernhard ▪ KPJ Healthcare ▪ Raffles Medical Group	▪ Bangkok Dusit ▪ Bumrungrad ▪ Bangkok Chain ▪ Chularat

Source: Ambit Capital research

Indian private hospitals have more room to play in

Absence of adequate, good quality public hospitals is a key reason for the lower penetration vis-à-vis countries such as Thailand, Singapore and even the GCC countries. Public hospitals are well-regarded in these countries and run at high occupancy. This often creates long waiting periods for patients. On the other hand, public hospitals are underfunded in India and Indonesia, leading to poor quality-of-care. This has kept penetration low, providing headroom to grow for private hospital chains that are able to fund bed expansion and attract clinical talent by virtue of superior brand equity and ability to pay. Private hospitals thus become the "go-to" option for patients who have even the basic ability to pay, especially in urban areas. The larger hospital chains typically position themselves as high-end providers of care catering to patients who are willing to pay a premium for convenience and quality of care. At the same time, there are several mid-sized, emerging chains that have adopted an affordable care model. These price themselves at a discount to the larger chains.

Comparing with regional peers

Headroom apart, there are several similarities between the organized, private sector hospital chains across most Asian countries. Most countries have a mix of geographically spread-out and concentrated businesses. Services are offered at various price points and industry leaders are able to gain share at the cost of the long tail.

Exhibit 59: Hospitals lower on revenues despite similar bed counts given lower ARPOB, ability to pay. More aggressive bed expansion plans reflect greater headroom to grow; margins/RoCE catch up as more hospitals moved up the maturity curve

Company	Apollo	Max	NH	Fortis	KIMS
No. of hospitals	43	17	19	22	12
Licensed beds (#)	8,534	3,504	5,632	4,369	3,940
Available beds	7,860	3,282	5,334	3,975	3,468
Expansion plans	~1,800 beds over next 5 years, largely greenfield	~2,800 beds over next 5 years	~1,500 beds over next 5 years, largely brownfield	~1,500 brownfield beds over next 5 years	~2,000 beds over next 3-5 years
Occupancy (%)	64%	76%	49%	67%	57%
ALOS (days)	3.4	4.3	4.4	3.7	4.1
ARPOB/day (USD)	630	822	424	672	369
Revenues (USD mn)	1,058	716	426	623	271
Hospitals (% of revenues)	54%	96%	100%	75%	100%
Payer mix	Cash: 42% Insurance: 42% Govt. scheme: 10% International: 6%	Cash: 36% Insurance: 38% Govt. scheme: 17% International: 9%	Cash: 46% Insurance: 25% Govt. scheme: 21% International: 8%	Cash: 36% Insurance: 36% Govt. scheme: 19% International: 8%	Cash: 54% Insurance: 26% Govt. scheme: 20% International: 0%
EBITDA margin (%)	25%	27%	19%	18%	26%
RoCE	25%	33%	32%	10%	25%

Source: Company, Ambit Capital research

Exhibit 60: City-centric models lead to higher ARPOBs and international revenue-share for many Asian hospital chains. Payer mix is similar despite greater third-party coverage as high income patients go to larger private hospitals for better experience

Company	Bangkok Dusit (Thailand)	Bumrungrad (Thailand)	Chularat (Thailand)	Mitra Keluarga (Indonesia)	Siloam (Indonesia)	IHH (SG, Malaysia)
No. of hospitals	56	1	9	27	40	82
Licensed beds (#)	8,430	580	793	4,323	NA	15,000+
Available beds	6,484	564	793	3,469	3,784	11,881
Beds/hospital	116	564	88	127	92	145
Expansion plans	~600 beds (CY23-27), mainly brownfield	Limited, prefers to remain a single-hospital model	530 beds, of which 250 are greenfield	~2,871 beds		
Occupancy (%)	73%	49%	73%	58%	64%	70%
ALOS (days)	4.1	NA	NA	2.8	NA	3.1 (Malaysia) 3.8 (Turkey) 3 (SG) 3.8 (India)
ARPOB/day (USD)	1,560	5,948	1,386	356	677	1,324
Revenues (USD mn)	2,695	606	293	263	481	4,018
Hospitals (% of revenues)	95%	99%	98%	100%	100%	na
International share (%)	24%	37%	NA	Negligible	Negligible	Largely domestic
Payer mix	Self-pay: 50%, Insurance: 33%, Contract: 10%, Others: 4%, social security: 3%	Self-pay: 68%, Insurance: 16%, Govt 3rd party: 15%, Others: 1%	Cash, insurance: 51%, Social security (Govt): 21% National health security system (Govt): 28%		Private (OPE, Corp, Insurance): 81.5% BPJS: 17.1% MoH:0.9%	
EBITDA margin	25%	34%	32%	38%	19%	23%
RoCE	18%	36%	24%	25%	23%	20%

Source: Company, Ambit Capital research

How do Indian hospitals stack up vis-à-vis each other?

We compare our coverage companies on a range of parameters to assess areas of relative strength and weaknesses in current models as well as ability to absorb the forthcoming bed expansion phase.

Exhibit 61: Apollo and Fortis score on scale and spread of their networks while Max and KIMS benefit from cluster-based models that drive dominance in core markets. NH, Max and Fortis are best-placed to navigate expansion

	Apollo	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	Apollo is a clear leader in terms of beds, hospitals and spread of its network. KIMS and Max are concentrated in few locations.
Competitive Positioning	●	◕	●	●	◕	KIMS and Max score high due to concentrated position in a few markets. Well-established brand equity in these markets make them dominant in a larger share of its bed capacity relative to the pan-India chains.
Brand equity	●	◕	◕	●	◕	
Dominance in key markets	◕	◑	●	●	◕	
Expansion	◕	◕	◑	◕	◕	KIMS has one of the most aggressive bed expansion targets in the sector, behind only Max. Apollo will be adding the least. Max, Fortis and NH score high in terms of share of brownfield projects in expansion, reducing the risk. KIMS has highest share of new beds in greenfield projects and in new cities. NH, KIMS and Fortis have ample headroom in current hospitals – should help partially offset early pain on new beds/hospitals Net-cash balance sheet and cash generation from mature beds to limit dependence on external funding for all players
Relative to current capacity	●	◕	◑	◑	◕	
Greenfield vs. brownfield	◑	◕	◔	●	◕	
Location	◕	◕	◑	●	●	
Headroom in current network	◑	◔	◑	◔	◕	
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	Apollo (pharmacy, diagnostics, clinics, 24/7 etc.), Fortis (diagnostics) or Max (diagnostics, home-health) have non-hospitals businesses that are growing well. Apollo has made more progress on building competitive positions in these businesses.
Financial strength	◕	◑	◕	●	◑	Max, NH and KIMS rank high on EBITDA margin and RoCE. Apollo Hospitals will take some pain on new (non-hospitals) business initiatives while Fortis is yet to catch up with peers. Max and KIMS have highest scope for growth given scale of planned bed expansion.
Growth	◕	◑	●	◕	◑	
Profitability	◕	◑	◕	●	◑	
Return on capital	◑	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

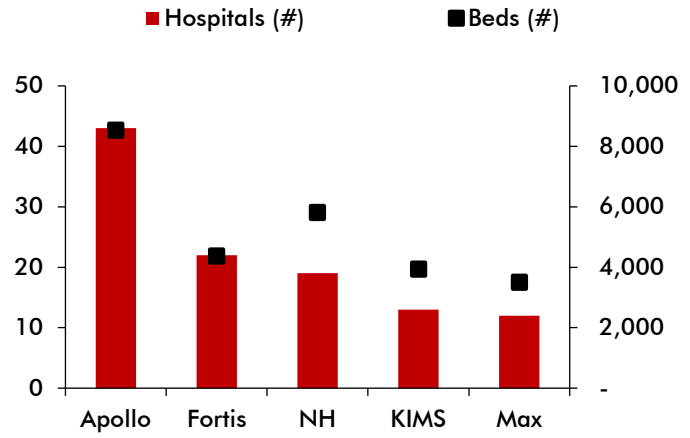
Scale and network

Scale is a key differentiator in the hospitals business. Chains with larger number of hospitals and beds usually tend to enjoy stronger brand equity among patients and doctors. The latter in particular is highly under-appreciated. Doctors typically like associating with larger chains that are willing to expand from time to time as it provides them with more avenues to grow their own practices. This comes in handy if the hospital chain tries to expand beyond its home markets.

- For instance, Apollo Hospitals is mainly present in South India but the brand is well-known across most parts of the country. When it set up its first hospital in Mumbai (at Nerul, Navi Mumbai), it was able to attract doctors and patients despite being a new entrant in the city. This allowed the hospital to achieve EBITDA break even in the second year of operations – much sooner than most greenfield facilities do, especially in a new market.

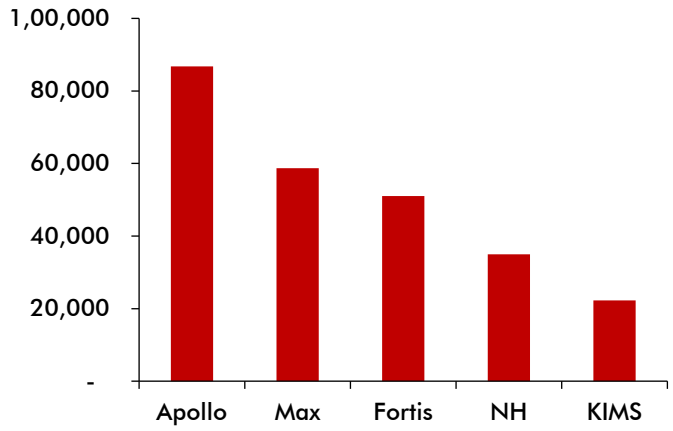
From a financial perspective, too, larger hospital chains are able to absorb expansion projects much better than smaller ones. Mature hospitals/beds generate significant cash while also growing at a steady pace. This reduces dependence on external capital and limit RoCE hit during such expansion phases.

Exhibit 62: Apollo Hospitals leads peers on scale in terms of hospitals, beds and revenues



Source: Company, Ambit Capital research

Exhibit 63: Max ranks 2nd on top-line despite smallest bed count due to big city model, high occupancy



Source: Company, Ambit Capital research

Competitive positioning

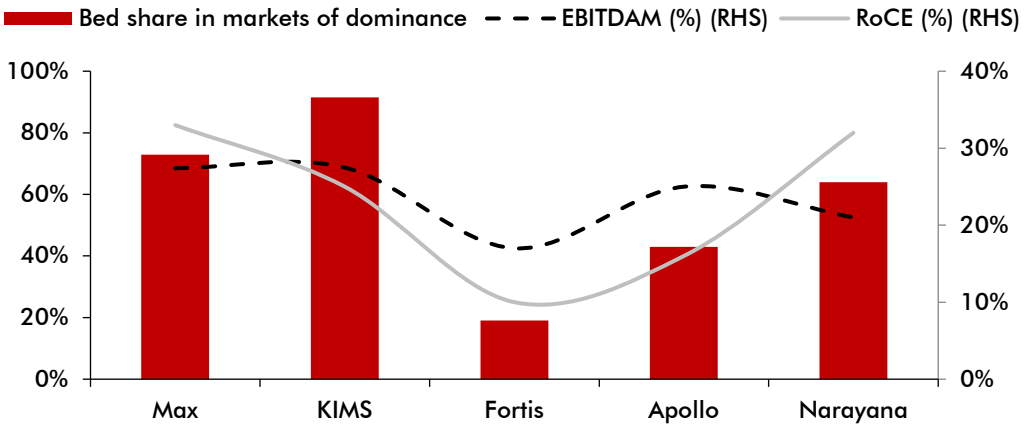
All leading hospital chains enjoy good brand equity in their core markets. These companies have the financial muscle to invest in state-of-the-art hospitals and attract the best doctors. This in turn allows them to take share away from less organized hospitals. However, the strength of the brand and pull of the hospital varies across different parts of the country. A concentrated, cluster-based approach with multiple hospitals in a city/state allows hospital chains to better optimize its brand equity as compared to one that involves having hospitals spread across various parts of the country. Within our coverage stocks, Max Healthcare and KIMS appear best placed on this parameter followed by NH and Apollo Hospitals. Fortis appears the most thinly spread.

Exhibit 64: Max Healthcare and KIMS have concentrated cluster-based models that optimize competitive advantage and drive dominance in a micro-market. Fortis appears most thinly spread

City	Max	Fortis	Apollo	Narayana	KIMS	Comments
Delhi-NCR	●	◕	◑	◔		▪ Max and Fortis are dominant in Delhi-NCR while Apollo and NH are still in catch-up mode ▪ KIMS is not present in this market as yet
Bengaluru		◑	◑	◕		▪ NH and Manipal (unlisted) are the primary hospital chains in this city. ▪ Apollo views this as its next core market after Chennai & Hyderabad ▪ Bengaluru is also part of KIMS' expansion plan
Hyderabad			◕		●	▪ KIMS is the dominant player in Hyderabad/Telangana followed by Apollo Hospitals. ▪ Most other large chains are not present in the city
Chennai		◔	●			▪ Apollo Hospitals is dominant by a distance in this market ▪ Fortis has a small presence (2 hospitals) but is struggling
Kolkata		◔	◑	◕		▪ NH leads listed peers in Kolkata, with its flagship RTIICS hospital and a few smaller units. Part of expansion plan. ▪ Apollo and Fortis have relatively smaller presence while Max and KIMS are absent in this market
Mumbai	◑	◑	◑	◔		▪ None of the listed hospital chains dominate the Mumbai market but most have a presence. ▪ KIMS has no hospital in the city but plans to enter this market over the next few years.

Source: Company, Ambit Capital research Note: ● *- Strong;* ◕ *- Relatively Strong;* ◑ *- Average;* ◔ *- Relatively weak* ○ *- Weak*

Exhibit 65: Cluster-based businesses have better margins and return on capital metrics given better ability to leverage brand and scale economies

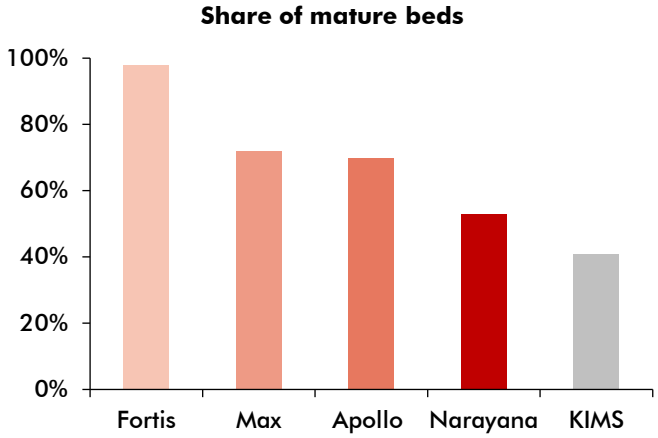


Source: Company, Ambit Capital research

Ability to absorb bed expansion

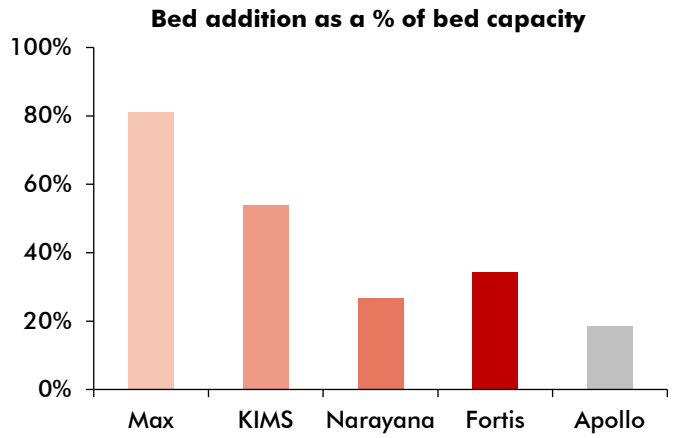
NH and Max Healthcare appear best-placed on the bed expansion front over the next few years. These two companies provide an optimum mix of bed expansion (that would support medium-term growth trajectory) and ability to execute the same while maintaining industry-high margins and RoCE. KIMS has adequate headroom in its current network to offset upfront costs on new bed addition. But foray into new markets poses additional risk. Fortis and Apollo Hospitals, on the other hand, have limited bed addition targets. This augurs well for the hospital business' profitability but would lead to lower growth vis-à-vis peers over the medium term.

Exhibit 66: Fortis and Max have highest share of mature beds in current networks...



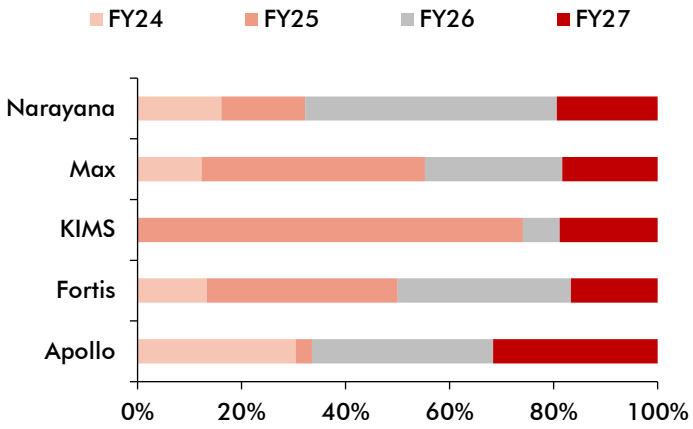
Source: Company, Ambit Capital research

Exhibit 67: ...while Max and KIMS have the most aggressive bed expansion plans over FY24-27



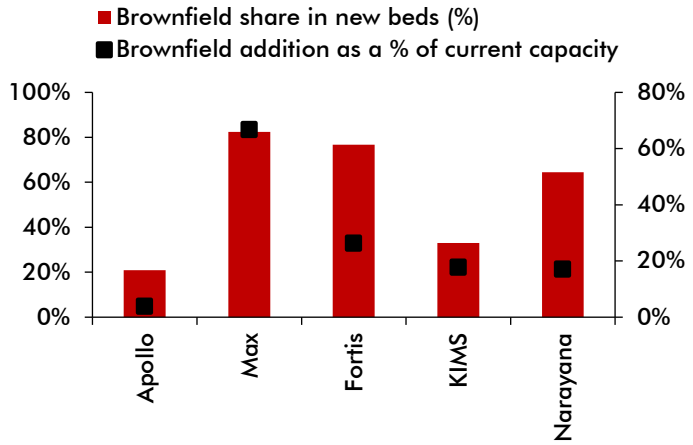
Source: Company, Ambit Capital research

Exhibit 68: Bed expansion is relatively front-ended for KIMS and Max and most back-ended for Apollo



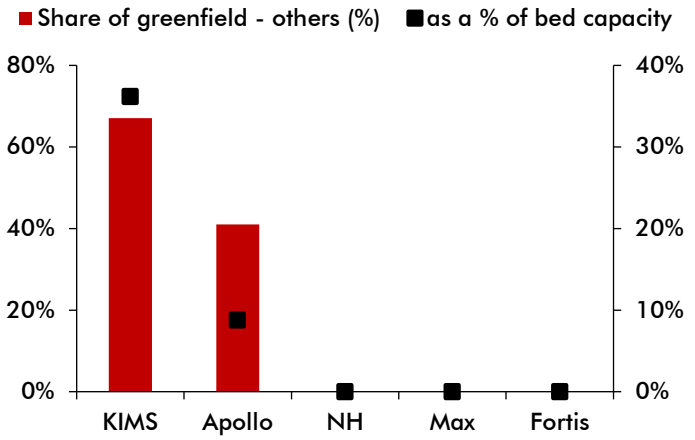
Source: Company, Ambit Capital research

Exhibit 69: High share of brownfield projects in expansion plans augur well for Max, Fortis and NH



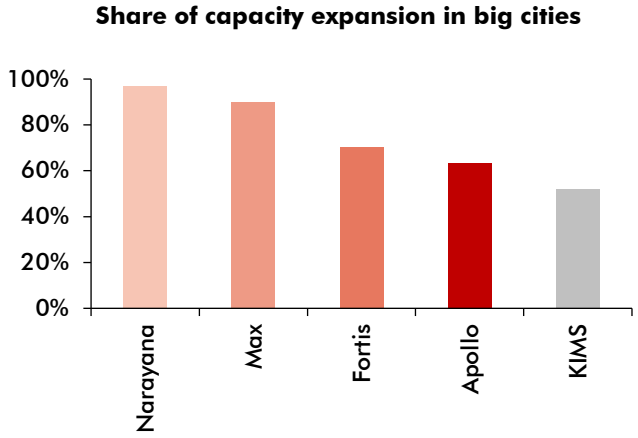
Source: Company, Ambit Capital research

Exhibit 70: Max, NH and Fortis have no beds coming up in new markets. KIMS mainly adding in new cities



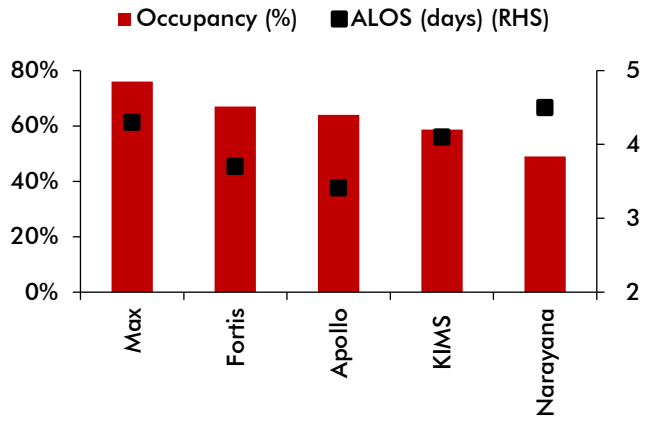
Source: Company, Ambit Capital research

Exhibit 71: Capacity addition is mostly in big cities: NH leads while KIMS lags



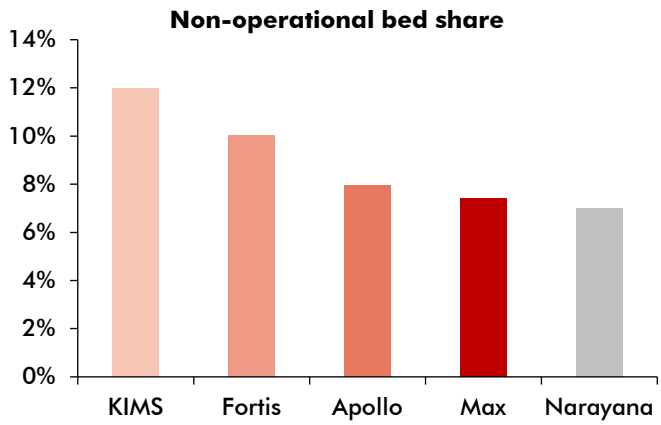
Source: Company, Ambit Capital research

Exhibit 72: NH has highest headroom in the current network. Max's growth most dependent on new beds



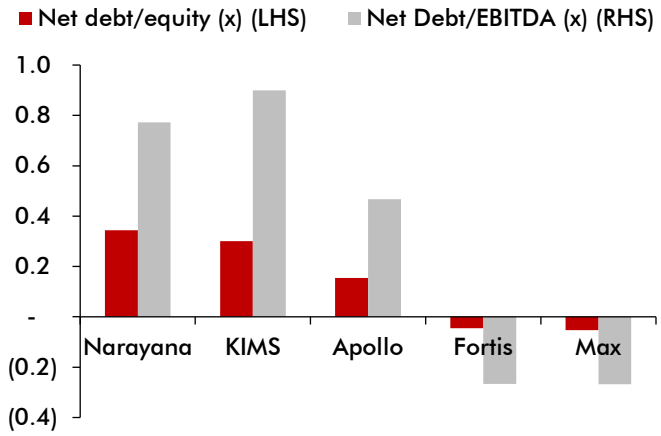
Source: Company, Ambit Capital research

Exhibit 73: Limited non-operational beds in current networks, though KIMS has some flexibility



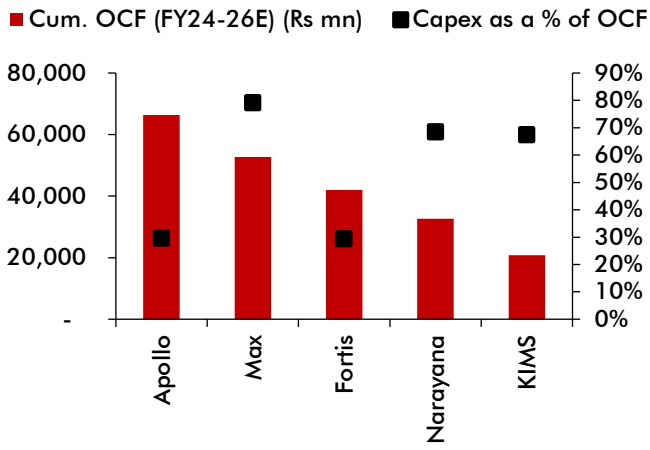
Source: Company, Ambit Capital research

Exhibit 74: Leverage positions appear highly comfortable across coverage companies ...



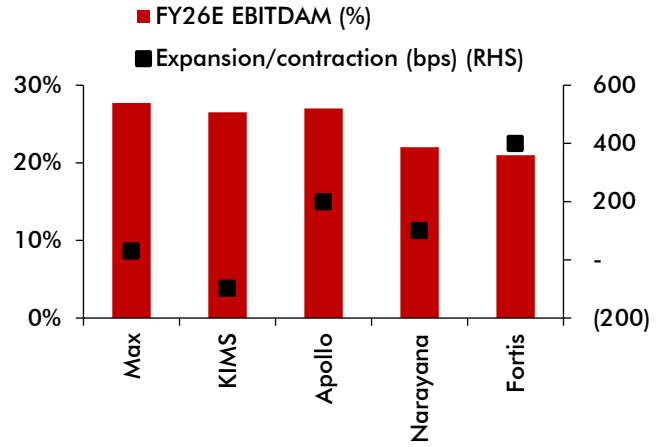
Source: Company, Ambit Capital research

Exhibit 75: ...and cash generation from mature hospitals to largely cover capex requirements



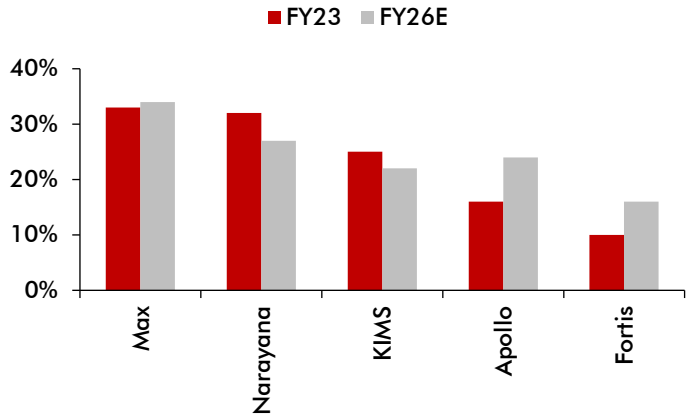
Source: Company, Ambit Capital research

Exhibit 76: Fortis and Apollo to be most resilient on margins over the FY24-26...



Source: Company, Ambit Capital research

Exhibit 77: ...which should translate into healthy RoCE despite capex step-up

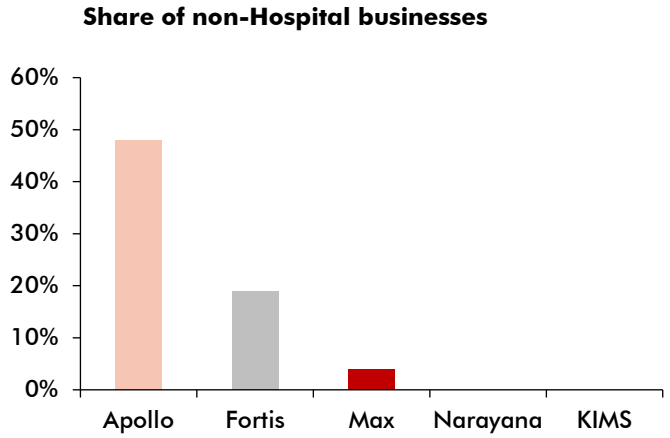


Source: Company, Ambit Capital research

Non-hospitals businesses

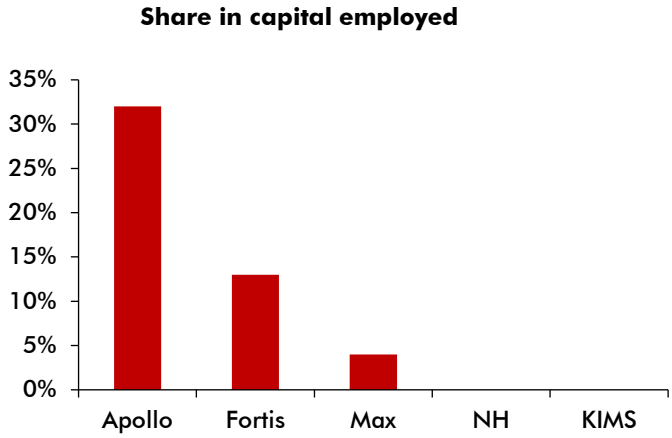
Apollo Hospitals, Fortis Healthcare and Max Healthcare have exposure to segments other than hospitals. Companies have been leveraging their well-known medical brands to target segments such as diagnostics, pharmacies, clinics etc. for a long time. However, the focus appears to have increased after companies saw better traction in these initiatives during the covid-19 pandemic. Such businesses could be a source of value creation over time. But most of them would also need a fair amount of capital allocation and seeding initiatives before they achieve critical scale.

Exhibit 78: Apollo has highest revenue exposure to non-hospital businesses...



Source: Company, Ambit Capital research

Exhibit 79: ...as well as highest share in capital employed towards non-hospital businesses



Source: Company, Ambit Capital research

Exhibit 80: Apollo Hospitals and Fortis Healthcare have meaningful businesses outside hospitals while Max Healthcare has only a small presence in a couple of adjacent areas

Company	Share of non-hospitals business			Market Positioning	Comments
	Revenues	EBITDA	Capital Employed		
Apollo Hospitals	**45%**	**-6%**	**~32%**		
- Pharmacy distribution	36%	23%	19%		▪ No. 1 organized pharmacy chain in India ▪ Should be able to clock 15-20% revenue growth with gradually improving margins over the next five to ten years
- Diagnostics	2%	1%	-		▪ Concerted effort to target non-captive diagnostics business ▪ Still quite small relative to sector leaders and likely to be in investment mode over the near-to-medium term
- Primary Care	2%	2%	-		▪ Combination of clinics, sugar clinics, dental care, dialysis etc. ▪ Stiff competition from small, unorganized as well as local businesses – difficult to consolidate ▪ Unlikely to shift the needle much in the near-to-medium term
- Digital health (24/7)	4%	-33%	-		▪ Digital channel to cater to demand for medicines, tests and online consultations – has been seeing good traction over last two years ▪ Ability to capture the full value of an order courtesy its backend physical infrastructure sets it apart from most other digital players ▪ Still in investment mode, likely to break-even at EBITDA level by end of FY24/FY25
Fortis Healthcare	**21%**	**24%**	**13%**		
- Diagnostics	21%	24%	13%		▪ Ranked second in terms of revenues behind Dr Lal Pathlabs ▪ Margins have been consistently lower than those of Dr Lal and Metropolis – believe this is due to multiple acquisitions that led to excess testing capacity relative to the latter ▪ May evaluate a demerger and separate listing of this business – it was on the cards in the past but got blocked due to Daiichi Sankyo's ongoing legal tussle with Fortis' erstwhile promoters
Max Healthcare	**4%**	**1%**	**<5%**		
- Diagnostics	2%	0%	2%		▪ Started focusing on retail pathology services after seeing the traction during the pandemic ▪ Still a relatively small business but aspires to be one of the sector leaders over the next few years, open to inorganic initiatives
- Home Health	2%	1%	N.A.		▪ A platform that provides health and wellness services at home ▪ Critical care, physio and rehab and medicine delivery are key services
Narayana	0%	0%	0%	NA	
KIMS	0%	0%	0%	NA	

Source: Company, Ambit Capital research Note: - Strong; - Relatively Strong; - Average; - Relatively weak - Weak

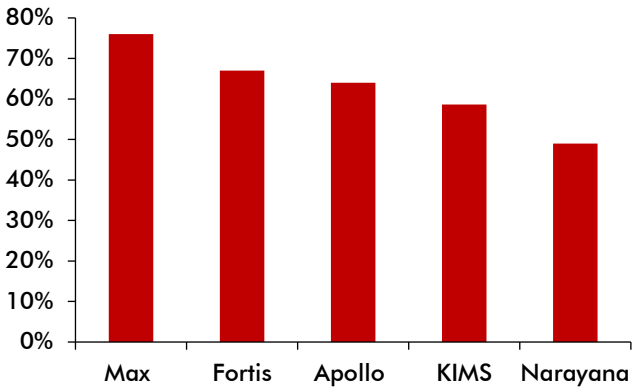
- Apollo has the highest leverage to businesses outside traditional hospital care with its leadership position in pharmacy distribution as well as the Apollo 24/7 digital initiative. The latter is a drain on EBITDA at the moment. But with spend having topped out, operating leverage is likely to kick in over the medium-to-long-term.
- Fortis' subsidiary, Agilus Diagnostics (formerly SRL), is among the top five players in diagnostics.
- Max has fledgling businesses in diagnostics and home health. But these are unlikely to move the needle much in the foreseeable future.

Operating and financial strength

Most Indian hospital chains have been in consolidation mode over the last few years. This has led to improving operating and financial metrics for all.

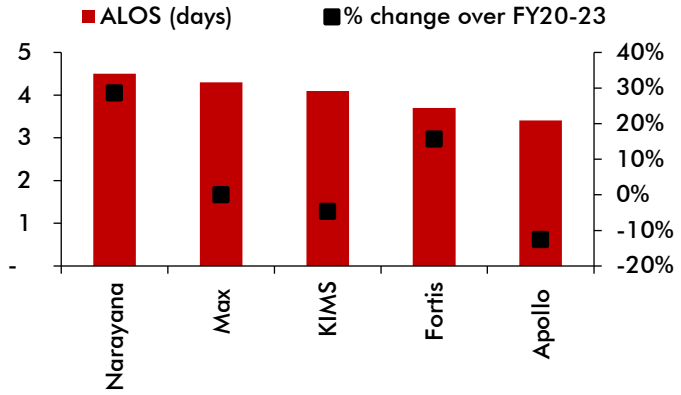
- We see some headroom for NH and Fortis to catch up with the other three, viz. Apollo, Max and KIMS as occupancy levels improve further and efficiency/debottlenecking initiatives allow for growth without meaningful bed addition.
- A comparison across companies suggest that there is room for different types of business models in the Indian healthcare delivery space. Premium, big-city models such as Max Healthcare and affordable care providers with reasonable Tier-2/3 city exposure such as KIMS are able to clock similar margins and return on capital metrics at optimum occupancy/ALOS levels.
- All companies are well-placed to execute bed addition plans from a funding perspective. Leverage is low and operating cashflow should largely cover capex requirements for all coverage companies.

Exhibit 81: Occupancy is high across the board with NH having headroom subject to debottlenecking



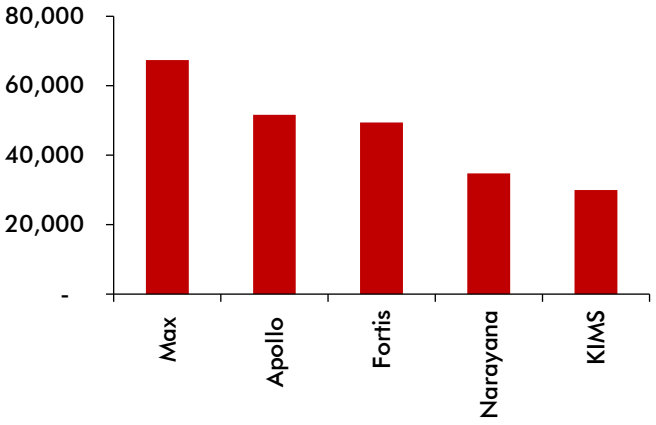
Source: Company, Ambit Capital research

Exhibit 82: ALOS is a key driver of efficiency: Apollo leads but most have done well over the years



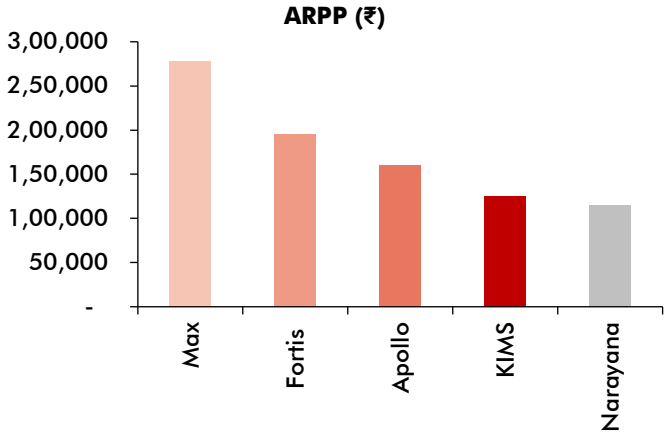
Source: Company, Ambit Capital research

Exhibit 83: Wide variance in ARPOB is largely a function of geography, case and payer mix...



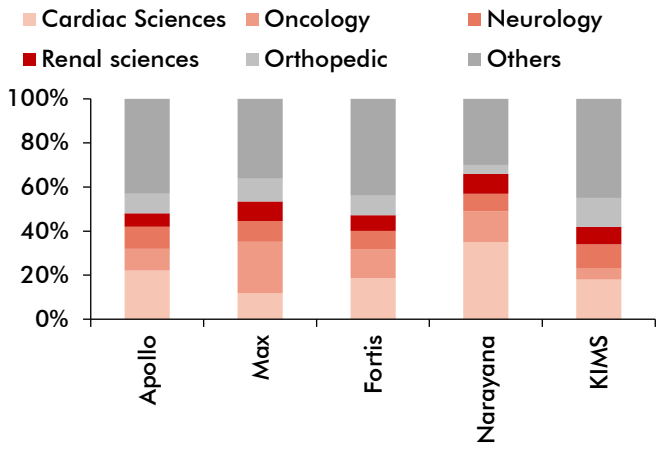
Source: Company, Ambit Capital research

Exhibit 84: ...but ALOS helps bridge the gap in average revenue per patient (ARPP) to some extent



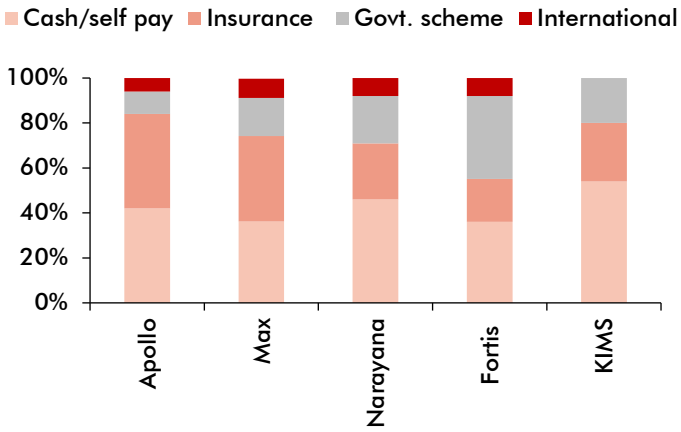
Source: Company, Ambit Capital research

Exhibit 85: Case mix: NH leads on cardiac while Max leads on oncology; the rest are more diversified



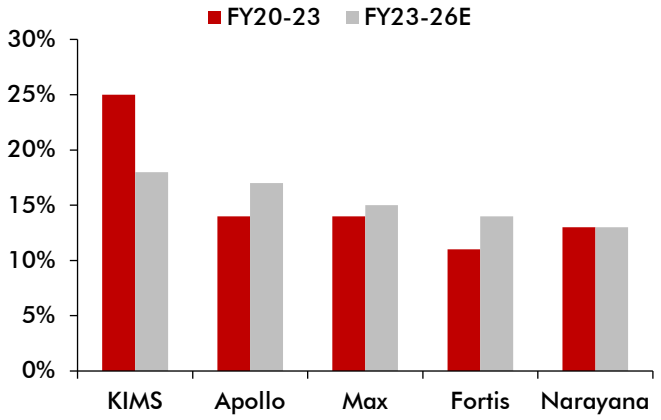
Source: Company, Ambit Capital research

Exhibit 86: Payer mix: Max and Apollo have lower share of govt.-scheme business relative to peers



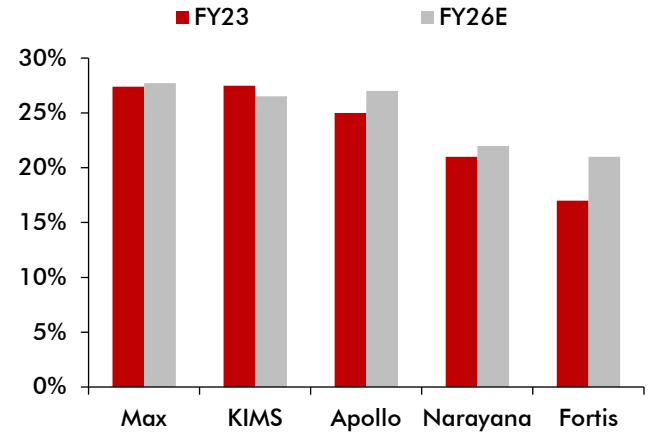
Source: Company, Ambit Capital research

Exhibit 87: Revenue growth: KIMS leads courtesy aggressive bed expansion



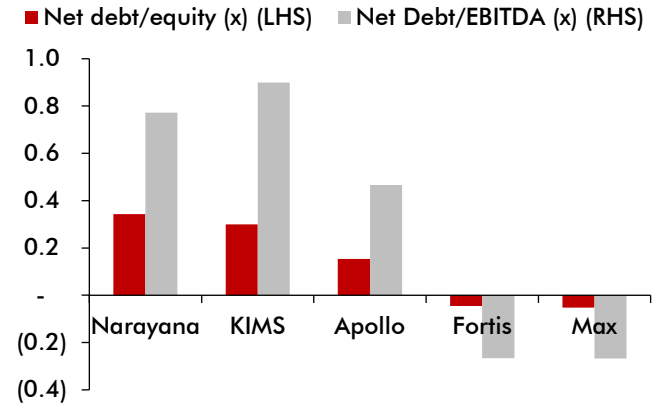
Source: Company, Ambit Capital research

Exhibit 88: EBITDA margins: Max, KIMS and Apollo are strongest, NH and Fortis catching up gradually



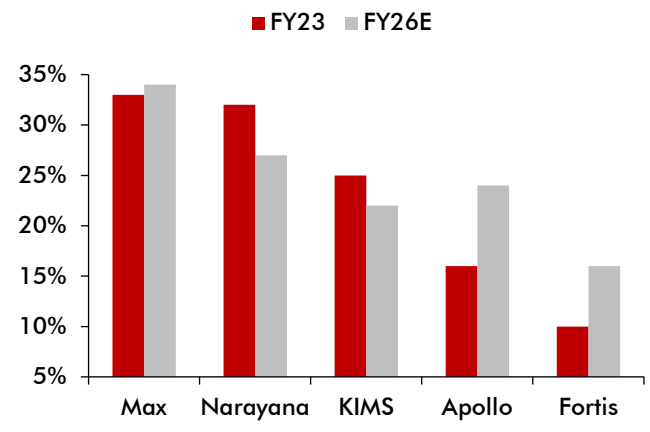
Source: Company, Ambit Capital research

Exhibit 89: Leverage is comfortable across the board, implying comfort going into an expansion phase



Source: Company, Ambit Capital research

Exhibit 90: RoCE to converge as expansion plans vary. Apollo pulled down by non-hospitals segments



Source: Company, Ambit Capital research

Exhibit 91: Indian hospitals dashboard – key operating and financial metrics

Hospital-chain	Apollo	Max	NH	Fortis	KIMS
Scale / network					
No. of hospitals (#)	43	17	18	22	12
Licensed beds (#)	8,534	3,504	5,632	4,369	3,940
Operating beds (#)	7,860	3,282	5,334	3,975	3,468
Beds/hospital	198	206	313	199	328
GB/ bed	10	10	4	19	5
Expansion plan (FY24-27)	~1,800 beds over next 5 years, largely greenfield	~2,800 beds over next 5 years	~1,500 beds over next 5 years, largely brownfield	~1,500 brownfield beds (over 5 years) + 1 350-bed greenfield	~2,000 beds over next 3-5 years, mostly greenfield
Key markets					
Delhi/NCR	◑	●	◔	◕	
Mumbai	◑	◑	◔	◑	
Hyderabad	◕				●
Chennai	●			◔	
Bengaluru	◑		●	◑	
Kolkata	◑		◕	◔	
Case mix					
Cardiac sciences	22%	12%	35%	19%	18%
Oncology	10%	23%	14%	13%	5%
Neurology	10%	10%	8%	8%	11%
Renal sciences	6%	9%	9%	7%	8%
Orthopaedic	9%	10%	4%	9%	13%
Others	43%	36%	30%	44%	45%
Payer mix					
Cash/self-pay	42%	36%	46%	36%	54%
Insurance	42%	38%	25%	36%	26%
Govt. scheme	10%	17%	21%	19%	20%
International	6%	9%	8%	8%	0%
Operating metrics					
Occupancy (%)	64%	76%	49%	67%	57%
ARPOB (₹/day)	51,668	67,400	34,795	55,101	30,290
ALOS (days)	3.4	4.3	4.4	3.7	4.1
ARPP (₹)	160,420	277,480	115,100	195,661	125,621
Financial metrics (Hospitals biz)					
Revenues (₹ mn)	86,768	58,750	34,967	51,070	22,235
EBITDA (₹ mn)	21,331	15,970	6,666	9,000	5,766
Revenue/bed (₹ mn)	11.0	17.9	6.6	12.8	6.4
EBITDA/bed (₹ mn)	2.7	4.9	1.2	2.3	1.7
EBITDA/occupied bed	4.2	6.4	2.6	3.4	2.9
Profitability (Hospitals)					
EBITDA margin (%)	25%	27%	19%	18%	26%
RoCE (%)	25%	33%	32%	10%	25%
Net debt/equity#	0.2	(0.1)	0.2	(0.0)	0.3
Net debt/EBITDA#	0.5	(0.3)	0.4	(0.3)	0.9
Growth (FY23-26E | FY20-23)					
Bed count	3% | 2%	16% | 1%	6% | -2%	8% | 2%	12% | 9%
Revenues	12% | 14%	15% | 14%	10% | 11%	13% | 11%	18% | 25%
EBITDA	10% | 9%	16% | 33%	21% | 11%	20% | 22%	17% | 32%
RoCE (bps)	814 | 221	71 | 638	-523 | 1,886	556 | 656	-361 | 467

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

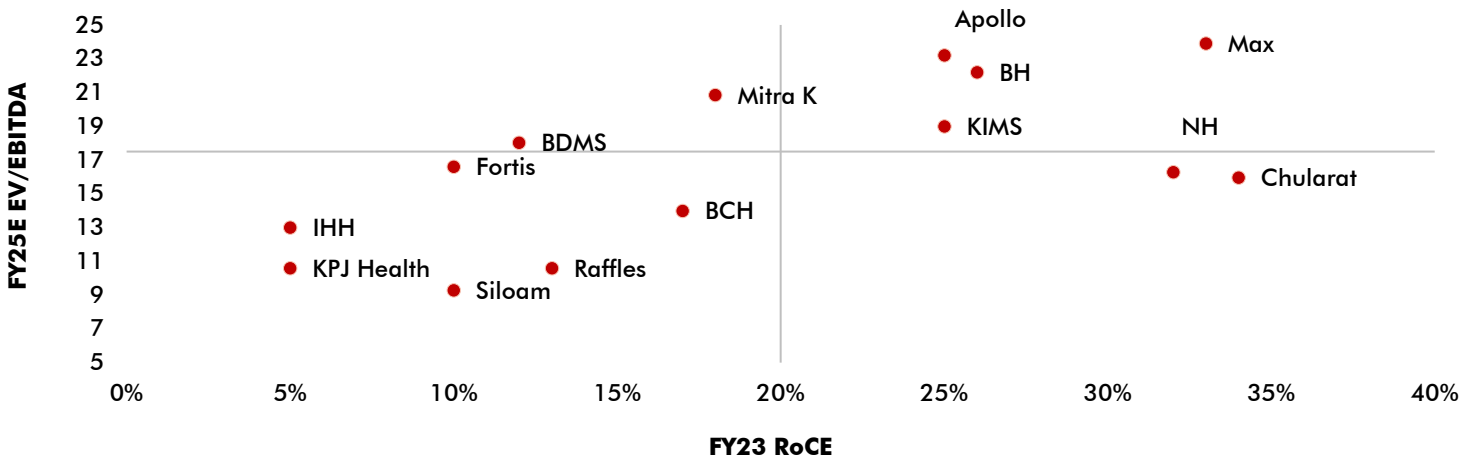
Valuations at new normal

Hospital stock valuations correlate better with RoCE than growth or profitability. Indian hospital stocks have re-rated over the last three to four years and trade at a premium to regional peers. This was led by ~1,300bps expansion in sector RoCE over FY19-23 as occupancy gains were supplemented by lower average length of stay and improving case and payer mix. This is the first time that multiple companies have delivered healthy (~25-33%) RoCE for the business as a whole rather than just in isolated hospitals/clusters. Moreover, despite ~38% planned addition to bed capacity over the next four years, RoCE of sector leaders should sustain in the 20-25% range. Current premium valuations should sustain on the back of this RoCE comfort and resilience.

Valuations correlate best with return on capital

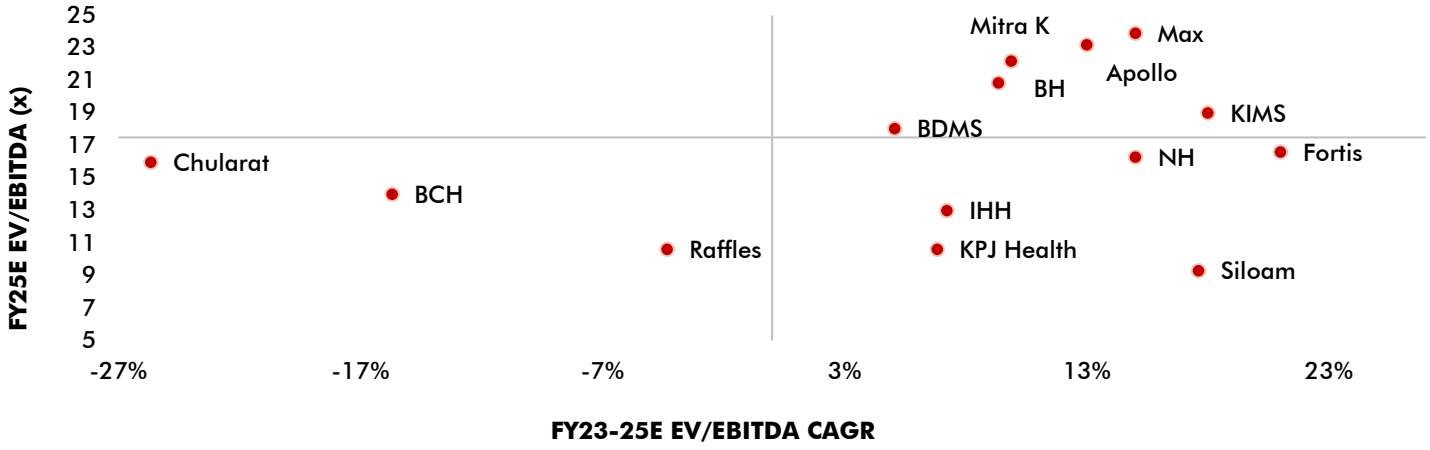
Hospital stock valuations correlate much more closely to return on capital metrics than growth rates or profitability. Given structural growth drivers in India and other emerging markets, achieving revenue and earnings growth is not difficult for leading players. Ability to invest in capacity and execution (in terms of drawing in patients, improving utilization, length of stay etc.) are the key challenges. Valuations tend to be higher for companies that are able to do these better.

Exhibit 92: Hospital stocks correlate well with RoCE; most Indian hospitals have re-rated as RoCE expanded



Source: Company, Ambit Capital research, Note: RoCE is for the hospitals business

Exhibit 93: Growth does not appear to be as strong a driver of valuations

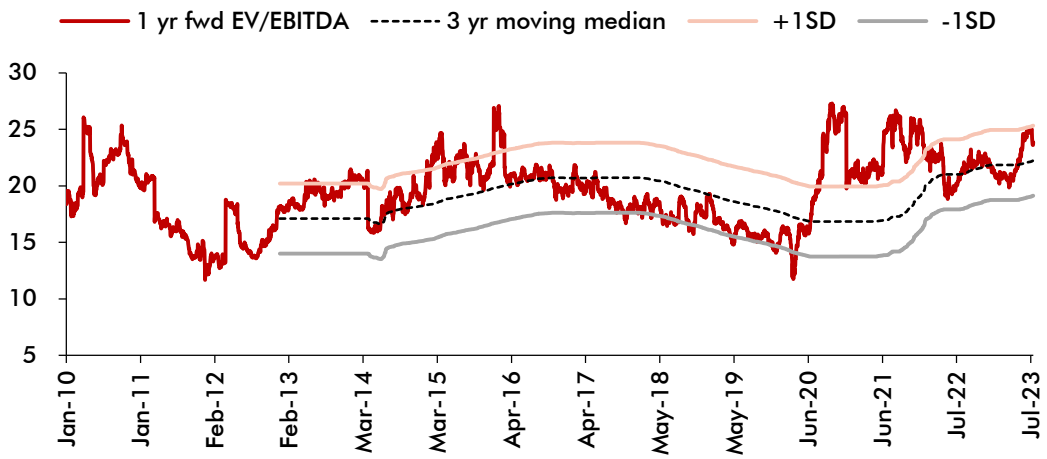


Source: Company, Ambit Capital research

Reflects in Indian hospital stocks' re-rating in recent years

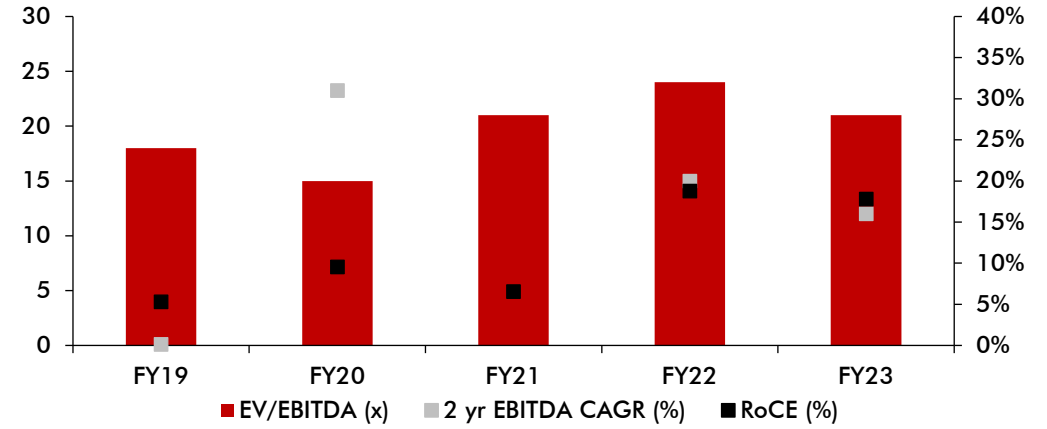
Indian hospital stocks have re-rated over the last three to four years led by sharp improvement in RoCE. Limited bed addition and maturing hospital networks led to healthy revenue growth, operating leverage-led margin expansion and improving RoCE. Stock valuations have followed suit.

Exhibit 94: Indian hospitals valuations have re-rated over the last three to four years – trading at 1SD above 3 year forward median EV/EBITDA...



Source: Company, Ambit Capital research; Note: Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

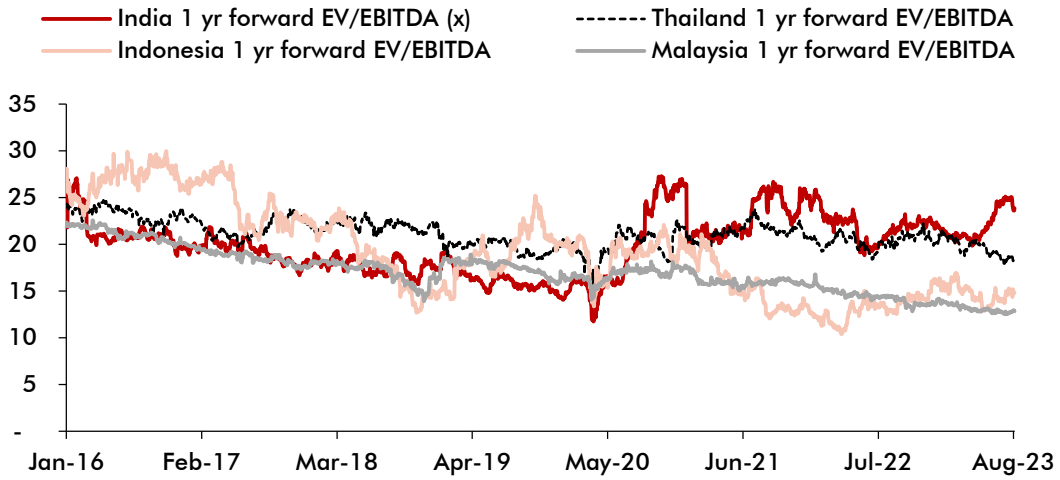
Exhibit 95: ...led by improving RoCE even as growth was volatile around the pandemic



Source: Company, Ambit Capital research; Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

Indian hospital stocks now trade at a premium to most regional peers too. This is unlike a few years back when they traded at a discount to hospitals across markets such as Indonesia, Thailand and Singapore.

Exhibit 96: India hospital chains now trade at a premium to regional peers as compared to pre-pandemic levels



Source: Company, Ambit Capital research; Note: Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare, KIMS, Bangkok Dusit, Bumrungrad, Bangkok Chain, Chularat, Mitra Keluarga, Siloam International, IHH Healthcare, KPJ Healthcare

Indian hospital chains have always grown faster than regional peers given lower healthcare penetration and greater dependence on the private sector. However, lower return on capital metrics kept valuations at a discount. Improving RoCE across the sector was the key driver of valuation convergence over the last few years. Lower dependence on international patients also helped. This led to Indian companies being more resilient through the Covid-19 pandemic than peers in Thailand and Singapore/Malaysia. This valuation premium should sustain as growth headroom remains high and companies have demonstrated ability to grow while maintaining 20-25% RoCE.

RoCE resilience, validation to support multiples

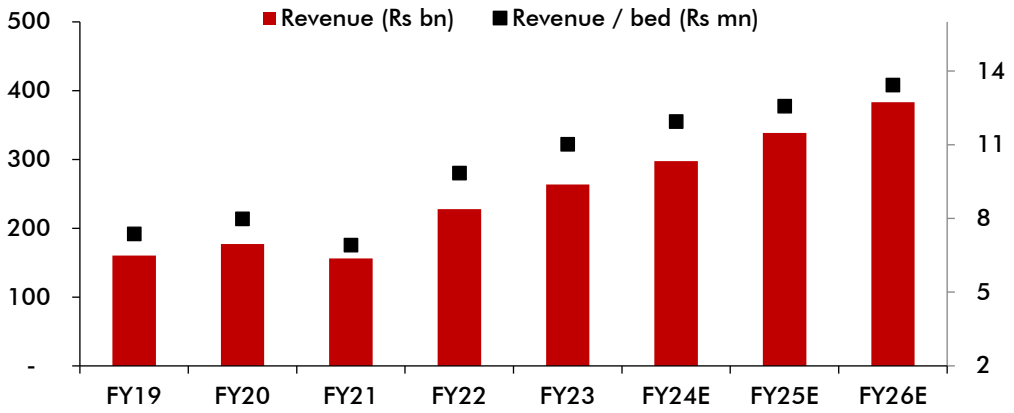
We expect current premium valuations to sustain for two reasons – validation on overall business RoCE and likely RoCE resilience even as companies build longer-term growth headroom via bed expansion projects over the next few years.

- Leading hospital chains have now demonstrated that they can achieve RoCE in the 25-30% range for the business as a whole and not just in isolated hospitals. This is the first time this has happened for the sector in India and addresses a key investor concern.
- Our analysis of hospital chains' current networks and expansion plans suggests that companies would be able to maintain RoCE in the current range despite adding meaningfully to bed capacity over the next three to four years. High share of brownfield projects in expansion plans, continued growth and margin improvement in current networks and ability to fund most of the expansion internally are key enablers.

Growth beyond bed addition

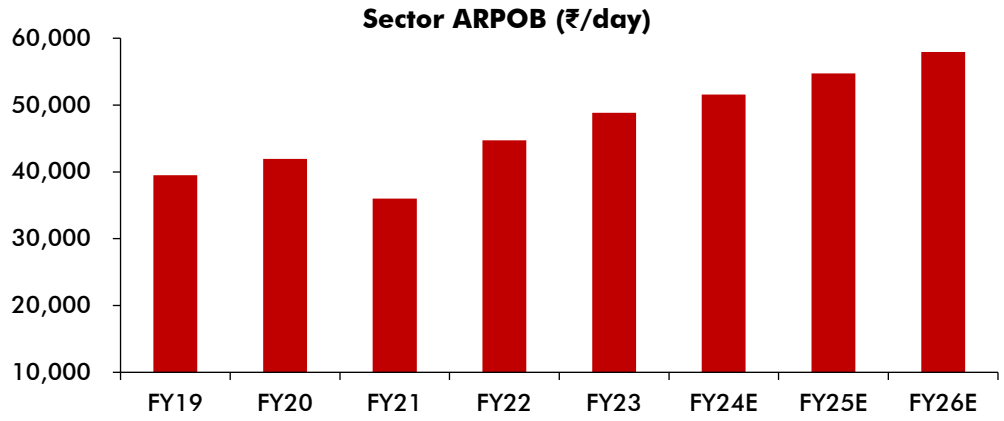
Sector revenues grew 12% CAGR over FY19-23 despite just 2% CAGR in operational beds. This was led by rising occupancy, ability to reduce ALOS as well as improving case mix. This trend is likely to continue as we see headroom in current networks of most hospital chains. We forecast 13% CAGR in sector revenues over FY23-26.

Exhibit 97: Consistent improvement in sector revenue/bed led by improving occupancy, length of stay and case/payer mix



Source: Company, Ambit Capital research; Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

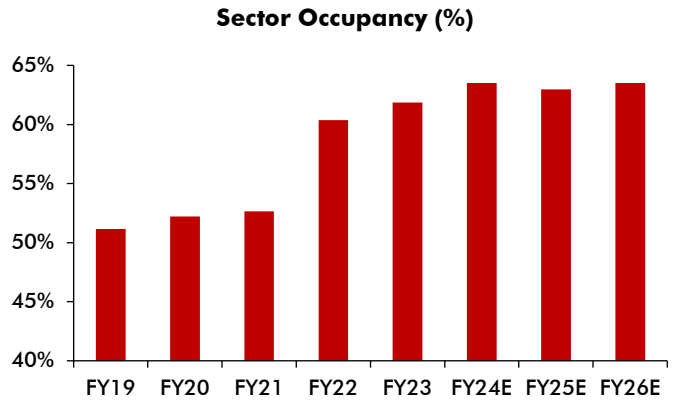
Exhibit 98: Improvement in sector ARPOB likely to sustain ...



Source: Company, Ambit Capital research; Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

Reducing length of stay has allowed hospitals to create headroom to grow without adding beds. Since a majority of income from a patient is accrued within the first two days of admission, ability to discharge a patient sooner adds to the revenue generating capability of the bed over the full year. Advances in medical technology that support minimally invasive surgeries have helped most hospital chains to bring down ALOS in their networks. This has been a key contributor to revenue growth over the last few years. It is likely to be a key driver over the next few years as well.

Exhibit 99: ...as occupancy remains in the 60% range



Source: Company, Ambit Capital research; Companies considered: Apollo Hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

Exhibit 100: ...led by dip in ALOS for most chains

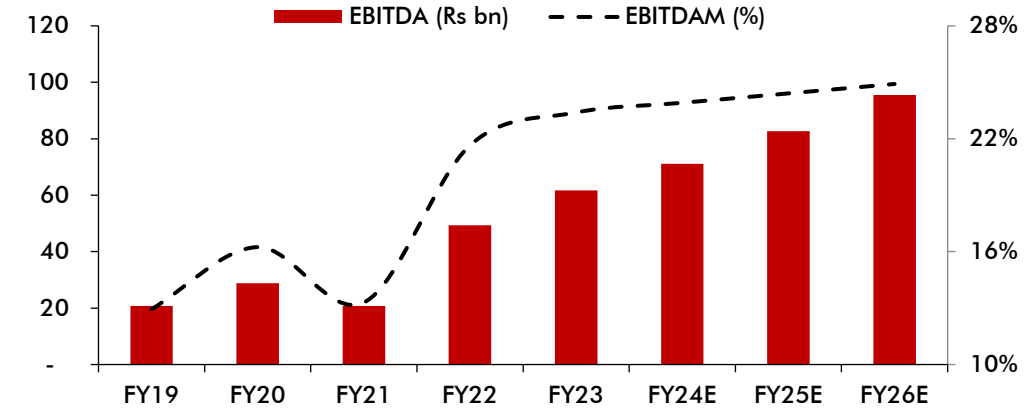
ALOS (days)	FY19	FY20	FY21	FY22	FY23
Apollo	4.0	3.9	4.2	4.0	3.4
NH	3.9	3.5	4.6	4.8	4.4
Max	4.4	4.3	5.1	4.7	4.3
Fortis	3.4	3.2	3.6	3.7	3.7
KIMS	4.5	4.3	5.5	4.8	4.1

Source: Company, Ambit Capital research

Operating leverage led profitability gains

Profitability has also improved across the board. Sector EBITDA margin rose from 29% in FY19 to 35% in FY23. This is primarily driven by improving utilization of beds. Besides improving occupancy, ability to reduce length of stay has allowed the industry to extract more out of operational beds. Despite pick-up in bed addition over the next three to four years, headroom in current networks and largely brownfield nature of expansion projects should help sustain EBITDA margins in the ~25% range.

Exhibit 101: Sector EBITDAM to sustain in the 24-25% range aided by headroom in current networks and largely brownfield nature of expansion

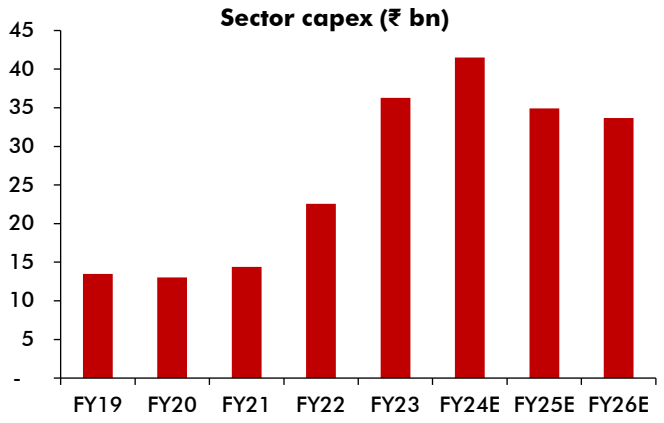


Source: Company, Ambit Capital research; Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

Investment has not slackened despite limited bed addition

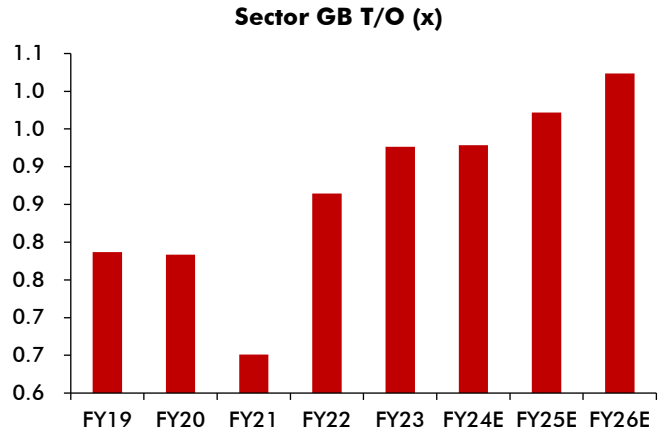
Interestingly, while bed addition has been low over the last five years, the industry has kept investing in the business. Cumulative capex for our coverage companies was at ~₹100bn (10% of revenues) over FY19-23. This reflects efforts to upgrade clinical capabilities at existing hospitals – for instance, proton-therapy (at Apollo), robotic surgeries, adding capabilities in oncology, organ-transplant etc. Companies have been able to leverage these investments to grow revenues as reflected in the steadily improving gross-block turnover. This is likely to continue and support RoCE over the next few years.

Exhibit 102: Low bed addition hides the fact that industry has kept investing in the business



Source: Company, Ambit Capital research; Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

Exhibit 103: Revenues have kept pace and we expect more of the same over FY24-26

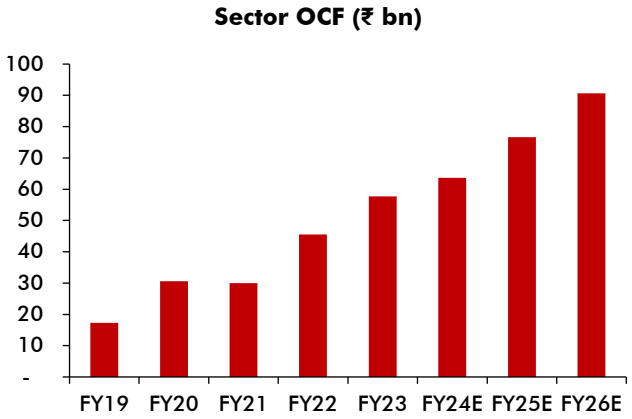


Source: Company, Ambit Capital research; Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

Funding comfort is a lot higher too

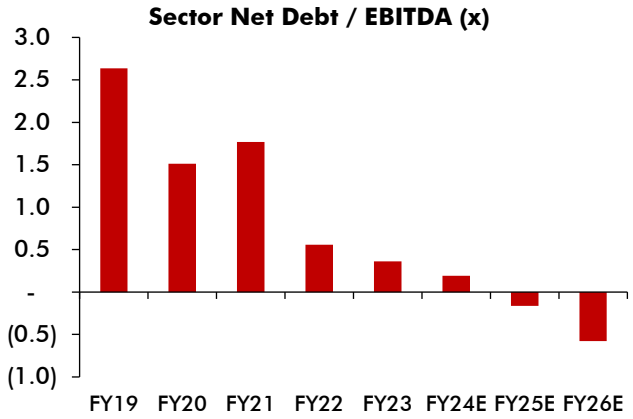
Most leading hospitals now have a large number of mature beds/hospitals that are not only growing in the high-single-digit range but also generating meaningful cash. This has allowed these companies to fund a much larger share of capex internally. Sector net-debt/EBITDA has dipped consistently over the years and is likely to dip further over the next few years. This is likely to continue through the next expansion phase too.

Exhibit 104: Rising salience of mature beds leading to consistent improvement in cash generation...



Source: Company, Ambit Capital research; Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

Exhibit 105: ...which leads to much more comfort on ability to fund the next round of expansion

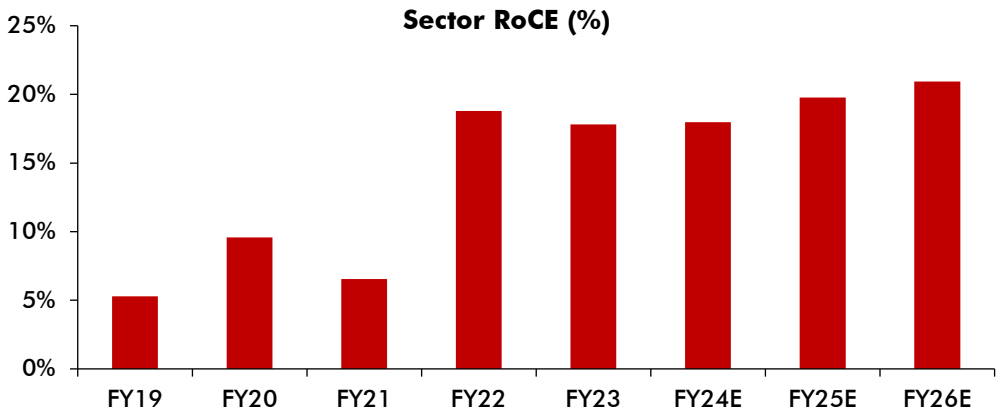


Source: Company, Ambit Capital research; Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

RoCE structurally higher and should support premium multiples

Improving profitability and revenue trajectory have led to a marked improvement in return on capital metrics. Sector RoCE improved from ~5% in FY19 to ~18% in FY23. Barring Fortis Healthcare (10%), hospitals businesses of all leading hospital chains clocked 25-33% RoCE in FY23. Headline RoCE is suppressed by initiatives by some companies to build non-hospitals businesses. For instance, Apollo is in investment phase for retail pharmacies, diagnostics and the Apollo 24/7 platform. This pulled down the company's reported RoCE to 16% in FY23 vs. 25% for the hospitals business. The street is unlikely to penalize valuations for such investments.

Exhibit 106: Indian hospitals' RoCE has expanded ~1,300bps over FY19-23 despite sector leaders' initiatives to seed new businesses



Source: Company, Ambit Capital research; Companies considered: Apollo hospitals, Max Healthcare, Narayana Hrudayalaya, Fortis Healthcare and KIMS

We expect sector RoCE to improve further to ~21% by FY26E as Fortis sees improvement while other companies are able to protect current levels despite step-up in growth capex. Over FY23-27, the sector would have added 38% to current bed capacity. This ability to add to growth headroom without hurting return ratios would help Indian hospital stocks sustain at premium valuations.

Stock recommendations

We initiate coverage with BUY on Apollo Hospitals, Max Healthcare, Fortis Healthcare and Krishna Institute of Medical Sciences (KIMS). We reiterate our BUY rating on Narayana Hrudayalaya with a higher target price of ₹1,280/share.

NH and Max are our top picks followed by Fortis, Apollo and KIMS.

- NH and Max Healthcare are our top picks. These companies provide an optimum mix of bed addition (that creates headroom to grow in future) and ability to absorb the same with limited impact on margins and return on capital metrics. We prefer NH over Max given relative valuation comfort.
- Fortis is seeing the benefits of ownership change. IHH's initiatives have improved margins across the network and also improved balance sheet position meaningfully. This is reflected in more ambitious bed expansion plan over the next three to five years. It should translate into higher revenue growth as well: 13% CAGR over FY23-26 vs. 11% over FY19-23. Lower RoCE vs. peers and some legal uncertainty make us value it at a lower multiple vis-à-vis peers.
- Apollo has modest bed addition planned in the medium term and has headroom to grow in its new hospitals cohort. Efforts to seed retail health businesses and the 24/7 platform are positives too. Valuations pull it down to fourth in our pecking order. KIMS has high and front-ended bed addition plans. Moreover, these are mostly in new markets, which adds an element of risk on execution.

Exhibit 107: NH and Max Healthcare are our top picks in the sector

Company	Current Price	Target Price	Upside	Implied EV/EBITDA		Investment thesis
				FY25E	FY26E	
Apollo Hospitals	4,941	5,720	16%	28	23	▪ Leadership and footprint in hospitals and pharmacies have strengthened brand equity and improved ability to fund growth initiatives ▪ Emerging retail-health and 24/7 digital platform augment core strengths ▪ Modest medium term bed addition and headroom in current network to help improve margins and RoCE
Max Healthcare (**TOP BUY**)	533	670	26%	29	25	▪ Leading hospital-chain in North India, especially Delhi/NCR. Concentrated, cluster-based model allows it to leverage brand equity better ▪ Low bed density in home markets, brownfield dominated expansion allow growth with limited margin/RoCE impact ▪ Cash on books (~₹15bn), FY24-26E cumulative OCF (₹53bn) imply limited dependence on external funds
Fortis Healthcare	320	415	30%	20	16	▪ Change in ownership and management is positive. IHH acquired control in 2018 and has improved efficiency across current network hospitals ▪ Efforts to strengthen balance sheet paying off. Growth is back on the agenda as reflected in bed addition plans, to reflect in higher revenue growth ▪ Legal cloud related to Daiichi-erstwhile founders stand-off gradually fading
Narayana Hrudayalaya (**TOP BUY**)	989	1,280	29%	21	19	▪ Best-placed among peers to absorb next bed expansion phase ▪ Largely brownfield bed-adds (2/3rd) + greenfield projects in core markets ▪ Most headroom to grow in current network via debottlenecking efforts
KIMS	1,901	2,165	14%	22	19	▪ Concentrated, cluster-based model, affordable-care positioning and doctor equity-participation are differentiators ▪ 2/3rd of planned expansion via greenfield projects in new cities, adds risk ▪ Growth headroom in current network, funding comfort are mitigants

Source: Company, Ambit Capital research

Exhibit 108: Healthcare valuation snapshot

Global Healthcare	Mcap	Ambit's Stance	P/E (x)			EV/EBITDA (x)			RoE (%)			CAGR (FY23-25E) (%)		
	US$mn	BUY/SELL	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	Sales	EBITDA	EPS
India														
Apollo	8,543	BUY	87	75	50	36	31	24	13%	13%	17%	17%	19%	32%
Max	6,213	BUY	38	42	35	32	28	23	17%	13%	14%	14%	17%	4%
Fortis	2,902	BUY	47	32	25	22	18	14	8%	10%	11%	13%	21%	36%
Narayana	2,430	BUY	33	31	26	21	19	16	34%	28%	28%	14%	15%	13%
Medanta	2,226	-	57	44	37	30	24	20	16%	16%	16%	17%	21%	24%
Aster DM	1,866	-	37	28	19	14	11	10	10%	12%	14%	12%	17%	39%
KIMS	1,828	BUY	45	48	41	26	22	19	21%	17%	17%	20%	17%	5%
Rainbow	1,272	-	50	47	39	26	24	21	25%	19%	19%	20%	10%	14%
HCG	549	-	155	70	36	18	15	13	3%	7%	10%	12%	19%	108%
Shalby	244	-	30	25	20	16	13	11	8%	8%	9%	14%	22%	21%
Median			**46**	**43**	**35**	**24**	**21**	**18**	**15%**	**13%**	**15%**	**14%**	**18%**	**23%**
Thailand														
Bangkok Dusit	12,694	-	35	33	31	20	19	18	15%	15%	15%	6%	5%	7%
Bumrungrad Hospital	5,597	-	40	35	32	22	24	22	27%	27%	26%	10%	10%	12%
Bangkok Chain Hospital	1,297	-	15	31	26	17	15	14	24%	11%	12%	-17%	-19%	-24%
Chularat	927	-	12	28	28	19	17	16	37%	15%	16%	-9%	-28%	-36%
Median			**25**	**32**	**29**	**20**	**18**	**17**	**25%**	**15%**	**16%**	**-1%**	**-7%**	**-8%**
Indonesia														
Mitra Keluarga	2,554	-	37	36	30	26	24	21	19%	18%	19%	10%	7%	11%
Siloam International Hospitals	1,736	-	37	27	22	11	11	9	10%	14%	15%	11%	19%	29%
Median			**37**	**31**	**26**	**19**	**18**	**15**	**15%**	**16%**	**17%**	**11%**	**13%**	**20%**
Malaysia/Singapore														
IHH Healthcare	11,415	-	34	32	28	11	14	13	6%	6%	7%	5%	8%	9%
Raffles Medical Group	1,782	-	17	19	19	10	11	11	15%	12%	12%	3%	-4%	-5%
KPJ Healthcare	1,122	-	29	23	21	12	11	11	8%	10%	10%	7%	8%	17%
Median			**29**	**23**	**21**	**11**	**11**	**11**	**8%**	**10%**	**10%**	**5%**	**8%**	**9%**
Middle East														
Dr Sulaiman Al Habib Medical Services Group	24,638	-	56	49	41	43	41	34	29%	30%	32%	18%	17%	16%
Mouwasat Medical Services	5,632	-	35	31	27	24	22	20	22%	22%	23%	14%	14%	15%
Dallah Healthcare Co	3,897	-	49	44	35	30	27	24	14%	14%	15%	12%	14%	18%
Al Hammadi	2,257	-	33	28	25	20	19	17	15%	17%	18%	11%	12%	14%
Middle East Healthcare Co	1,477	-	74	33	23	19	18	15	6%	12%	15%	15%	34%	79%
Median			**49**	**33**	**27**	**24**	**22**	**20**	**15%**	**17%**	**18%**	**14%**	**14%**	**16%**
US														
HCA Healthcare	73,102	-	14	15	13	9	9	9	NA	NA	NA	6%	3%	2%
Universal Health Services	9,094	-	14	13	13	8	8	7	11%	12%	12%	5%	5%	4%
Tenet Healthcare	7,404	-	19	13	11	7	7	7	38%	33%	32%	5%	5%	31%
Community Health Systems	480	-	10	N/A	12	8	8	8	34%	6%	-3%	2%	2%	-10%
Median			**14**	**13**	**13**	**8**	**8**	**8**	**36%**	**9%**	**4%**	**5%**	**4%**	**3%**
China														
Aier Eye Hospital	23,099	-	60	46	35	NA	27	22	18%	18%	20%	22%	23%	30%

Source: Bloomberg, Ambit Capital research;

Apollo Hospitals

BUY

INITIATING COVERAGE | **APHS IN EQUITY** | **August 17, 2023**

Pan-India integrated healthcare play

Leadership and footprint in hospitals and retail pharmacies have strengthened AHEL's brand equity and improved cash generation. This has improved ability to fund bed expansion and seed emerging retail health businesses and 24/7 digital health platform without meaningfully impacting margins and return-on-capital. FY24-27 bed addition is modest at ~21% and growth headroom in current network would support steady growth and margins/RoCE in hospitals. Rising traction in non-hospitals businesses should lead to step-up in revenue growth (17% CAGR over FY23-26E vs 15% over FY19-23), margins (+120bps) and RoCE (+800bps to 24%). DCF-based TP of ₹5,720 implies 28x FY25E exit EV/EBITDA, supported by improving growth/margins/RoCE. Key risks: Slower traction in non-hospitals businesses, higher-than-expected 24/7-related drag.

Competitive position: STRONG | Changes to this position: POSITIVE

Emerging integrated healthcare play

Consistent bed addition over time has made AHEL a pan-India hospital chain with dominance in Tamil Nadu, AP/Telangana and emerging presence in multiple other markets. Rising scale has improved brand equity and ability to fund future bed expansion as well as seed non-hospitals businesses such as retail pharmacies, diagnostics, primary care and a digital health platform.

Modest bed expansion, seeding non-hospitals businesses

FY24-27 bed expansion is modest (~21% of FY23 levels) and back-ended (~71% over FY26-27), limiting near-term financial impact. High greenfield share (~68%) implies higher costs/capex but is offset by headroom in current beds (~30% in ramp-up mode). This would keep hospitals margins/RoCE resilient at ~25%/25% and provide room to seed pharmacy, retail health and digital health businesses.

Growth, margin and RoCE step-up led by non-hospitals businesses

Our forecast FY23-26 revenue CAGR of 17% builds in (a) 10% CAGR in hospitals given modest 3% CAGR in operational beds and (b) 23%/24% CAGR in retail health/pharmacy. Operating leverage across businesses and easing impact of 24/7 costs (~90bps) would drive EBITDAM higher by ~120bps. Higher margins and gross block turnover would drive ~800bps RoCE expansion to 24%.

Scale across segments to reflect in valuations

Leadership in hospitals/pharmacies and emerging retail health presence make AHEL best-placed to benefit from rising healthcare penetration. Cash generating mature hospitals help fund bed addition and non-hospitals scale-up internally. Adjusted for 24/7-related costs that are close to peaking out, valuations are at 20x FY25E EBITDA vs. 20x sector median. Reverse DCF suggests the stock prices in 11% revenue CAGR over FY23-50; achievable given long runway for healthcare services. Valuations keep AHEL behind NH, Max and Fortis in our pecking order.

Key Financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues (₹ mn)	146,626	166,125	196,804	227,465	263,672
EBITDA (₹ mn)	21,851	20,496	23,366	29,048	35,693
Net Profits (₹ mn)	7,615	8,191	9,513	14,165	19,619
Diluted EPS (₹)	53.0	57.0	66.2	98.5	136.5
RoE (%)	14%	13%	13%	17%	19%
EV/EBITDA (x)	33.0	33.9	29.5	23.9	19.6

Source: Company, Ambit Capital research

Healthcare

Recommendation

Mcap (bn):	₹711/US$8.5
6M ADV (mn):	₹474/US$5.7
CMP:	₹4,902
TP (12 Mths):	₹5,720
Upside (%):	17

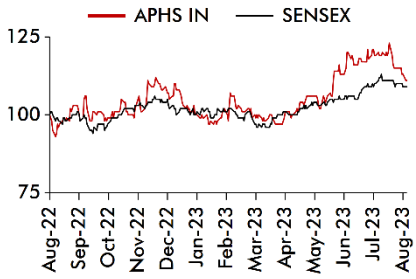
Flags

Accounting:	RED
Predictability:	GREEN
Earnings Momentum:	GREEN

Catalysts

- Peaking of Apollo 24/7 related costs in FY24 and related operating leverage benefits.
- Continued margin improvement in new hospitals cohort: ~100bps over FY23-26.

Performance



Source: ICE, Ambit Capital Research

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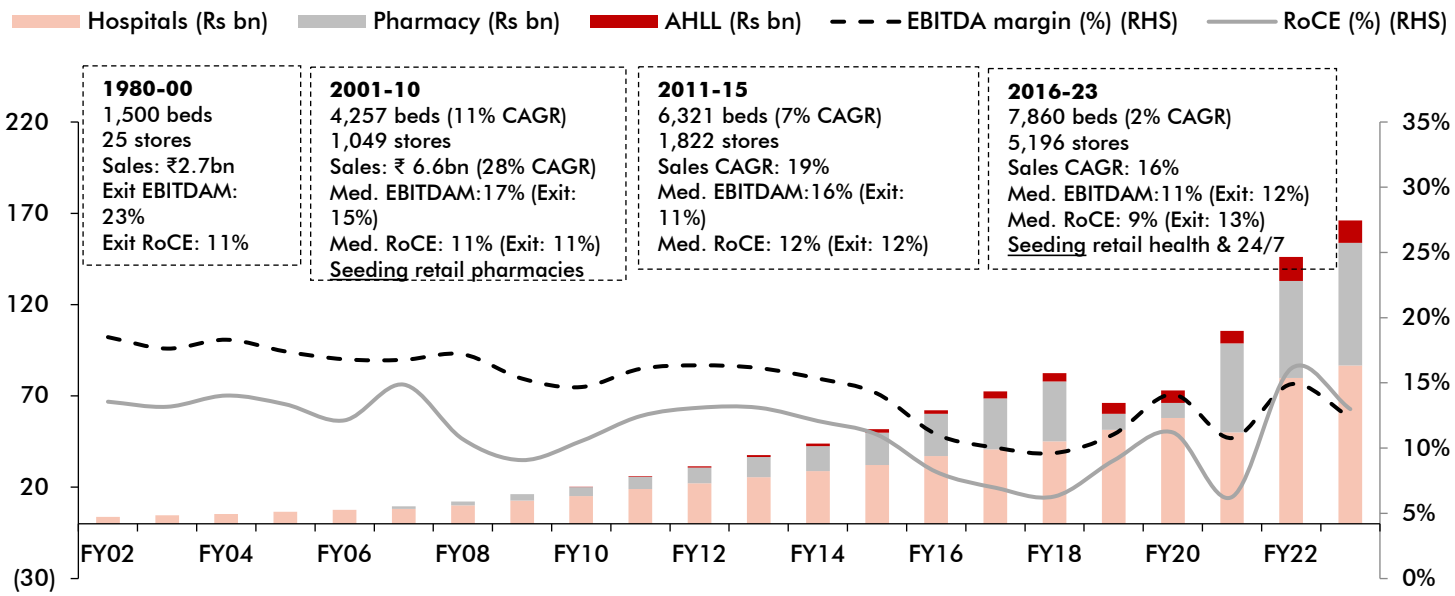
The Narrative in Charts

Exhibit 1: Apollo Hospitals has evolved over the years into an integrated healthcare services provider that is a leader in hospitals and pharmacy while seeding retail and digital healthcare businesses



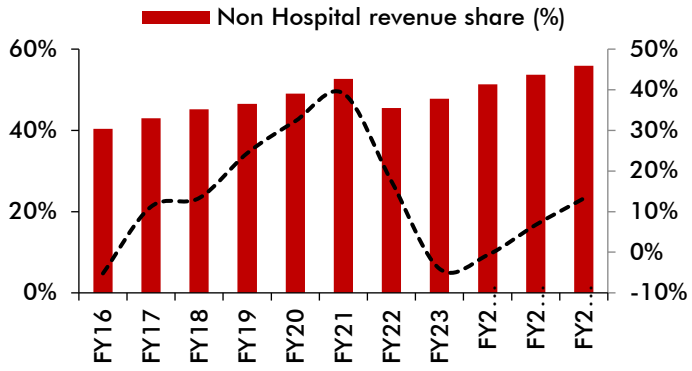
Source: Company, Ambit Capital research

Exhibit 2: Wide geographic footprint ...though more dominant in South India ...

FY23	Tamil Nadu	AP, Telangana	Karnataka	Others	Subs/JVs/ associates
Revenue share (%)	33%	14%	10%	10%	32%
% of operational beds	27%	17%	10%	15%	32%
% of inpatient volumes	27%	14%	11%	15%	34%
ARPOB (₹/day)	64,609	50,308	54,223	34,983	48,475
ALOS (days)	3.3	3.6	3.0	3.5	3.5
Occupancy (%)	62%	57%	66%	66%	69%

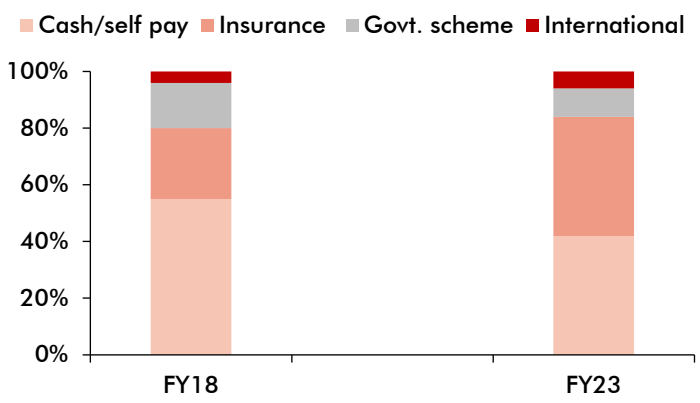
*Source: Company, Ambit Capital research; *Bhubaneswar, Bilaspur, Nashik & Navi Mumbai; **Ahmedabad, Kolkata, Delhi, Indore, Assam & Lucknow*

Exhibit 3: ...and rising salience of non-hospitals businesses such as pharmacy, diagnostics, primary-care etc.



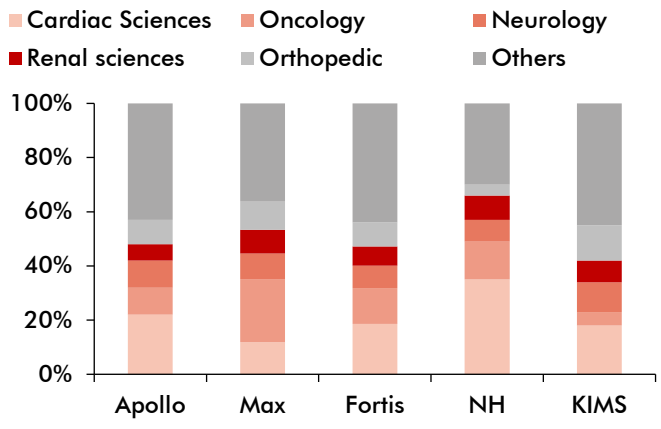
Source: Company, Ambit Capital research

Exhibit 4: Cash and insurance patients dominate payer-mix



Source: Company, Ambit Capital research

Exhibit 5: Diversified case mix among peers



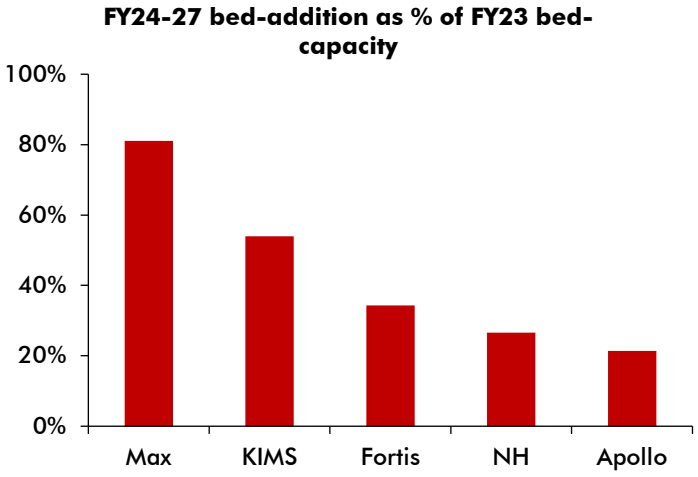
Source: Company, Ambit Capital research

Exhibit 6: Mature beds account for ~70% of AHEL's installed beds. It plans to add ~19% of current capacity over FY24-27

Apollo Hospitals	Pre-commissioning	New			Mature
		Phase-I	Phase-II	Phase-III	
No. of hospitals	3	0	4	10	29
No. of beds (% of total)	1,930 (23%)	0 (0%)	1,245 (16%)	1,139 (14%)	5,471 (70%)

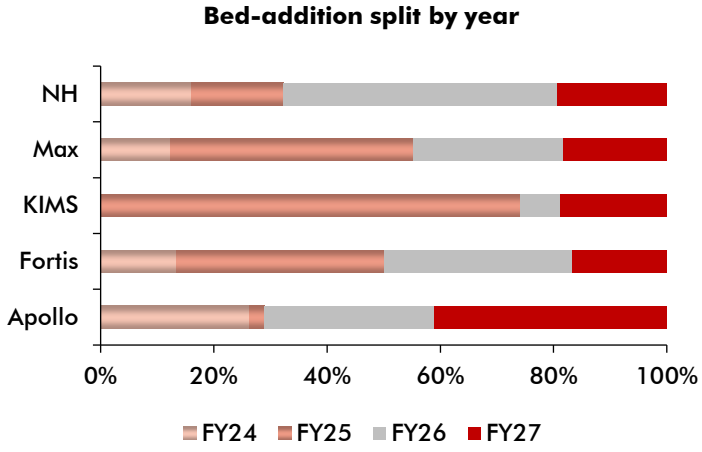
Source: Company, Ambit Capital research

Exhibit 7: Modest bed addition relative to peers...



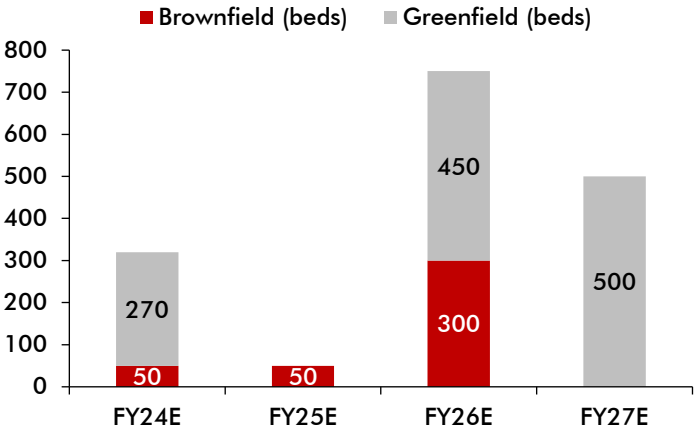
Source: Company, Ambit Capital research

Exhibit 8: ...and back-ended too



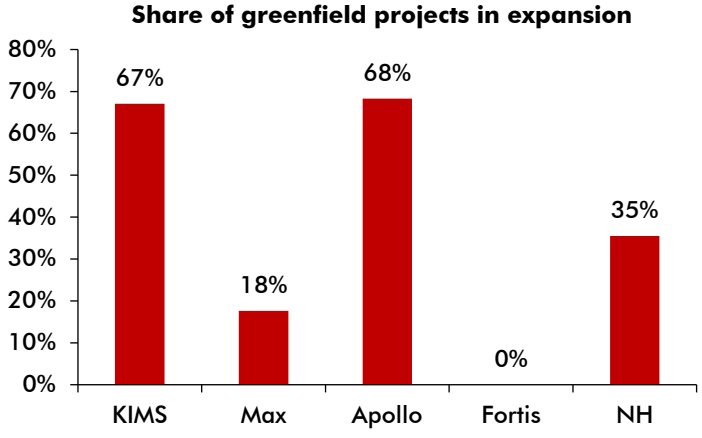
Source: Company, Ambit Capital research

Exhibit 9: Bed addition is dominated by greenfield projects. Share of brownfield addition is modest at 35%



Source: Company, Ambit Capital research

Exhibit 10: Share of greenfield projects in bed addition is at the higher end vis-à-vis peers



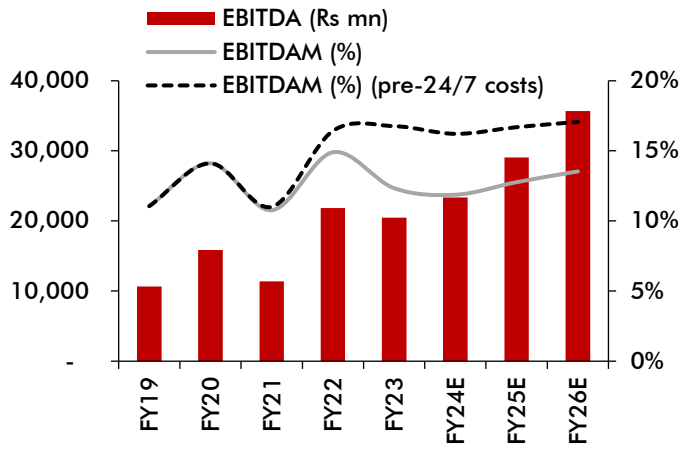
Source: Company, Ambit Capital research

Exhibit 11: Hospitals growth to moderate on limited bed addition whereas non-hospitals businesses to see benefits of recent step-up in investment

(CAG₹)	FY23-26E	FY19-23	EBITDAM (FY23)	EBITDAM (FY26E)	EBITDAM expansion (FY23-26E)
Hospitals	**10%**	**14%**	**24.6%**	**26.6%**	**200bps**
TN	11%	11%			
AP	11%	7%			
Karnataka	8%	11%			
Others	9%	10%			
JVs/Subs	11%	35%			
AHLL (retail health)	**24%**	**20%**	**9.6%**	**12.3%**	**270bps**
Diagnostics	28%	43%			
Primary care	35%	15%			
Specialty care	13%	14%			
HealthCo (pharmacy + 24/7)	**23%**	**15%**	**8%**	**9%**	**100bps**
Overall	**17%**	**15%**	**12.3%**	**13.5%**	**112bps**

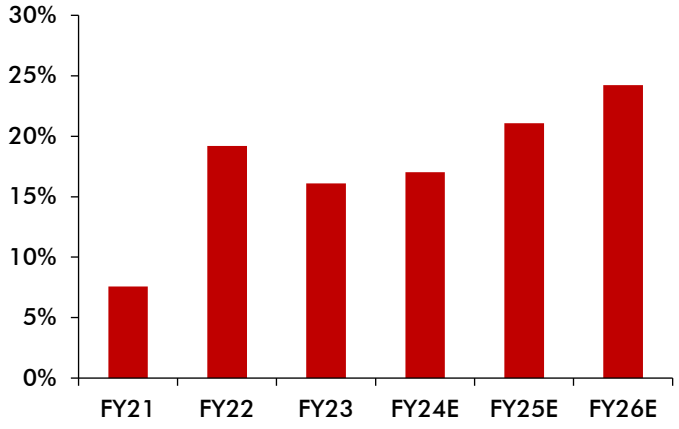
Source: Company, Ambit Capital research

Exhibit 12: We forecast 20% EBITDA CAGR over FY23-26E



Source: Company, Ambit Capital research

Exhibit 13: Improvement in non-hospitals RoCE to drive consolidated RoCE up by ~800bps over FY23-26E



Source: Company, Ambit Capital research

Exhibit 14: AHEL leads on scale, dominance in key markets and funding ability. Non-hospitals businesses much more scaled up too. Expansion plan over next 4-5 years involves higher share of greenfield; hence poses higher risk, albeit back-ended

	AHEL	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	AHEL is the largest hospital chain in India with well-established presence across multiple states/cities.
Competitive Positioning	●	◕	●	●	◕	AHEL is the go-to hospital in Tamil Nadu and dominant in other markets such as Telangana, Andhra Pradesh and Karnataka.
Brand equity	●	◕	◕	●	◕	It is also present in other key markets such as Mumbai, Kolkata, Delhi and multiple tier-2/3 cities albeit not as dominant as in the three southern states.
Dominance in key markets	◕	◑	●	●	◕	
Expansion	◕	◕	◑	◕	◕	AHEL's bed expansion is modest relative to most of its peers, especially when seen in context of its current capacity.
Relative to current capacity	●	◕	◑	◑	◕	Bed addition is back-ended as well and many of the larger projects are planned in FY26-27 and beyond.
Greenfield vs. brownfield	◑	◕	◔	●	◕	Share of greenfield projects is higher than all peers barring KIMS – adds a higher element of execution risk.
Location	◕	◕	◑	●	●	Cash on balance sheet and cash generation from mature beds would limit dependence on external funding.
Headroom in current network	◑	◔	◑	◔	◕	
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	AHEL is far ahead of peers on efforts to build non-hospitals businesses. It is the leader in pharmacies and a fast-emerging player in diagnostics and organized primary care. Its digital initiative (24/7) has also seen good traction in recent years.
Financial strength	◕	◑	◕	●	◑	Margins and RoCE are subdued relative to peers due to efforts at seeding non hospitals businesses such as diagnostics, primary care and pharmacies, including the 24/7 platform
Growth	◕	◑	●	◕	◑	Hospitals margins/RoCE are comparable with peers but more sustainable given higher base of mature hospitals that improve ability to absorb capex/costs related to new hospitals.
Profitability	◕	◑	◕	●	◑	
Return on capital	◑	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

Source: Company, Ambit Capital research Note: ● *- Strong;* ◕ *- Relatively Strong;* ◑ *- Average;* ◔ *- Relatively weak* ○ *- Weak*

Emerging as an integrated healthcare play

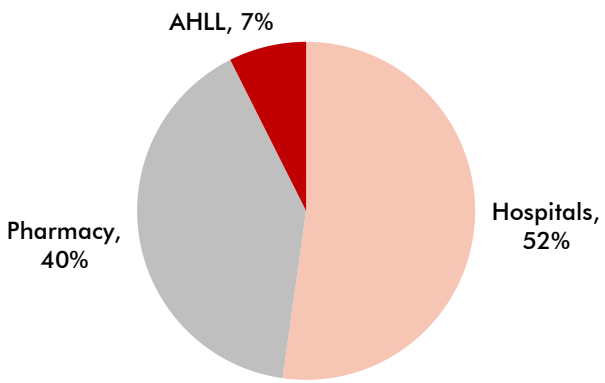
Apollo Hospitals is the largest Indian hospital chain by revenues and bed count. It is closest to being a pan-India player with dominance in Tamil Nadu and AP/Telangana and emerging presence in markets such as Bengaluru, Delhi/NCR, Mumbai and multiple smaller cities. It is also the leader in the Indian pharmacy space and has fast-growing businesses in diagnostics and primary care. Having absorbed a meaningful expansion phase over the last ten years, the company appears well positioned going into the next expansion phase – both from funding and profitability/RoCE perspectives.

Leadership in hospitals and pharmacies

Apollo Hospitals Enterprises Limited (AHEL) is the largest healthcare services provider in India. It was founded by Dr. Prathap C. Reddy in 1983. The company operates hospitals, diagnostic clinics, and pharmacies. It has established itself as a leading player in most of these segments and has strong brand recognition in multiple parts of India, making it the closest to being a pan-India player in healthcare.

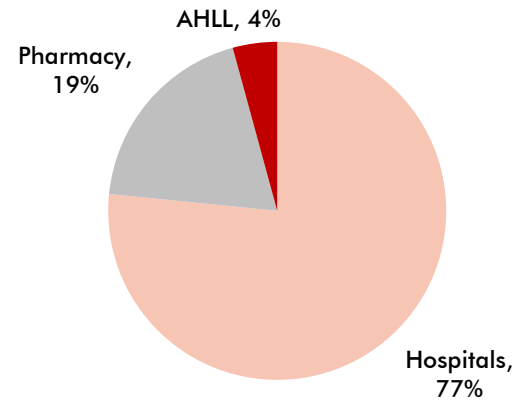
- **Hospital services** – AHEL operates a network of 43 hospitals with an installed capacity of 8,534 beds. It is primarily a tertiary and quaternary care provider though it also offers primary and secondary care services. Key focus areas include cardiac sciences, neurology, oncology, orthopedics, gastroenterology, and organ transplant. This business contributed 52%/77% to revenues/EBITDA (pre-24/7 costs) in FY23.
- **Pharmacy services** – AHEL controls over 5,000 pharmacies across India, making it the largest pharmacy network in the country. It owns the entire back-end/distribution and 25.5% stake in the front-end retail pharmacy network. This business contributed ~40% and 19% of revenues and EBITDA (pre-24/7 costs) in FY23.
- **Retail healthcare** – AHEL has a retail healthcare business that it runs through its 68.8% subsidiary, Apollo Health and Lifestyle Limited (AHLL). AHLL operates a chain of primary care clinics and medical centers across India. Key businesses include: (a) diagnostics (non-captive), (b) maternity and childcare, (c) minimally invasive surgeries and (d) diabetes management. Retail healthcare contributed 7% and 4% to AHEL's revenues and EBITDA (pre-24/7 costs) in FY23.
- **Digital health** – AHEL offers digital healthcare services via the Apollo 24/7 platform. This was launched in February 2020 as an omni-channel platform focused on online pharmacy, tele-consultations, diagnostic services etc. Apollo 24/7 was a drag to the tune of ~36% on AHEL's FY23 EBITDA.

Exhibit 15: Hospitals account for ~53% of sales...



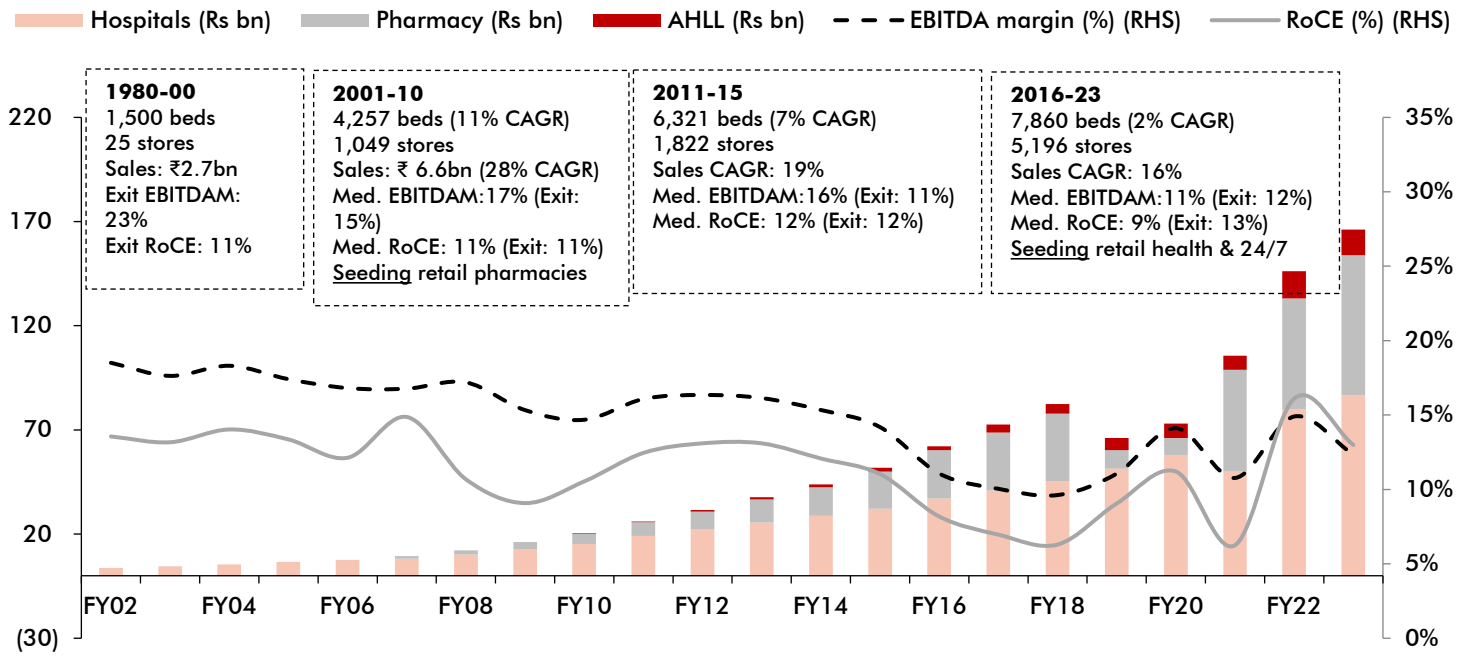
Source: Company, Ambit Capital research

Exhibit 16: ...and 77% of EBITDA



Source: Company, Ambit Capital research

Exhibit 17: Apollo Hospitals has evolved over the years into an integrated healthcare services provider that is a leader in hospitals and pharmacy while seeding retail and digital healthcare businesses



Source: Company, Ambit Capital research

Hospitals services: closest to a pan-India player

AHEL is a leading player in the Indian hospitals market. It runs 70 healthcare facilities across the country, including 43 owned hospitals, 5 managed hospitals, and 22 day surgery centers. The company has 9,957 installed beds and 9,237 operational beds. It is dominant in the states of Tamil Nadu and AP/Telangana and has reasonable presence in Karnataka as well as multiple other cities in India.

Exhibit 18: Owned facilities account for ~85% of capacity beds in the network

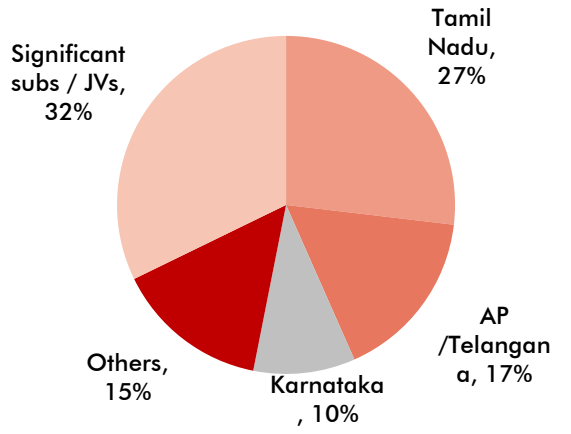
Category	Capacity beds	Operational beds	No. of hospitals
Owned	8,544	7,860	43
Managed	851	851	5
Day care centres	562	562	22
Total	9,957	9,273	70

Source: Company, Ambit Capital research

Started in Chennai, expanded to multiple cities

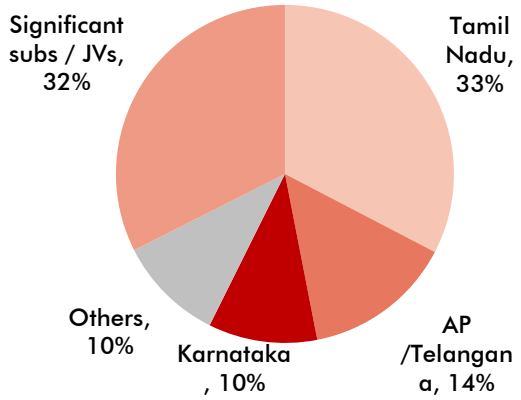
AHEL's first hospital was commissioned in 1983 in Chennai. It has since expanded to various parts of India, including tier-2 and tier-3 cities. The company has eight JCI accredited facilities and 32 NABH accredited facilities.

Exhibit 19: Tamil Nadu accounts for ~27% of overall beds...



Source: Company, Ambit Capital research

Exhibit 20: ...and contributes 33% of hospital topline

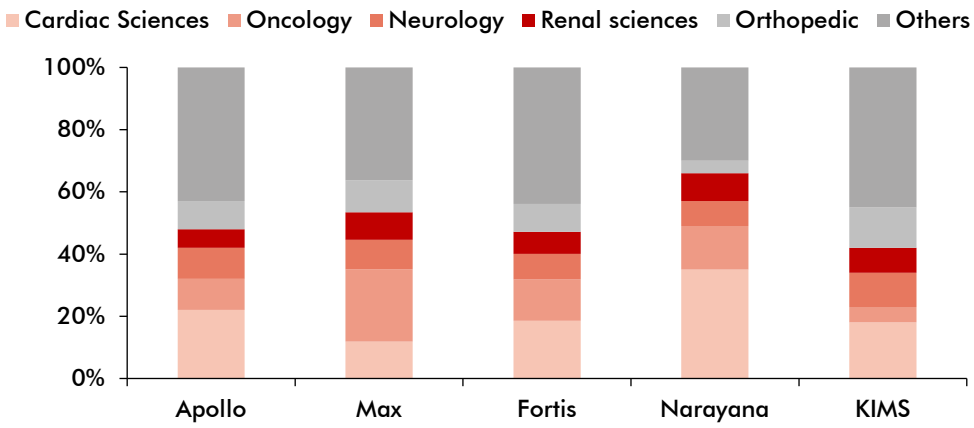


Source: Company, Ambit Capital research

Case mix is well diversified

AHEL provides a wide range of medical services like most leading hospital chains. Top-five services are cardiac, onco, neurology, ortho and critical care. Top-five specialties account for ~57% of revenues. It is one of the dominant players in cardiac services and oncology, two of the higher growth segments in Indian healthcare.

Exhibit 21: Diversified case mix relative to most peers

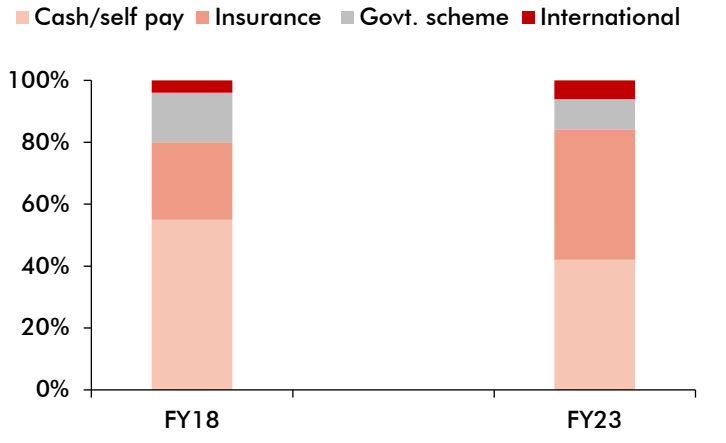


Source: Company, Ambit Capital research

Payer mix has shifted in favor of insured patients over the years

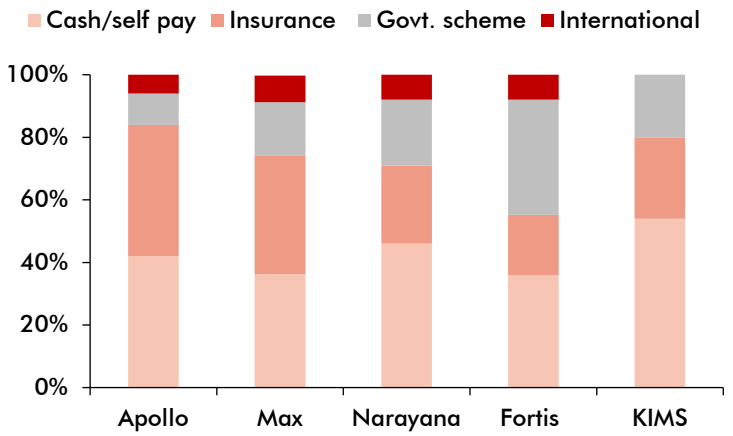
Shift in payer mix has been favourable over the last few years. Share of insurance patients has increased from ~25% in FY18 to ~42% in FY23. Correspondingly, share of scheme patients (state and central) has slipped from 16% in FY18 to 10% in FY23.

Exhibit 22: Share of revenues from insurance patients improved by ~700bps over FY18-23



Source: Company, Ambit Capital research

Exhibit 23: Highest share of insurance in revenues versus peers



Source: Company, Ambit Capital research

Exhibit 24: Apollo Hospitals is a dominant player in Tamil Nadu and Hyderabad and an emerging player in multiple other parts of India. Bed addition plans are mostly in larger cities

Cluster	Details	Outlook
Tamil Nadu	▪ Largest and most profitable cluster for the company, also generates highest ARPOB ▪ ~27% of beds, ~33% of hospital-revenues and ~44% of hospital-EBITDA ▪ Dominant in Chennai and also expanded to cities such as Madurai, Trichy, Karur and Coimbatore	▪ We forecast 11% revenue CAGR over FY23-26 despite limited bed addition in this cluster ▪ Bed addition plans: 500 greenfield beds at its Chennai OMR facility (FY27) ▪ Will remain the highest margin cluster in the company's network - we estimate EBITDAM of 32% by FY26
AP & Telangana	▪ Well entrenched in this region with twelve hospitals and ~1,300 operating beds ▪ ~17% of beds, ~14% of hospital-revenues and ~13% of hospitals-EBITDA ▪ Present in Hyderabad, Nellore, Visakhapatnam	▪ We forecast 11% revenue CAGR over FY23-26 despite no bed addition planned in this period ▪ Bed addition plans: 300 greenfield beds in Hyderabad by FY28 ▪ EBITDAM at ~20-21% is lower than that of KIMS, the closest comparable in the region - has room to improve over next few years
Karnataka	▪ Emerging player in this cluster - likely to be the next key growth market for the company ▪ ~10% of beds, ~10% of hospital-revenues and ~10% of hospitals-EBITDA ▪ Has one flagship hospital in BG Road, Bengaluru in addition to facilities in Jayanagar, Sheshadipuram and Mysore	▪ We forecast 8% revenue CAGR over FY23-26 with no bed addition planned over this period ▪ Bed addition plans: 300 brownfield beds in BG Road (FY27) and 500 bed greenfield facility in FY28/29 ▪ EBITDAM has improved to ~20-22% and looks set to improve to ~25-26% over next few years
Others	▪ Spread across multiple cities - main hospitals being in Navi Mumbai (500 beds), Bhubaneshwar (350 beds), Bilaspur and Nashik ▪ ~15% of beds, ~11% of hospital-revenues, ~10% of hospitals-EBITDA ▪ Many hospitals in this cluster are not yet mature implying higher growth headroom	▪ We forecast 9% revenue CAGR over FY23-26 ▪ Bed addition plans: 450 bed greenfield facility in Gurugram (FY26) and another 400-500 bed greenfield facility in Mumbai (FY28/29) ▪ EBITDAM likely to remain steady in the 20-22% range till new hospitals in larger cities mature and pull it higher
JVs/Subsidiaries	▪ Spread across multiple cities - main hospitals being in Kolkata, Delhi, Indore, Assam and Lucknow ▪ ~32% of beds, ~32% of hospital-revenues, ~23% of hospitals-EBITDA ▪ Many hospitals in this cluster are not yet mature implying higher growth headroom	▪ We forecast 14% revenue CAGR over FY23-26 ▪ Bed addition plans: ~180 brownfield beds in Indore (FY24), other recently commissioned hospitals to drive growth ▪ EBITDAM has been consistently improving and estimated in the ~22% range currently, likely to improve further by ~200bps over next three years

Source: Company, Ambit Capital research

Dominant in South India, especially Tamil Nadu

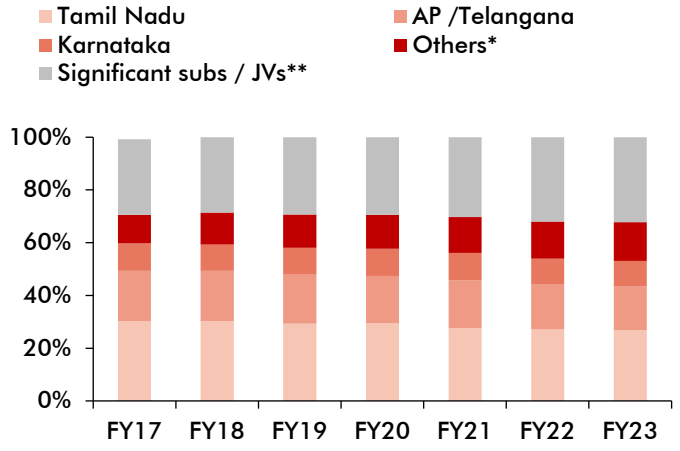
AHEL is one of the leading healthcare providers in South India, particularly in the state of Tamil Nadu. The company has been operating in this state since 1983, when it commissioned its first hospital in Chennai. Since then, it has expanded to multiple cities in southern states such as Karnataka, Telangana, and Andhra Pradesh. AHEL currently operates 41 hospitals (including day care surgery centres) in South India alone. South India currently accounts for ~53% of AHEL's operational beds and ~63% of revenues.

Exhibit 25: Has a network of 41 hospitals in South India

Region	Hospitals*	Installed beds
Tamil Nadu	20	2,519
AP & Telangana	12	1,558
Karnataka	9	952
Eastern	7	1,900
Western	10	1,271
Northern	10	1,437

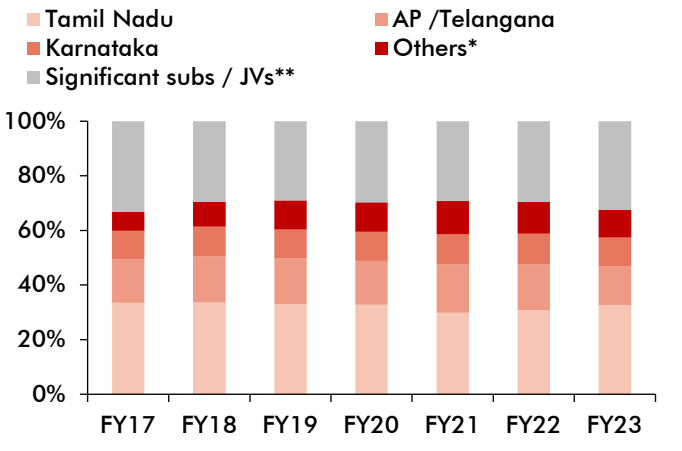
*Source: Company, Ambit Capital research; *includes owned, managed hospitals and AHLL centres. Note: excluding 1 managed hospital in Kerala and 1 managed hospital of 20 beds outside India*

Exhibit 26: Tamil Nadu bed count is highest but share gradually declining on expansion in other clusters...



*Source: Company, Ambit Capital research; *others include Bhubaneswar, Bilaspur, Nashik & Navi Mumbai; ** Subsidiaries/JVs/associates include Ahmedabad, Kolkata, Delhi, Indore, Assam & Lucknow*

Exhibit 27: ...but Tamil Nadu's share in revenues remains unchanged at 33% on greater market dominance



*Source: Company, Ambit Capital research; *others include Bhubaneswar, Bilaspur, Nashik & Navi Mumbai; ** Subsidiaries/JVs/associates include Ahmedabad, Kolkata, Delhi, Indore, Assam & Lucknow*

Exhibit 28: Metrics by cluster – Tamil Nadu leads in ARPOB and revenue share

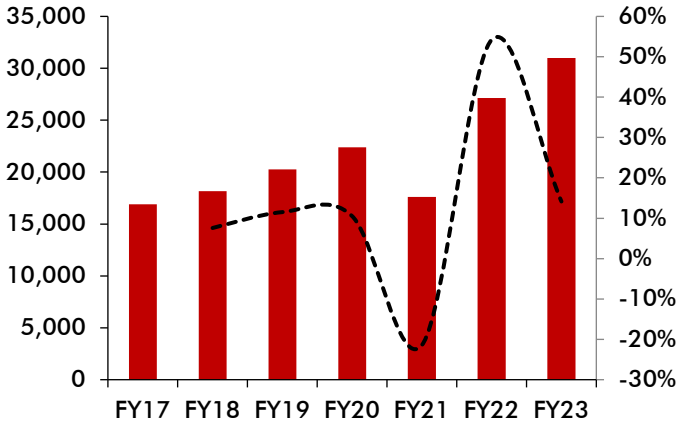
FY23	Tamil Nadu	AP, Telangana	Karnataka	Others	Subs/JVs/associates
Revenue share (%)	33%	14%	10%	10%	32%
% of operational beds	27%	17%	10%	15%	32%
% of inpatient volumes	27%	14%	11%	15%	34%
ARPOB (₹/day)	64,609	50,308	54,223	34,983	48,475
ALOS (days)	3.3	3.6	3.0	3.5	3.5
Occupancy (%)	62%	57%	66%	66%	69%

*Source: Company, Ambit Capital research; *Bhubaneswar, Bilaspur, Nashik & Navi Mumbai; **Ahmedabad, Kolkata, Delhi, Indore, Assam & Lucknow*

Tamil Nadu: largest and most profitable cluster

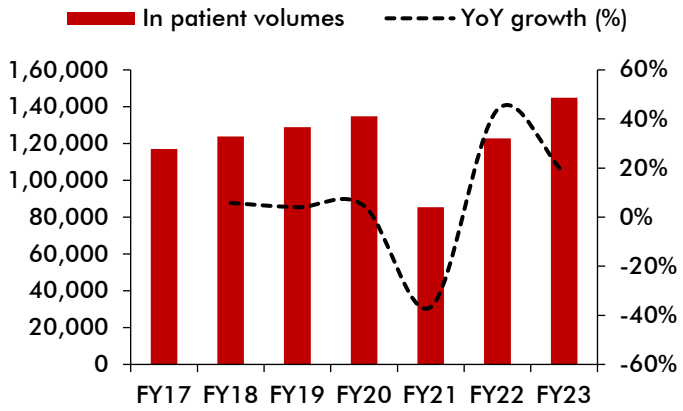
Tamil Nadu is the largest region for AHEL, contributing ~33% of hospital revenues and ~27% of total operational beds and inpatient volumes. AHEL has a network of 21 hospitals in Tamil Nadu, including day care centers. Operational bed count in the region stands at ~2,112. AHEL has expanded its presence in the state over the years, starting with the establishment of its first hospital in Chennai and subsequently expanding to other major cities such as Madurai, Trichy, Karur, and Coimbatore. This cluster is also the highest ARPOB generating one in AHEL's network.

Exhibit 29: AHEL's TN cluster revenues have grown at 11% CAGR over FY17-23...



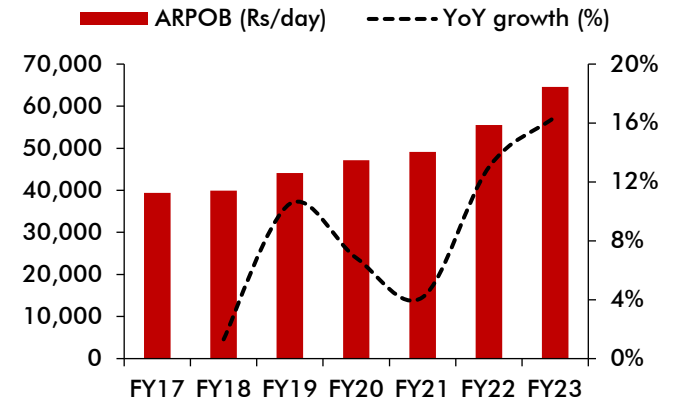
Source: Company, Ambit Capital research

Exhibit 30: ...led by 4% CAGR in in-patient volumes



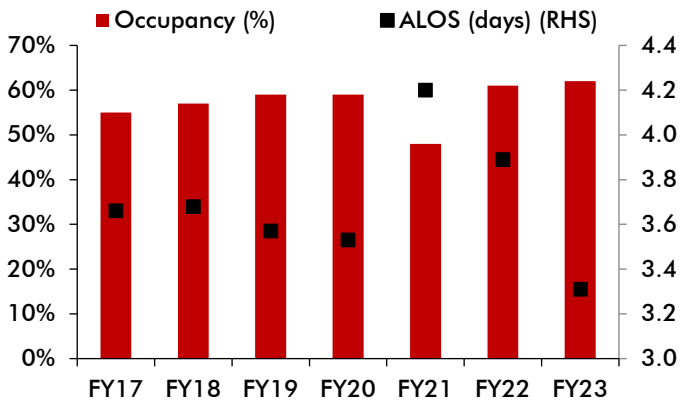
Source: Company, Ambit Capital research

Exhibit 31: ...and consistent uptrend in ARPOB



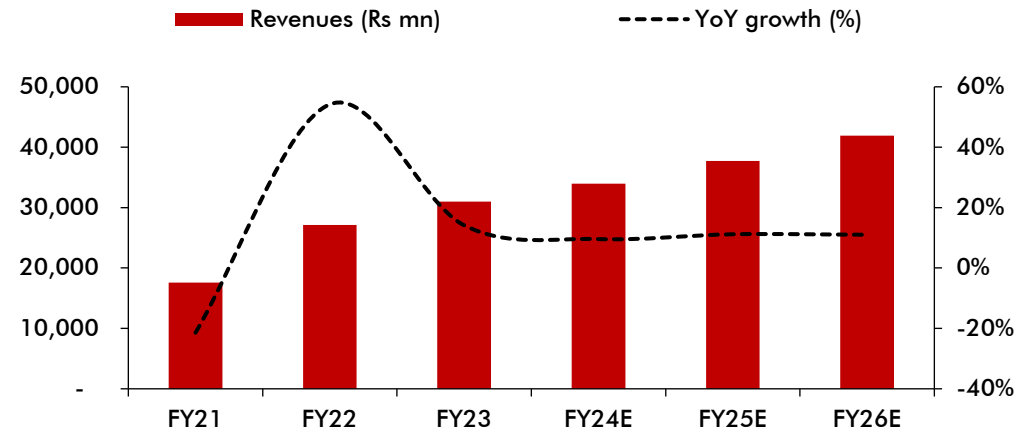
Source: Company, Ambit Capital research

Exhibit 32: Lower ALOS leads to optimal bed use



Source: Company, Ambit Capital research

Exhibit 33: We forecast 11% revenue CAGR in the Tamil Nadu cluster over FY23-26E despite limited incremental bed addition

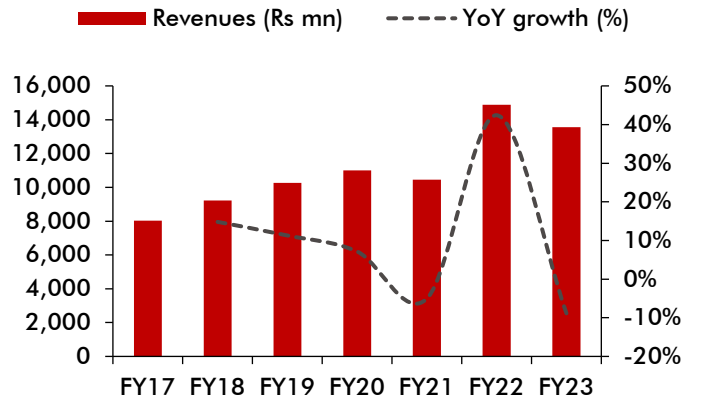


Source: Company, Ambit Capital research

AP and Telangana region – largely mature, focusing on revenue intensity

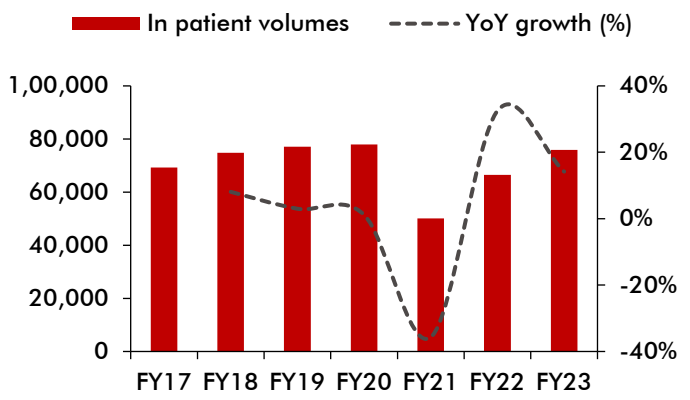
The Andhra Pradesh and Telangana region is the other one where AHEL is well-entrenched. AHEL operates a network of 12 hospitals including day care centres in this region and has an operating bed capacity of 1,297. This cluster accounted for ~14% of revenues and ~17% of operational beds in FY23.

Exhibit 34: Double-digit revenue growth pre-pandemic despite being a mature cluster



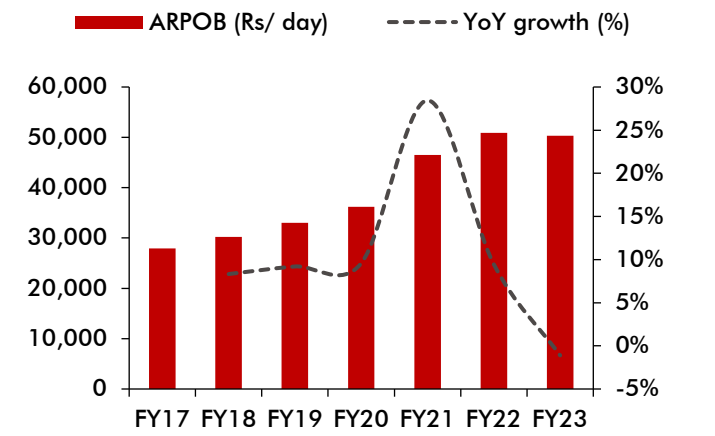
Source: Company, Ambit Capital research

Exhibit 35: In-patient volume growth has been in the single digit range barring the Covid-related spike



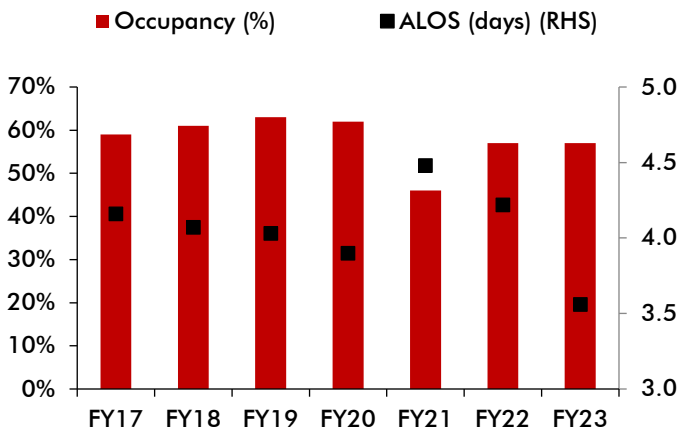
Source: Company, Ambit Capital research

Exhibit 36: But ARPOB has consistently increased on the back of improving case mix and pricing



Source: Company, Ambit Capital research

Exhibit 37: Occupancy in this cluster has stabilized in the ~60% range with lower ALOS driving better utilization



Source: Company, Ambit Capital research

Head to Head: AHEL's AP/Telangana cluster vs. KIMS

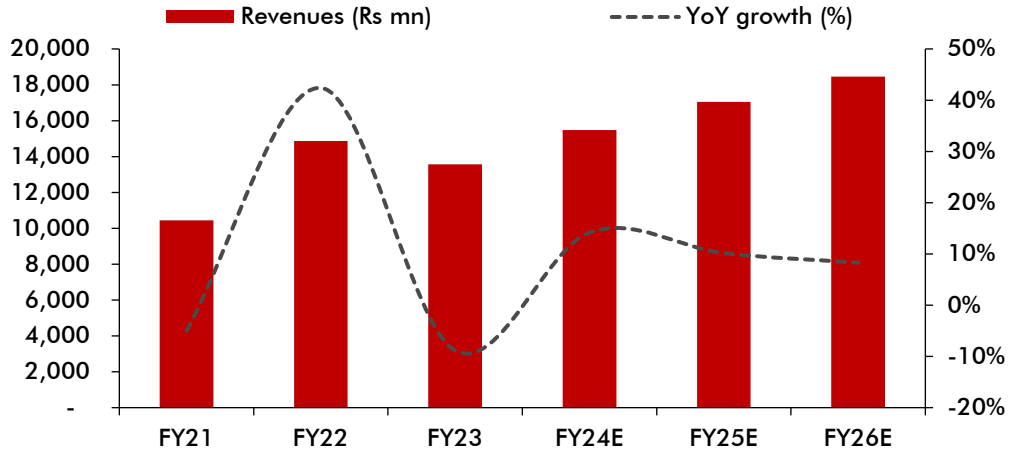
A comparison of AHEL's business with that of KIMS highlights the difference in approach of the two market leaders. KIMS' hospitals are larger in terms of average bed capacity and it leads on occupancy and revenue growth. Apollo Hospitals, on the other hand, appears to be focusing on raising revenue intensity, as reflected in higher ARPOB and ARPP despite lower occupancy and similar ALOS levels.

Exhibit 38: KIMS scores higher on scale and patient-volumes despite similar number of hospitals – positioned as an affordable care provider as compared to AHEL's relative premium positioning

Parameter	KIMS	AHEL	Comments
No. of hospitals	13	13	▪ Similar number of hospitals but KIMS' beds/hospital is more than double that of AHEL
No. of beds	4,015	1,632	
No. of operational beds	3,543	1,297	▪ KIMS has also operationalized ~89% of its capacity beds vs. ~79% for AHEL
Beds/hospital	309	126	
ARPOB	29,729	50,308	▪ Lower pricing (~10-15% discount) and higher ALOS leads to lower ARPOB and average revenue per patient (ARPP) for KIMS
Occupancy	58%	57%	
ALOS	4.1	3.6	▪ KIMS sees far more patient flow, given its pricing strategy and greater willingness to target govt.-scheme patients
ARPP	122,916	149,277	
IP volumes ('000)	165	76	
Revenues (₹ mn)	22,135	13,559	▪ Neither player has added much by way of bed capacity in recent years. KIMS will see additional bed count (~16%) post the Sunshine acquisition in FY23
Growth (FY20-23)			
- IP volumes	8%	-1%	
- Revenue	26%	7%	▪ KIMS has been able to grow revenues faster on the back of rising occupancy whereas AHEL has managed to improve revenue intensity and ARPOB at a faster pace over the last three years
- ARPOB	18%	12%	
- ARPP	16%	8%	
- Beds	10%	-1%	

Source: Company, Ambit Capital research

Exhibit 39: We forecast 11% revenue CAGR in AP/Telangana cluster over FY23-26E with no bed expansion planned over this time frame

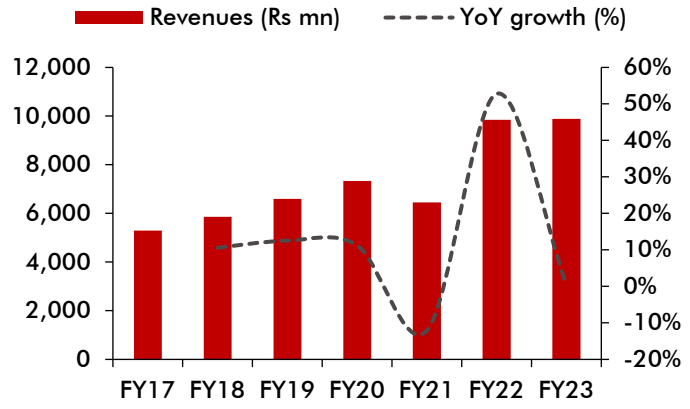


Source: Company, Ambit Capital research

Karnataka – the next key growth market for the company

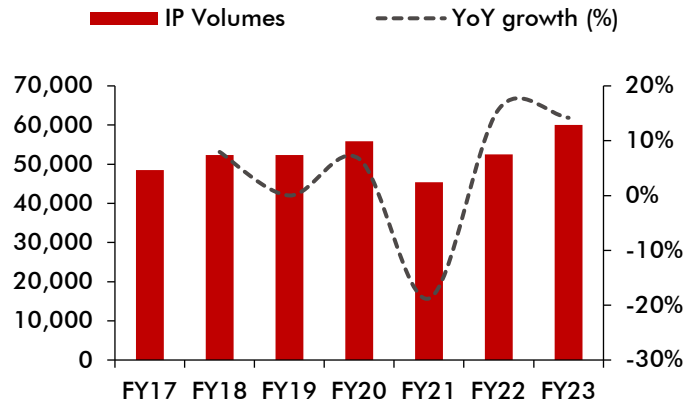
The Karnataka cluster contributes ~10% to AHEL's hospital revenues and operating beds. The company has nine hospitals (including daycare centers) and 771 operating beds in this region. Apollo Hospitals, Bengaluru is its flagship hospital in the state. The 300-bed facility is located in Bannerghatta Road and offers healthcare services across specialties. Other key hospitals in this cluster include Jayanagar, Sheshadipuram and Mysore.

Exhibit 40: Consistent double-digit revenue growth pre-pandemic and a quick recovery to pre-pandemic levels



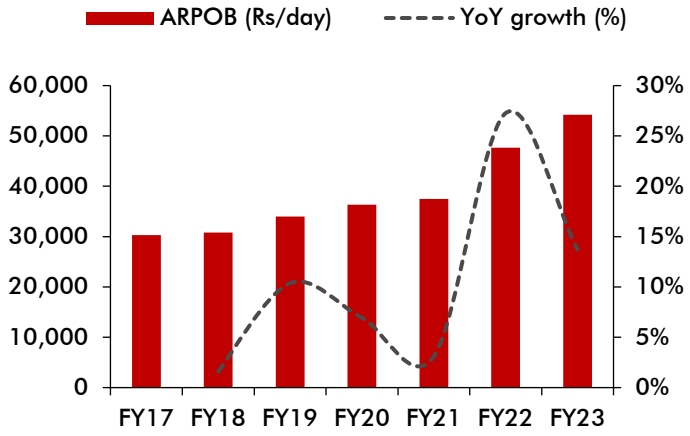
Source: Company, Ambit Capital research

Exhibit 41: IP volumes have been largely flat for a few years pre-pandemic on high occupancy levels



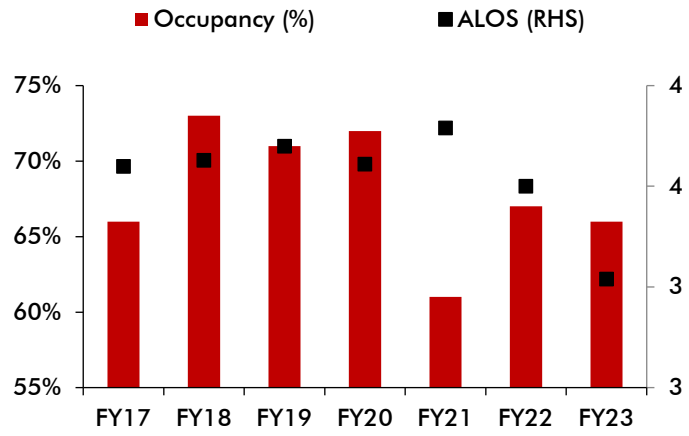
Source: Company, Ambit Capital research

Exhibit 42: Steady improvement in ARPOB possibly reflects improving case mix and some pricing gains



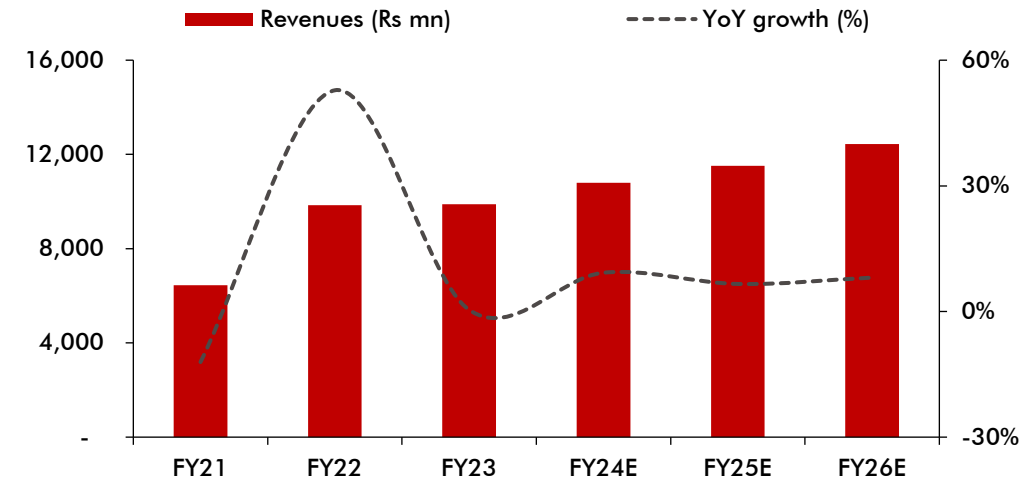
Source: Company, Ambit Capital research

Exhibit 43: Occupancy headroom has increased despite higher IP volumes on ability to lower ALOS



Source: Company, Ambit Capital research

Exhibit 44: We forecast 8% revenue CAGR in this cluster over FY23-26E given no bed addition over this time frame



Source: Company, Ambit Capital research

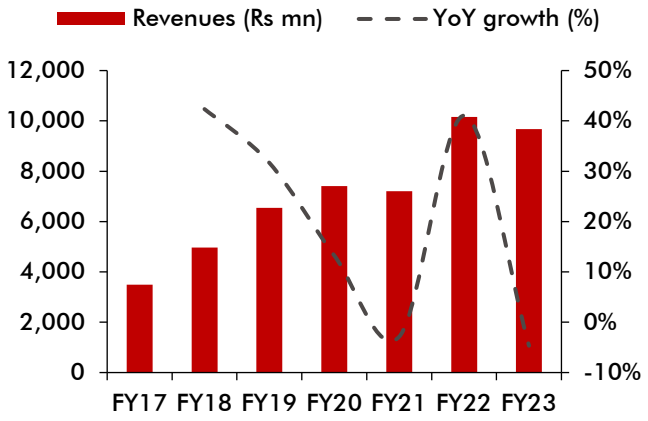
Gradually establishing itself in other parts of India

AHEL has also tried to establish its brand in other regions of the country, either through fully-owned hospitals or via subsidiaries and associate companies. It has hospitals in Delhi NCR, Maharashtra, Gujarat, UP, Odisha and West Bengal among other states/cities.

Others cluster – attempt to target Tier-2/3 cities

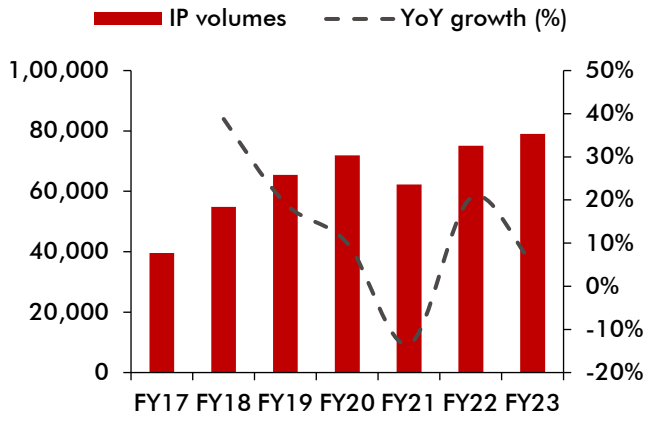
AHEL includes hospitals in Bhubaneswar (350 beds), Bilaspur (200 beds), Nashik (150 beds) and Navi Mumbai (500 beds, JCI accredited) in its "Others" cluster. This cluster accounted for ~10% revenues and ~15% of operational beds in FY23. Experience in Navi Mumbai is a reflection of the strength of its brand across the country, including in cities where it does not have a meaningful presence. This hospital was AHEL's first foray into Maharashtra. Yet, it was able to clock EBITDA break-even within the first two years post commissioning. This is unlike the trend for most hospital chains and reflects the fact that the Apollo brand is a lot better known across India compared to other chains.

Exhibit 45: Revenues grew 19% CAGR over FY17-23 led by improving occupancy



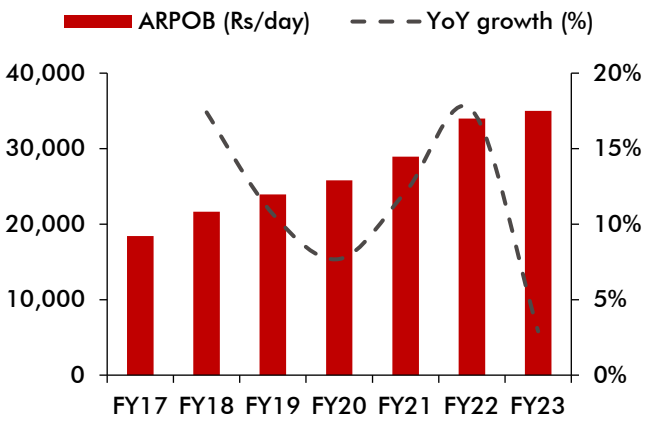
Source: Company, Ambit Capital research

Exhibit 46: IP volumes have grown consistently over the years barring the Covid related disruption in FY21



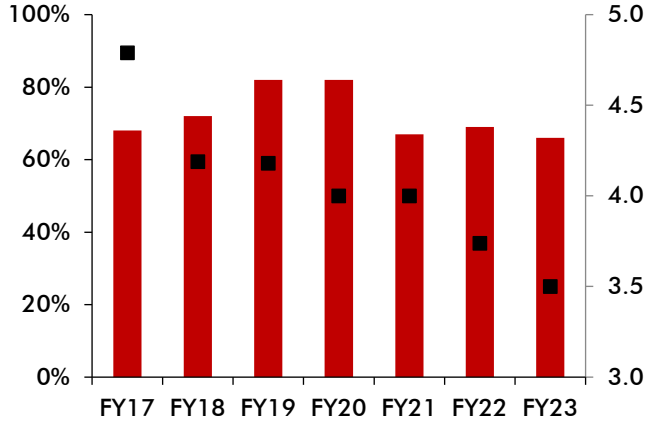
Source: Company, Ambit Capital research

Exhibit 47: ARPOB has steadily improved but remains below levels clocked in its markets of dominance



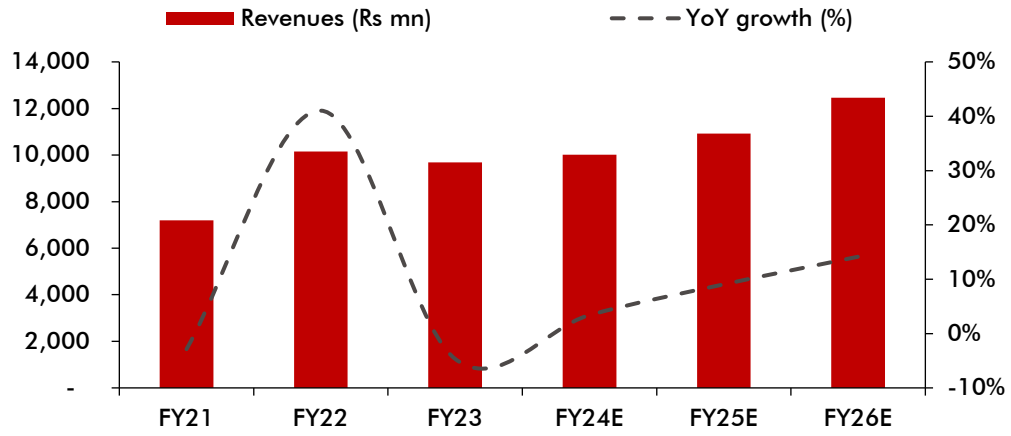
Source: Company, Ambit Capital research

Exhibit 48: Many of the company's non-mature hospitals fall in this cluster, yet occupancy has remained high



Source: Company, Ambit Capital research

Exhibit 49: We forecast 9% revenue CAGR in this cluster over FY23-26E. Many hospitals in this cluster are not yet at mature phase. Hence growth headroom is high

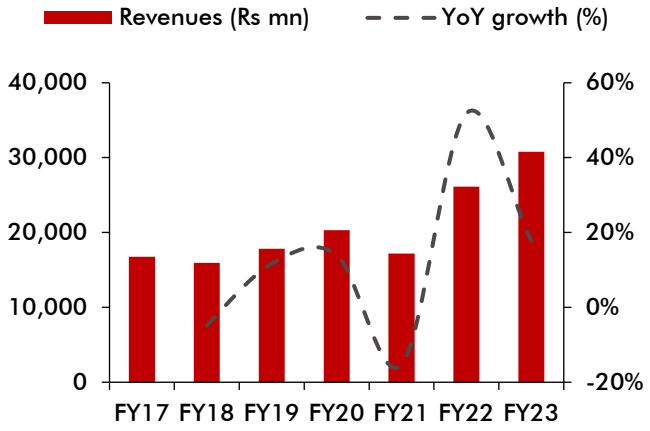


Source: Company, Ambit Capital research

Significant subsidiaries, JVs and associates

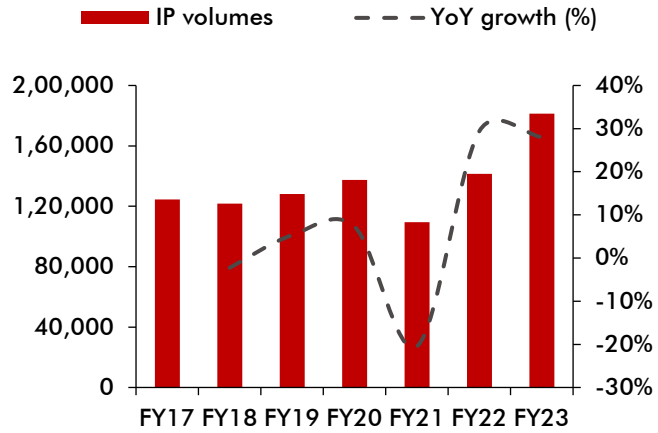
This cluster includes hospitals in Ahmedabad, Kolkata, Delhi, Indore, Assam & Lucknow. It contributed 32% to revenues and 32% to operational beds.

Exhibit 50: Revenues have grown at a steady pace in the company's JV/subsidiary hospitals...



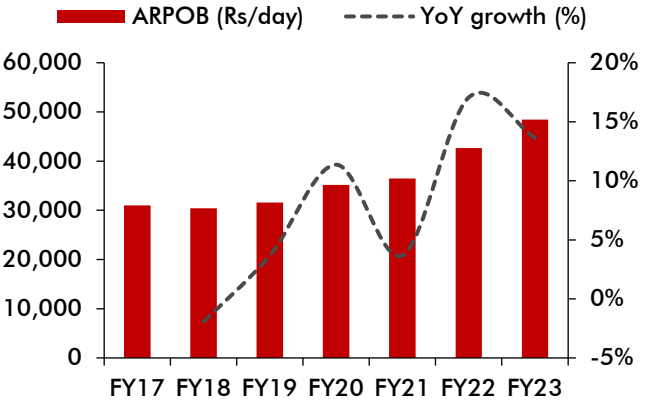
Source: Company, Ambit Capital research

Exhibit 51: ...led mainly by steady improvement in in-patient volumes for most years



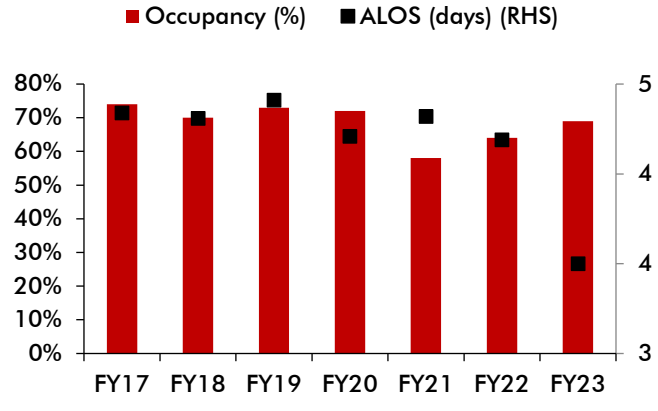
Source: Company, Ambit Capital research

Exhibit 52: RPOB has improved over the years as occupancy and other operating metrics improved



Source: Company, Ambit Capital research

Exhibit 53: Occupancy has consistently improved but seems flat to down on aggregate due to new beds added

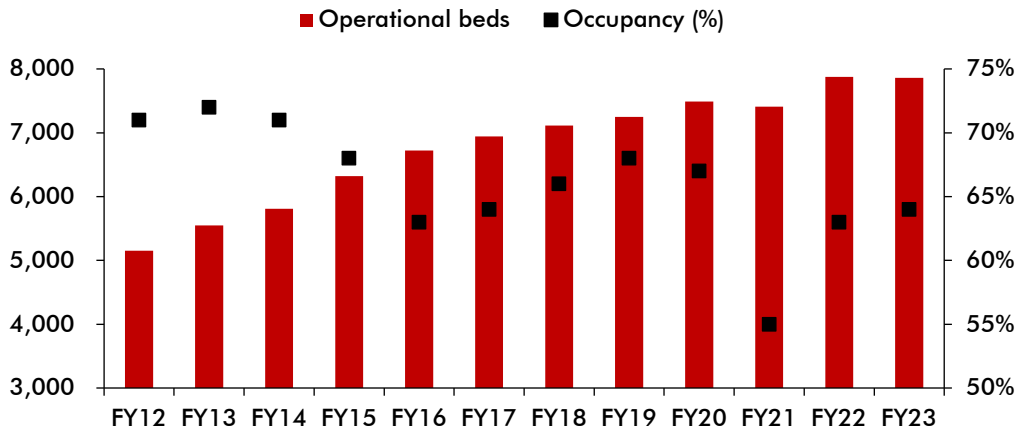


Source: Company, Ambit Capital research

Scale benefits come to the fore in the last decade

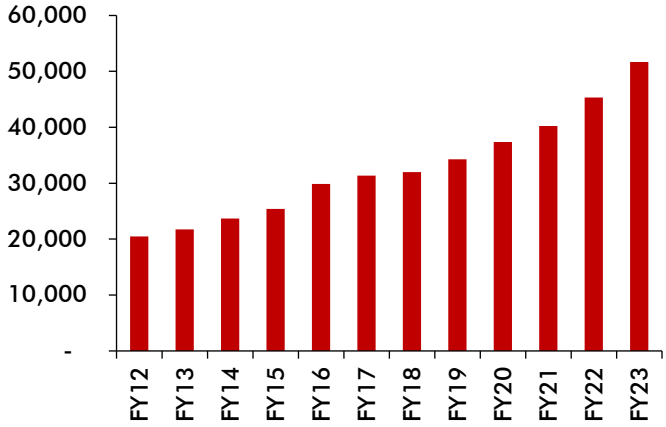
The last ten years have seen Apollo Hospitals absorbing a meaningful expansion phase to clock all-time high margins and return-on-capital metrics. It demonstrated the ability to sustain growth and margin improvement in its mature hospitals besides executing well on new projects. It is therefore much better-positioned going into the next expansion phase – both from funding and profitability/RoCE perspectives.

Exhibit 54: FY13-23 bed addition at 4% CAGR was front-ended. Occupancy dip reflects higher bed count and lower ALOS that has created greater growth headroom



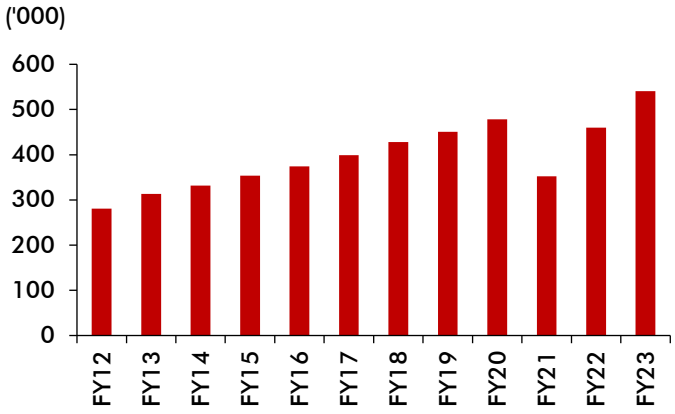
Source: Company, Ambit Capital research

Exhibit 55: ARPOB growth of 9% CAGR (FY13-23) aided by smart dip in ALOS and improving case/payer mix,,,



Source: Company, Ambit Capital research

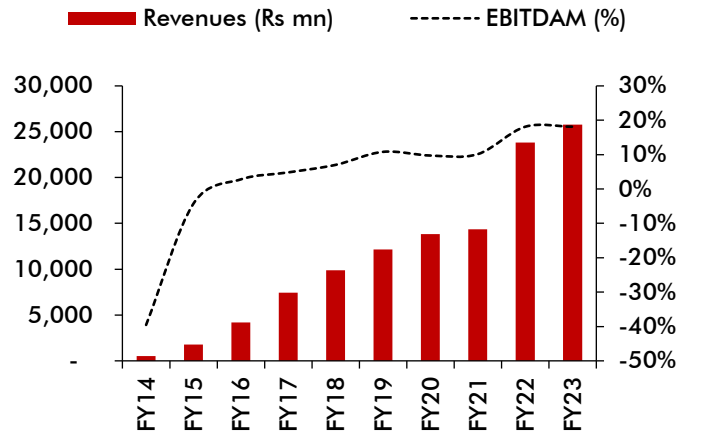
Exhibit 56: ...reflecting in in-patient volume CAGR of 6% over the same period despite flattish occupancy



Source: Company, Ambit Capital research

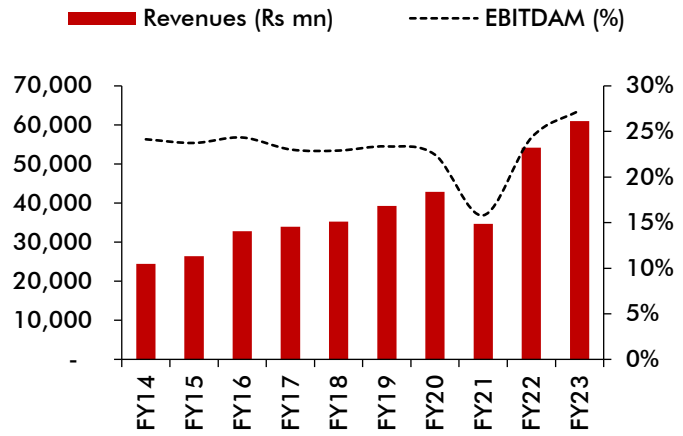
New hospitals (commissioned in FY13 and later) account for 30% of current operational bed count. Revenues of this cohort grew 47% CAGR over FY14-23. EBITDA margin improved from -40% in FY14 to 18% in FY23. Rising occupancy was the key growth and margin driver, reflecting AHEL's execution strength. These hospitals are currently in "Phase-3" (i.e. years 6-10 post commissioning) of their evolution under our framework for evaluating maturity of hospitals. This is the sweet-spot for a hospital with meaningful scope for revenue-growth and margin expansion over the next few years. Encouragingly, the mature hospitals cohort also clocked 8% revenue CAGR over the same period with virtually no addition in operational beds. This reflects AHEL's ability to utilize levers other than occupancy. ALOS dipped from 4.5 in FY14 to 3.3 in FY23. Improving case mix and realizations helped as well. These led to revenues growing while occupancy dipped from 66% in FY13 to 63% in FY23, implying further headroom to grow in these hospitals. EBITDA margin for this cohort improved to 27% in FY23 from 24% in FY14.

Exhibit 57: New hospitals cohort drove revenue growth and margin improvement...



Source: Company, Ambit Capital research

Exhibit 58: ..but mature hospitals performance did not lag too far behind, especially on margins



Source: Company, Ambit Capital research

This consistent improvement in the mature hospitals cohort validates that growth runway and margin/RoCE ceiling is higher than generally understood on the street. At the same time, it has also improved cash generation. Net debt/equity and net debt/EBITDA are at comfortable levels of 0.3 and 0.9 respectively despite AHEL's efforts to seed retail healthcare (via AHLL) and digital health (via Apollo 24/7) platforms. The company is therefore well-placed to navigate the next round of expansion – both in terms of ability to absorb impact of upfront losses on margins as well as impact of upfront investment on the balance sheet.

Modest medium-term expansion

AHEL has the most modest bed addition plan over FY24-27 (~21% of FY23 bed capacity) among coverage peers. It is also the most back-ended with the larger projects in Gurugram, Chennai and Bengaluru only being commissioned over FY26-27. Impact on near-term financials is therefore likely to be limited. On the flip side, share of greenfield projects (~69% of bed addition) and in new markets (~41%) is higher than all peers barring KIMS. Encouragingly, headroom to grow in its current network (~30% of beds are still in ramp-up mode) and ability to fund expansion internally should offset upfront costs/investment. This would keep hospitals margins and RoCE resilient at 25-27% and ~25% respectively.

Multiple hospitals still in ramp-up mode

Apollo Hospitals has 43 hospitals in its network, with an installed/operational capacity of 8,544/ 7,860 beds. Our analysis suggests that a third of these are still in ramp-up mode, i.e. under ten years post commissioning. These hospitals account for ~30% of the company's bed capacity. Over FY16-23, the new hospitals cohort has clocked 30% revenue CAGR as compared to 9% CAGR for the mature hospitals cohort.

Exhibit 59: Mature beds account for ~70% of AHEL's installed beds. It plans to add ~19% of current capacity over FY24-27

Apollo Hospitals	Pre-commissioning	New			Mature
		Phase-I	Phase-II	Phase-III	
No. of hospitals	3	0	4	10	29
No. of beds (% of total)	1,930 (23%)	0 (0%)	1,245 (16%)	1,139 (14%)	5,471 (70%)

Source: Company, Ambit Capital research

Exhibit 60: AHEL's new hospitals cohort has started clocking occupancy close to the mature hospitals cohort but there is headroom to grow further

	Hospitals	Capacity beds	Operational beds	Occupancy	Revenue share	EBITDA share
Mature	29	5,794	5,476	65%	69%	76%
New	14	2,740	2,384	52%	31%	24%
Total	**43**	**8,544**	**7,860**	**64%**	**100%**	**100%**

Source: Company, Ambit Capital research

Expansion is modest, back-ended vis-à-vis peers

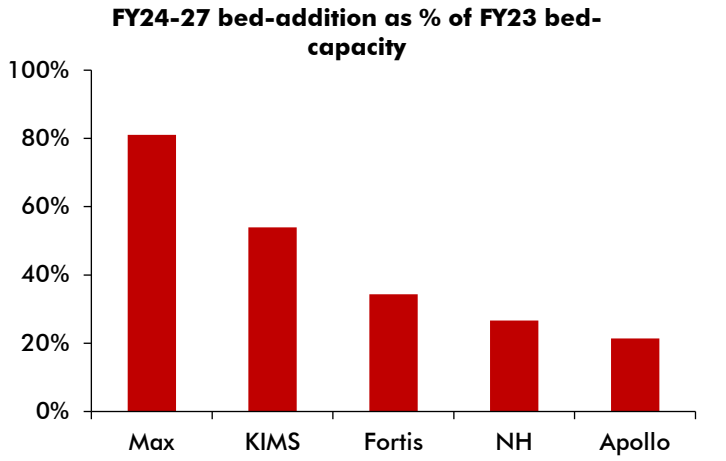
AHEL has not outlined its expansion plan as explicitly as some of its peers. Our analysis based on commentary from management on various earnings calls and other forums indicate that it would be modest and back-ended. The company plans to add ~1,930 beds over FY24-27. This constitutes ~21% of FY23-end bed capacity, making it the least aggressive among peers. Many larger projects may be commissioned over FY28-29. In our analysis, we consider expansion projects over the next four years as we do with peers.

Exhibit 61: Modest bed addition over FY24-27. Some larger projects beyond this time frame

Facilities	Year	Type	Incremental beds	Comments
Indore	FY24	Brownfield	180	
Rourkela	FY24	Greenfield	250	Asset-light model – AHEL to own the P&L but share 30% of EBITDA with partner. Minimal impact on revenues or margins given that it is a small-city hospital
Existing hospitals	FY24-27	Brownfield	200	Assumed evenly spread bed addition across most flagship hospitals
Gurugram	FY26	Greenfield	450	Half of the planned capex is complete, on course to commissioning before end of FY26
BG Road	FY27	Brownfield	300	New tower in the same facility, should drive quick ramp-up in occupancy and break-even
Chennai OMR	FY27	Greenfield	500	Within ~5km of the existing Proton hospital
Mumbai	FY28	Greenfield	400-500	No details available but likely to be in the suburbs
Hyderabad	FY28	Greenfield	300	Building is already built, need to convert it into a hospital
Bengaluru	FY28/29	Greenfield	500	No details available but in-line with intent to becoming a dominant player in the city

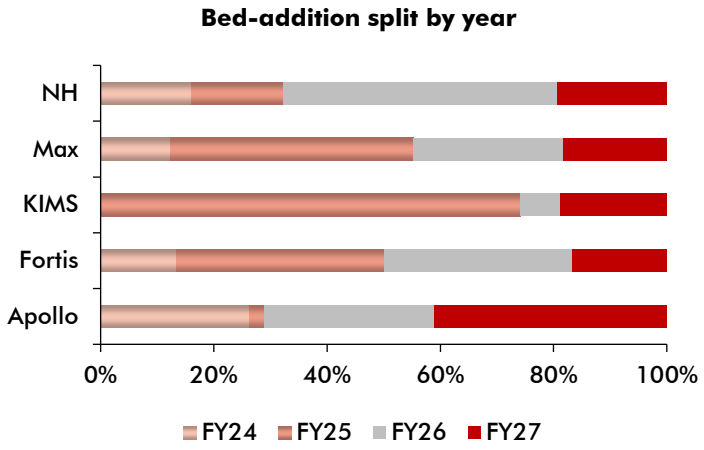
Source: Company, Ambit Capital research

Exhibit 62: Modest bed addition relative to peers...



Source: Company, Ambit Capital research

Exhibit 63: ...and back-ended too

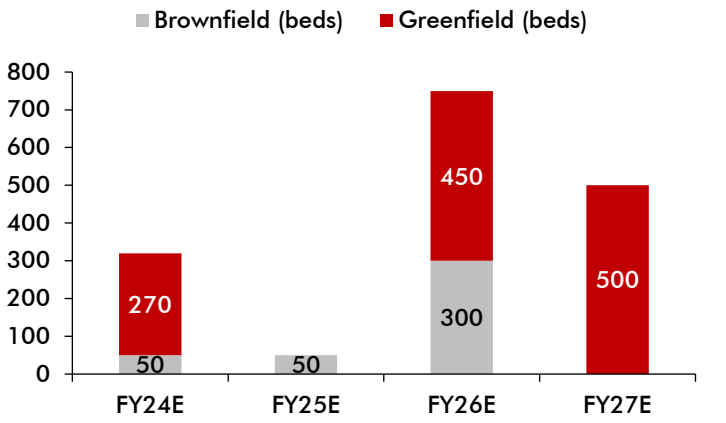


Source: Company, Ambit Capital research

Heavier on greenfield projects...

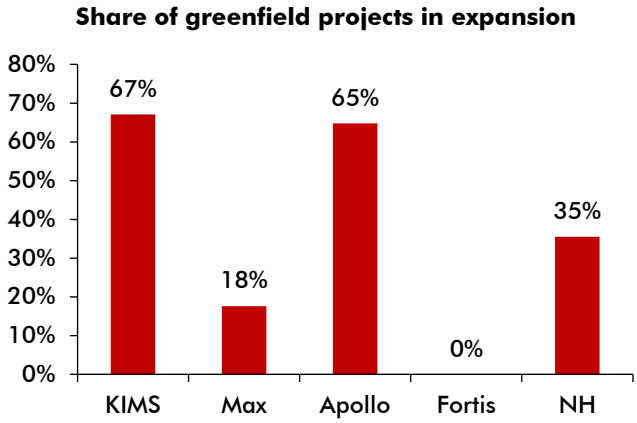
Around 68% of AHEL's new beds planned over FY24-27 would be in greenfield projects. Further, ~41% of planned bed addition would be in markets where AHEL does not have a meaningful presence viz. Gurugram and Rourkela.

Exhibit 64: Bed addition is dominated by greenfield projects. Share of brownfield addition is modest at 35%



Source: Company, Ambit Capital research

Exhibit 65: Share of greenfield projects in bed addition is at the higher end vis-à-vis peers



Source: Company, Ambit Capital research

- **Brownfield projects**: These would account for ~32% of bed expansion over FY24-27. AHEL intends to further deepen its presence in the existing cluster by expanding its specialty offerings across the current network and adding beds in some of them. Key brownfield projects involve 180 beds in Indore (FY24) and ~250-300 beds in the BG Road hospital at Bengaluru. The latter is a new tower alongside its existing facility and will be commissioned in FY27. In addition, the company would look to add ~200 beds across its current network.
- **Greenfield projects**: Over FY24-27, AHEL intends to set up greenfield hospitals at Rourkela, Gurugram and Chennai.
  - The project at Rourkela (250 beds) is an asset-light one. AHEL would own the P&L but share ~30% of EBITDA with its partner. Impact on the company's revenues, margins and balance sheet would be marginal.
  - Gurugram is a 450-500 bed hospital being set up at cumulative capex of ₹8-8.5bn. AHEL has already incurred half of the planned capex and is on course to commissioning the hospital in FY26 or FY27. This is a new market for the company though the brand has some traction in the Delhi region courtesy its associate hospital, Indraprashta Apollo.

- AHEL also intends to set up a 500 bed hospital in OMR, Chennai. This would be within five kilometers of the company's proton-therapy hospital. AHEL's established brand equity in Chennai should allow it to ramp up occupancy and achieve EBITDA break-even within one to two years of commissioning.

...but headroom in current network augurs well

30% of AHEL's current network is still in ramp-up mode. This "New hospitals" cohort has scaled up well over the last few years but still have room to grow. Many of these hospitals are in a sweet spot now (years 6-10 post commissioning) where factors other than occupancy pick-up such as ALOS reduction, pricing flexibility etc. start playing out. These should lead to continued revenue traction along with fast improving margins and RoCE, which in turn would help offset upfront investment and losses on new beds. A comparison of the company's mature and new hospitals cohorts provides good perspective on headroom available in the latter.

Exhibit 66: AHEL has ~30% of its current operational bed capacity that has not yet scaled up to optimum levels. These should help offset impact of upfront losses in new beds commissioned over the medium term

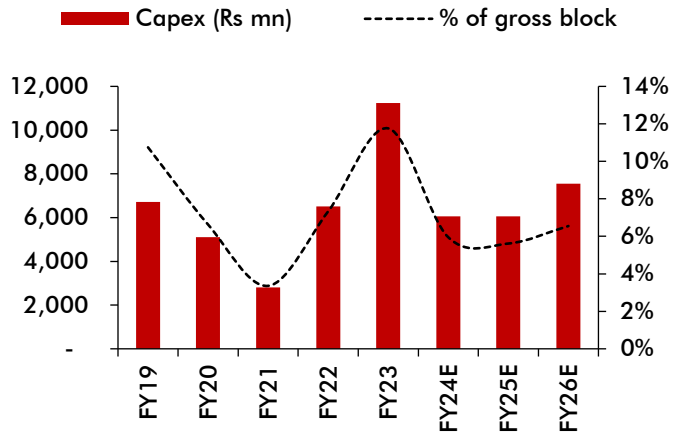
	Mature	New	Comment
No. of hospitals	29	14	Most new hospitals are in the Years 6-10 post commissioning phase – represents the sweet-spot in a typical hospital's lifecycle
Operational bed count	5,476	2,384	
Occupancy	65%	61%	With the new hospitals cohort crossing the 60% occupancy mark, we expect AHEL to focus on other levers such as ALOS, case mix etc. to boost revenue growth and margins
EBITDA margin	27.3%	18.1%	Expect EBITDA margins for the new hospitals cohort to settle in the 20-25% range over the next few years
Share of			
- Bed count	70%	30%	~30% of AHEL's current network has headroom to grow and improve margins
- Revenues	70%	30%	
- EBITDA	77%	23%	Share of EBITDA likely to align closer to revenue share as new hospitals ramp up further

Source: Company, Ambit Capital research

...and adequate balance sheet comfort

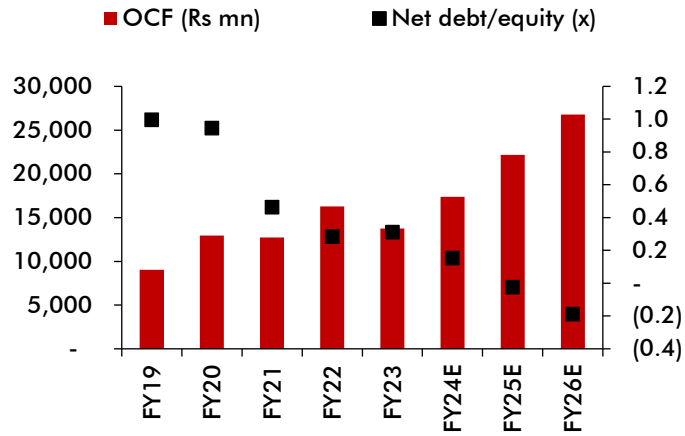
Funding is however not a constraint. AHEL has cash on books of ~₹8bn. It is also likely to generate cumulative operating cash-flow of ~₹66bn over the next three years. Dependence on external capital, debt or equity, would be limited. Net-debt/equity is likely to remain negative over the next few years.

Exhibit 67: We forecast cumulative capex of ₹20bn over FY24-26E...



Source: Company, Ambit Capital research

Exhibit 68: ...to be funded internally: forecast cumulative OCF of ₹66bn over FY23-26E

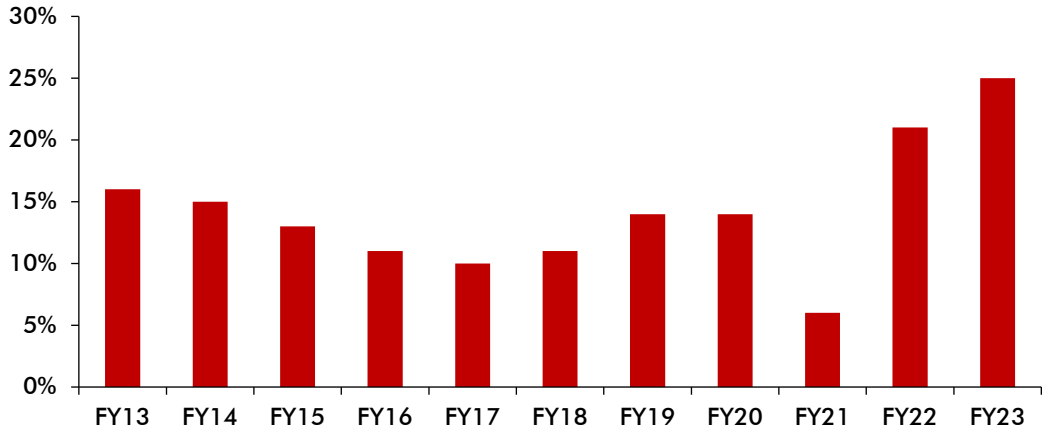


Source: Company, Ambit Capital research

RoCE resilience to continue reflecting in valuations

AHEL's hospitals business RoCE improved from 16% in FY13 to ~25% in FY23. This was led by ramp-up in occupancy at new hospitals (commissioned post FY13) and continued high single-digit revenue growth in mature hospitals. Lower consolidated RoCE reflects efforts to seed the retail health (AHLL) and digital health (Apollo 24/7) platforms.

Exhibit 69: Hospitals RoCE improved by ~900bps over FY13-23 led by improving margins at its new hospitals



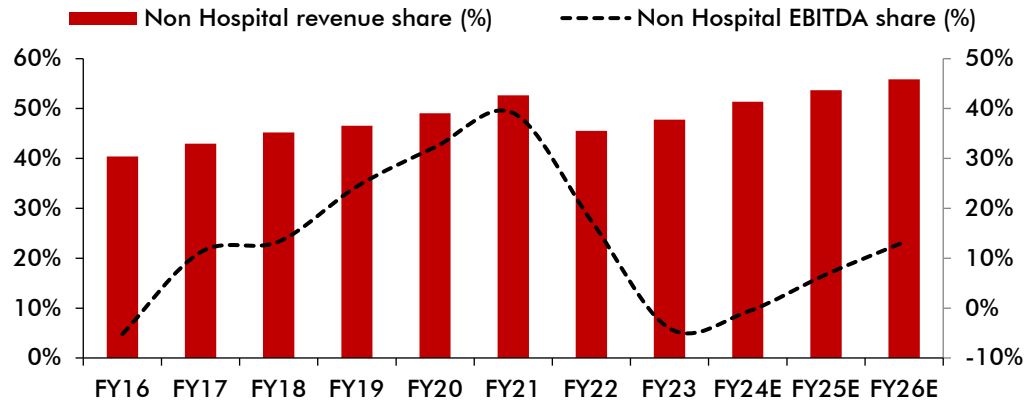
Source: Company, Ambit Capital research

Headroom to grow and improve margins in current network along with ability to fund bed addition internally would keep RoCE resilient. Consolidated RoCE should improve from 16% in FY23 to 24% in FY26 as the hospitals business remains steady and margins expand in AHLL and Apollo Healthco.

Seeding non-hospitals businesses

AHEL has seeded multiple non-hospitals businesses over the years. It supports the largest pharmacy-chain in the country and has an emerging digital health platform. Efforts to build retail health businesses such as diagnostics and primary care are also gaining traction. Revenue share of non-hospitals businesses increased to ~48% in FY23. EBITDA share has dipped over the last two years on efforts to build the 24/7 platform and retail diagnostics. Operating leverage benefits should kick in from FY24 and be a key source of margin/RoCE expansion for the company.

Exhibit 70: Share of non-hospitals businesses increased to 48% but EBITDA share remains low as many are still in early stages



Source: Company, Ambit Capital research

Building a retail health platform (AHLL)

Apollo Health and Lifestyle Limited (AHLL) is the retail healthcare arm of AHEL. AHLL was formed in 2002 as a subsidiary of AHEL with focus on providing primary healthcare services. It has developed a chain of clinics and diagnostic centers across India. Over the last two decades, it has emerged as one of the few organized retail healthcare players and contributes ~9% to AHEL's topline. The company aims to expand footprint across India and increase its range of services.

Exhibit 71: AHLL's services can be divided into three broad buckets - diagnostics, primary care and specialty care

Segments	Diagnostics	Clinics	Sugar	Dental	Dialysis	Cradle	IVF	Spectra
Description	B2C focused pathology	Multi-specialty clinics	Diabetes management	Dental services, standalone and in-clinic models	Dialysis services	Woman and child focused hospital	Fertility services	Expertise across specialties
Network*	1,570	341	55	114	111	10	17	11
Revenue share	31%	28%					46%	
EBITDA share	11%	26%					63%	

Source: Company, Ambit Capital research

Present in three broad segments

1) Diagnostics – Apollo Diagnostics is a leading chain of diagnostics centers in India providing wide range of pathology and radiology services. It operates over 1,500 centers in India and is a B2C-focused player. In addition to offering diagnostic services, Apollo Diagnostics also provides patients with access to online reports and personalized health records through the Apollo 24/7 app.

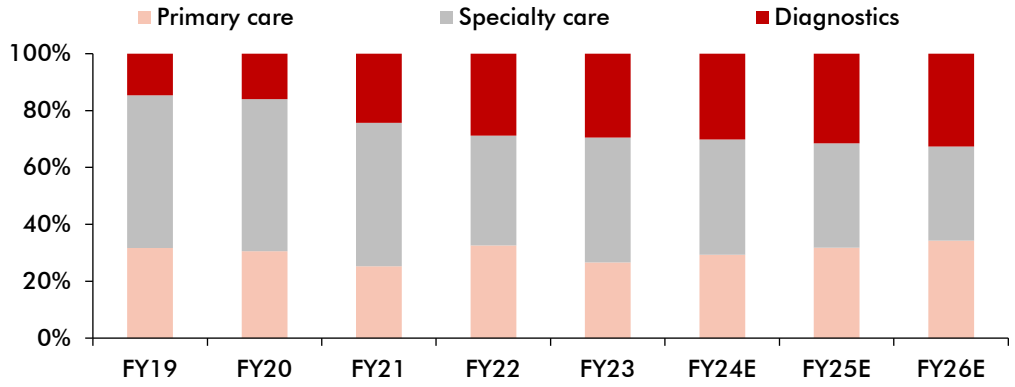
2) Primary Care – clinics, sugar, dental and dialysis

- Apollo Clinics operates as an integrated multi-specialty clinic offering specialist consultations, preventive health check-up and pharmacy services under one roof.
- Apollo Sugar focuses on providing end-to-end care and management of diabetes and related complications.
- Apollo Dental care clinics are equipped with range of dental spas, studios, clinics etc. that provide a variety of dental services, from basic treatments to advanced cosmetic dentistry.
- Apollo Dialysis is a leading dialysis network in India offering services for kidney failure patients, pediatric dialysis and kidney transplant services.

3) Specialty care – Cradle and Spectra

- Apollo Cradle consists the healthcare centers focused towards women and pediatric care. It provides various services include gynecology, maternity and birthing, pediatrics and neonatology among others.
- Apollo Spectra is a specialized hospital that provides short-stay minimally invasive surgeries, which allows for faster recovery, less pain, and minimal blood loss.

Exhibit 72: AHLL revenue mix - specialty care contributes the most but diagnostics has gained meaningful share in recent years

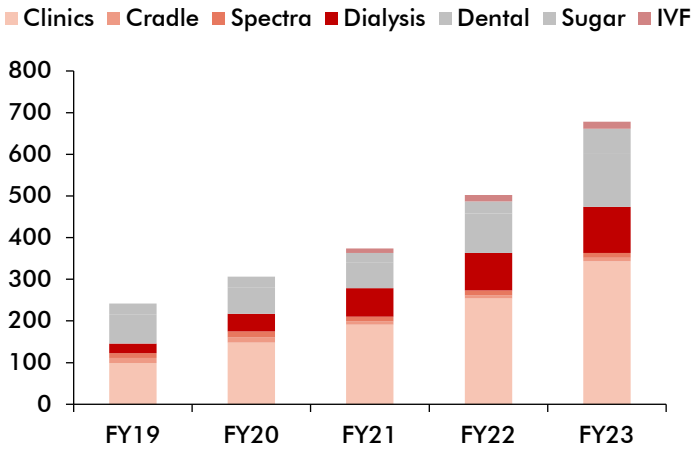


Source: Company, Ambit Capital research

Meaningful investment in network over the years

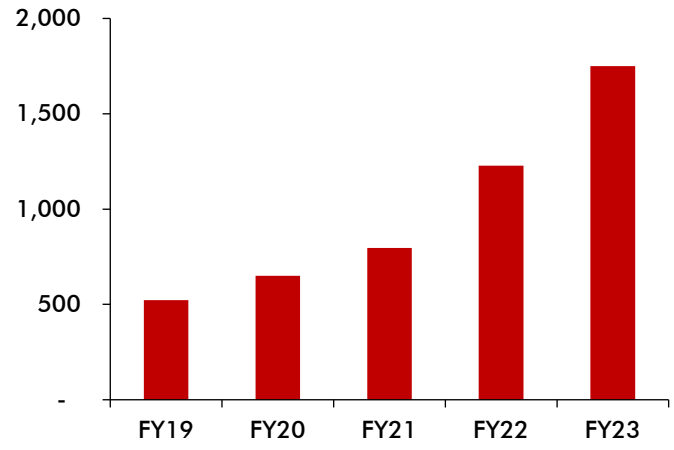
AHLL has expanded its network of clinics across the country, resulting in increased footfall and revenue generation. Demand for primary healthcare is consistently increasing in India courtesy rising income levels, changing lifestyles, and increasing health awareness. The space is however dominated by the unorganized sector. AHLL's investment in network and visibility initiatives have led to increased footfalls and revenues. AHLL also expanded its diagnostics collection network to capitalize on increasing demand for pathology services in India. It already had testing infrastructure and expertise given the captive testing requirements at its network hospitals. Over the last few years, the company has tried to leverage these and build a B2C non-captive business as well. Efforts to expand service offerings to certain specialty segments such as women's health, paediatric and neonatal care, diabetes care etc. have also helped. This helped AHLL turn EBITDA positive in FY19.

Exhibit 73: Network rollout in primary and specialty care: clinics, dialysis, dental and sugar centres lead



Source: Company, Ambit Capital research

Exhibit 74: AHLL's diagnostic centres grew 35% CAGR over FY19-23

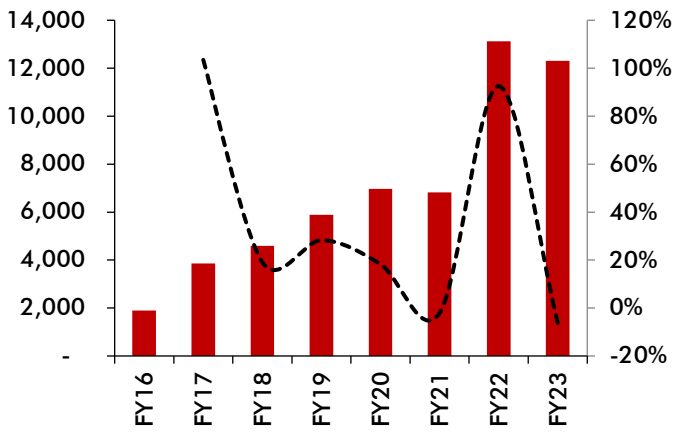


Source: Company, Ambit Capital research

All-round revenue growth, scale brings profitability

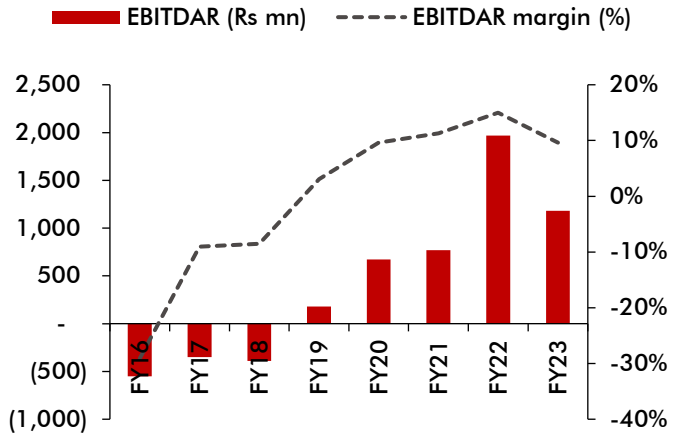
Investment in network and promotional initiatives have translated into 38% CAGR in revenues over FY16-23. The business involved a three-four year gestation period after the company stepped up investment in retail healthcare. However, rising revenue trajectory led to break-even in FY19 and consistent margin improvement thereafter as operating leverage played out. FY22 was an outlier year on super-normal revenues from diagnostics and Covid vaccination. However, FY23 results reflect the continued traction in most businesses on a normalized basis.

Exhibit 75: Revenues grew 31% CAGR over FY16-23 with FY22 seeing meaningful Covid-related boost



Source: Company, Ambit Capital research

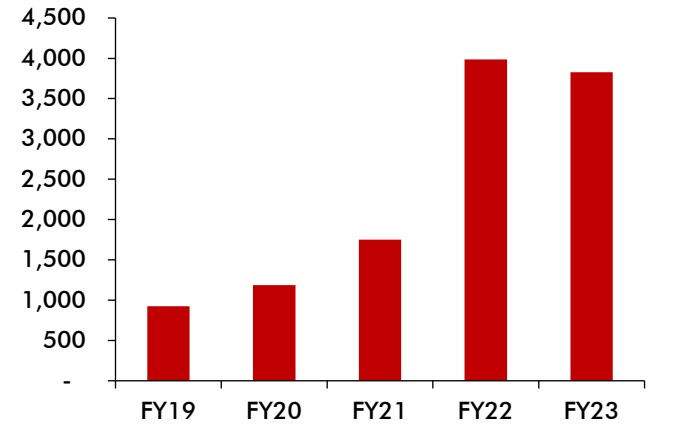
Exhibit 76: AHLL turned EBITDAR positive in FY19 on revenue traction in most segments



Source: Company, Ambit Capital research

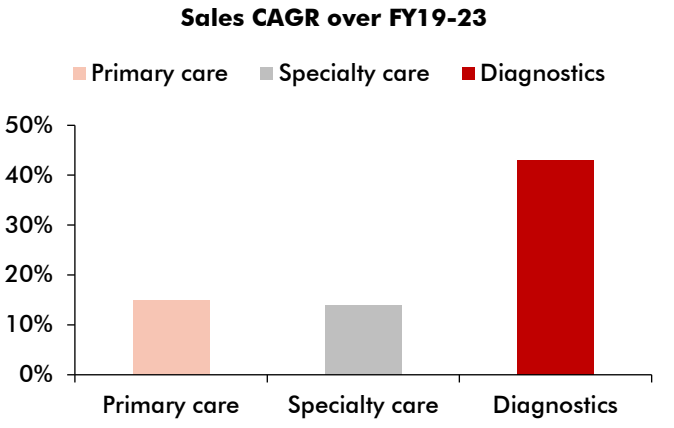
Diagnostics and primary care would remain key growth drivers given continued step-up in network centers in these segments and ability to gain share from the unorganized segment. Growth in specialty care would be relatively sedate at ~13% CAGR. Margin improvement should continue in each segment though it could be a bit back-ended in diagnostics given need to continue investment in network and visibility initiatives in the wake of high competitive intensity.

Exhibit 77: Diagnostics appears to have hit inflection due to Covid and Apollo 24/7 visibility...



Source: Company, Ambit Capital research

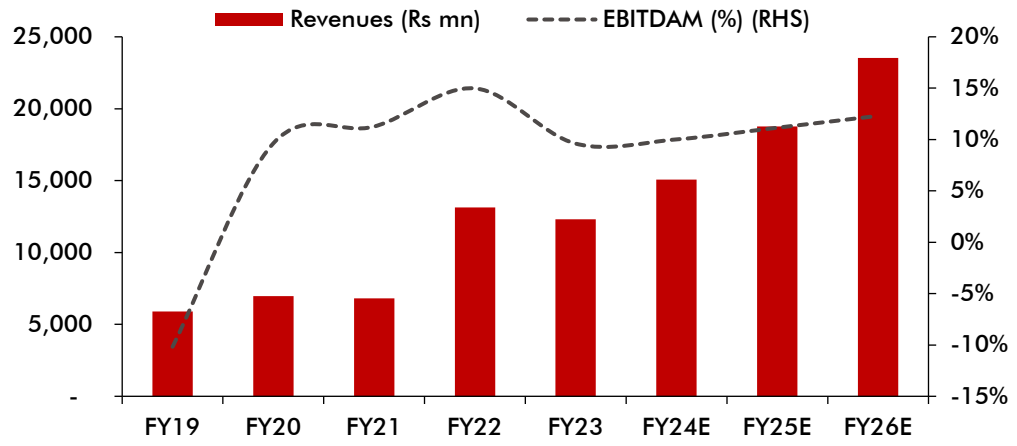
Exhibit 78: ...and has outpaced other segments in revenue growth



Source: Company, Ambit Capital research

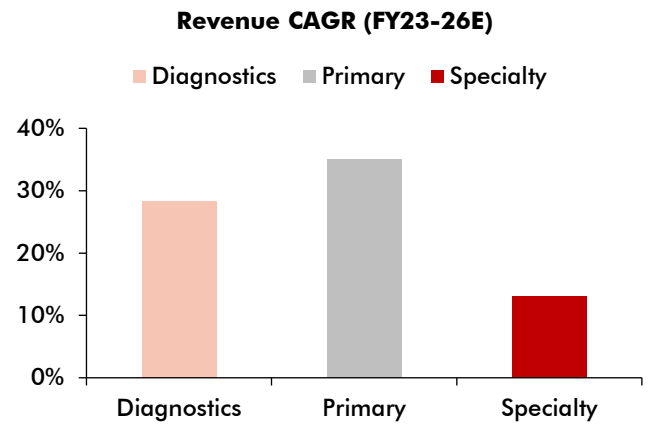
We forecast 24% CAGR in AHLL revenues and ~270bps EBITDA margin improvement over FY23-26E. We expect growth to be highest in primary care (35% CAGR), followed by diagnostics (28%) and specialty care (13%). EBITDA margin should improve ~270bps to 12.3% as operating leverage continues to play out.

Exhibit 79: We forecast 24% revenue CAGR driven by primary care and diagnostics



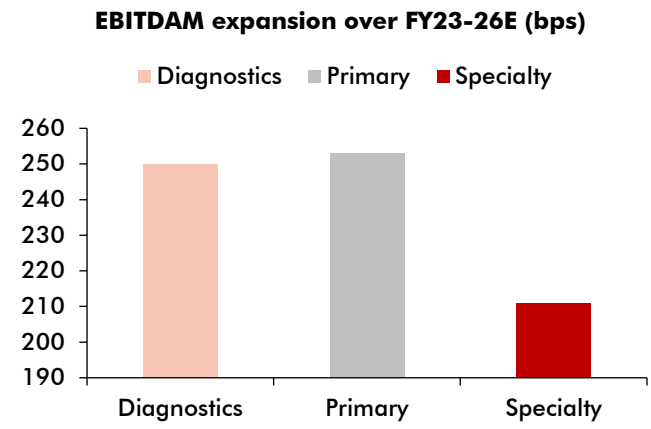
Source: Company, Ambit Capital research

Exhibit 80: We expect a double-digit revenue CAGR in all three segments over FY23-26E...



Source: Company, Ambit Capital research

Exhibit 81: ...and a 200-300bps improvement in EBITDAM over same time



Source: Company, Ambit Capital research

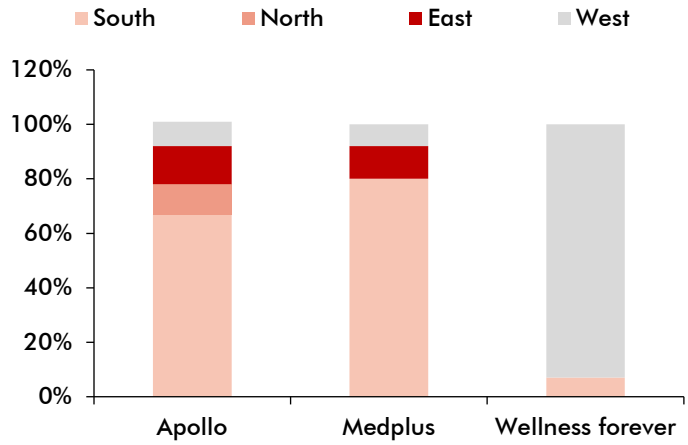
Leadership in retail pharmacies

Apollo (via Apollo Pharmacy) is the number one retail pharmacy chain in India. The business was established in 1987. It has expanded over the years to include a wide range of healthcare and wellness products. The company has created the largest network of offline pharmacy in India with over 5,000 stores and presence in 1,100 cities. The network is spread across India and is particularly dominant in South India. Recently, the company hived off the front-end. This business contributed 40% of FY23 revenues, versus 27% in FY12, enabled by aggressive store addition laid out by the company. AHEL added 4177 stores over FY12-23, growing at a CAGR of 14% over the same period.

Pan-India network with dominance in South India

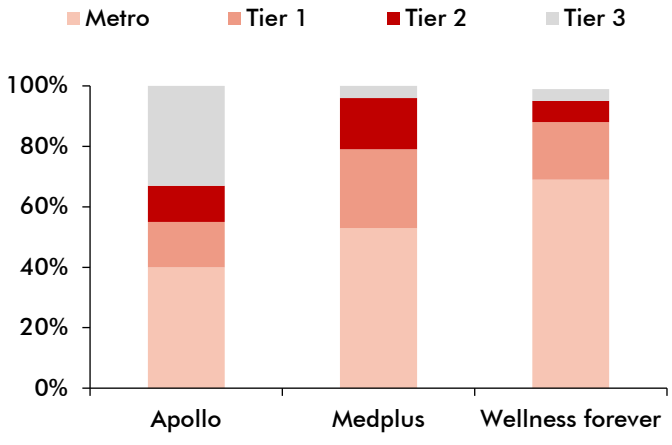
AHEL has expanded its network through a combination of organic initiatives and acquisition of Hetero Pharmacy in 2014. It has rolled out stores across the country but there appears to be a conscious effort to leverage the underlying hospitals brand in order to gain acceptance. This has resulted in ~67% of its pharmacy stores being in South India.

Exhibit 82: ~67% of AHEL's pharmacy outlets are located in South India



Source: Company, Ambit Capital research; Note – Data for Wellness forever is as per last available company reports

Exhibit 83: AHEL has diversified its presence across Metro, tier 1, tier 2 and tier 3 towns



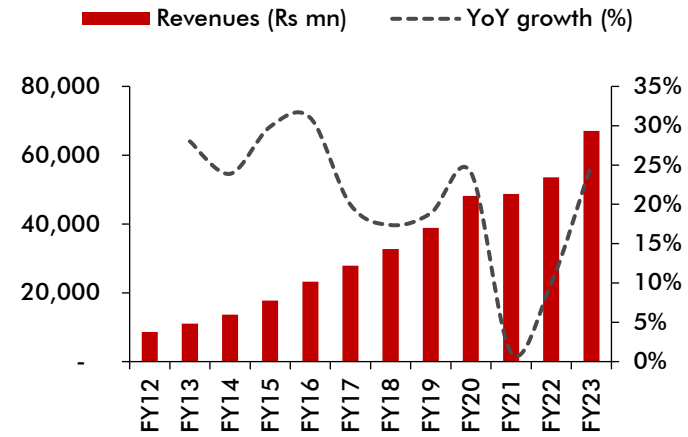
Source: Company, Ambit Capital research

Exhibit 84: Benchmarking vis-à-vis peers – AHEL leads in terms of scale

FY23	AHEL	Medplus	Wellness*
Revenues (₹ mn)	67,045	45,576	9,240
Number of stores	5,541	3,118	223
Revenue per store (₹ mn)	12.1	11.9	41.4
EBITDA per store (₹ mn)	1	0.8	3.6
Share of private label sales (%)	15.5%	13.6%	1.8%

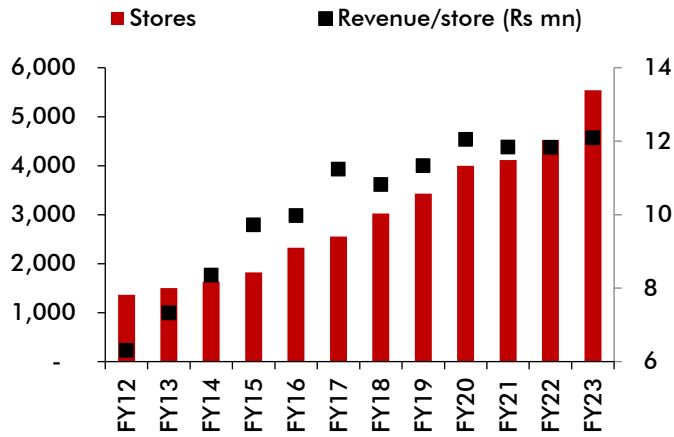
*Source: Company, Ambit Capital research; *FY21 numbers for Wellness Forever (last available)₹*

Exhibit 85: Revenues grew at 20% CAGR over FY13-23...



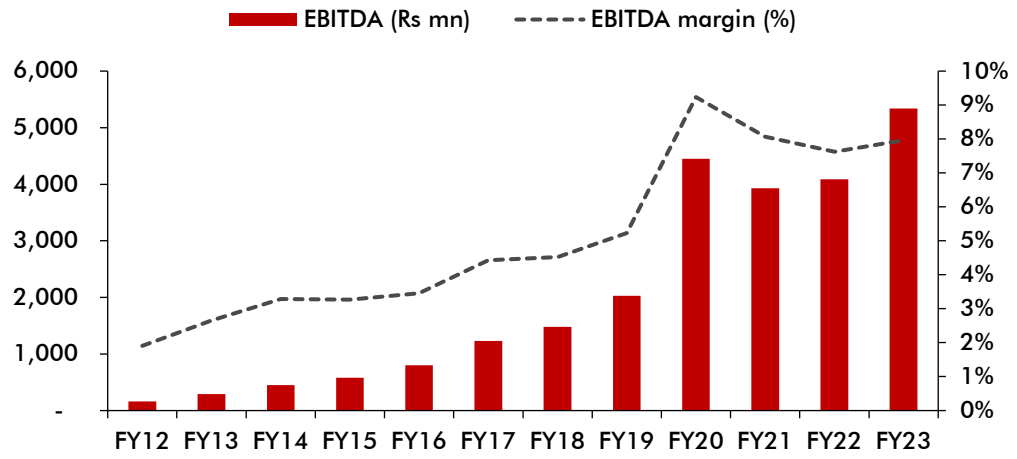
Source: Company, Ambit Capital research

Exhibit 86: ...driven primarily by 14% CAGR in new stores



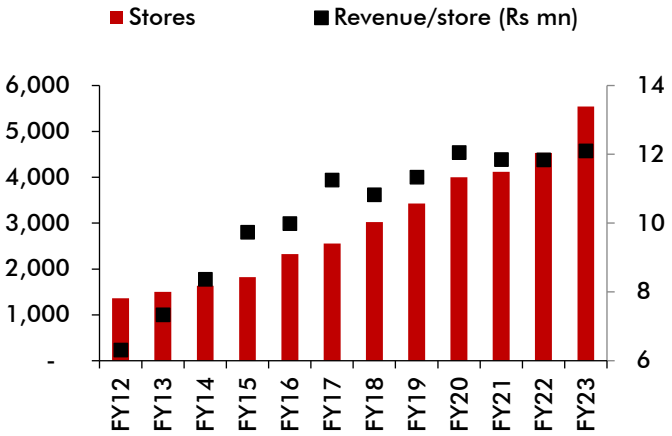
Source: Company, Ambit Capital research

Exhibit 87: ...and margins expanded by ~600bps



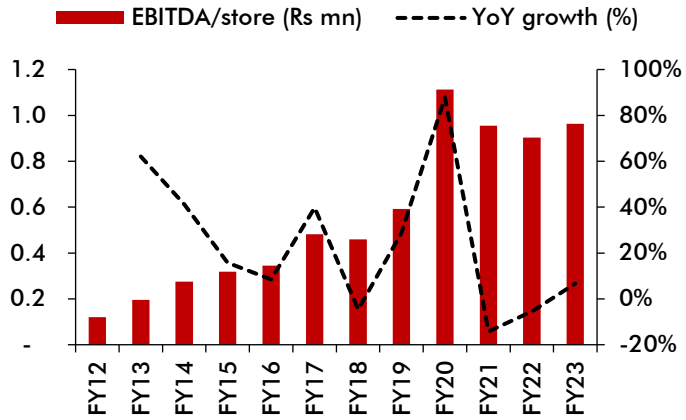
Source: Company, Ambit Capital research

Exhibit 88: Revenue/store has grown at a CAGR of 6% over FY12-22 ...recently hit due to divestiture of front-end business



Source: Company, Ambit Capital research

Exhibit 89: EBITDA/store has grown at a healthy CAGR of 22% as margins on older stores rise consistently

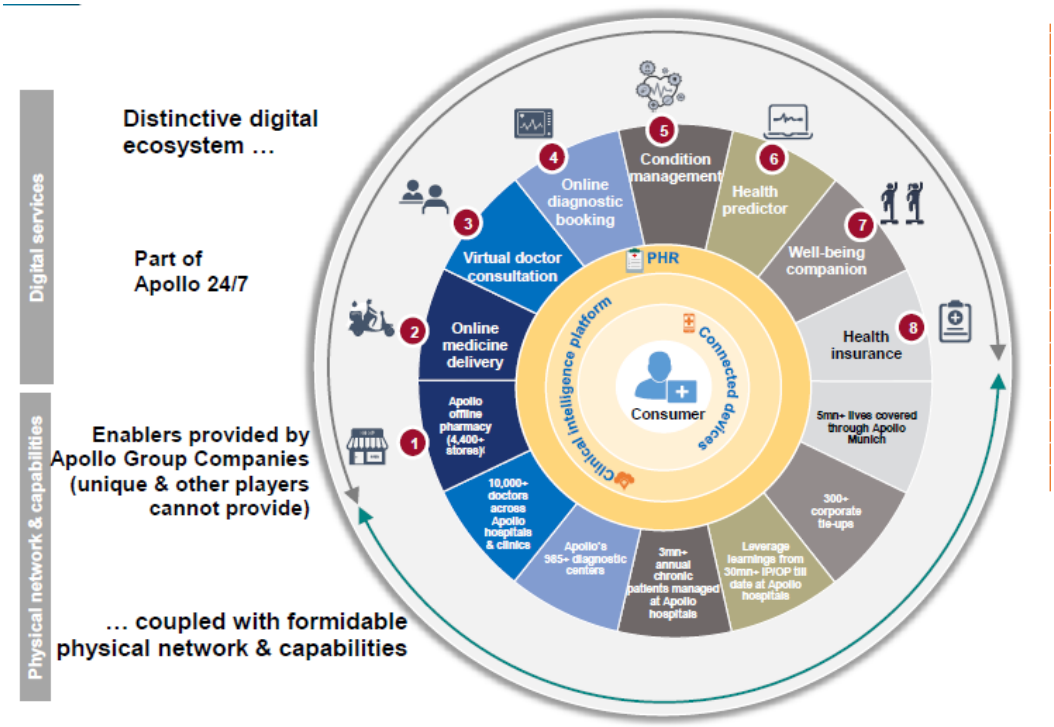


Source: Company, Ambit Capital research

Apollo 24/7 makes it a leading, omni-channel player

AHEL launched its digital platform, Apollo 24/7, in 2020 in order to augment its offline network in a variety of retail-facing segments and establish itself as an omni-channel player. The platform has integrated various healthcare services, including telemedicine, e-pharmacy, and diagnostic services, to create a unified healthcare platform that consumers can access on mobile devices or computers.

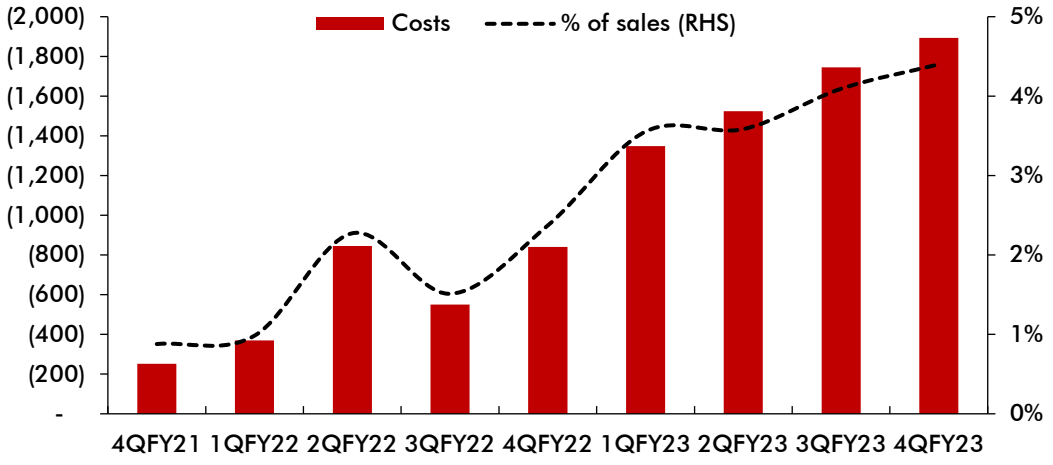
Exhibit 90: Omni-channel platform leveraging its physical offerings



Source: Company, Ambit Capital research

Apollo 24/7 stands out on two key aspects vis-à-vis predominantly digital players such as 1mg, Pharmeasy, Netmeds etc. First, it benefits from a well-established medical brand that increases acceptance with the medical community as well as consumers. Secondly, it is built on top of an ecosystem that already offers these services and is an additional funnel / channel to capture demand. Ability to capture the full value from every order and a thriving brick-and-mortar business also allow the company to sustain investment in building the platform as it is not dependent on external funding.

Exhibit 91: Costs incurred on Apollo 24/7 platform – AHEL's ability to fund the platform makes it more resilient vis-a-vis pure digital health players

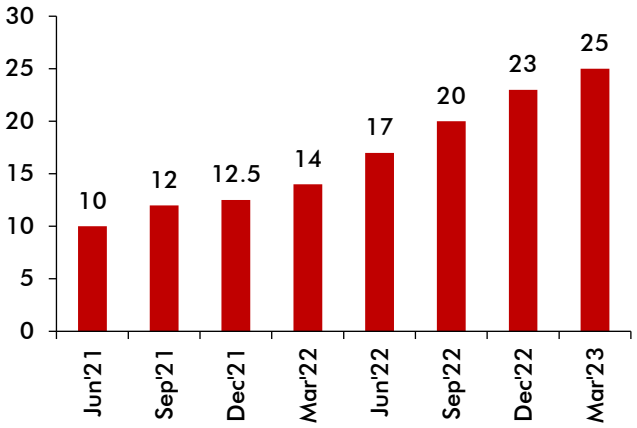


Source: Company, Ambit Capital research

It has made good progress so far.

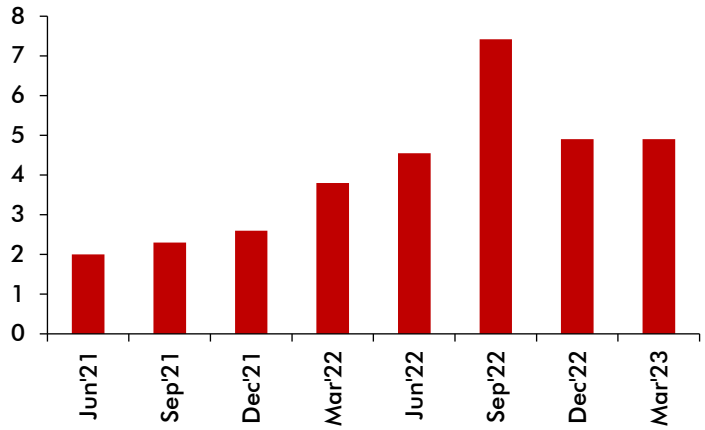
- Registered users for the app increased to 25mn in March 2023 vs ~10mn in June 2022. AHEL targets 100mn registered users by FY25.
- Weekly active users grew from ~2mn in Jun'21 to ~5mn in March'23.
- Number of doctors on board increased from ~5,500 in June 2021 to over 6,000 in March 2023.
- Daily consultations have touched the 5,000 mark and daily medicine orders stand at 35,000+ currently.
- GMV has increased to ₹6.2bn as on Mar'23 vs. ₹1.5bn in Mar'22

Exhibit 92: App user registrations exhibited healthy growth from Jun'21 to Mar'23



Source: Company, Ambit Capital research

Exhibit 93: Weekly active users grew from ~2mn as on 1QFY22 to ~5mn as at end-FY23



Source: Company, Ambit Capital research

Exhibit 94: Omni-channel players are likely to see most traction in pharmacy sales. AHEL should be a key beneficiary

₹ bn	FY15	FY19	FY20	FY21	FY25E	CAGR FY15-20	CAGR FY20-25
Modern retail	**55**	**137**	**173**	**205**	**535**	**26%**	**25%**
- E-commerce	1	18	38	56	230	106%	44%
-Omni-channel players	0	3	4	6	25	223%	48%
-Online only players	1	15	34	50	205	103%	43%
- B&M	54	112	135	149	305	20%	18%
Traditional retail	**1,045**	**1,434**	**1,553**	**1,607**	**2,190**	**8%**	**7%**

Source: Technopak research

Growth and RoCE step-up

Non-hospitals businesses would be key drivers of growth, margin and RoCE step-up over FY23-26E. We forecast 17% and 20% CAGR in revenues and EBITDA over this period. Limited addition in operational beds (~3% CAGR) would keep growth in hospitals modest at ~10% CAGR. Retail health and pharmacy/distribution should clock 24%/23% revenue CAGR aided by ongoing investment in network and promotional initiatives. Step-up in revenue growth should yield operating leverage benefits and drive EBITDAM higher by ~120bps. Impact of 24/7 related costs on margins should ease from ~440bps in FY23 to ~350bps in FY26E. Higher margins and GB T/O should lead to ~800bps expansion in consolidated RoCE.

Non-hospitals boost to growth

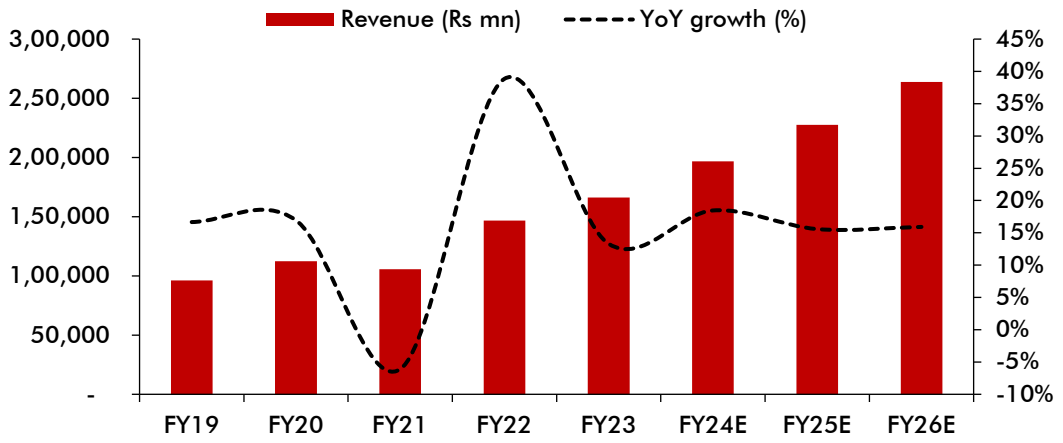
AHEL is likely to clock revenue growth of ~17% CAGR over FY23-26E. Growth in hospitals would be relatively modest at 10% CAGR (vs. 14% CAGR over FY19-23) due to limited addition to operational bed count over this period. However, non-hospitals businesses viz. retail pharmacies (23% CAGR) and AHLL (24% CAGR) would drive growth higher as benefits of recent investment in these segments start playing out.

Exhibit 95: AHEL revenue model - modest growth in hospital revenues, pharmacy and retail health seeing a step-up

Revenue model	FY23	FY24E	FY25E	FY26E	Remarks
Hospitals					
Tamil Nadu	30,978	33,945	37,739	41,896	We forecast 10% CAGR in hospital revenues over FY23-26E.
YoY growth (%)	14%	10%	11%	11%	AHEL will add ~1,100 beds over the next three years but we expect it to operationalize only ~830 beds over this period.
Andhra Pradesh	13,559	15,481	17,053	18,466	Key new projects include 180 beds in Indore (brownfield), 100 beds in Rourkela and 200 beds in Gurugram – all classified under the "Other hospitals" head.
YoY growth (%)	-9%	14%	10%	8%	
Karnataka	9,887	10,803	11,512	12,443	We forecast ~5% p.a. increase in average realization per patient and marginal ALOS improvement - translating into ~2% CAGR in ARPOB over FY23-26E.
YoY growth (%)	0%	9%	7%	8%	
Other hospitals	9,680	10,009	10,916	12,460	
YoY growth (%)	-5%	3%	9%	14%	
Hospitals JVs/Subs	22,665	25,520	28,169	31,084	
YoY growth (%)	27%	13%	10%	10%	
Total	**86,769**	**95,758**	**105,388**	**116,350**	
YoY growth (%)	9%	10%	10%	10%	
Pharmacy	**67,045**	**85,974**	**103,299**	**123,784**	We forecast 23% CAGR in pharmacy sales. New store adds is modest at 11% CAGR but the 22% increase in FY23 to be a key driver
YoY growth (%)	25%	28%	20%	20%	
AHLL					
Diagnostics	3,827	4,784	6,219	8,085	We forecast 24% CAGR in AHLL revenues over FY23-26E.
YoY growth (%)	-4%	25%	30%	30%	Diagnostics (28% CAGR) and primary care (35% CAGR) to benefit from the brand's improved visibility in home markets
Primary care	3,451	4,659	6,289	8,491	Specialty care growth to remain steady at ~13% CAGR
YoY growth (%)	-24%	35%	35%	35%	
Specialty care	5,684	6,423	7,258	8,201	
YoY growth (%)	7%	13%	13%	13%	
Total	**12,311**	**15,072**	**18,778**	**23,538**	
YoY growth (%)	-6%	22%	25%	25%	
Consolidated revenues	**166,125**	**196,804**	**227,465**	**263,672**	
YoY growth (%)	13%	18%	16%	16%	

Source: Company, Ambit Capital research

Exhibit 96: We forecast 17% revenue CAGR over FY23-26E



Source: Company, Ambit Capital research

Exhibit 97: Hospitals growth to moderate on limited bed addition whereas non-hospitals businesses to see benefits of recent step-up in investment

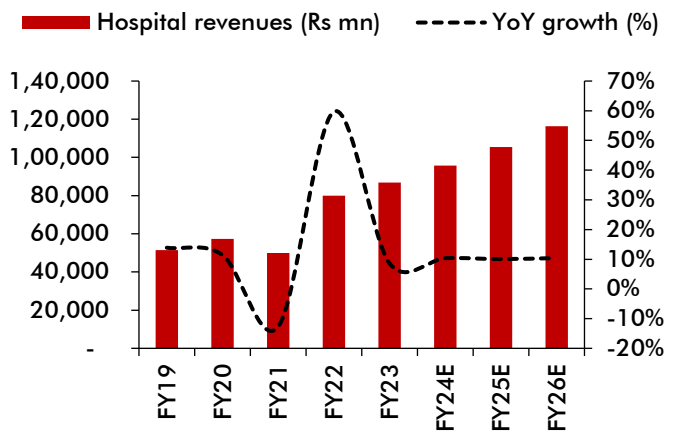
(CAGRs)	FY23-26E	FY19-23	EBITDAM (FY23)	EBITDAM (FY26E)	EBITDAM expansion (FY23-26E)
Hospitals	**10%**	**14%**	**24.6%**	**26.6%**	**200bps**
TN	11%	11%			
AP	11%	7%			
Karnataka	8%	11%			
Others	9%	10%			
JVs/Subs	11%	35%			
AHLL (retail health)	**24%**	**20%**	**9.6%**	**12.3%**	**270bps**
Diagnostics	28%	43%			
Primary care	35%	15%			
Specialty care	13%	14%			
HealthCo (pharmacy + 24/7)	**23%**	**15%**	**8%**	**9%**	**100bps**
Overall	**17%**	**15%**	**12.3%**	**13.5%**	**112bps**

Source: Company, Ambit Capital research

Hospitals revenues to clock modest growth

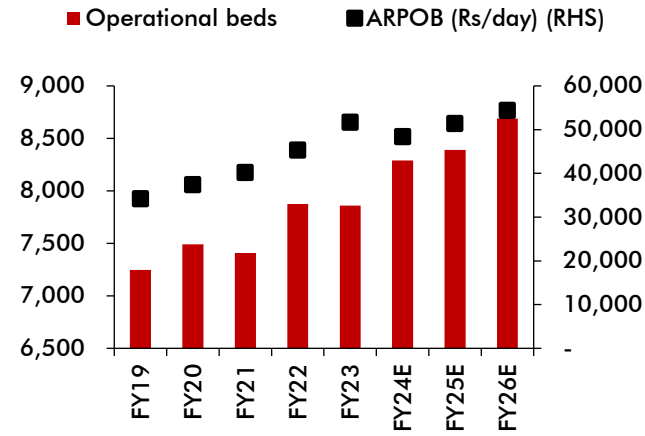
The company would be adding around 1,100 beds to installed capacity over FY24-26. However, operational bed count is likely to increase at only 2% CAGR as beds are likely to be operationalized gradually over a few years. We therefore forecast 10% CAGR in hospitals revenues over FY23-26E vs. 14% clocked over FY19-23.

Exhibit 98: Hospitals revenue CAGR of 10% over FY23-26E...



Source: Company, Ambit Capital research

Exhibit 99: ...led by 3%/2% CAGR in operational beds/ARPOB

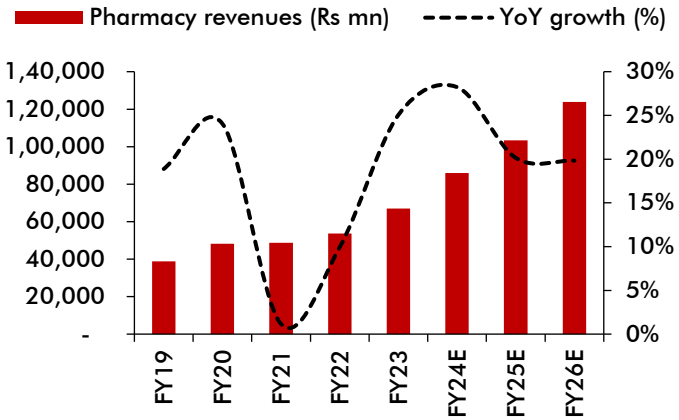


Source: Company, Ambit Capital research

Pharmacy business to benefit from store count addition and Apollo 24/7 traction

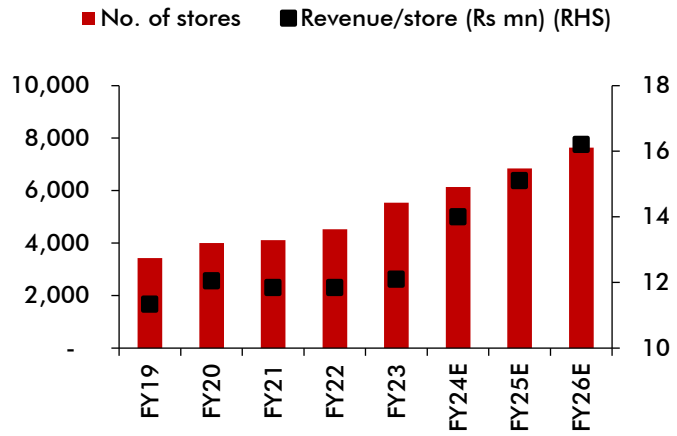
Apollo HealthCo revenues are set to grow at ~23% CAGR over FY23-26E. This is a step-up from the 15% CAGR clocked over FY19-23. AHEL added ~1,000 stores (~22% increase) in FY23. These will start contributing meaningfully over the next two to three years and drive growth rates higher. Traction in online revenues due to Apollo 24/7 would also contribute to the step-up in growth rate.

Exhibit 100: Retail pharmacy revenue CAGR of 23% over FY23-26E represents a step-up from the past...



Source: Company, Ambit Capital research

Exhibit 101: ...11% CAGR in store-count and 10% CAGR in revenue/store. Apollo 24/7 benefit flowing through

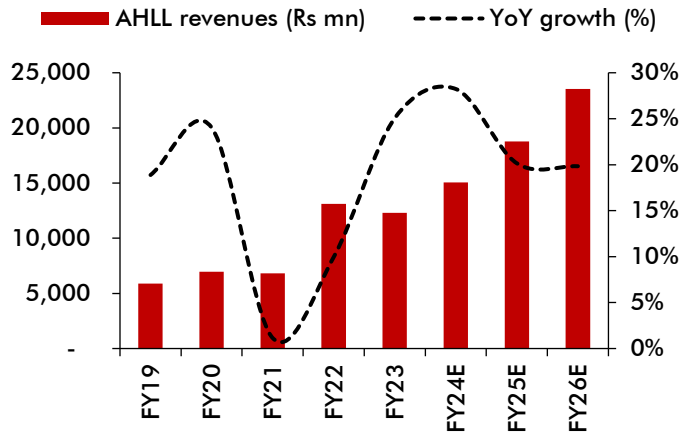


Source: Company, Ambit Capital research

Retail health gaining traction

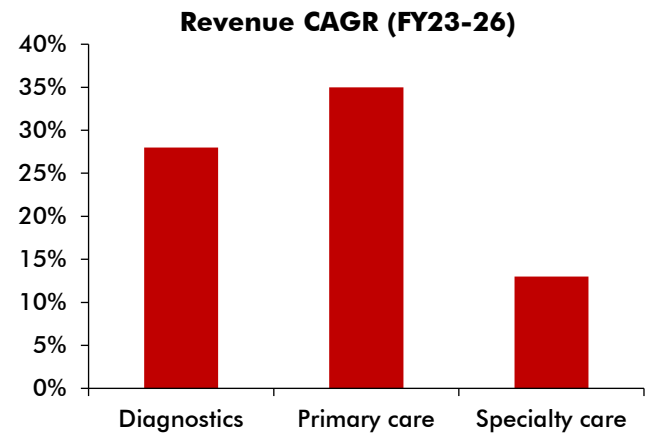
The company's initiatives in retail health (via AHLL) are also likely to continue paying off in the form of healthy growth. AHLL revenues should grow at 24% CAGR over FY23-26E. This compares with ~20% CAGR over FY19-23. Diagnostics would remain a key growth business as the company's efforts to widen its footprint (collection touch-points as well as via Apollo 24/7) continue to pay off. Revenues from this segment should grow at 28% CAGR over FY23-26E. Specialty care would continue to grow in the low teens (~13% CAGR) while primary care should grow at 35% CAGR over the same period.

Exhibit 102: AHLL revenue CAGR of ~24% over FY23-26E...



Source: Company, Ambit Capital research

Exhibit 103: ...led mainly by diagnostics and primary care

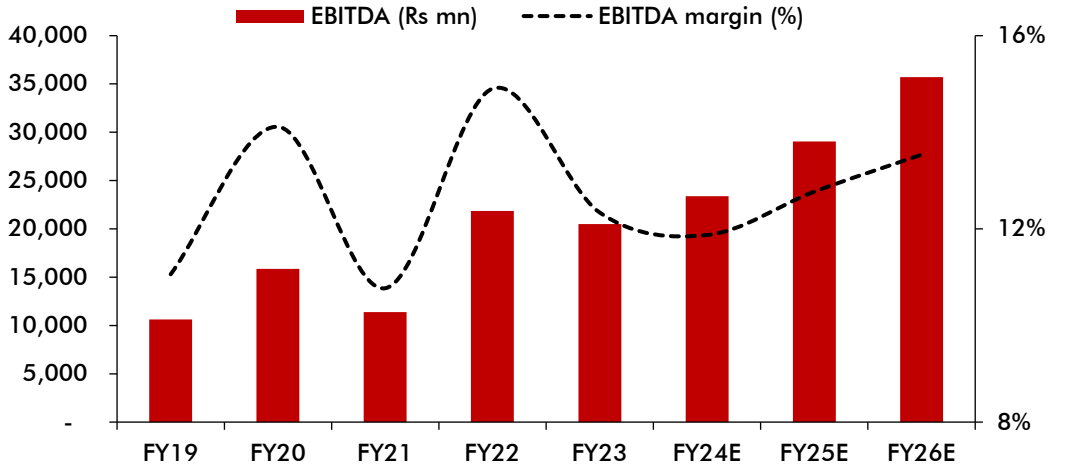


Source: Company, Ambit Capital research

Modest bed adds, operating leverage to boost margins

We forecast ~120bps EBITDA margin expansion over FY23-26E. All key businesses are likely to see margin improvement over this period. Limited operational bed addition would support hospitals business margins. Operating leverage should play out in the pharmacy and retail health businesses as revenue growth picks up.

Exhibit 104: We forecast 20% EBITDA CAGR over FY23-26E leading to ~120bps margin expansion over this period



Source: Company, Ambit Capital research

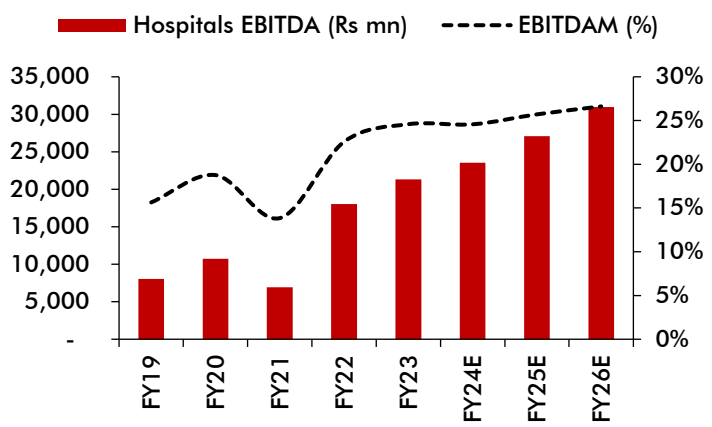
Exhibit 105: AHEL's hospitals EBITDA margins are comparable to peers at ~25%. Consolidated EBITDA margins are lower due to non-hospitals businesses. Apollo 24/7 related costs to peak in FY24 post which margins should start improving

EBITDA margin	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Hospitals	15.6%	18.8%	13.8%	22.6%	24.6%	24.6%	25.7%	26.6%
AHLL	-10.2%	9.6%	11.3%	15.0%	9.6%	10.0%	11.2%	12.3%
HealthCo	5.2%	9.2%	8.1%	7.6%	8.0%	8.0%	8.5%	9.0%
Consolidated (pre 24/7 costs)	**9.9%**	**14.1%**	**11.0%**	**16.4%**	**16.8%**	**16.2%**	**16.7%**	**17.1%**
Apollo 24/7 related costs	0.0%	0.0%	-0.2%	-1.5%	-4.4%	-4.3%	-3.9%	-3.5%
Consolidated EBITDA margin	**9.9%**	**14.1%**	**10.8%**	**14.9%**	**12.3%**	**11.9%**	**12.8%**	**13.5%**

Source: Company, Ambit Capital research

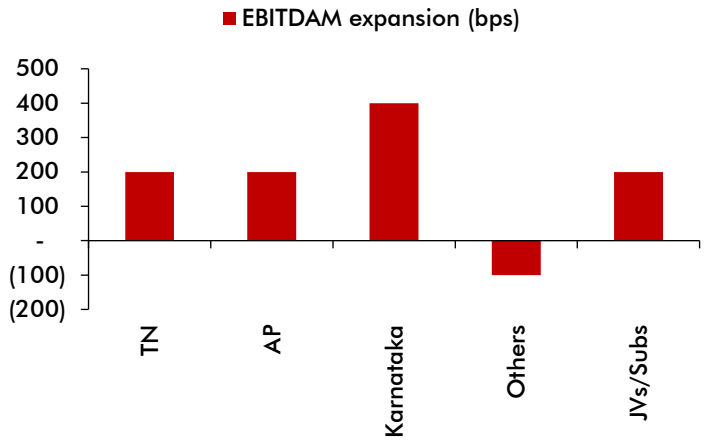
Limited bed addition over the next three years and continued improvement in existing network hospitals would continue driving hospital EBITDA margins higher over FY23-26E. We forecast ~200bps improvement in hospital margins over this period, primarily driven by improvement in the Karnataka cluster. This would be partially offset by ~100bps dip in the "Others" cluster owing to new beds added in Indore, Rourkela and Gurugram.

Exhibit 106: We forecast 13% EBITDA CAGR and 203bps EBITDA margin expansion for its hospital business...



Source: Company, Ambit Capital research

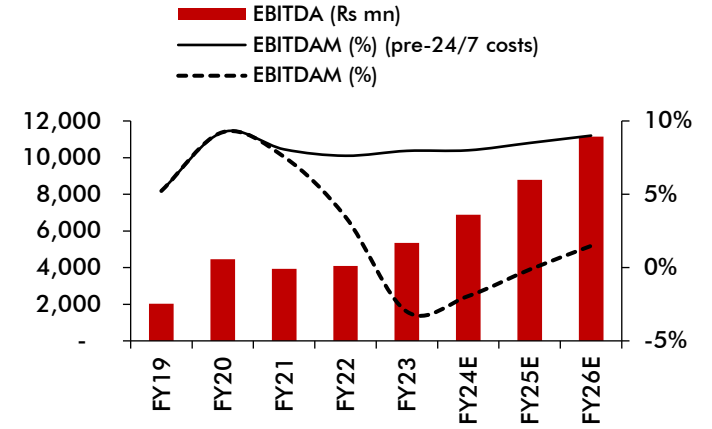
Exhibit 107: ...led by ~400bps EBITDAM expansion in its Karnataka cluster



Source: Company, Ambit Capital research

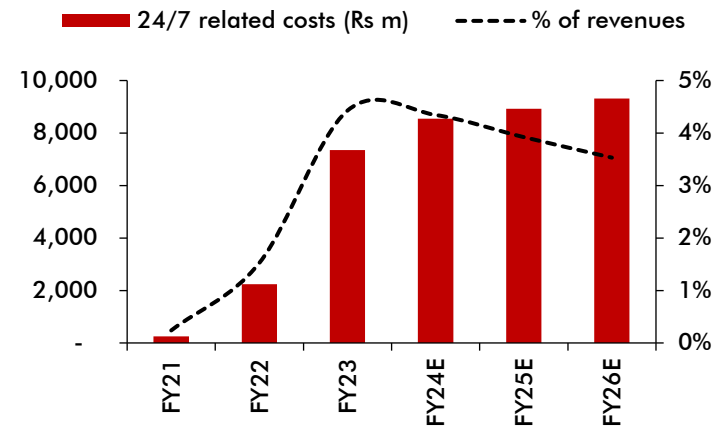
The company's investment in its digital platform (Apollo 24/7) has impacted pharmacy EBITDA margins over the last two years. Recent management commentary indicates that costs are likely to stabilize at around 4QFY23 levels. This implies stability in this cost line beyond FY24. We expect pharmacy business EBITDA margin to remain soft in FY24 owing to 24/7 related costs as well as the ~1,000 new stores added in FY23. However, margins should start picking up once again from FY25 as store addition and 24/7 related costs moderate and operating leverage kicks in.

Exhibit 108: We forecast 28% EBITDA CAGR and 104bps EBITDAM expansion in its pharmacy business



Source: Company, Ambit Capital research

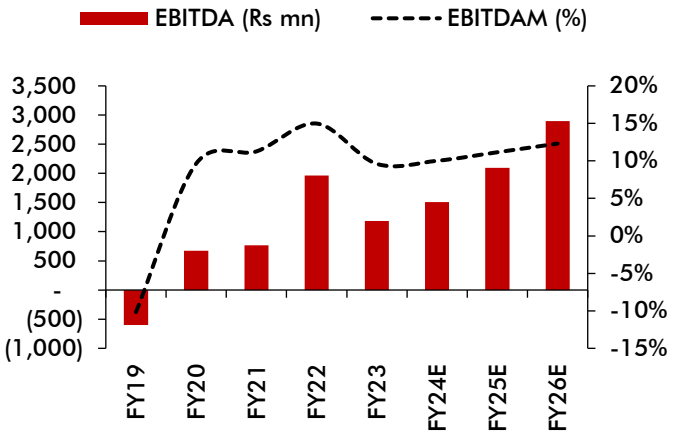
Exhibit 109: Apollo 24/7 spend is likely to stabilize in FY24 post which operating leverage should kick in



Source: Company, Ambit Capital research

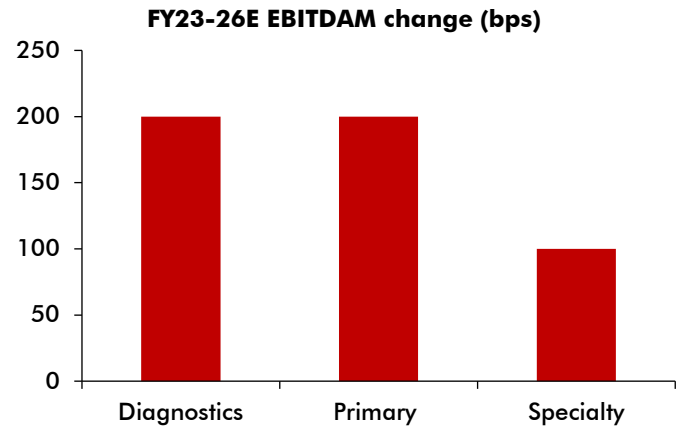
Operating leverage benefits would play out in AHLL (retail health) too. Margin trajectory has been improving in these businesses over the last few years even ignoring the Covid spike. This trend is likely to continue as revenue growth gains momentum.

Exhibit 110: We forecast 35% EBITDA CAGR and 270bps EBITDAM expansion in its AHLL business...



Source: Company, Ambit Capital research

Exhibit 111: ...led by 200bps EBITDAM expansion in its Diagnostics and primary care businesses



Source: Company, Ambit Capital research

Exhibit 112: AHEL's EBITDA model - margins to improve across businesses. Limited bed addition would help hospitals while strong revenue trajectory would yield operating leverage benefits in pharmacy and retail health segments

₹ m	FY22	FY23	FY24E	FY25E	FY26E
Hospitals					
Tamil Nadu	7,599	9,293	10,183	11,699	13,407
EBITDAM (%)	28%	30%	30%	31%	32%
Andhra Pradesh	2,975	2,847	3,251	3,752	4,247
EBITDAM (%)	20%	21%	21%	22%	23%
Karnataka	2,068	2,076	2,377	2,763	3,235
EBITDAM (%)	21%	21%	22%	24%	26%
Other hospitals	2,031	2,130	2,102	2,401	2,617
EBITDAM (%)	20%	22%	21%	22%	21%
Hospitals JVs/Subs	3,359	4,984	5,614	6,479	7,460
EBITDAM (%)	19%	22%	22%	23%	24%
Total Hospitals	**18,032**	**21,331**	**23,527**	**27,094**	**30,966**
EBITDAM (%)	23%	25%	25%	26%	27%
Healthco (Pharmacy)	**4,089**	**5,338**	**6,878**	**8,780**	**11,141**
EBITDAM (%)	8%	8%	8%	9%	9%
AHLL	**1,966**	**1,182**	**1,509**	**2,094**	**2,896**
EBITDAM (%)	15%	10%	10%	11%	12%
24/7 related costs	(2,236)	(7,355)	(8,549)	(8,920)	(9,310)
% of revenues	2%	4%	4%	4%	4%
Consolidated EBITDA	21,851	20,496	23,366	29,048	35,693
EBITDAM (%)	15%	12%	12%	13%	14%

- We forecast 112 bps EBITDAM improvement for the company over FY23-26E
- EBITDAM for hospitals business is much higher than consolidated margins at ~25%: expect ~100bps improvement over next three years, mainly driven by the Karnataka cluster. New beds unlikely to impact much (~100bps dip in Others cluster) as incremental operational bed count is limited
- HealthCo EBITDA margin is impacted by costs related to Apollo 24/7. Margins pre 24/7 related costs would be subdued in FY24 owing to large number of new stores added in FY23. Should improve thereafter.
- AHLL likely to witness improved margins as revenue growth picks up and operating leverage kicks in
- Apollo 24/7 related costs have peaked out in 4QFY23. Full, annualized impact to be visible in FY24 numbers. Operating leverage should kick in later as no meaningful step-up expected from current levels.

Source: Company, Ambit Capital research

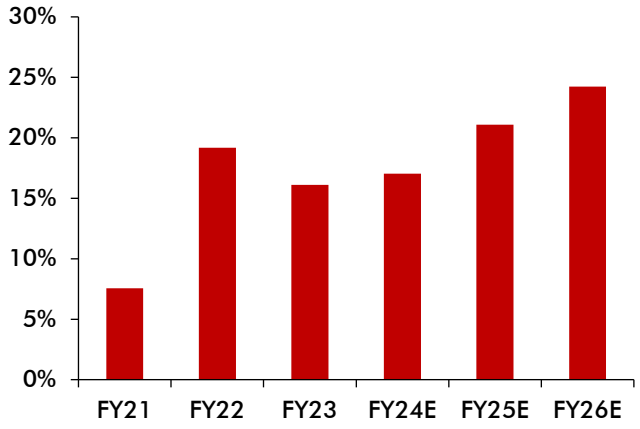
Low RoCE reflects efforts to seed non-hospitals businesses

AHEL's RoCE is dragged down by its non-hospitals businesses. Our analysis based on data points shared by the company over time suggests the following:

- Hospitals' RoCE was ~23% in FY23 and ~25% excluding CWIP related to hospitals that are yet to be commissioned.
- We estimate that AHLL currently generates RoCE in the range of 2-3%. This is primarily due to scale. The business was in investment mode for several years and has only turned profitable at EBITDA and PBIT level in recent years.
- The pharmacy and distribution business (Apollo HealthCo) currently generates negative return on capital due to costs related to Apollo 24/7. Excluding 24/7 related costs, we estimate that the business generates RoCE in the 34-35% range.

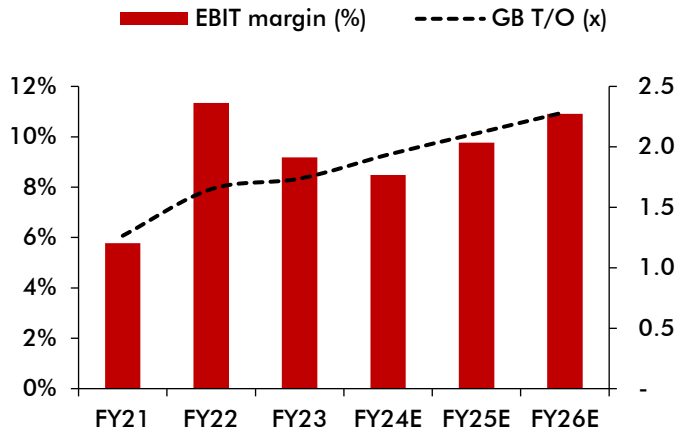
We expect consolidated RoCE to improve by ~800bps to 24% over FY23-26E. This would again be driven by the non-hospitals businesses. Gross block turnover is likely to improve across businesses as revenue growth steps up. At the same time, operating leverage led margin improvement in pharmacy and retail health businesses would drive consolidated EBIT margins higher. These would help offset investment in new bed capacity and upfront costs related to new beds.

Exhibit 113: Improvement in non-hospitals RoCE to drive consolidated RoCE up by ~800bps over FY23-26E...



Source: Company, Ambit Capital research

Exhibit 114: ...as EBIT margin expands on operating leverage benefits and revenue growth step-up drives GB T/O higher



Source: Company, Ambit Capital research

Scale across segments to reflect in multiples

AHEL is one of the best-placed companies to benefit from rising penetration of healthcare in India, courtesy its presence in multiple segments. Leadership in hospital services and retail pharmacies along with emerging presence in diagnostics and primary care provide multiple revenue drivers and have also strengthened brand equity. Large number of mature hospitals that clock high margins and generate cash allow the company to fund expansion internally and keep hospitals business margins and RoCE in the 25%/25% range. It also allows the company to seed non-hospitals businesses such as diagnostics, primary care and its digital health initiative. Consolidated margins and RoCE are suppressed by costs related to these efforts that would drive a step-up in revenue growth over the longer-term. Multiples should reflect this. Our DCF-based target price of ₹5,720/share implies exit FY25 EV/EBITDA of 28x vs. current multiple of 24x.

Closest to being a pan-India player

AHEL scores over peers in terms of scale and spread of its hospitals network. Besides being a dominant player in markets such as Chennai and Hyderabad, it has successfully scaled up in new markets such as Bengaluru, Navi Mumbai and several tier-2 cities. This is an area where many of its peers have struggled to achieve similar efficiency. It has also emerged as a serious player in several non-hospitals businesses such as pharmacies, diagnostics etc. It is the leader in pharmacies and one of the fastest-growing companies in the diagnostics segment. Its digital initiative (Apollo 24/7) also stands out vis-a-vis pure digital players by virtue of greater acceptance due to being a well-known medical brand, ability to capture full value of services internally and better ability to fund the same via cash generated by its hospitals business.

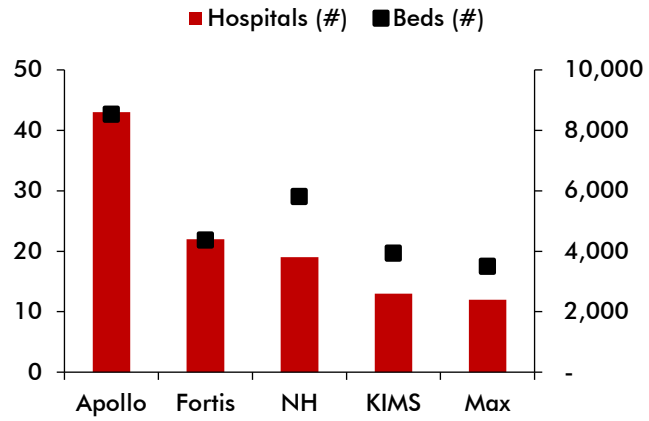
Exhibit 115: AHEL leads peers on scale, dominance in key markets and funding ability. Non-hospitals businesses much more scaled up. Expansion plan for next 4-5 years involves higher share of greenfield; hence poses higher risk, albeit back-ended

	AHEL	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	AHEL is the largest hospital chain in India with well-established presence across multiple states/cities.
Competitive Positioning	●	◕	●	●	◕	AHEL is the go-to hospital in Tamil Nadu and dominant in other markets such as Telangana, Andhra Pradesh and Karnataka.
Brand equity	●	◕	◕	●	◕	It is also present in other key markets such as Mumbai, Kolkata, Delhi and multiple tier-2/3 cities albeit not as dominant as in the three southern states.
Dominance in key markets	◕	◑	●	●	◕	
Expansion	◕	◕	◑	◕	◕	
Relative to current capacity	●	◕	◑	◑	◕	AHEL's bed expansion is modest relative to most of its peers, especially when seen in context of its current capacity.
Greenfield vs. brownfield	◑	◕	◔	●	◕	Bed addition is back-ended as well and many of the larger projects are planned in FY26-27 and beyond.
Location	◕	◕	◑	●	●	Share of greenfield projects is higher than all peers barring KIMS – adds a higher element of execution risk.
Headroom in current network	◑	◔	◑	◔	◕	Cash on balance sheet and cash generation from mature beds would limit dependence on external funding.
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	AHEL is far ahead of peers on efforts to build non-hospitals businesses. It is the leader in pharmacies and a fast-emerging player in diagnostics and organized primary care. Its digital initiative (24/7) has also seen good traction in recent years.
Financial strength	◕	◑	◕	●	◑	Margins and RoCE are subdued relative to peers due to efforts at seeding non hospitals businesses such as diagnostics, primary care and pharmacies, including the 24/7 platform
Growth	◕	◑	●	◕	◑	Hospitals margins/RoCE are comparable with peers but more sustainable given higher base of mature hospitals that improve ability to absorb capex/costs related to new hospitals.
Profitability	◕	◑	◕	●	◑	
Return on capital	◑	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

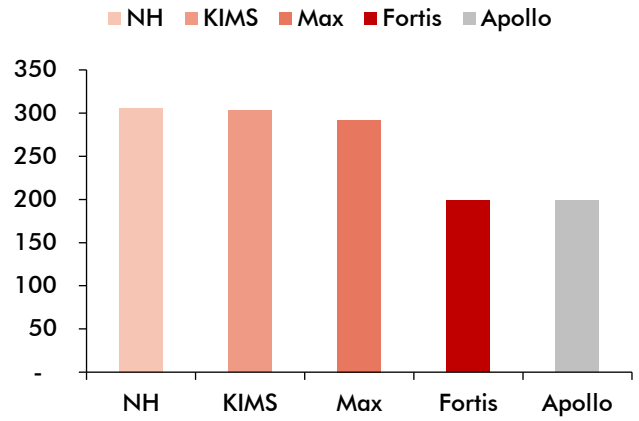
Head-to-head with peers

Exhibit 116: Clear leader on hospital count, bed capacity...



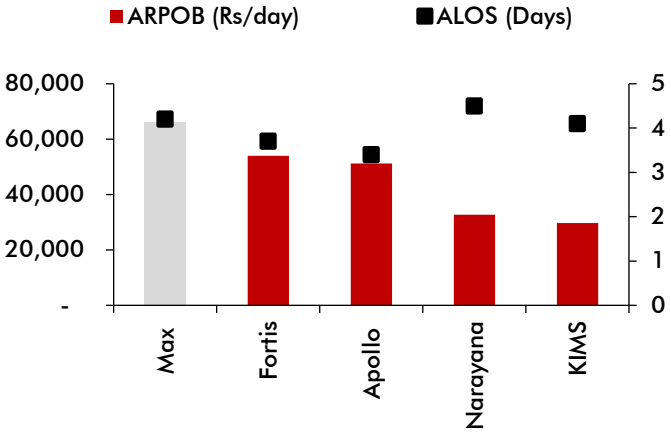
Source: Company, Ambit Capital research

Exhibit 117: ...but lags peers on beds/hospital



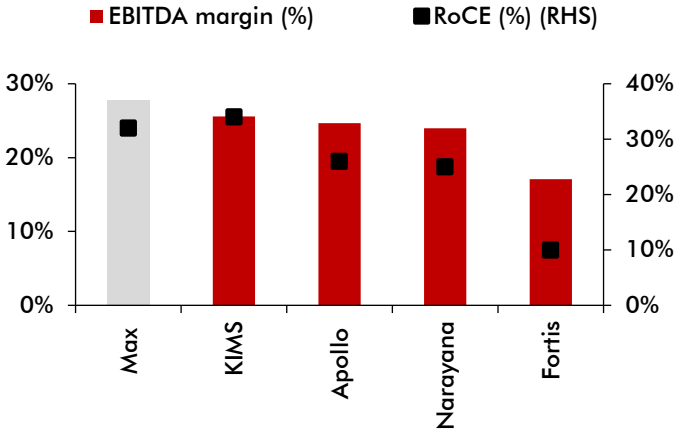
Source: Company, Ambit Capital research

Exhibit 118: Best-in-class ALOS but lags Max and Fortis on ARPOB due to hospitals outside the larger markets



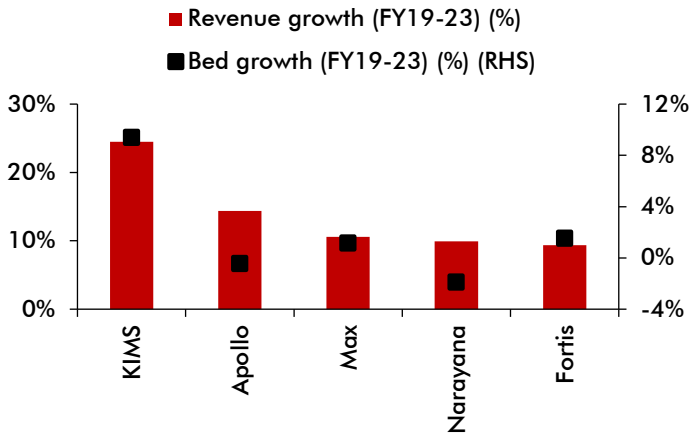
Source: Company, Ambit Capital research

Exhibit 119: AHEL's hospitals EBITDA/RoCE are at the higher end. Scale implies better ability to sustain at current levels



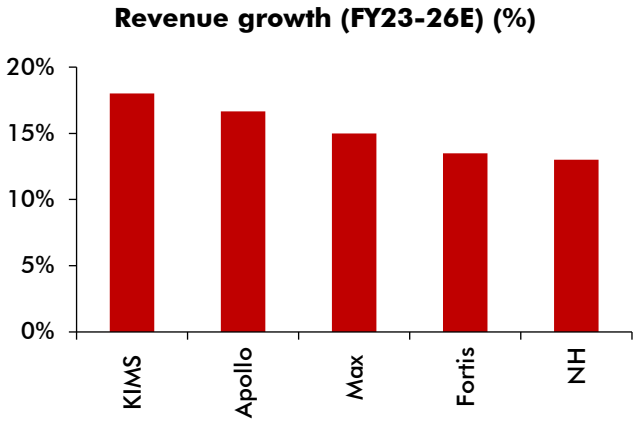
Source: Company, Ambit Capital research

Exhibit 120: Leads most peers on growth as hospital ramp-up was accompanied by growth in non-hospitals businesses...



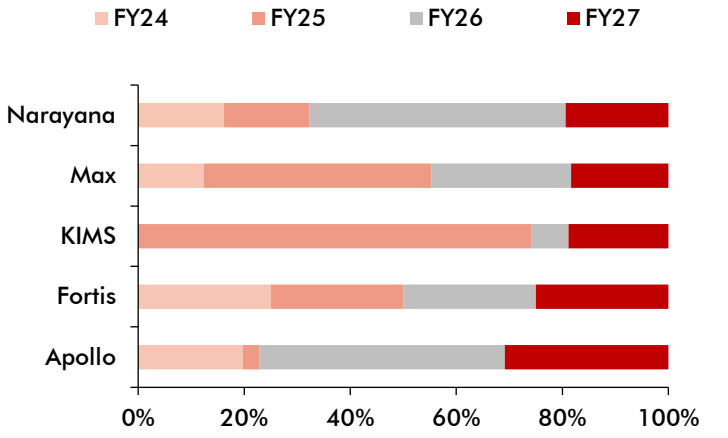
Source: Company, Ambit Capital research

Exhibit 121: ...will help it remain among the highest growth businesses despite limited bed addition in the near term



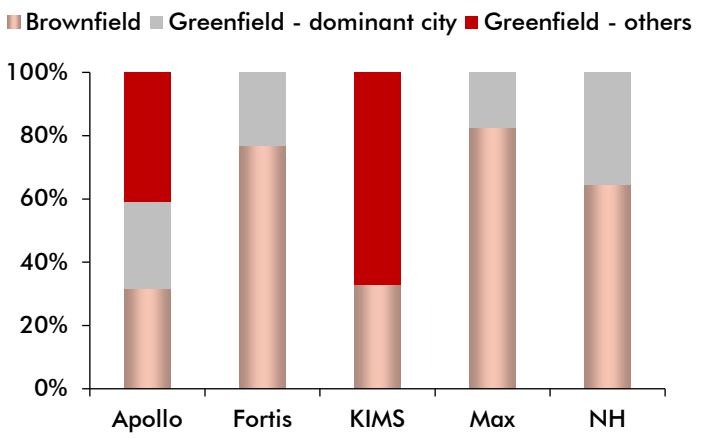
Source: Company, Ambit Capital research

Exhibit 122: Bed addition is limited and back-ended...



Source: Company, Ambit Capital research

Exhibit 123: ...but more greenfield than peers barring KIMS

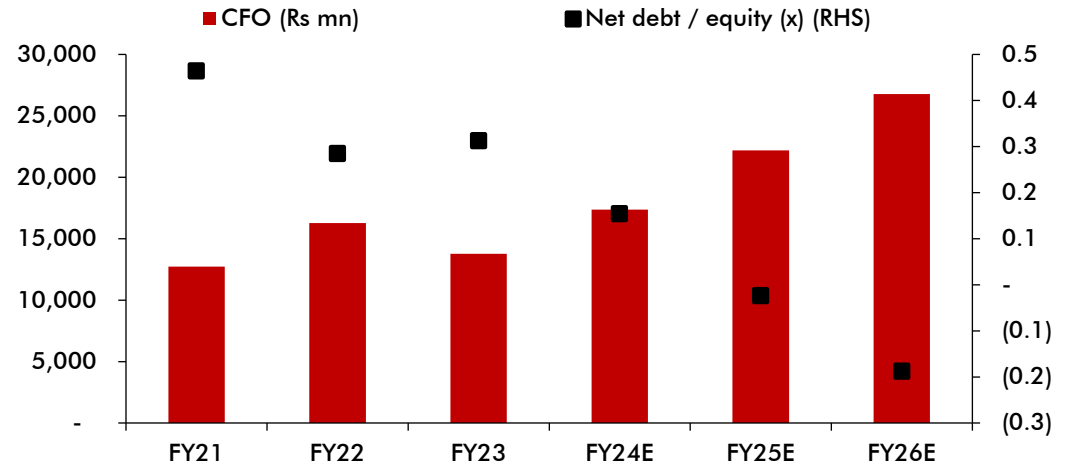


Source: Company, Ambit Capital research

Multiples should reflect scale and efforts to seed new businesses

AHEL's hospitals business is now largely self-sustaining. Cash generation has improved consistently over the years and net-debt/equity has declined substantially. This is despite meaningful investment in not only upgrading services in its hospitals but also building other allied businesses such as pharmacies and retail health. This is reflected in the fact that the company's net debt and net-debt/equity are likely to decline further over FY23-26 despite adding ~13% to bed capacity over this period.

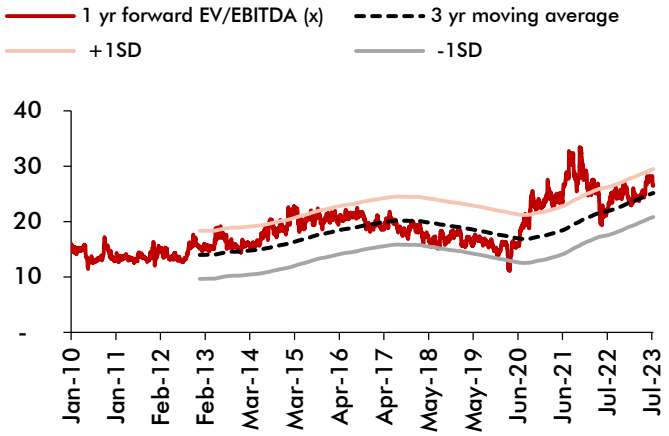
Exhibit 124: We forecast cumulative CFO generation of ₹66bn over FY24-26E and net cash balance as on FY26E



Source: Company, Ambit Capital research

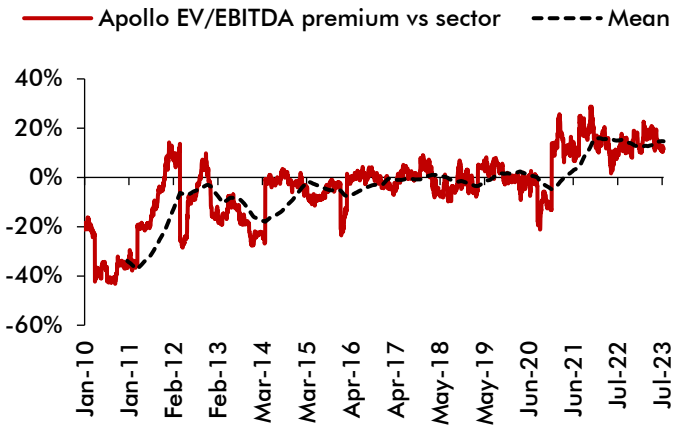
Moreover, reported EBITDA and net income numbers are dragged down by meaningful investment in scaling up the Apollo 24/7 platform as well as certain other businesses such as diagnostics. These businesses are in investment phase but costs are close to topping out. Operating leverage should start playing out over the next few years and drive margins/RoCE higher. Multiples based on near-term EBITDA/earnings are inflated due to these costs as upside in revenues and operating leverage would play out in the following years. The stock currently trades at 18x FY25E and 16x FY26E EBITDA, adjusted for 24/7 related costs. This is attractive given forecast ~800bps improvement in RoCE to 24% over FY23-26E.

Exhibit 125: Apollo currently trades at 27x 1 year forward EV/EBITDA, above its 3 year moving average



Source: Bloomberg, Ambit Capital research

Exhibit 126: Apollo EV/EBITDA currently trades at 11% premium to the sector



Source: Bloomberg, Ambit Capital research; Note: Companies considered for the sector are Apollo Hospitals, Narayana Hrudayalaya, Fortis Healthcare, KIMS and Max Healthcare

Exhibit 127: AHEL's EV/EBITDA multiples are inflated due to heavy, upfront costs related to the 24/7 platform that are set to peak out soon. Adjusted multiples provide a better gauge of valuation and potential upside.

(₹ mn)	FY23	FY24E	FY25E	FY26E
EBITDA	20,496	23,366	29,048	35,693
24/7 related costs	7,355	8,549	8,920	9,310
Adj. EBITDA (ex 24/7 costs)	**27,851**	**31,915**	**37,968**	**45,003**
EV/EBITDA (x)				
- Headline	33.5	29.1	23.6	19.4
- Adjusted	**25.6**	**22.4**	**18.8**	**15.9**

Source: Company, Ambit Capital research

Exhibit 128: Healthcare valuation snapshot

Global Healthcare	Mcap	Ambit's Stance	P/E (x)			EV/EBITDA (x)			RoE (%)			CAGR (FY23-25E) (%)		
	US$mn	BUY/SELL	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	Sales	EBITDA	EPS
India														
Apollo	8,543	BUY	87	75	50	36	31	24	13%	13%	17%	17%	19%	32%
Max	6,213	BUY	38	42	35	32	28	23	17%	13%	14%	14%	17%	4%
Fortis	2,902	BUY	47	32	25	22	18	14	8%	10%	11%	13%	21%	36%
Narayana	2,430	BUY	33	31	26	21	19	16	34%	28%	28%	14%	15%	13%
Medanta	2,226	-	57	44	37	30	24	20	16%	16%	16%	17%	21%	24%
Aster DM	1,866	-	37	28	19	14	11	10	10%	12%	14%	12%	17%	39%
KIMS	1,828	BUY	45	48	41	26	22	19	21%	17%	17%	20%	17%	5%
Rainbow	1,272	-	50	47	39	26	24	21	25%	19%	19%	20%	10%	14%
HCG	549	-	155	70	36	18	15	13	3%	7%	10%	12%	19%	108%
Shalby	244	-	30	25	20	16	13	11	8%	8%	9%	14%	22%	21%
Median			**46**	**43**	**35**	**24**	**21**	**18**	**15%**	**13%**	**15%**	**14%**	**18%**	**23%**
Thailand														
Bangkok Dusit	12,694	-	35	33	31	20	19	18	15%	15%	15%	6%	5%	7%
Bumrungrad Hospital	5,597	-	40	35	32	22	24	22	27%	27%	26%	10%	10%	12%
Bangkok Chain Hospital	1,297	-	15	31	26	17	15	14	24%	11%	12%	-17%	-19%	-24%
Chularat	927	-	12	28	28	19	17	16	37%	15%	16%	-9%	-28%	-36%
Median			**25**	**32**	**29**	**20**	**18**	**17**	**25%**	**15%**	**16%**	**-1%**	**-7%**	**-8%**
Indonesia														
Mitra Keluarga	2,554	-	37	36	30	26	24	21	19%	18%	19%	10%	7%	11%
Siloam International Hospitals	1,736	-	37	27	22	11	11	9	10%	14%	15%	11%	19%	29%
Median			**37**	**31**	**26**	**19**	**18**	**15**	**15%**	**16%**	**17%**	**11%**	**13%**	**20%**
Malaysia/Singapore														
IHH Healthcare	11,415	-	34	32	28	11	14	13	6%	6%	7%	5%	8%	9%
Raffles Medical Group	1,782	-	17	19	19	10	11	11	15%	12%	12%	3%	-4%	-5%
KPJ Healthcare	1,122	-	29	23	21	12	11	11	8%	10%	10%	7%	8%	17%
Median			**29**	**23**	**21**	**11**	**11**	**11**	**8%**	**10%**	**10%**	**5%**	**8%**	**9%**
Middle East														
Dr Sulaiman Al Habib Medical Services Group	24,638	-	56	49	41	43	41	34	29%	30%	32%	18%	17%	16%
Mouwasat Medical Services	5,632	-	35	31	27	24	22	20	22%	22%	23%	14%	14%	15%
Dallah Healthcare Co	3,897	-	49	44	35	30	27	24	14%	14%	15%	12%	14%	18%
Al Hammadi	2,257	-	33	28	25	20	19	17	15%	17%	18%	11%	12%	14%
Middle East Healthcare Co	1,477	-	74	33	23	19	18	15	6%	12%	15%	15%	34%	79%
Median			**49**	**33**	**27**	**24**	**22**	**20**	**15%**	**17%**	**18%**	**14%**	**14%**	**16%**
US														
HCA Healthcare	73,102	-	14	15	13	9	9	9	NA	NA	NA	6%	3%	2%
Universal Health Services	9,094	-	14	13	13	8	8	7	11%	12%	12%	5%	5%	4%
Tenet Healthcare	7,404	-	19	13	11	7	7	7	38%	33%	32%	5%	5%	31%
Community Health Systems	480	-	10	N/A	12	8	8	8	34%	6%	-3%	2%	2%	-10%
Median			**14**	**13**	**13**	**8**	**8**	**8**	**36%**	**9%**	**4%**	**5%**	**4%**	**3%**
China														
Aier Eye Hospital	23,099	-	60	46	35	NA	27	22	18%	18%	20%	22%	23%	30%

Source: Bloomberg, Ambit Capital research

Exhibit 129: Our DCF model builds in the long growth runway that hospital chains enjoy in India.

Parameter	FY19-23	FY23-25E	FY25-35	FY35-50E	Remarks
Sales CAGR	15%	17%	17%	10%	Non-hospitals businesses such as pharmacy and retail health to drive growth while hospitals revenues would grow in the 10-15% range over the medium term.
EBITDA margin	13%	13%	15%	18%	EBITDAM improvement led by operating leverage contribution from 24/7 (currently loss making)
Capex as % of sales	5%	4%	3%	3%	Capex intensity is likely to gradually reduce over time with scale and reflect in rising asset T/O. Relatively lower vis-à-vis peers due to presence in asset-light businesses such as pharmacy, diagnostics etc.
Pre-tax OCF/EBITDA	80%	80%	79%	78%	Rising share of non-cash patients due to rising insurance penetration would reflect in higher working-capital in the near-to-medium-term
WACC		11%			
Cost of equity		13%			
Cost of debt (post-tax)		8%			
Target D/(D+E)		30%			Relatively higher vs. peers due to efforts at seeding non-hospitals businesses in addition to the core hospitals network
Terminal growth (%)		5%			
Implied Valuation	**FY23**	**FY24E**	**FY25E**	**FY26E**	
EV/Sales	5.0	4.2	3.6	3.1	
EV/EBITDA	38.9	33.8	27.5	22.5	
P/E	100.3	86.4	58.0	41.9	
P/B	13.4	11.7	10.0	8.2	

Source: Company, Ambit Capital research

Exhibit 130: Our DCF-based TP of ₹5,720/share implies FY25 exit EV/EBITDA of 28x

Particulars	₹ mn
Total EV	828,605
- Explicit period	279,010
- Terminal period	549,595
Net debt	4,452
Adjustment	5,152
WACC	11%
Equity value	821,856
No. of shares (mn)	144
Fair value/share (₹)	5720

Source: Company, Ambit Capital research

Risks and Catalysts

Risks

- **Regulatory changes on pricing, payer mix:** Any move to regulate or cap pricing of drugs or diagnostics could impact profitability. In the past, governments have imposed price caps on consumables like stents and ortho implants. Hospitals are typically able to absorb these by raising prices elsewhere but this takes time. In the interim, there would be some hit on profitability. Similarly, any mandate to provide services at discounted rates to any group of patients could also pose risk to profitability. For instance, hospitals currently have flexibility to decide on the extent of their participation in government health schemes. Any change in this would be adverse.
- **Higher costs associated with 24/7:** We expect costs associated with Apollo 24/7 to stabilize as a % of sales from FY24E. Any persistent elevation in these costs over the medium to long term could potentially impact our forecasts.

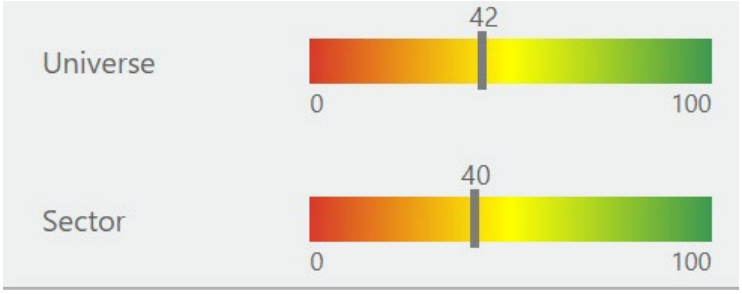
Catalysts

- **Step-up in growth in non-hospitals businesses:** We expect growth rates in non-hospitals businesses to pick up. This would lead to operating leverage benefits and drive margins higher. We forecast 24%/23% growth in AHLL/Pharmacies business over FY23-26E vs. 20%/15% growth over FY19-23.
- **News flow related to expansion plans:** AHEL has not materially crystallized its bed expansion plans compared to other hospitals. Any updates pertaining to potential increases in bed capacity, the nature of expansion, allocated capital expenditures, and the specific geographic regions targeted would be indicators of progress in the company's expansion initiatives.

HAWK Charts

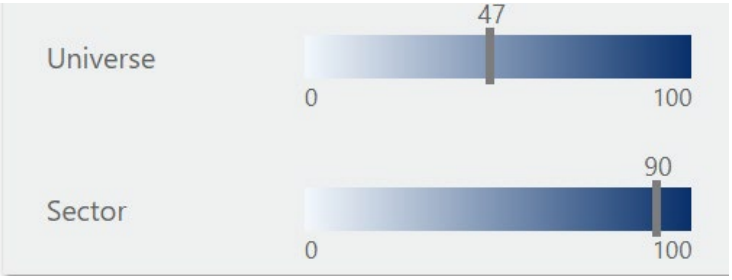
AHEL ranks low on our HAWK framework. It figures in D8 (Zone of Pain) of our forensic accounting framework. But it has a Greatness score of 83%, ranking in the Zone of Greatness. The company is primarily penalized for contingent liabilities and increase in auditor remuneration. Contingent liabilities relate mainly to medical litigation brought against the company in various courts. This is common across most hospitals. Hospitals are typically insured against such eventualities. Growth in auditors' remuneration is mainly on account of the business getting more complex and diversified with the addition of multiple non-hospitals businesses such as pharmacies, digital health, diagnostics, primary care etc.

Exhibit 131: AHEL's accounting score



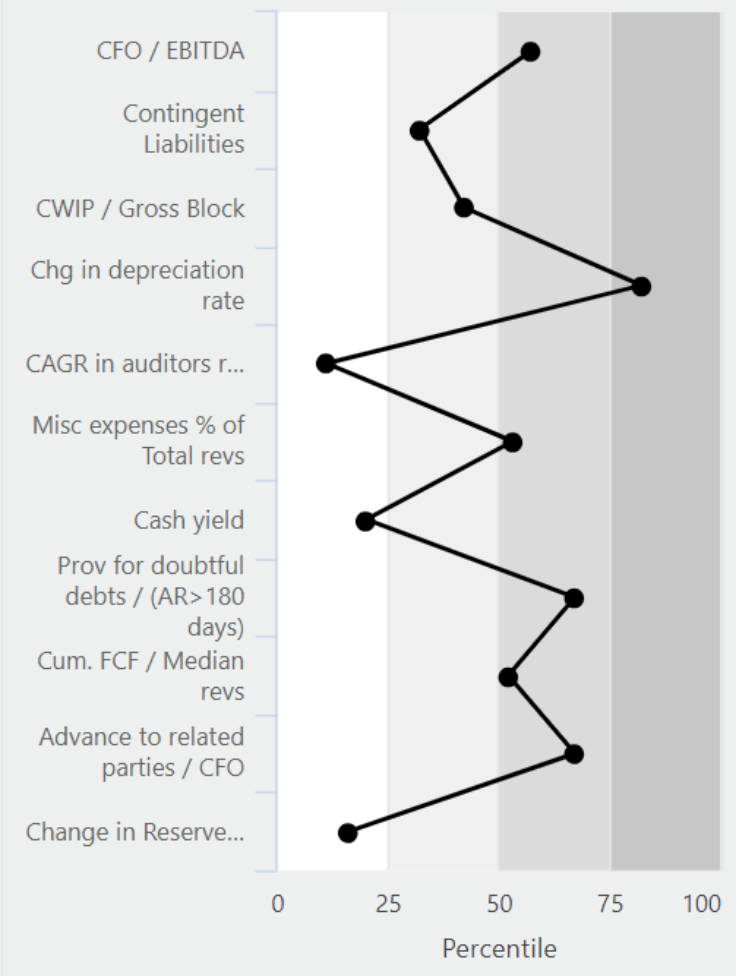
Source: Company, Ambit Capital research

Exhibit 132: AHEL's greatness score



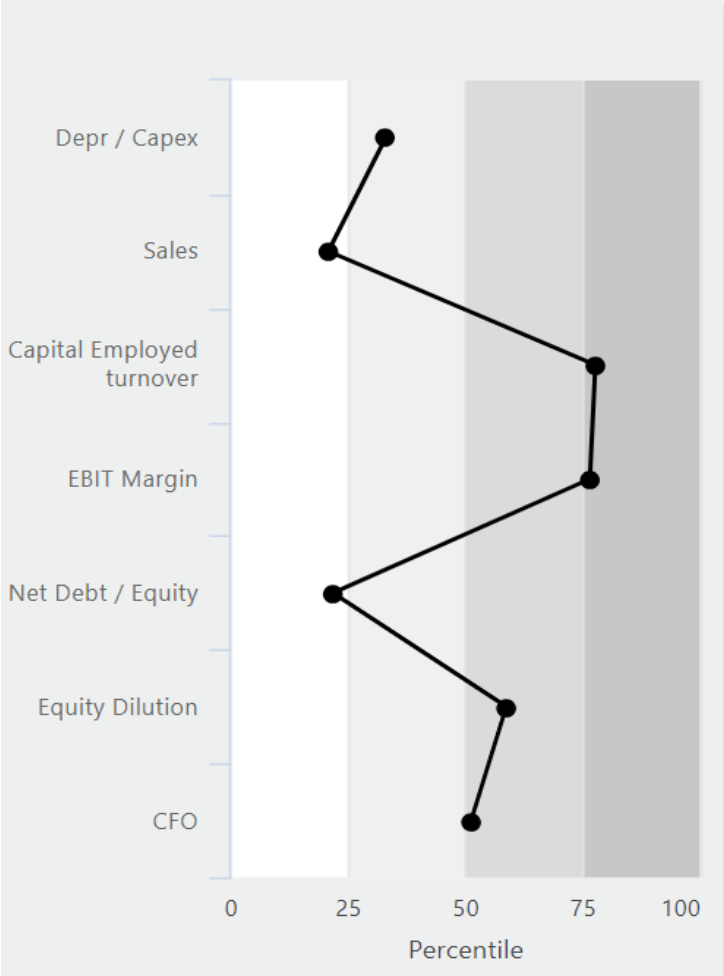
Source: Company, Ambit Capital research

Exhibit 133: Accounting score contributors



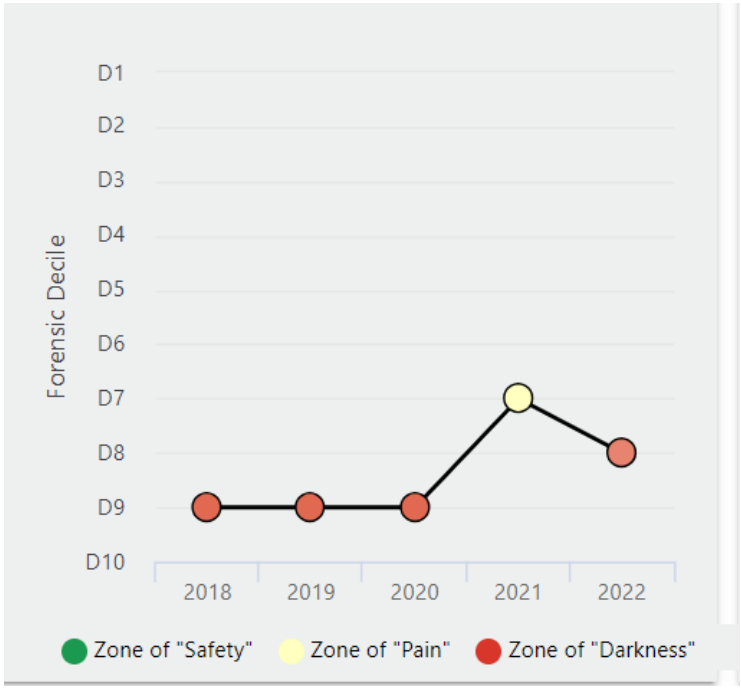
Source: Company, Ambit Capital research

Exhibit 134: Greatness score contributors



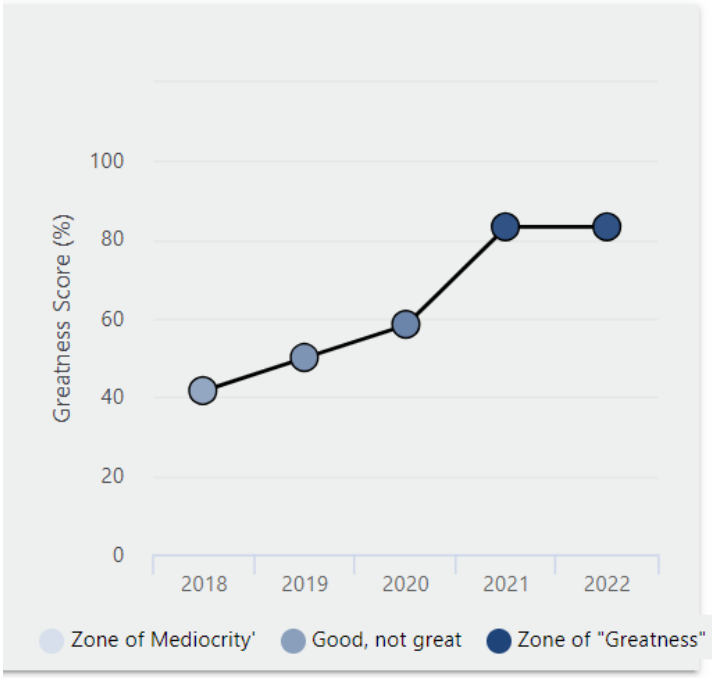
Source: Company, Ambit Capital research

Exhibit 135: Accounting score evolution



Source: Company, Ambit Capital research

Exhibit 136: Greatness score evolution



Source: Company, Ambit Capital research

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**105,600**	**146,626**	**166,125**	**196,804**	**227,465**	**263,672**
Gross profit	40,318	57,131	80,382	89,273	104,446	122,325
Employee cost	16,010	17,865	21,438	24,115	27,872	32,309
Other expenses	12,934	17,415	38,448	41,791	47,526	54,323
EBITDA (underlying)	**11,374**	**21,851**	**20,496**	**23,366**	**29,048**	**35,693**
Depreciation	5,731	6,007	6,152	7,539	7,928	8,367
Interest expense	4,492	3,786	3,808	3,105	2,403	1,700
Other income	450	782	903	878	1,085	1,448
PBT (reported)	**1,601**	**12,840**	**11,439**	**13,600**	**19,802**	**27,074**
Tax provision	847	4,770	2,562	3,400	4,950	6,768
PAT pre-minority (reported)	754	8,070	8,877	10,200	14,851	20,305
Minority interest	136	(528)	(255)	(255)	(255)	(255)
PAT (reported)	**898**	**7,615**	**8,191**	**9,513**	**14,165**	**19,619**
PAT (adjusted)	**898**	**7,615**	**8,191**	**9,513**	**14,165**	**19,619**

Source: Company, Ambit Capital research

Balance sheet

Year to March (₹ mn)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Share capital	719	719	719	719	719	719
Reserves & surplus	45,305	55,514	61,253	70,107	82,370	99,914
Minority interest	1,999	2,544	3,341	3,596	3,851	4,106
Shareholders' fund	**48,023**	**58,777**	**65,313**	**74,422**	**86,940**	**104,739**
Long term borrowings	24,734	24,272	19,376	14,376	9,376	4,376
Others	20,808	24,809	25,767	25,767	25,767	25,767
Non-current liabilities	**45,542**	**49,081**	**45,142**	**40,142**	**35,142**	**30,142**
Short term borrowings	3,859	2,085	7,727	7,727	7,727	7,727
Trade payables	11,599	16,318	19,157	22,694	26,230	30,405
Others	15,426	20,559	24,394	28,732	33,228	38,555
Current liabilities	**8,361**	**10,725**	**12,476**	**15,727**	**16,745**	**21,981**
Total equity & liabilities	**72,804**	**75,404**	**79,354**	**97,657**	**97,424**	**109,943**
Fixed assets	47,701	51,315	54,506	56,682	56,480	63,137
Capital work-in-progress	3,467	7,120	8,218	2,091	2,116	440
Intangible assets	2,267	3,462	3,462	19,936	13,589	19,965
Others	4,146	3,587	4,682	4,400	13,479	7,843
Non-current assets	**57,582**	**65,484**	**70,868**	**83,109**	**85,663**	**91,385**
Inventories	4,669	5,658	5,848	7,378	2,495	4,319
Trade receivables	7,482	8,846	10,232	10,272	13,312	17,676
Cash and cash equivalents	5,264	4,172	3,470	4,668	7,244	10,359
Loans & advances and others	9,035	8,509	9,084	8,398	5,853	6,694
Current assets	**27,051**	**27,764**	**29,181**	**32,366**	**30,621**	**40,979**
Total assets	**72,804**	**75,404**	**79,354**	**97,657**	**97,424**	**109,943**

Source: Company, Ambit Capital research

Per share data

Year to March (₹)	FY21	FY22	FY23	FY24E	FY25E	FY26E
No. of shares o/s (mn)	144	144	144	144	144	144
EPS (adjusted) basic	6.2	53.0	57.0	66.2	98.5	136.5
EPS (adjusted) diluted	6.2	53.0	57.0	66.2	98.5	136.5
DPS	3.0	11.8	8.0	10.0	11.0	12.0
Dividend payout (%)	48%	22%	14%	15%	11%	9%

Source: Company, Ambit Capital research

Cash flow statement

Year to March (₹ mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,601	12,840	11,439	13,600	19,802	27,074
Depreciation	5,731	6,007	6,152	7,539	7,928	8,367
Others	3,720	(602)	1,116	(939)	(1,076)	(1,237)
WC (build)/release	(4,065)	(2,329)	(1,990)	(1,222)	(409)	(472)
Tax	353	(2,043)	(3,820)	(3,400)	(4,950)	(6,768)
Cash flow from operations	**12,734**	**16,280**	**13,771**	**17,374**	**22,182**	**26,783**
Capex (net)	(2,804)	(6,518)	(11,245)	(6,050)	(6,050)	(7,550)
Others income/(expenditure)						
Cash flow from investments	**(8,723)**	**(7,782)**	**(8,706)**	**(5,172)**	**(4,965)**	**(6,102)**
Proceeds from borrowings	4,768	4,257	5,849	(5,000)	(5,000)	(5,000)
Issuance/buyback of equity	11,520	-	45	-	-	-
Interest paid	(4,676)	(3,764)	(2,514)	(3,105)	(2,403)	(1,700)
Dividend paid	(383)	(433)	(2,579)	(1,729)	(1,902)	(2,075)
Others	(873)	(604)	-	1,069	-	-
Cash flow from financing	**(3,401)**	**(7,926)**	**(6,333)**	**(8,765)**	**(9,305)**	**(8,775)**
Net change in cash	610	572	(1,269)	3,436	7,912	11,907
FCF	**9,930**	**9,762**	**2,526**	**11,324**	**16,132**	**19,233**

Source: Company, Ambit Capital research

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue growth (%)	-6%	39%	13%	18%	16%	16%
EBITDA margin (%)	10.8%	14.9%	12.3%	11.9%	12.8%	13.5%
EBIT margin (%)	5.8%	11.3%	9.2%	8.5%	9.8%	10.9%
Net margin (%)	0.9%	5.2%	4.9%	4.8%	6.2%	7.4%
Gross block turnover (x)	1.3	1.7	1.7	1.9	2.1	2.3
RoCE pre-tax (%)	8%	19%	16%	17%	21%	24%
RoCE post-tax (%)	0%	0%	0%	0%	0%	0%
RoIC pre-tax (%)	2%	18%	14%	17%	24%	33%
RoE (%)	2%	14%	13%	13%	17%	19%
Receivable days	46	44	49	49	49	49
Inventory days	9	11	9	10	10	10
Payable days	40	41	42	42	42	42
Cash conversion cycle	15	14	16	17	17	17
Pre-tax CFO/EBITDA (%)	115%	65%	49%	60%	59%	56%
Net debt / Equity (x)	0.6	0.5	0.4	0.3	0.2	0.1

Source: Company, Ambit Capital research

Valuation ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	472	67	87	75	50	36
P/B (x)	16	13	12	10	9	7
EV/EBITDA(x)	63	33	34	29	24	19
EV/Sales(x)	7	5	4	4	3	3

Source: Company, Ambit Capital research

Max Healthcare Institute

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INITIATING COVERAGE | MAXHEALT IN EQUITY | August 17, 2023

Premium multiples should sustain

Max Healthcare's concentrated, cluster-based approach made it the leading hospital chain in North India, especially Delhi/NCR. It achieved industry-high margins and RoCE led by a maturing network and efficiency initiatives brought in post takeover by Radiant Lifecare in 2018. FY24-27 bed expansion (~81% of capacity) is most aggressive among peers. But lower bed density in home markets (Delhi, Mumbai) and high brownfield share (~82% of bed addition) allow growth with limited impact on margins and return ratios. Cash on books (~₹16bn) and cumulative OCF of ~₹53bn over FY24-26 imply low dependence on external funds. These should support premium valuations. We forecast 15%/16% CAGR in revenue/EBITDA over FY23-26 and expect EBITDAM/RoCE to sustain at ~28%/25-27%. DCF-based TP of ₹670 implies target EV/EBITDA of 29x FY25E, reflecting ability to fund capex internally and track record of value addition via M&A. Risks: Slow ramp-up in new beds, market concentration.

Competitive position: STRONG | Changes to this position: POSITIVE

Leader in markets with headroom for growth

Cluster-based approach and new management's initiatives to expand clinical capabilities have made Max a leader in North India, especially Delhi/NCR. Relatively lower bed density in Delhi (73% of its operational beds) provides room to leverage its well-established brand further. Industry-high margins/RoCE and net cash B/S position it well for the next expansion phase.

Brownfield-dominant expansion augurs well for margins, RoCE

Max's planned ~81% bed capacity addition over FY24-27 is the most aggressive among peers. High brownfield share (~82%, in Delhi and Mumbai) however reduces risk and facilitates faster ramp-up to breakeven and maturity. This should allow Max to grow revenues without materially impacting margins and RoCE.

Growth with lower risk

FY23-26E revenue CAGR of 15% would be led by: (a) 11% increase in operating beds, primarily in Delhi/NCR and (b) 33%/17% CAGR in diagnostics/home health. Quick ramp-up and EBITDA breakeven within a year in new brownfield beds and scope to reduce share of scheme patients (19% to 15%) would keep EBITDAM steady at ~28%. This and limited need for debt would keep RoCE at 25-27%.

RoCE sustainability to support premium valuations

Leadership in markets with low bed density places Max apart from peers. This allows it to continue investing where the brand is established and reduces execution risk. With ~80% of bed addition being via brownfield projects and ability to fund capex internally, RoCE and margins should remain high. Management's track record on adding value via M&A also provides comfort.

Key Financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues (₹ mn)	51,709	58,750	65,658	76,775	89,878
EBITDA (₹ mn)	13,021	16,070	18,337	21,952	25,358
Net Profits (₹ mn)	8,472	13,661	12,269	14,688	17,211
Diluted EPS (₹)	8.7	14.1	12.7	15.1	17.8
RoE (%)	13%	17%	13%	14%	14%
EV/EBITDA (x)	39	32	28	23	20

Source: Company, Ambit Capital research

Healthcare

Recommendation

Mcap (bn):	₹516/US$6.2
6M ADV (mn):	₹3.4/US$41
CMP:	₹532
TP (12 Mths):	₹670
Upside (%):	26

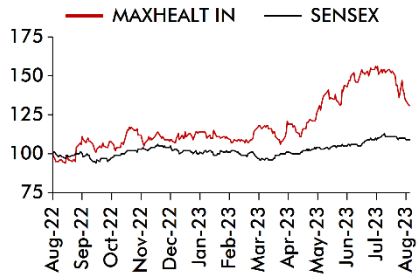
Flags

Accounting:	RED
Predictability:	GREEN
Earnings Momentum:	GREEN

Catalysts

- Progress on bed addition plans, especially Dwarka (300 beds) and Gurugram greenfield project
- Reduction in share of government scheme patients from ~15% of revenues

Performance



Source: ICE, Ambit Capital Research

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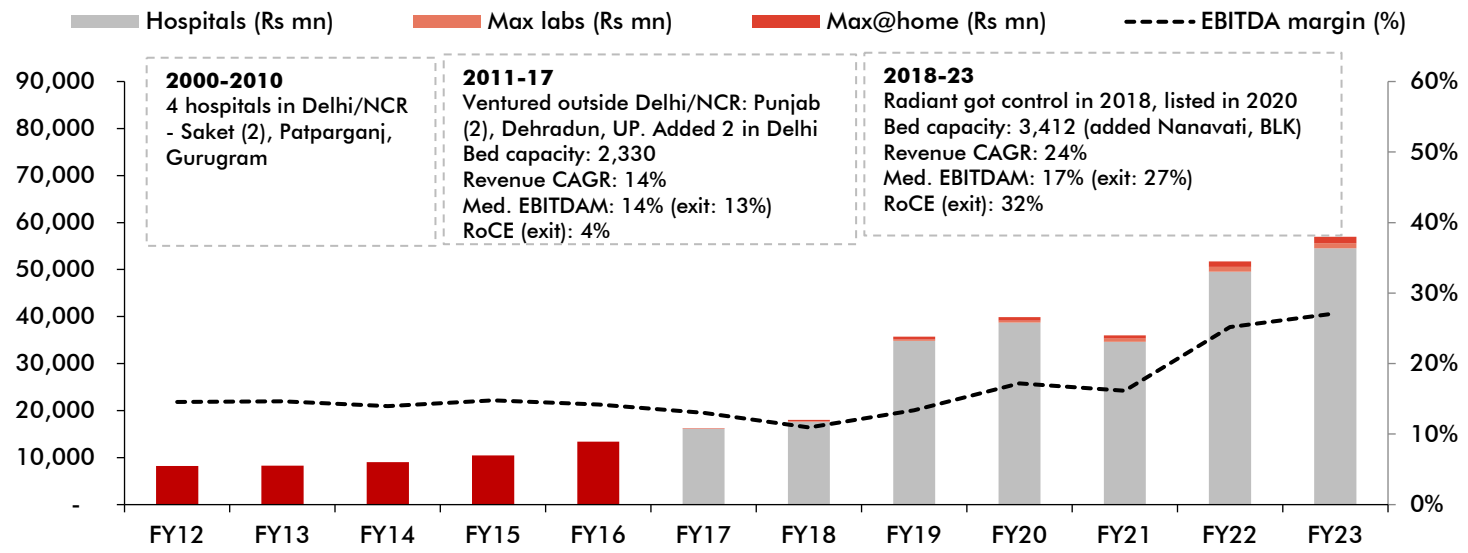
The Narrative In Charts

Exhibit 1: Max has built dominance in Delhi/NCR and is established in several other cities of North India. Radiant's entry provided access to Mumbai and a more focused approach that reflects in recent revenue growth and margin/RoCE trends



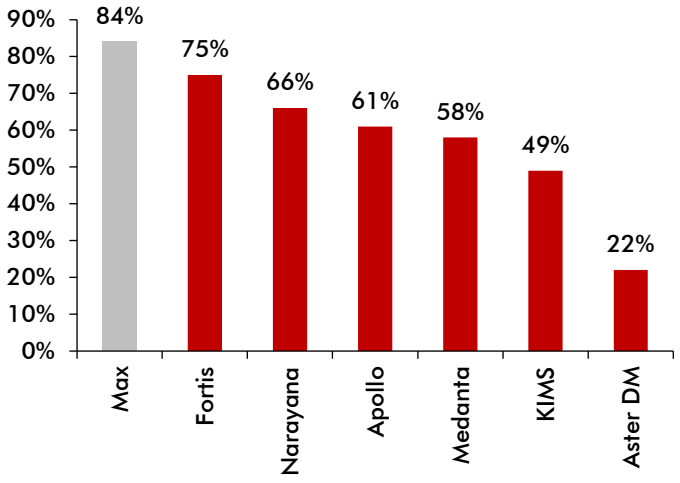
Source: Company, Ambit Capital research

Exhibit 2: Dominant in North India, especially the Delhi/NCR market that accounts for ~75% of its bed capacity

Particulars	Delhi	NCR	Mumbai	Rest of North
Total hospitals/medical centres	6/3	2/1	1	3/1
Operational beds	2,012	468	289	513
% of operational beds	61%	14%	9%	16%
Revenue share (%)	63%	14%	9%	12%
Key hospitals	BLK-Rajendra Place Saket (East Block, West Block, Smart) Shalimar Bagh Patparganj	Vaishali (Ghaziabad) Gurugram	Nanavati	Mohali Bathinda Dehradun

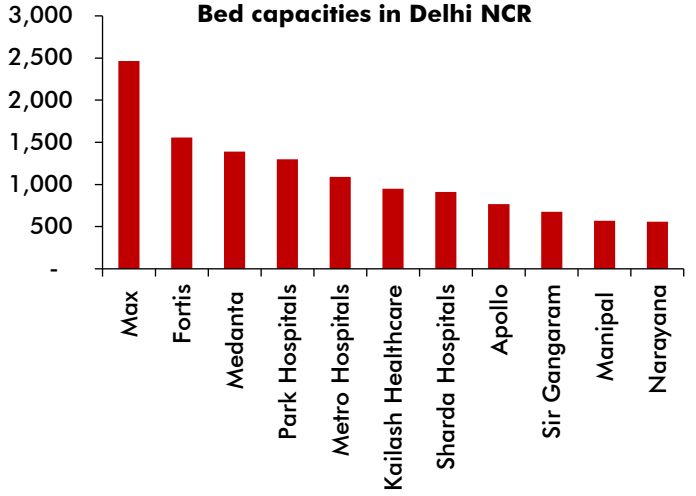
Source: Company, Ambit Capital research

Exhibit 3: Highest proportion of beds in metros/Tier-1 cities



Source: Company, Ambit Capital research

Exhibit 4: Largest private hospital chain in Delhi/NCR



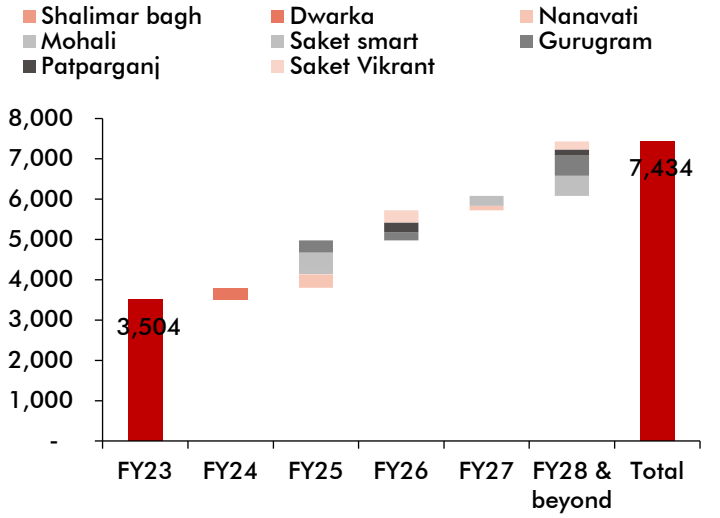
Source: Company, Ambit Capital research

Exhibit 5: Mature beds account for 70-75% of total beds. Max has announced aggressive expansion plans of adding ~2,800 beds over next 4-5 years with ~82% beds being brownfield

Max' network	Pre-commissioning*	New			Mature
	(up to FY27)	Phase-I (Yr. 1-3)	Phase-II (Yr. 4-6)	Phase-III (Yr. 7-10)	(Yr. 11 and beyond)
No. of hospitals	4	0	0	3	9
No. of beds (% of total)	2,840 (83%)	0 (0%)	0 (0%)	956 (28%)	2,456 (72%)
Share of revenues	NA	0%	0%	26%	74%

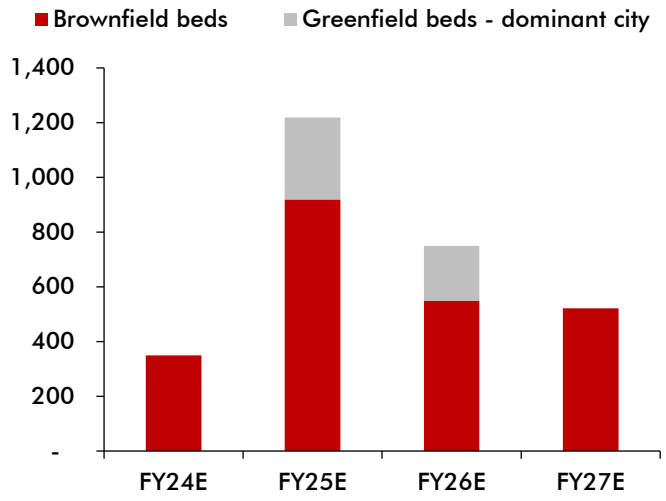
Source: Company, Ambit Capital research

Exhibit 6: Adding 2,800 beds over FY24-27E...



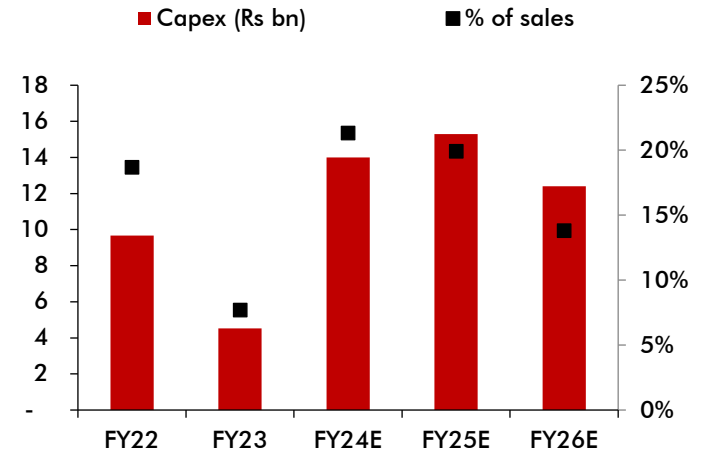
Source: Company, Ambit Capital research

Exhibit 7: ...largely via brownfield projects



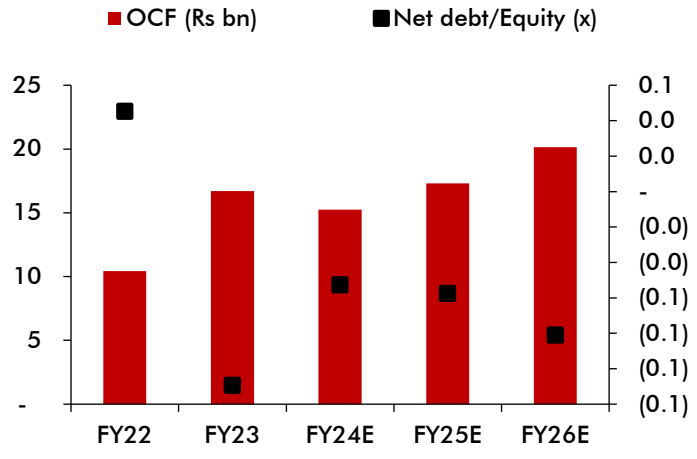
Source: Company, Ambit Capital research

Exhibit 8: Max intends to incur cumulative capex of ~₹42bn over FY24-26...



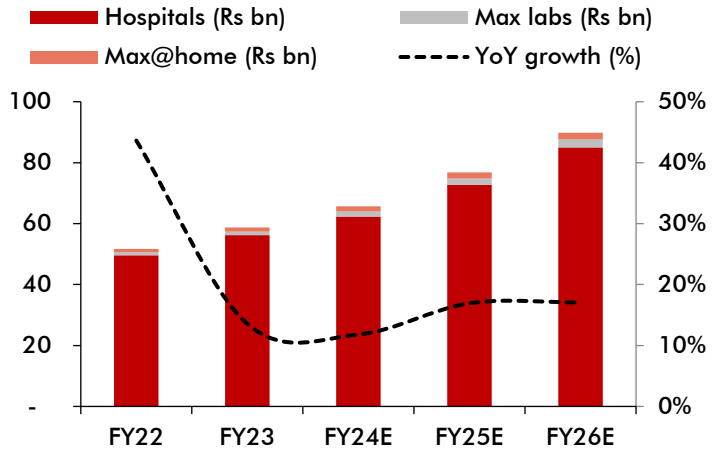
Source: Company, Ambit Capital research

Exhibit 9: ...largely funded internally. We forecast cumulative OCF of ₹54bn over FY24-26



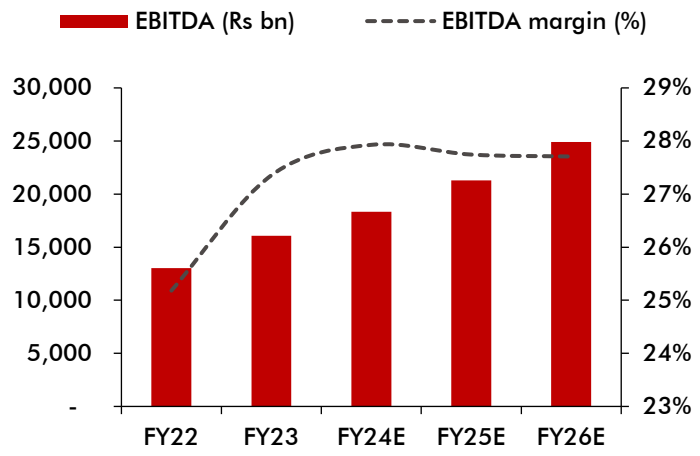
Source: Company, Ambit Capital research

Exhibit 10: We forecast 15% revenue CAGR over FY23-26



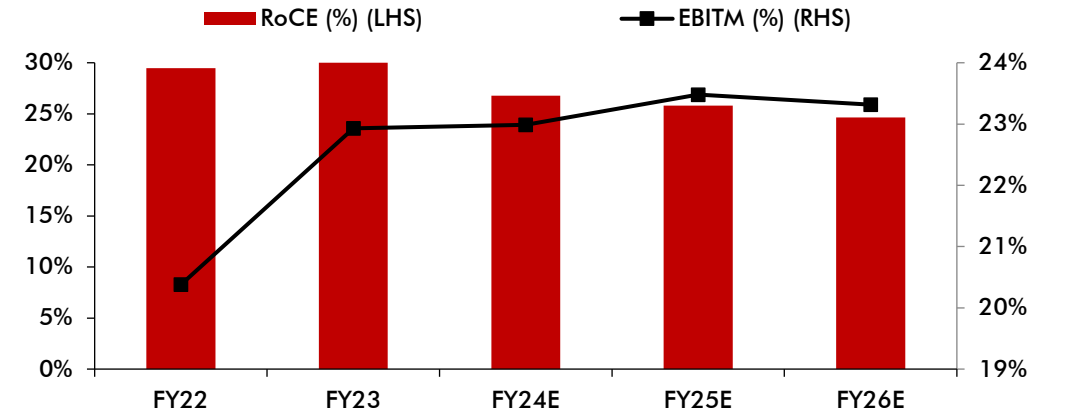
Source: Company, Ambit Capital research

Exhibit 11: 16% EBITDA CAGR as brownfield expansion limits margin pain and diagnostics, home health improve



Source: Company, Ambit Capital research

Exhibit 12: ROCE to remain steady despite big bed addition



Source: Company, Ambit Capital research; Note: CE excludes impact of PPA created due to reverse merger

Exhibit 13: Max lags peers on bed count but scores high on attractiveness of its core markets, competitive positioning and financial strength. Scale and nature of expansion imply high growth potential with relatively limited risk

	Apollo	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	Max is a relatively small player compared to peers such as Apollo, Fortis and NH, who are present across multiple states
Competitive Positioning	●	◕	●	●	◕	Max is one of the go-to hospitals in the Delhi NCR region – one of the largest hospital chains in Delhi NCR
Brand equity	●	◕	◕	●	◕	Concentrated position in these markets make it dominant in a larger share of its bed capacity relative to the pan-India chains
Dominance in key markets	◕	◑	●	●	◕	Max has the most aggressive bed expansion targets in the sector,
Expansion	◕	◕	◑	◕	◕	It also has higher share of beds planned via brownfield projects: hence lower risk
Relative to current capacity	●	◕	◑	◑	◕	However, it has low headroom to grow in current network
Greenfield vs. brownfield	◑	◕	◔	●	◕	Strong balance sheet and cash generation from mature beds to limit dependence on external funding, as with most peers
Location	◕	◕	◑	●	●	
Headroom in current network	◑	◔	◑	◔	◕	
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	Max derives ~4% of its revenues from its SBUs viz. diagnostics and home health
Financial strength	◕	◑	◕	●	◑	Max's margins and RoCE are at industry-high levels and should remain in the 20%+ as majority of bed expansion is brownfield
Growth	◕	◑	●	◕	◑	Scale of expansion implies higher growth rate over the medium-to-long term vis-à-vis most peers
Profitability	◕	◑	◕	●	◑	
Return on capital	◑	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

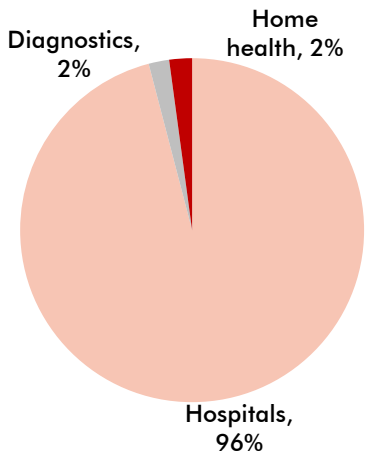
Premium, big-city play

Max Healthcare is a leading hospital chain in North India and the leader in Delhi/NCR. It has a capacity of 3,504 beds across twelve hospitals and runs five medical centres as well. It is headed by Mr. Abhay Soi since 2018 when Radiant Lifecare acquired the company and merged the two businesses. Max has adopted a concentrated, cluster-based approach, opting to go deep in North India, especially Delhi/NCR, rather than building a pan-India presence organically. Its focus on metros (~84% of bed capacity) and track record of adding value through acquisitions have allowed it to generate industry-high margins and RoCE. Current network is mature but headroom available in its key markets reflect in its brownfield-dominated expansion plan that would close to double capacity over the next five years.

Big-city focused business

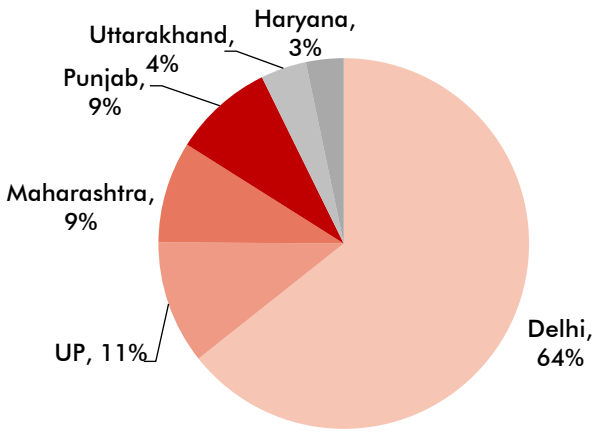
Max Healthcare is a leading healthcare service provider in India, operating across the Delhi/NCR, Punjab, Mumbai and other cities in north India. It has a network of 17 healthcare facilities, including 12 hospitals and five medical centres, and installed capacity of ~3,504 beds. It also has fledgling businesses in the areas of diagnostics and home health. The company currently gets 96% of revenues from hospital services and 2% each from diagnostics and home health.

Exhibit 14: Revenue break-up: hospitals contribute majority of Max's revenues



Source: Company, Ambit Capital research

Exhibit 15: Delhi cluster makes up ~64% of total hospital revenues



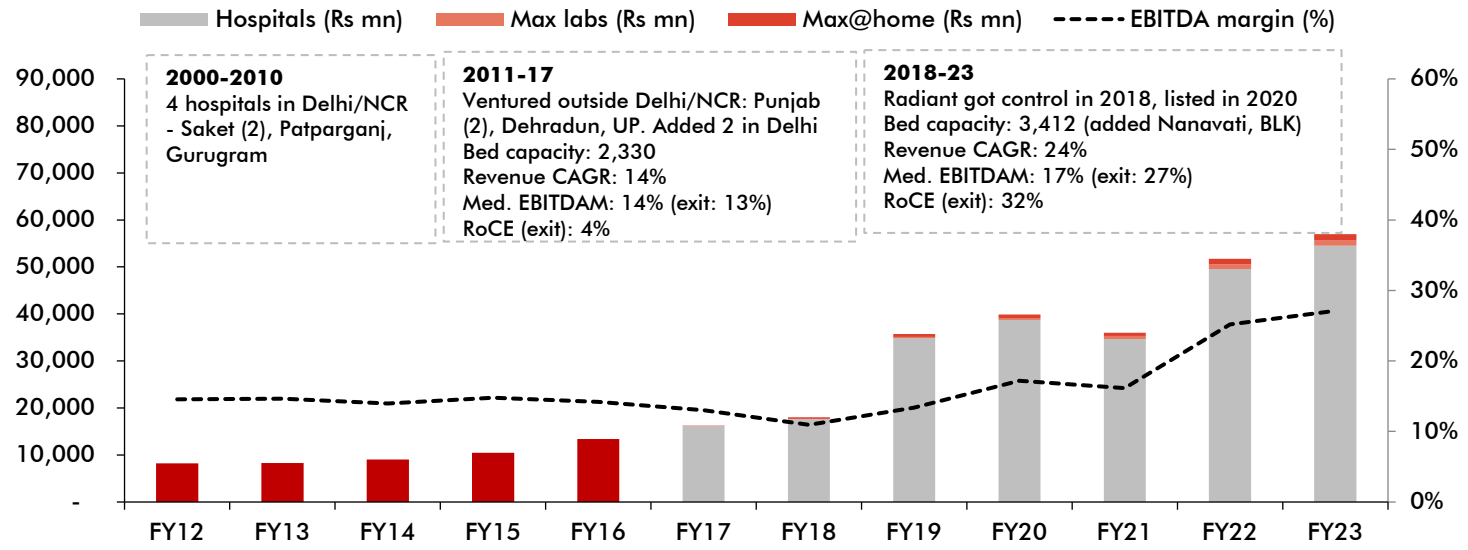
Source: Company, Ambit Capital research

- Hospital services is Max's core business. The company offers secondary and tertiary care services. Key therapies include oncology, neurosciences, cardiac sciences, orthopedics, renal sciences, liver and biliary sciences and minimal access metabolic and bariatric surgery (MAMBS). Despite having fewer beds relative to most peers, it is the second-largest hospital chain in India in terms of revenues and EBITDA. Max runs a home health services business via an SBU called Max@Home. It offers a range of health and wellness services at the patient's home. This includes specialized nursing care, physiotherapy, doctor consultations, and medical equipment rentals, among others. Max Labs is an SBU that offers diagnostics services, particularly focused on the pathology segment. The company operates through multiple channels, viz. third-party hospital lab management, diagnostics centres and home sample collection.

Rapid scale-up post latest ownership change

Max Healthcare was founded in 2000 by Mr. Analjit Singh, who is also the founder of Max Group. It was established as a JV between Max India Limited and Life Healthcare of South Africa. Radiant Lifecare acquired 49.7% stake in the company in 2018 with the balance 50.3% stake being held by Max India. In 2020, Max Healthcare merged with Radiant Lifecare and listed on the stock exchanges.

Exhibit 16: Max has built dominance in Delhi/NCR and is established in several other cities of North India. Radiant's entry provided access to Mumbai and a more focused approach that reflects in recent revenue growth and margin/RoCE trends



Source: Company, Ambit Capital research

Exhibit 17: Key milestones over the years

Year	Key milestones
2000-05	▪ Established in 2000 as a joint venture between Max India and Life Healthcare ▪ Opened its first medical centre in South Delhi's Panchsheel Park in 2000 ▪ Opened two secondary care centres in Pithampura and Noida ▪ Commissioned the East Block of its flagship hospital, Saket in South Delhi.
2006-10	▪ Ventured into South West Delhi, Gurugram with a secondary care hospital in 2007 ▪ Extended footprint in the North by entering into a PPP agreement with the Punjab government to set up two hospitals and Bathinda
2011-15	▪ Opened its first super specialty hospital in Dehradun in 2012 ▪ Acquired majority stake in Pushpanjali Crosslay (Max hospital Vaishali) and Saket city (Max hospital Smart, Saket) hospitals
2016-20	▪ Commissioned a dedicated day-care centre in Lajpat Nagar in 2016 ▪ Launched home health services via Max@Home ▪ Max Super Speciality Hospital, Saket is accredited by the Joint Commission International (JCI) in 2017 Life Healthcare Group sold its 49.7% stake to Radiant Lifecare for ₹21bn. The two companies merged in 2020 and got listed
2021-present	▪ Acquired stake in Eqova healthcare having a potential to add 400+ beds alongside its current facility at Patparganj. ▪ Executed O&M agreement for first asset-light model in Dwarka, Delhi for 300 beds ▪ Announced expansion plan – to add ~80% to current bed capacity over FY24-27 ▪ Between 2021 and 2022, co-promoter KKR sold its entire stake

Source: Company, Ambit Capital research

Hospitals: primarily big-city model

Max runs 17 healthcare facilities. This includes 12 hospitals with combined capacity of 3,504 beds, and five medical centres. It is best established in the Delhi/NCR region, with nine hospitals and four medical centres. Other hospitals are located in Maharashtra (Mumbai), Punjab (Mohali and Bhatinda), UP (Ghaziabad) and Uttarakhand (Dehradun). Three of the company's hospitals are accredited by the JCI and 13 by NABH.

Exhibit 18: Summary of hospitals/medical centres

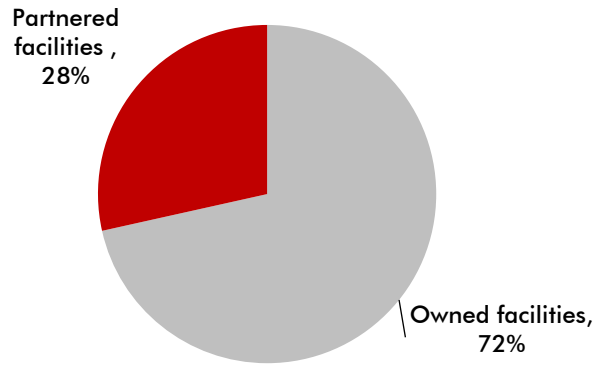
State / Hospital	Type	Started in	Installed beds	Key specialties
Delhi				
BLK-Max Super Speciality Hospital, Rajendra Place	Managed	2000	540	Cardiac, paediatrics, neuro, transplants
Max Super Speciality Hospital, Shalimar Bagh	Owned	2011	280	Cardiac, onco, neuro, ortho
Max Super Speciality Hospital, (East Block) Saket	Partnered	2004	320	Cardiac, onco, bariatric surgery
Max Super Speciality Hospital, (West Block) Saket	Owned	2006	201	Neuro, liver transplants, robotic surgeries
Max Smart Super Speciality Hospital, Saket	Partnered	2015	250	Cardiac, ortho, gynaec, paediatrics
Max Super Speciality Hospital, Patparganj	Partnered	2005	402	Onco, cardiac, ortho, neuro
Max Institute of Cancer Care, Lajpat Nagar*	Partnered	2016	-	chemotherapy, basic diagnostics
Max Multi Speciality Centre, Panchsheel Park*	Owned	2000	-	Day-care surgeries, ophthal, IVF, dental
Max MedCentre, Lajpat Nagar (Immigration Department)*	Owned	2017	-	
Uttar Pradesh				
Max Super Speciality Hospital, Vaishali	Owned	2015	378	Onco, renal, GI, ortho, cardiac
Max Multi Speciality Centre, Noida*	Owned	2002	-	chemotherapy, ophthal, diabetes
Haryana				
Max Hospital, Gurugram (secondary-care)	Owned	2007	92	Cardiac, ortho, neuro
Punjab				
Max Super Speciality Hospital, Bhatinda	Owned	2011	200	Cardiac, onco, neuro, ortho
Max Medcentre, Mohali*	Owned		-	
Max Super Speciality Hospital, Mohali	Owned	2011	220	Cardiac, onco, ortho
Uttarakhand				
Max Super Speciality Hospital, Dehradun	Owned	2012	201	Cardiac, ortho, neuro
Maharashtra				
Nanavati Max Hospital, Mumbai	Managed	2014	328	Onco, ortho, renal, neuro, transplant

*Source: Company, Ambit Capital research, *Medical centres*

There are two types of hospitals in Max's network from an ownership perspective, viz. 10 owned facilities and three partnered healthcare facilities (PHFs). The latter are owned by trusts and operate under medical services agreements with Max.

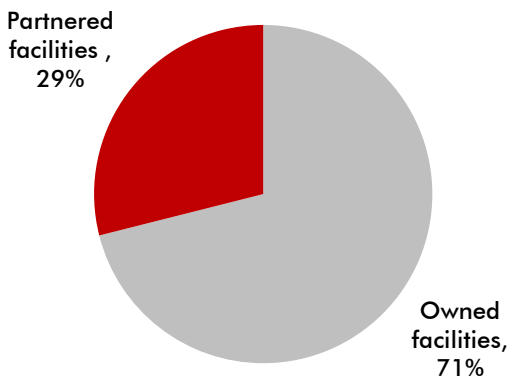
Max does not have legal ownership of these hospitals. However, it has indirect control. Each hospital has a hospital management committee (HMC) that makes all decisions related to operations, including capex. Three of the five members on each HMC are from Max, giving the latter significant influence over decision-making. Max receives management fees (certain percentage of revenues), specialty service fees (for various surgeries) and is also paid for usage of the Max brand. The company also funds these hospitals with loans from time to time.

Exhibit 19: Partnered facilities make up ~28% of beds...



Source: Company, Ambit Capital research

Exhibit 20: ...and contributed ~29% to revenues



Source: Company, Ambit Capital research

Exhibit 21: Max's partner healthcare facilities – a snapshot

Particulars	Max Super Speciality Hospital, (East Block) Saket	Max Smart Super Speciality Hospital, Saket	Max Super Speciality Hospital, Patparganj
Owner	Devki Devi Society	Gujarmal Modi Society	Balaji Society
Venue	Saket, New Delhi	Saket, New Delhi	Patparganj, Delhi
Bed capacity	320	250	402
Revenue (₹ mn)*	7,410	4,020	5,840
EBITDA (₹ mn)*	1,310	710	1,140
EBITDA margin	18%	18%	20%

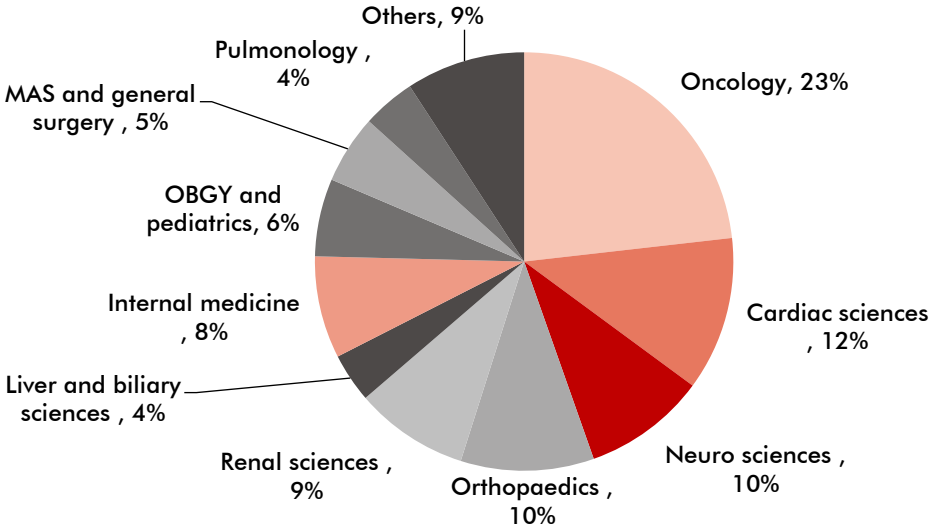
*Source: Company, Ambit Capital research; *FY23 numbers*

- **Max Super Specialty Hospital, (East Block) Saket** – run as a partnership between Max Healthcare and the Saket City Hospital Trust. It is located in New Delhi and accounts for 13%/8% of Max's revenues/EBITDA. Key specialties include cardiology, oncology, bariatric surgery and orthopedics.
- **Max Super Specialty Hospital, Patparganj** – run as a partnership between Max Healthcare and the Delhi Medical Association. It is located in East Delhi and accounts for 10%/7% of Max's revenues/EBITDA. Key specialties include cardiology, neurology, oncology, and urology.
- **Max Smart Super Specialty Hospital, Saket** – run as a partnership between Max Healthcare and the Saket City Hospital Trust. It is located in New Delhi and accounts for 7%/4% of Max's revenues/EBITDA. Key specialties include cardiology, orthopedics, gynecology and gastroenterology.

Diversified case mix, oncology dominates

Max has a diversified case mix. Key specialties at a group level include oncology, cardiac-sciences, internal medicine, renal sciences, neurology and orthopaedics among others. It also provides specialized care for children and women. Till date the company has performed ~1,045 transplants, ~2,420 robotic surgeries, ~38,770 cardiac procedures and ~10,820 oncology surgeries among others.

Exhibit 22: Diversified case mix, oncology is the biggest segment



Source: Company, Ambit Capital research

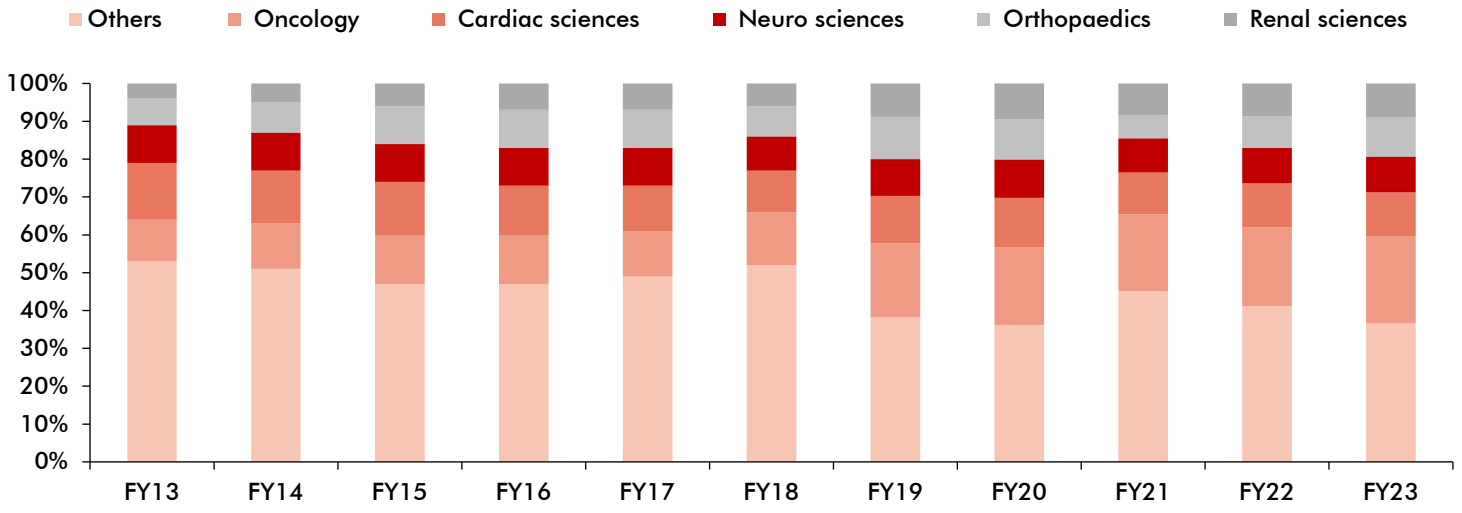
Favorable case mix change has been a key driver of ARPOB, margins

Besides bed addition, Max has consistently invested in specialized equipment, facilities and staff training to build expertise in specific medical areas and attract patients seeking high-quality care. This has led to meaningful improvement in case mix over the years. It has also helped Max target international patients for specialized medical treatments.

- For instance, its oncology program has been recognized for its excellence, providing comprehensive cancer care to patients. Share of oncology in revenues has increased from ~11% in FY13 to ~23% in FY23. This compares to 14%/12% for peers such as Fortis and Medanta, who are dominant in the same markets. It is also higher than peers who are dominant in other parts of the country such as NH and KIMS.
- Shares of renal and ortho have also gone up from 4% and 7% in FY13 to 9% and 10% respectively in FY23.

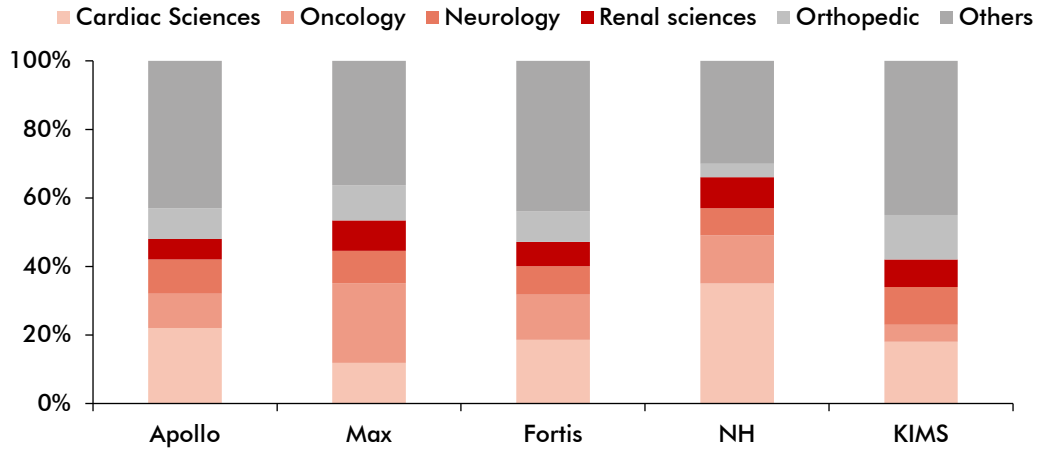
Share of cardiac, on the other hand, is much lower at ~12% vs. peers such as Medanta (~23%) and Fortis (~18%). Medanta benefits from brand-equity of Dr. Naresh Trehan, a world-renowned cardiovascular and cardiothoracic surgeon.

Exhibit 23: Top-5 specialties contributed ~64% to total sales in FY23, up from ~47% in FY13



Source: Company, Ambit Capital research

Exhibit 24: Max vs. peers – more diversified therapy mix. Leads peers in oncology and lags in cardiac

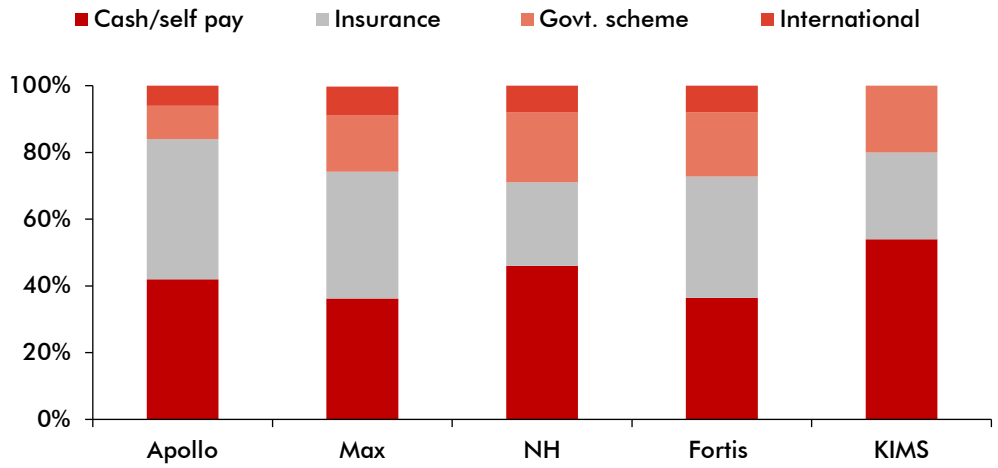


Source: Company, Ambit Capital research

Payer mix – declining share of scheme patients, international on the rise

Max gets ~53% of its revenues from private insurance and government scheme patients. Cash patients make up ~36% and the rest comes from international patients. Relative to peers, share of cash patients is lower and that of private insurance patients is higher.

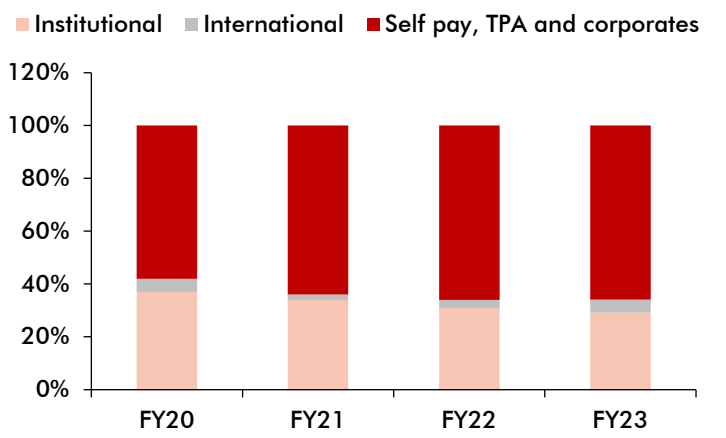
Exhibit 25: Max's revenue share from scheme patients is lower than most peers



Source: Company, Ambit Capital research

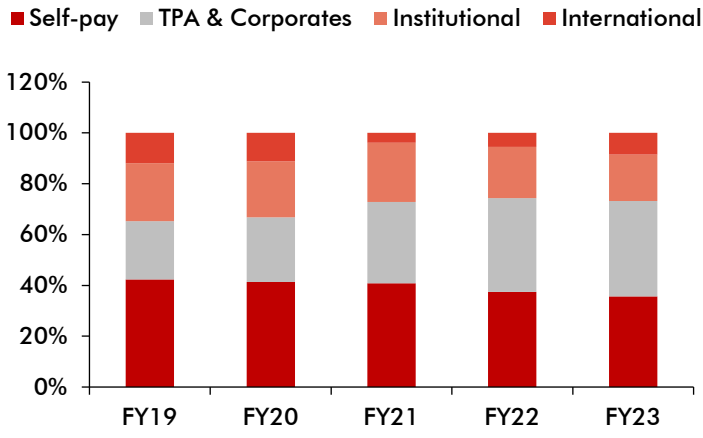
- Max is trying to reduce dependence on government scheme patients. They account for 29% and 18% of volumes and revenues currently. Share of this group stood at 18% in FY23, down from 23% in FY19. Share of volumes (beds) also declined from 37% in FY20 to 29% in FY23. Max intends to further reduce the bed-mix for this group to 15% over the next four to five years. ARPOB for this group is typically ~40% lower than that for cash-patients. Margins are therefore lower and change in mix would be a key margin driver. We estimate that EBITDA margin on revenues from government scheme patients is 300-400bps lower than corporate average.

Exhibit 26: Institutional patients contributed ~29% of beds



Source: Company, Ambit Capital research

Exhibit 27: Institutional patients formed ~18% of revenues



Source: Company, Ambit Capital research

- Share of international patients, on the other hand, should rise on easing of travel-related restrictions. Max used to get ~12% of revenues from international patients pre-Covid. This was back to ~9% of revenues in FY23 despite zero contribution from Afghanistan – its primary source of international patients in the past. Delhi/NCR gets almost 45% of overseas patients that come to India for treatment. Max's established brand and large number of hospitals in this region augur well for its ability to grow this business. International patients are offered similar pricing as cash patients in India. However, ARPOB is typically higher because they travel only for high-intensity procedures – effectively improving the case mix. Margins are therefore higher than corporate average even after accounting for higher serving costs.

Dominant in North India, especially Delhi

Max's success can be attributed to its cluster-based approach that has translated into dominance in North India, especially the densely populated Delhi/NCR region. It has nine hospitals in Delhi, three in the NCR region (viz. Gurugram, Noida, Ghaziabad) and three in other cities of North India viz. Mohali & Bhatinda (Punjab) and Dehradun (Uttarakhand). North India accounts for ~91% of Max's revenues and bed count.

Exhibit 28: Region-wise operational statistics

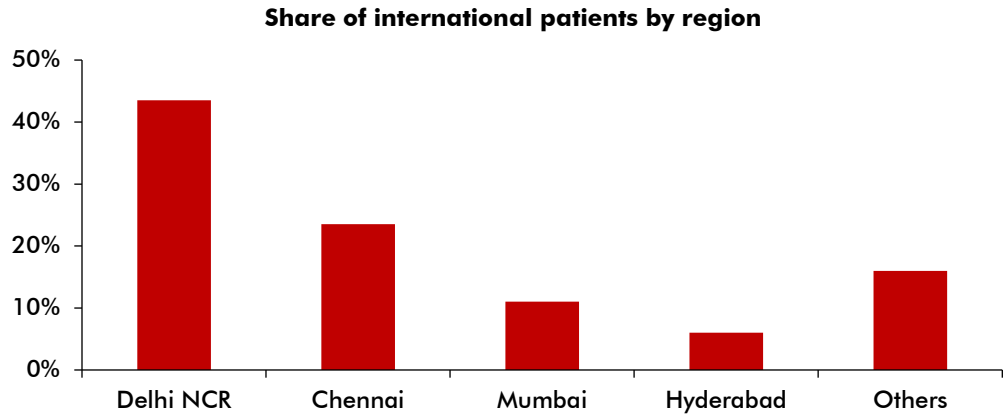
Particulars	Delhi	NCR	Mumbai	Rest of North
Total hospitals/medical centres	6/3	2/1	1	3/1
Operational beds	2,012	468	289	513
% of operational beds	61%	14%	9%	16%
Revenue share (%)	63%	14%	9%	12%
Key hospitals	BLK-Rajendra Place Saket (East Block, West Block, Smart) Shalimar Bagh Patparganj	Vaishali (Ghaziabad) Gurugram	Nanavati	Mohali Bathinda Dehradun

Source: Company, Ambit Capital research

Leading player in Delhi NCR

Max is a leading player in the Delhi/NCR region, encompassing Delhi, Gurgaon, Ghaziabad, and Noida. This is among the most densely populated and economically important areas in India, with a population of ~58mn. Hospitals in this region also service patients from other parts of North/East India and also get ~40-45% of international patient flow to India. Bed density at 2.7 beds/10,000 people is relatively low compared to other metro/tier-1 cities. This indicates significant potential for growth.

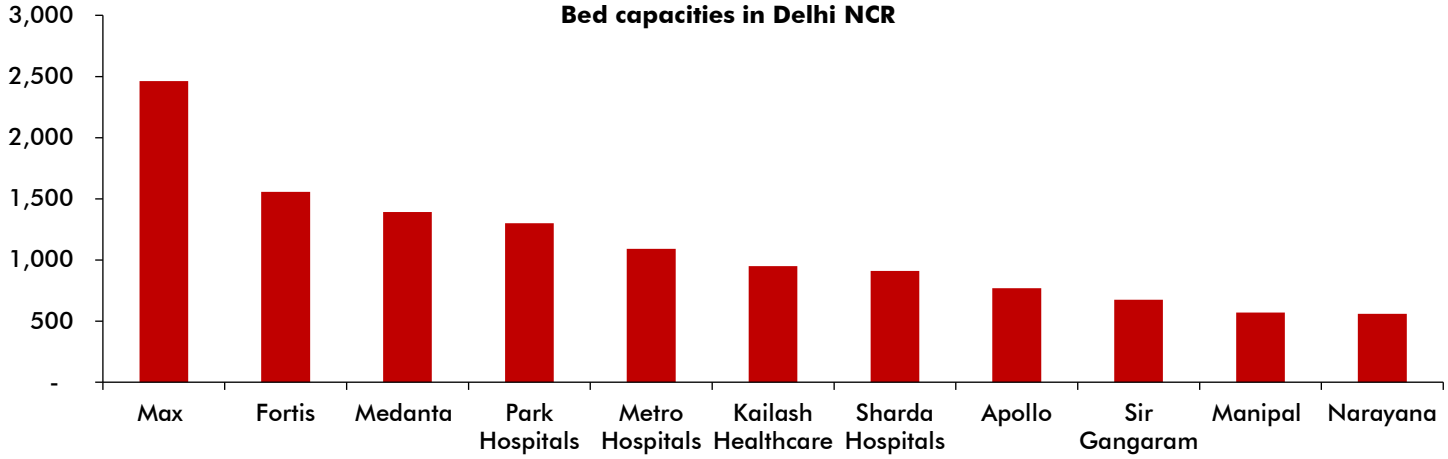
Exhibit 29: Delhi/NCR gets the highest share of international patients visiting India



Source: Company, Ambit Capital research

Max is well placed to benefit from these trends. The Delhi/NCR cluster accounts for ~75% of its beds and ~75% of FY23 revenues. The company has the largest bed count among private hospital chains in this region. It also intends to augment bed capacity by ~82% over FY24-27. This scale advantage would make it one of the go-to hospital chains for patients as well as doctors in the region.

Exhibit 30: Max is the largest private hospital chain in Delhi/NCR



Source: Company, Ambit Capital research

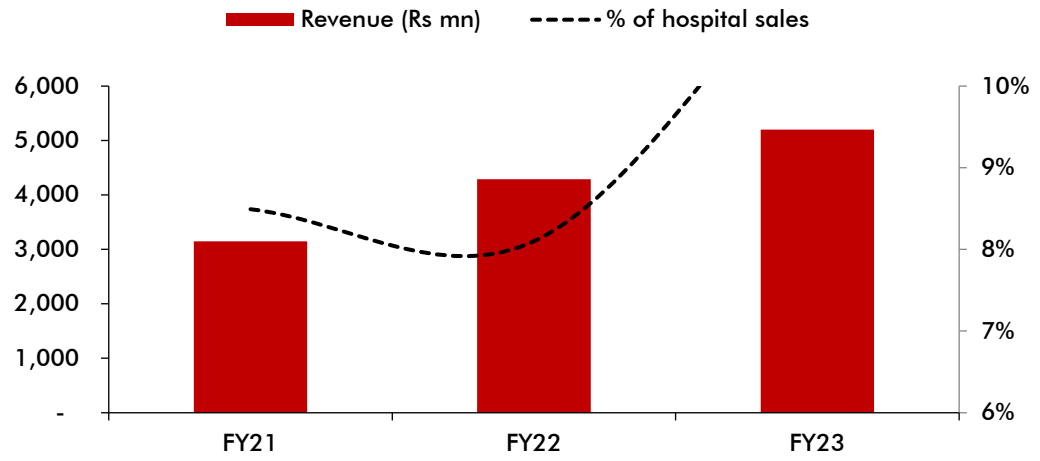
Six out of the company's eight hospitals in this region are located in Delhi. Beds/hospital of 350 is among the highest in the industry and helps reduce capital cost per bed besides establishing the brand. Moreover, three of these hospitals are in the same complex in Saket, with a cumulative bed count of 771. This is the largest hospital complex in this market and has allowed Max to build a strong brand among patients as well as the doctor community.

Established in a few other cities of North India

Max has hospitals in Punjab (Mohali, Bhatinda) and Uttarakhand (Dehradun). The two hospitals in Punjab were set up under a PPP agreement with the state government.

Punjab cluster – Max runs two hospitals in Punjab at Mohali and Bhatinda. This cluster accounts for 9% and ~8% of Max's bed count and revenues respectively. The Mohali hospital has 220 installed beds, most of which are operational. The Bhatinda hospital has 200 installed beds of which ~140 are operational. Mohali is the highest RoCE hospital in the company's network and Max intends to add 190 beds in FY25 to address latent demand in the region.

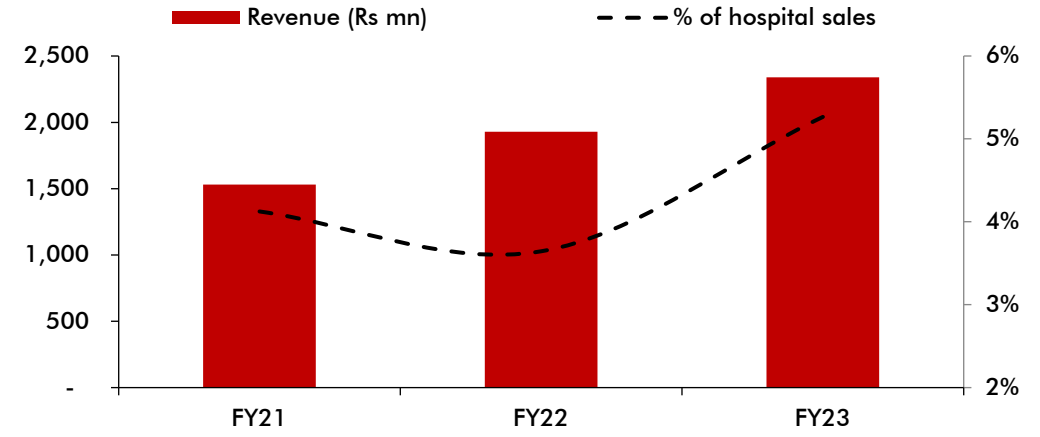
Exhibit 31: Punjab cluster accounts for 9% of Max's revenues



Source: Company, Ambit Capital research

- **Uttarakhand cluster** – Max has one hospital in Dehradun with 201 installed beds, all of which are operational. This hospital accounts for ~4% of the company's hospital revenues.

Exhibit 32: Uttarakhand cluster has one hospital at Dehradun – accounts for ~4% of Max's revenues

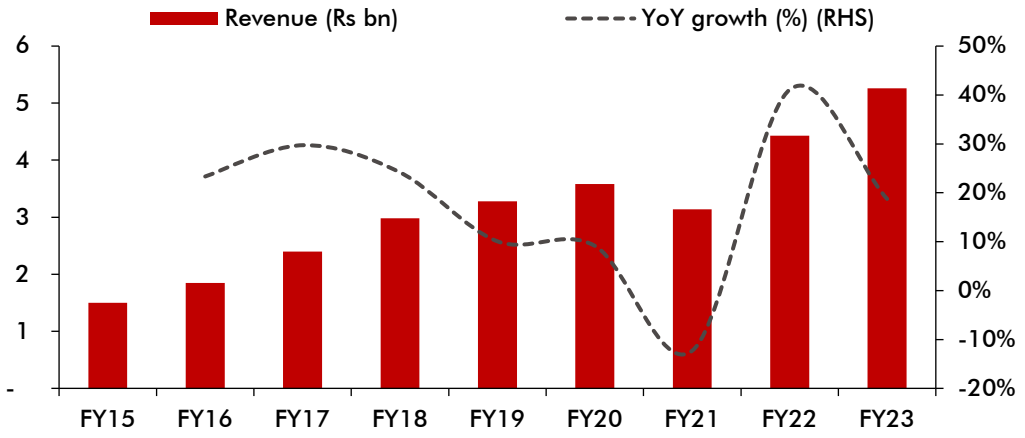


Source: Company, Ambit Capital research

Radiant Life brought in first hospital in Mumbai

The Nanavati Max hospital in Mumbai is the only hospital that Max has outside North India. This was originally acquired and turned around by Radiant Lifecare. It became part of the Max network when the two companies merged. The hospital has 328 installed beds. Close to 300 beds are operational. It accounts for ~10% of Max's hospital revenues respectively. Max intends to add 440 beds in this hospital in two phases – 329 in FY25 and 111 in FY27.

Exhibit 33: Maharashtra cluster recorded a 17% CAGR in revenue over FY15-23



Source: Company, Ambit Capital research

Head to Head: Max vs. Global Health (Medanta)

We compare Max's business with that of Global Health (Medanta) as the two hospital chains are quite similar in terms of positioning and geographic spread of hospitals. We compare how the two chains stack up on various parameters.

Exhibit 34: Max focused on sweating its assets in recent years whereas Global Health invested in some capacity. The latter has more headroom to grow with current bed capacity

	Max	Global Health	Comments
No. of hospitals	12	4	▪ Max has more hospitals but Global Health's hospitals are larger, as reflected in higher beds/hospital
No. of beds	3,502	2,396	
No. of operational beds	3,243	2,019	▪ Max has operationalized close to 95% of its bed capacity as against ~80-85% for Global Health
Beds/hospital	284	599	
ARPOB	67,400	59,098	▪ Max's ARPOB is ~14% higher than Global Health, possibly due to higher share of international patients and oncology in revenues
Occupancy	76%	59%	
ALOS	4.2	3.3	▪ Global Health has achieved high efficiency w.r.t. ALOS, reducing this could provide Max further headroom to grow in current hospitals.
Revenues (₹ mn)	58,750	27,592	▪ Global Health has grown faster off a low base. Difference in occupancy numbers indicate that this may continue for a few more years till Max's new bed additions start contributing meaningfully to revenues – likely in FY25 and beyond
EBITDA margin	27%	25%	
RoCE	33%	14%	▪ Max clearly appears to be focusing on extracting more out of established assets as the growth rates in Beds, Revenues and ARPOB reflect. Global Health's growth is a bit more evenly spread out across beds and ARPOB.
Growth (FY20-23)			
- Revenue	14%	22%	▪ Global Health has more headroom to grow in current network. Most of Max's growth will come from the new projects that it undertakes over FY23-27.
- EBITDA	33%	45%	
- ARPOB	10%	6%	
- Beds	1%	6%	

Source: Company, Ambit Capital research

- Both hospital chains offer high-end tertiary and quaternary care services. Global Health has fewer, but larger, hospitals.
- In recent years, Max focused on sweating assets whereas Global Health invested in some capacity over this timeframe. This reflects in lower occupancy, margins and RoCE for the latter.
- Global Health has more headroom to grow in current hospitals. On the other hand, Max has to invest in bed capacity but has ability to add meaningful capacity in or alongside current facilities. This would make it easier to absorb the investment with minimal suppression of margins/RoCE.

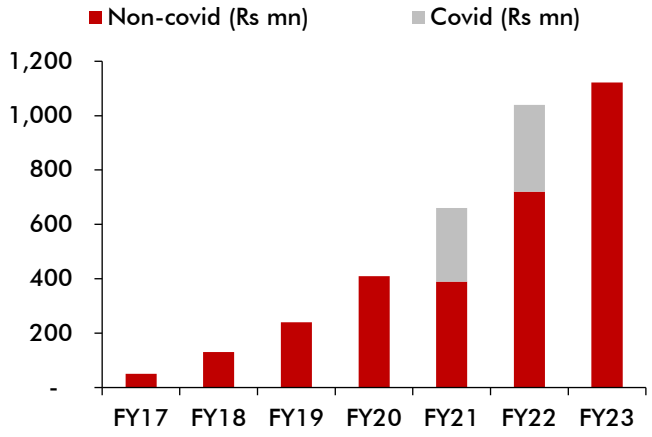
Diagnostics – early days

Max offers a wide range of diagnostics services across various specialties through its wholly-owned subsidiary, Max Labs. This is non-captive business, i.e. does not include the tests conducted for inpatients at the group's hospitals. The business gained significant momentum during the Covid-19 pandemic when its service offerings were widely accepted in the NCR region. This success motivated the company to invest further in the business and expand into Punjab, Haryana and Uttarakhand. Max Labs was set up in June 2021 with the objective of becoming a top-5 pathology services company in the country over the next few years.

- It has operations in ~34 cities, mostly in North India and 200+ phlebotomists on its rolls. It also has 43 HLMs (hospital lab management) contracts
- The company has a menu of over 2,500 tests and 950+ partners under B2B and B2C formats.
- It has over 400 collection centres of which 23 are company owned and the rest are operated by partners. It also has 250+ PUPs (pick-up points) across various cities in North India.
- It utilizes the high-end labs of network hospitals for testing.

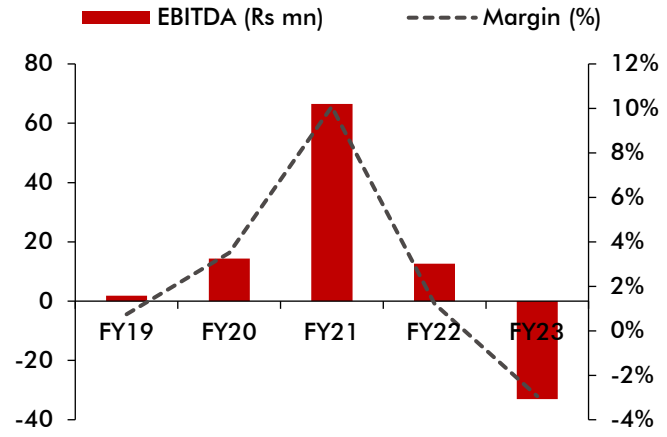
Max clocked revenues of ₹1123mn in FY23 and had negative EBITDA margin of -3%. Negative margins reflect the step-up in network and promotional initiatives by management as it tries to catch up with sector leaders. Max intends to expand organically as well as look for acquisition opportunities to scale up its presence across various cities. It is, however, unlikely to meaningfully shift the needle for the consolidated entity in the near to medium term barring any big ticket acquisition.

Exhibit 35: Non-Covid diagnostics sales grew ~67% CAGR over FY19-23



Source: Company, Ambit Capital research

Exhibit 36: Negative EBITDA margin reflects low scale and investment mode that the business is in



Source: Company, Ambit Capital research

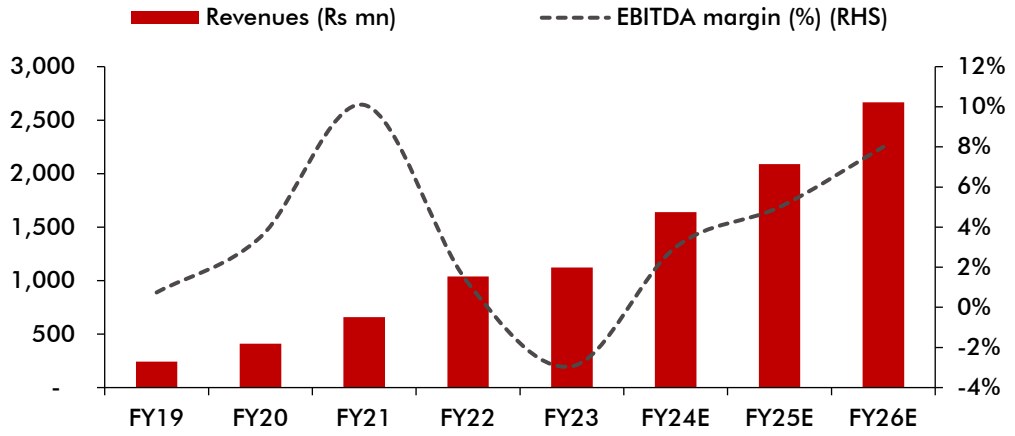
Exhibit 37: Max is much smaller than organized diagnostic chains. It is also smaller than Apollo's diagnostics business. Growth trajectory is much stronger though due to lower base and aggressive efforts to widen network

Main markets	Dr Lal	Metropolis	Agilus	Vijaya	Apollo	Max H/C
	Delhi/NCR, Rest of North, East, West	West, South	Pan-India	AP/Telangana	South India	North India
Network						
Reference Labs	1	1	5	1	1	NA
Regional reference labs	2	13	NA	15	NA	NA
Clinical labs	277	175	400+	117	95	43
Patient service centres	5,102	3,675	2,500+	NA	1,475	423
Test menu	5,191	4,000+	4,000+	2,550+	NA	2,500+
Key financial metrics						
Revenues (FY23) (₹ m)	20,169	11,482	11,890	4,590	3,827	1,123
EBITDA margin (FY23)	24%	25%	20%	40%	7%	-3%
Growth (FY19-23 | FY23-26E)						
Revenue	14% | 13%	11% | 10%	4% | 10%	16% | 16%	43% | 28%	47% | 33%
EBITDA	14% | 16%	10% | 10%	11% | 11%	24% | 18%	NA* | 41%	NA**

*Source: Company, Ambit Capital research; *FY19 was negative EBITDA*

We expect the business to clock revenue CAGR of 33% over FY23-26E. EBITDA is likely to turn positive as the business scales up and absorbs the upfront spend on network rollout and promotional initiatives. We forecast EBITDA margin of 8% in FY26 vs. -3% in FY23.

Exhibit 38: We forecast 33% revenue CAGR and ~1,094bps margin expansion over FY23-26 on an organic basis



Source: Company, Ambit Capital research

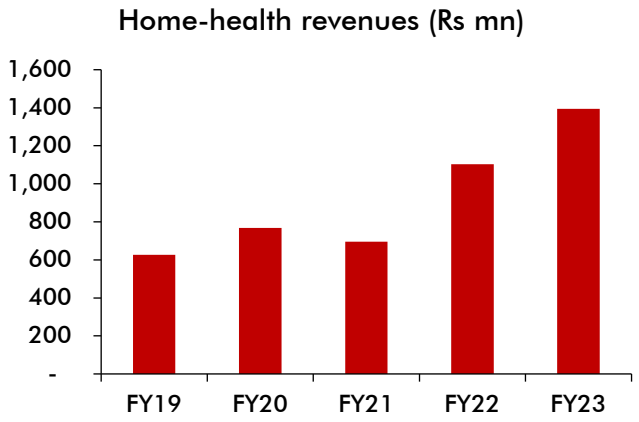
Home health – gaining some traction post pandemic

Max also provides comprehensive home healthcare services to patients in India via Max@Home. It launched the business in 2016 and offers comprehensive out-of-hospital services. It currently has 14 specialized services including the following:

- Nursing care: includes wound care, medication administration, IV therapy and other medical procedures that can be done at home.
- Physiotherapy: services to patients who are recovering from surgery or injury or have chronic conditions such as arthritis.
- Medical equipment rental: including hospital beds, wheelchairs, oxygen concentrators, and other equipment that patients may need at home.
- Diagnostic services: such as blood tests, ECG, X-ray and ultrasound, which can be done at home so as to be convenient for the patient
- It also offers customized care plans based on the patient's medical needs and preferences.

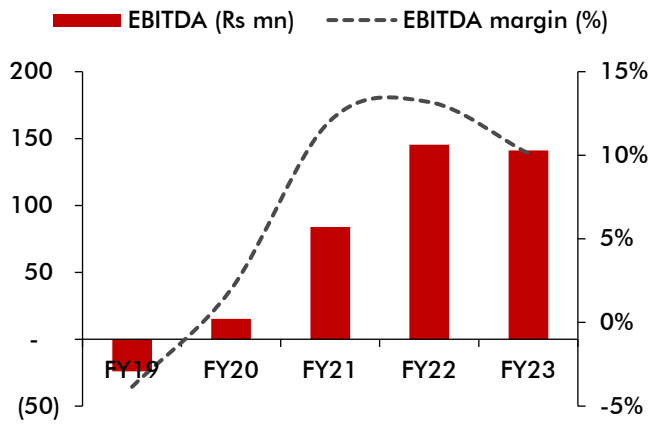
Home healthcare solutions are becoming increasingly popular due to their cost-effectiveness and convenience compared to hospitals. Post pandemic, doctors are more accepting of providing care at home and insurance policies have also started covering home health expenses. The India home healthcare market is expected to grow at 15-19% CAGR over the next five years and is estimated to reach US$11-13bn by 2025. For Max, this business contributed 2% and 1% to revenues and EBITDA in FY23. Revenues saw meaningful step-up in FY22 due to the pandemic. But, encouragingly, the momentum has sustained in FY23 (~26% YoY growth) even as restrictions on travel and visits to hospitals/clinics have lifted. Improving topline trajectory has also translated into good margin improvement. We forecast revenue and EBITDA CAG₹ of 17% and 35% in home healthcare over FY23-26.

Exhibit 39: Home health revenues got a leg up during Covid but momentum has sustained since



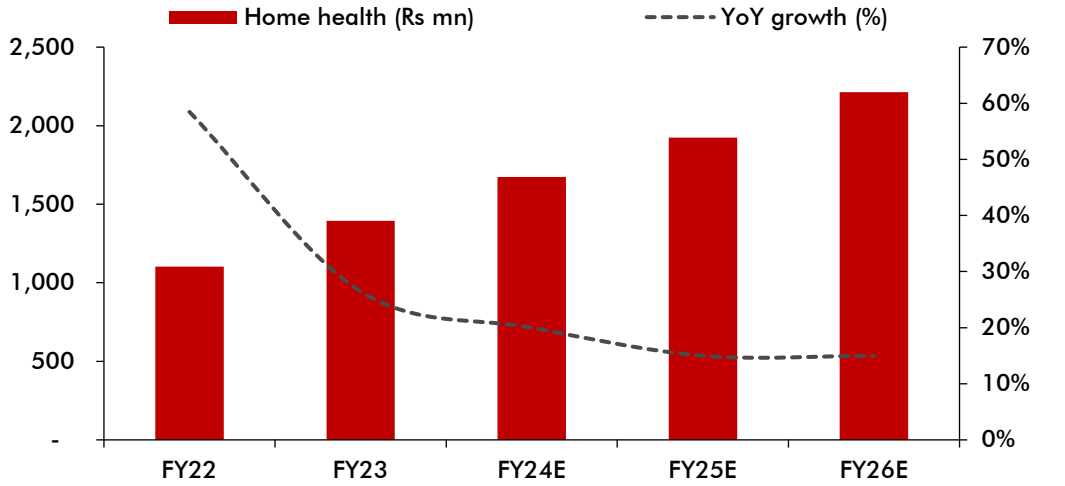
Source: Company, Ambit Capital research

Exhibit 40: EBITDA margins improving with scale, operating leverage is a key driver



Source: Company, Ambit Capital research

Exhibit 41: We forecast 17% CAGR in revenue over FY23-27

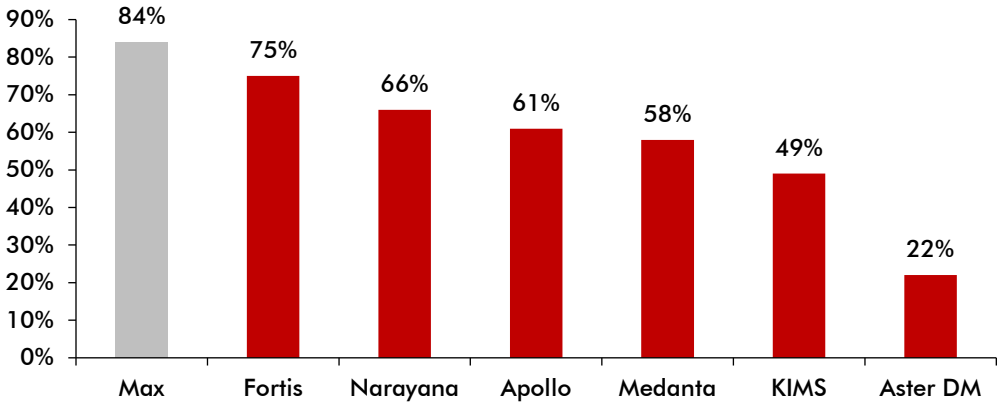


Source: Company, Ambit Capital research

High salience of metros and tier-1 cities is a key driver

Max's significant presence in metros and Tier-1 cities is the primary reason for its superior growth rates, margins and return-on-capital metrics. ~84% of the company's beds are located in urban centres that have high demand for quality healthcare services. Besides migration of people to urban areas, these hospitals also benefit from upcountry and international patients who visit for access to better doctors and quality of care. Ability to pay is also higher, translating into better occupancy, pricing and, in turn, ARPOBs.

Exhibit 42: Max has the highest proportion of beds in metros and Tier-1 cities



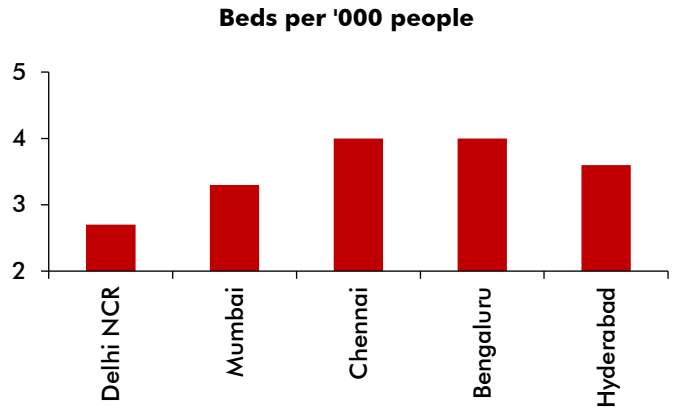
Source: Company, Ambit Capital research

Metro / Tier-1 cities have several advantages over tier 2/3 cities from a healthcare delivery perspective:

- **Health awareness** tends to be higher among residents of large metros. Diagnosis is also often quicker and the patient reaches the hospital sooner. This leads to greater demand for healthcare services and a willingness to seek out and pay for high-quality care.
- **Better ability to pay**: Larger cities tend to have higher per capita income and higher proportion of residents with health insurance. This translates into a greater willingness to seek out and pay for high-end quaternary care facilities that offer specialized treatment that are not widely available elsewhere.
- **Availability of clinical talent**: Large metros attract senior and experienced clinical talent due to potential for higher salaries and career advancement opportunities. This leads to large metros becoming regional hubs for healthcare, with many of the best and most specialized medical facilities and practitioners located in these areas.

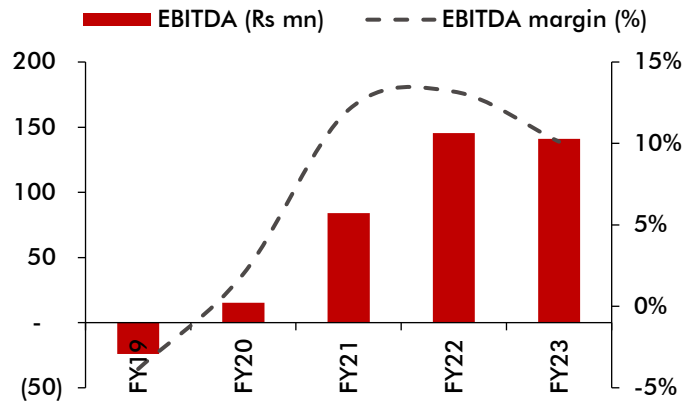
Besides, the company's two key markets, Delhi and Mumbai, have lower bed density relative to other parts of the country. This provides room to add hospitals / beds in these cities. Such capacity, even if greenfield, is much easier to ramp-up given the already well-established brand-equity with patients as well as clinical talent.

Exhibit 43: Home health revenues got a leg up during Covid but momentum has sustained since



Source: Company, Ambit Capital research

Exhibit 44: EBITDA margins improving with scale, operating leverage is a key driver



Source: Company, Ambit Capital research

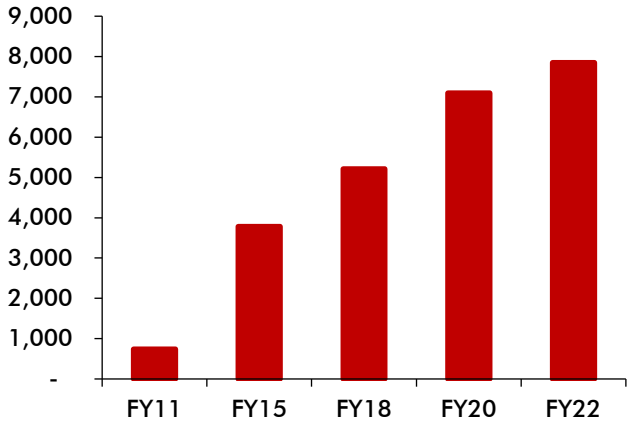
This reflects in Max's capacity expansion plan over the next four to five years as well. Although it intends to add over ~80% of its current bed capacity, all of these beds are in Delhi/NCR and Mumbai. This is in contrast to peers such as KIMS and Apollo, which have to look at greenfield expansion / acquisitions in cities where they are not well-established given higher bed densities in their markets of dominance. This is an underappreciated nuance of Max's business that could allow the company to continue surprising positively on ramp-up timelines and profitability/return on capital metrics.

Track record in M&A and turning around hospitals

Max's management team, headed by Mr. Abhay Soi, has a proven track record of acquiring and turning around healthcare assets. Prior to acquiring stake and management-control in Max, Radiant Lifecare had achieved successful turnarounds at the BLK hospital in Rajendra Place, Delhi and the Nanavati hospital in Mumbai. Both hospitals are now key contributors to Max Healthcare's revenues and EBITDA.

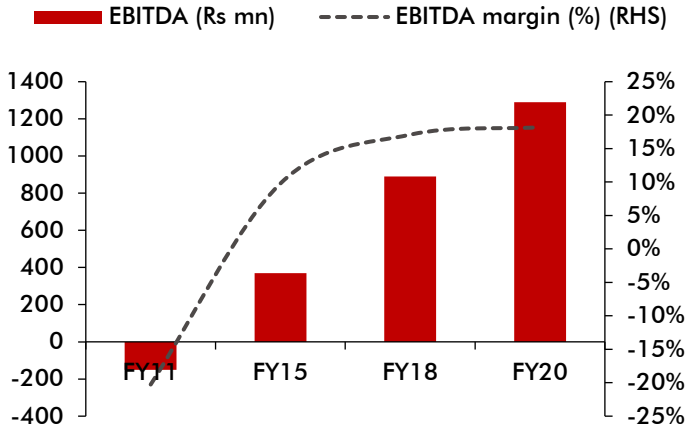
BLK hospital: Radiant Lifecare acquired BLK Hospital in 2010. It was a large hospital and well-known in the region but also faced meaningful operational challenges that kept it in the red. Radiant implemented a series of strategic initiatives post acquisition to improve performance. These included enhancing clinical capabilities, upgrading the infrastructure and streamlining operations. BLK's revenues grew over 2.5x in the next four years, making it one of the best-performing hospitals in the Delhi/NCR region.

Exhibit 45: BLK revenues grew at a 24% CAGR over FY11-22



Source: Company, Ambit Capital research

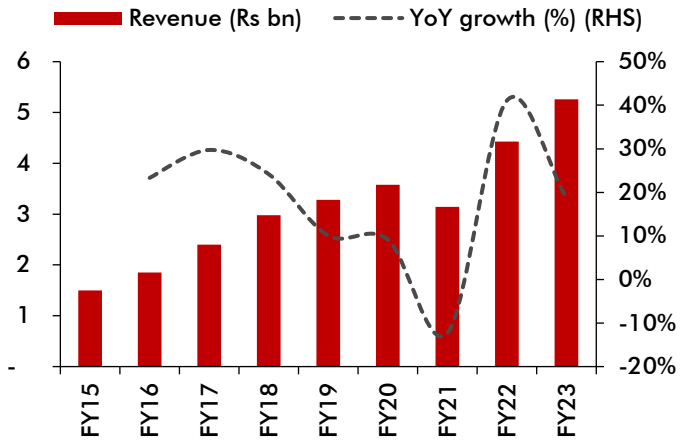
Exhibit 46: Margins moved from -20% in FY11 to 18% in FY20



Source: Company, Ambit Capital research

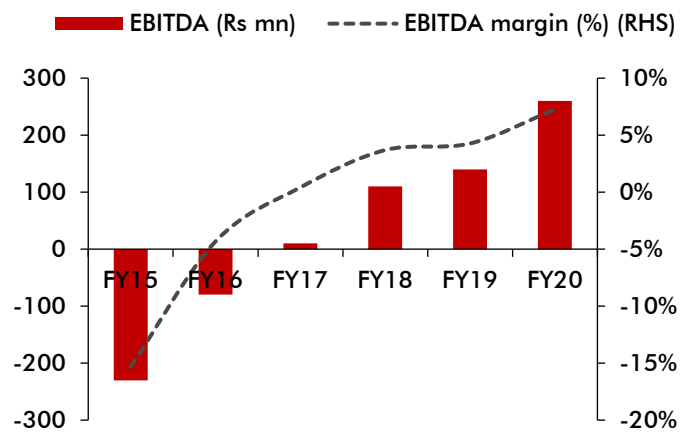
- **Nanavati hospital**: Similarly, after acquiring the Nanavati hospital in Mumbai, the management team implemented a comprehensive turnaround plan involving enhancing clinical capabilities, upgradation of infrastructure, and efficiency improvement initiatives. As a result of these efforts, Nanavati hospital's revenue grew by over 2.5 times in just three years and EBITDA margin improved from -14% to 7% by FY20.

Exhibit 47: Revenues grew at 17% CAGR over FY15-23...



Source: Company, Ambit Capital research

Exhibit 48: ..EBITDAM rose from -14% in FY15 to 7% in FY20

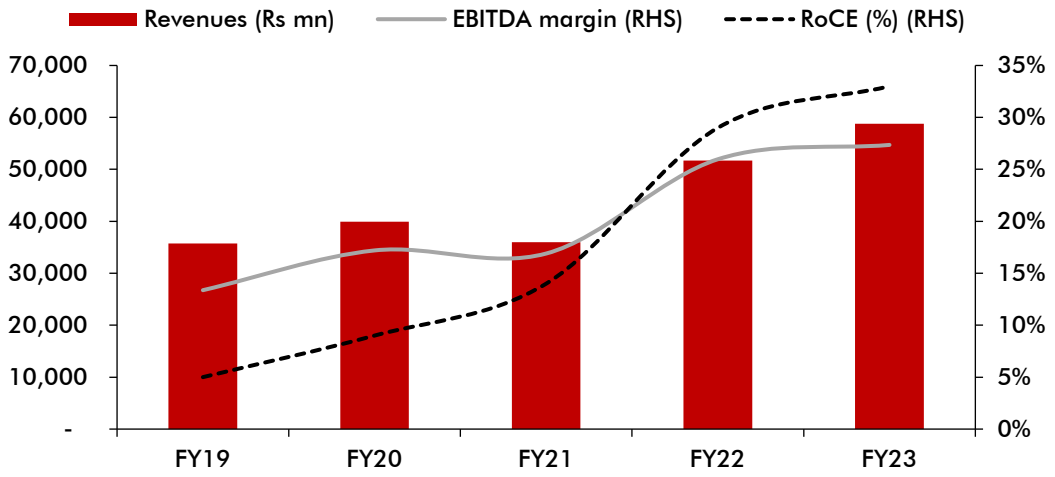


Source: Company, Ambit Capital research

Max Healthcare's operating and financial metrics also improved meaningfully after change in control in 2018.

- The company's EBITDA margin improved from ~9% (FY19) before the current management team acquired control to ~28% currently. Revenues also grew 13% CAGR over FY19-23.
- Rising occupancy and operating leverage had roles to play in this improvement. However, efforts taken by the new management to expand clinical capabilities and improve operational efficiencies also made a difference.
- Investment in state-of-the-art technology and establishing centres of excellence for specialties such as oncology, neurosciences and cardiac-care allowed it hire senior clinical talent. In addition, measures to reduce inventory levels, optimize supply-chain management and reduce costs led to improved efficiency. The company invested ~₹2.2bn in these initiatives, which translated into ~₹1.4bn (~400bps) improvement in FY20 EBITDA.

Exhibit 49: Significant turnaround after change in control



Source: Company, Ambit Capital research

Successful turnarounds at BLK and Nanavati hospitals along with improvement in Max Healthcare's operational/financial metrics highlight the management team's focus on upgrading clinical capabilities and driving operational efficiency in order to deliver RoCE-accretive growth. The industry is likely to see further consolidation and Max would be one of the main participants given its cash generation and stated intent to seek opportunities in new markets via the inorganic route. In this context, the management's track record of creating value through such transactions provides comfort.

Experienced board, strong management

Max Healthcare is led by an experienced management team and supported by a diverse board of directors. Mr. Abhay Soi serves as the Chairman and Managing Director. He came on board post the takeover by Radiant Life in 2018. Mr. Soi's expertise has played a significant role in transforming Max Healthcare to one of the leading healthcare providers in India, with vastly improved operating and financial metrics.

Exhibit 50: Led by a strong management team

People	Designation	Previous experience
Mr Abhay Soi	Chairman and Managing Director	▪ Chairman and MD of Radiant life care ▪ Co-founder, Special Situations Private Equity Fund, ▪ Restructuring professional - Arthur Anderson , EY & KPMG
Mr. Yogesh Sareen	Senior Director and CFO	▪ Senior leadership team, strategy & execution at Fortis. Was General Manager, Corporate and Business Finance, before his elevation to Chief Financial Officer at Fortis Healthcare
Ms. Vandana Pakle	Senior Director - Corporate Affairs	▪ Executive Director - Radiant Life Care Pvt. Ltd. ▪ Chief Financial Officer at Dodsal Corporation ▪ PJL Clothing (India) Limited
Dr. Mradul Kaushik	Senior Director - Operations and Planning	▪ Director of Operations and Planning at Radiant Life Care Pvt. Ltd. ▪ Worked with Fortis Healthcare, Global Health (Medanta), Indraprastha Apollo Hospital, Sant Parmanand Hospital, Max Healthcare Institute Limited, and many other reputed hospitals in Delhi.
Col. HS Chehal	Senior Director & COO	▪ Chief Operating Officer, NCR at Fortis Healthcare
Dr. Sandeep Buddhiraja	Group Medical Director, Chairman – Institute of Internal Medicine	
Mr. Anas Wajid	Senior Director - Chief Sales and Marketing Officer	▪ Has worked at Apollo Hospitals, Max Healthcare, Artemis Health Institute and most recently at Fortis Healthcare Ltd.
Mr. Umesh Gupta	Senior director - HR & Chief people officer	▪ CPO at Radiant Life Care Pvt. Ltd and AVP – HR at Fortis Healthcare.
Col. Binu Sharma	Senior Director - Nursing	▪ Senior Vice President Nursing Services, Columbia Asia Hospitals
Mr. Prashant Singh	Director – IT & Chief Information Officer	▪ Chief Information Officer at Radiant Life Care ▪ AGM – Technology & Operations in Paras Healthcare ▪ Sri Balaji Action Medical Institute (Action Group) and Tirath Ram Shah Hospital (Triveni Engineering and Industries Ltd).
Mr. Arjun Sharma	Director & Chief Digital Officer	
Mr. Rakesh Kaushik	Director – Legal & Regulatory Affairs	▪ RJ Corp. Group ▪ Leading global role of legal and regulatory compliances at Bharti Airtel ▪ Hindustan Unilever Limited, American Tower Corporation, Artemis Medicare Services Limited and USHA International.
Mr. Manpreet Singh Jassal	General Manager – Growth and M&A	▪
Mr. N Venkatesan	Director & Chief Procurement Officer	▪ Group Head of Supply Chain & Procurement, Healthcare Global Enterprises ▪ BLK Super Specialty Hospital, Paras Healthcare, Fortis, and Apollo Healthcare
Dr. Vinita Jha	EVP – Clinical Directorate	
Dr. Abhaya Indrayan	Chief Biostatistician, academics & research	

Source: Company, Ambit Capital research

Exhibit 51: Experienced board of directors

Board	Position	Previous experience
Mr Abhay Soi	Chairman and Managing Director	Chairman and MD of Radiant life care Co-founder, Special Situations Private Equity Fund, Restructuring professional - Arthur Anderson , EY & KPMG
Mr Anil Bhatnagar	Non-Executive non-independent Director	Senior partner at Dua & Associates Regularly appeared as a counsel before Supreme Court, Delhi High Court and other state High Courts
Ms Harmeen Mehta	Non-Executive Independent Director	Global CIO and Head of cloud and Security businesses at Bharti Airtel based in India CIO positions at BBVA, HSBC and Bank of America Merrill Lynch
Mr Kummamuri Narasimha Murthy	Non-Executive Independent Director	Director in various companies such as IDBI Bank Limited, UTI Bank Limited (now known as Axis Bank Limited), Unit Trust of India, IFCI Limited and NSE.
Mr Mahendra Gumanmalji Lodha	Non-Executive Independent Director	On the board of directors of companies such as Radiant Life Care Private Limited and Nitrex Chemicals India Limited Earlier on the board of Arvind Products Limited and Shyam Cotsyn India Limited
Mr Michael Neeb	Non-Executive Independent Director	CEO at HCA healthcare Director of finance and project for Harris Methodist affiliated hospital, Texas
Mr Pranav Amin	Non-Executive Independent Director	Managing Director of Alembic Pharmaceuticals Limited

Source: Company, Ambit Capital research

Brownfield-heavy expansion

Max is set for a meaningful bed expansion phase over the next three to four years. The company intends to expand bed capacity by ~81% over FY24-27. This is the most aggressive bed expansion plan among peers. A large part of the planned expansion (~82%) is however brownfield in nature, facilitated by low bed density in its home markets of Delhi/NCR and Mumbai. This should allow Max to grow revenues without materially impacting profitability and return ratios. This is likely to support valuation premium at a time when almost all peers are about to expand bed capacity once again.

Set for the next big step-up

Max has built a network of twelve hospitals over the last two decades. Our analysis suggests that the network is mature with limited headroom to grow. Most of the hospitals are over 10 years post commissioning and operating at 75%+ occupancy. The company's expansion plans over the next four to five years reflect this.

Exhibit 52: Mature beds account for ~72% of total beds. Max has announced aggressive expansion plans of adding ~2,800 beds over next 4-5 years with ~80% beds being brownfield

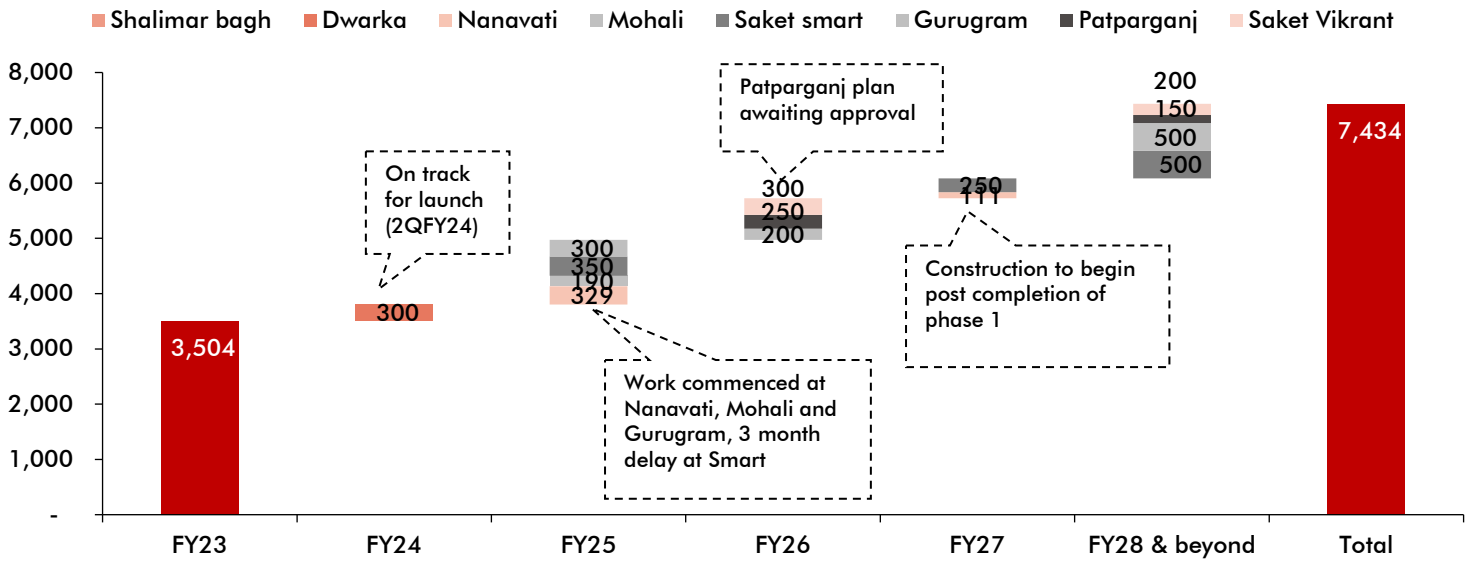
Max' network	Pre-commissioning*	New			Mature
	(up to FY27)	Phase-I (Yr. 1-3)	Phase-II (Yr. 4-6)	Phase-III (Yr. 7-10)	(Yr. 11 and beyond)
No. of hospitals	4	0	0	3	9
No. of beds (% of total)	2,840 (83%)	0 (0%)	0 (0%)	956 (28%)	2,456 (72%)
Share of revenues	NA	0%	0%	26%	74%

Source: Company, Ambit Capital research

Largest expansion plan among peers

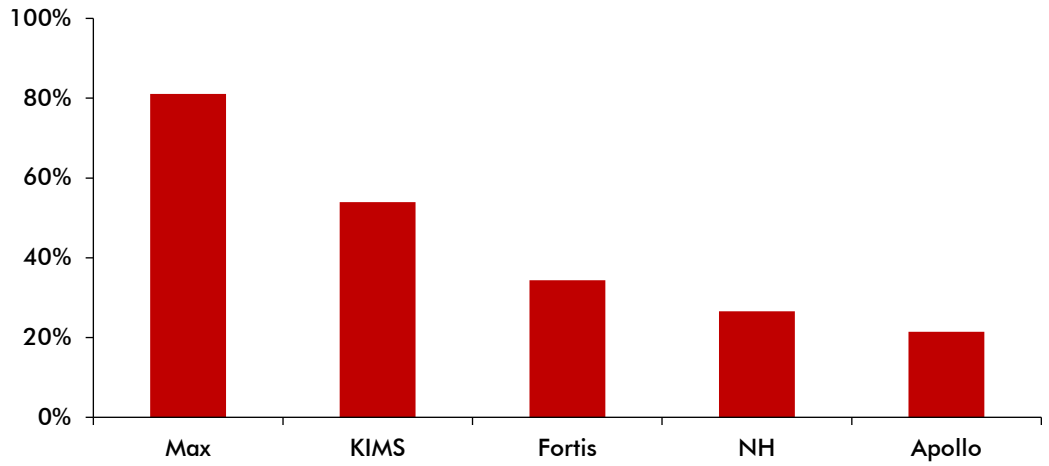
Max aims to almost double its bed capacity over FY23-28 through a combination of brownfield and greenfield projects. It intends to add over 4,000 beds through this period. Of these, it has outlined explicit plans for 2,840 beds that would be commissioned by FY27. The scale of bed addition is the highest among peers.

Exhibit 53: Max intends to add over 2,800 beds through FY23-27



Source: Company, Ambit Capital research

Exhibit 54: Max is most ambitious in terms of bed addition accounting for ~81% of FY23 bed capacity



Source: Company, Ambit Capital research

Exhibit 55: Consistent bed addition over the next 4-5 years through a combination of brownfield, greenfield and acquisitions

Facilities	Year	Type	Incremental beds	Comments
Dwarka	FY24	Asset- light	300	Long-term services agreement with Muthoot Hospitals; fast-growing catchment in Delhi.
Nanavati Ph 1	FY25	Brownfield	329	
Mohali	FY25	Brownfield	190	
Saket Smart Ph1	FY25	Brownfield	350	Part of the plan to develop the Saket medical complex into one with 2,300+ beds – the largest in Asia
Gurugram Ph 1	FY25	Greenfield	300	To have cumulative bed capacity of 1,000 – to come up in phases: first in FY25, second in FY26 and the rest after FY27 Only greenfield project being planned over the next few years
Patparganj (Eqova)	FY26	Acquisition	250	Acquired Eqova Healthcare for long-term exclusive rights; this hospital would be just 800 meters away from Max's existing hospital
Saket Vikrant	FY26	Brownfield	300	To be part of the current Saket complex – taking cumulative bed capacity in the complex to 2,300+ beds – the largest in India
Gurugram Ph 2	FY26	Greenfield	200	Second phase of the current expansion project
Nanavati Ph 2	FY27	Brownfield	111	
Saket Smart Ph 2	FY27	Brownfield	250	

Source: Company, Ambit Capital research

Exhibit 56: Four recent transactions to aid ~2,200 bed addition

Expansions	Type of expansion	Capex	Key comments
Vikrant foundation, Saket	Brownfield	~₹601mn	Acquires exclusive rights to develop and operate a new 500-bed hospital in Saket, South Delhi.
Land acquisition in Gurgaon	Greenfield	~₹16bn	To build 1,000 bed hospital in Gurugram to strengthen leadership in NCR region Addition in phases: 300 beds in Ph-1 (FY25), 200 in Ph-II (FY26), rest will come later
O&M in South West Delhi	Asset light		Long-term services agreement with Muthoot Hospitals for 300+ beds hospital in Dwarka – Max to own the P&L, provide revenue-share to partner
Acquisition of Eqova Healthcare	Acquisition	~₹472mn	To build 400-bed hospital in Patparganj with acquisition of Eqova Healthcare for long-term exclusive rights. The hospital is just 800 meters away from Max's current hospital in the area, so virtually a brownfield project.

Source: Company, Ambit Capital research

- **Vikrant foundation, Saket**: Max has acquired exclusive rights to develop and provide medical services to a new 500-bed hospital on 3.5 acres of land in Saket, South Delhi. This acquisition will enable the integration of existing Max network hospitals, creating a medical hub spread over 23 acres of land with a capacity of over 2,300 beds. The first phase of the hospital is expected to be commissioned in 2024 with a capacity of 250 beds.

- **Acquisition of land parcels in Gurugram**: This is the only greenfield project in the company's current expansion plan. Max intends to build a 1,000 bed hospital on two land parcels totaling 11.4 acres in Gurugram. Gurugram is one of the most profitable hospital markets in India. It is well-connected to cater to medical tourism as well.
- **O&M agreement in South West Delhi:** Max Healthcare has signed a long-term services agreement with Muthoot Hospitals for the management of a 300+ bed hospital being developed in Sector 10, Dwarka, New Delhi. The hospital will operate under the name of Max Super Specialty Hospital, Dwarka and has potential to add 1000+ beds in the future. It is expected to be commissioned in 2QFY24.
- **Acquisition of 26% stake in Eqova healthcare:** Max plans to build a 400-bed hospital on 2.1 acres of land in Patparganj, acquiring Eqova Healthcare Pvt. Ltd. in a phased manner for long-term exclusive rights to aid development and provide medical services in the hospital. The location is well-connected, 800 meters from the existing Max facility in Patparganj, and will strengthen its presence East Delhi. The hospital is expected to be commissioned in 1HFY26.

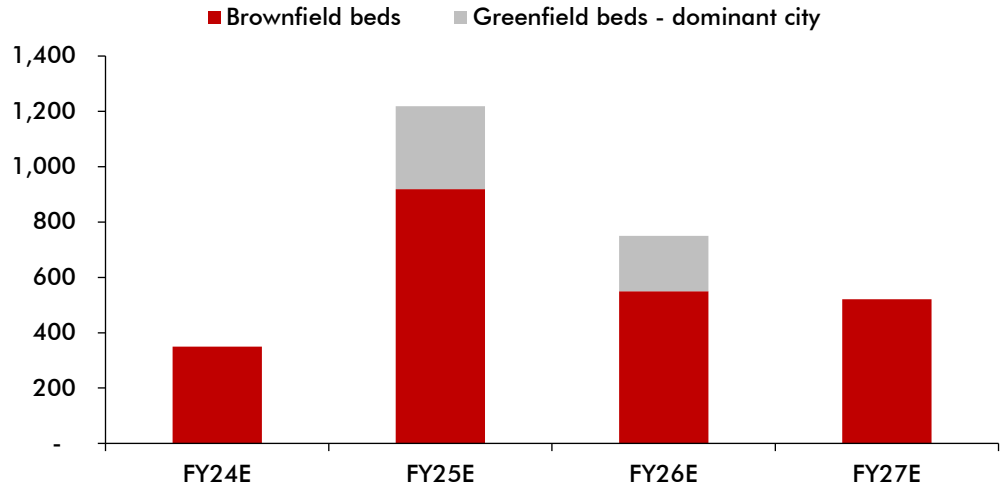
Largely brownfield, easier to absorb

Planned expansion includes brownfield and greenfield projects, with the former being dominant. Over 80% of the company's new beds planned over FY23-27 would be in or adjoining existing hospitals. Brownfield projects are typically much easier and quicker to ramp-up and achieve breakeven/maturity faster. This augurs well for the company's margin and RoCE profile even as bed additions lead to a step-up in medium-term revenue growth trajectory.

- **Brownfield projects**: Max Healthcare plans to add ~2,300 beds through brownfield expansion. This is ~82% of the planned additional capacity. Brownfield beds typically achieve EBITDA breakeven in two to three quarters and can achieve mature level of margins within one to two years.
- **Greenfield project at Gurugram:** Max has acquired land at Gurugram and plans to set up a hospital with potential for 1,000 capacity beds. This would however be in phases. It intends to add 300 beds in FY23 and another 200 beds in FY26. The company has a small, secondary-care hospital in Gurugram and the brand is reasonably well-known in the region due to the network of hospitals it operates in Delhi.

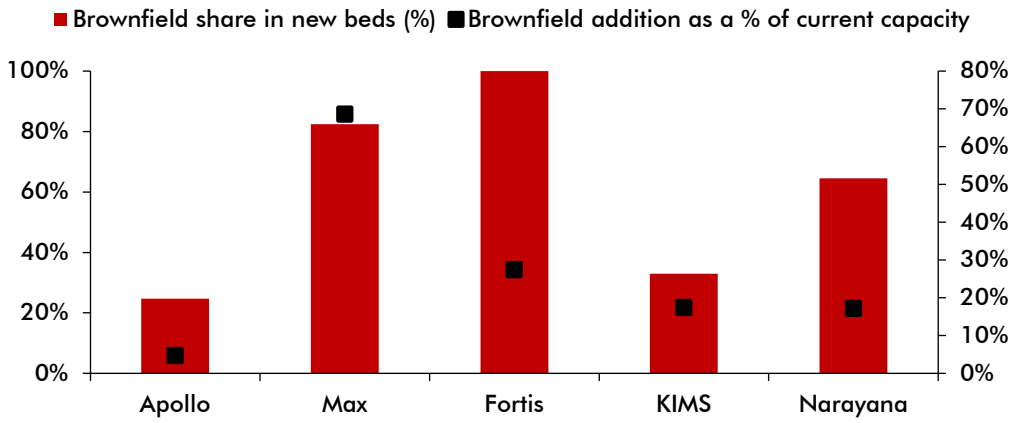
M&A remains on the table: Despite the heavy bed addition plan, Max has ability to undertake inorganic initiatives. Free cash flow is healthy (~₹11bn over FY24-26E) and it has cash on books to the tune of ₹16bn (FY23).

Exhibit 57: ~82% of Max's bed addition over FY23-27 is via brownfield projects



Source: Company, Ambit Capital research

Exhibit 58: Max has the highest share of brownfield projects vis-à-vis its peers

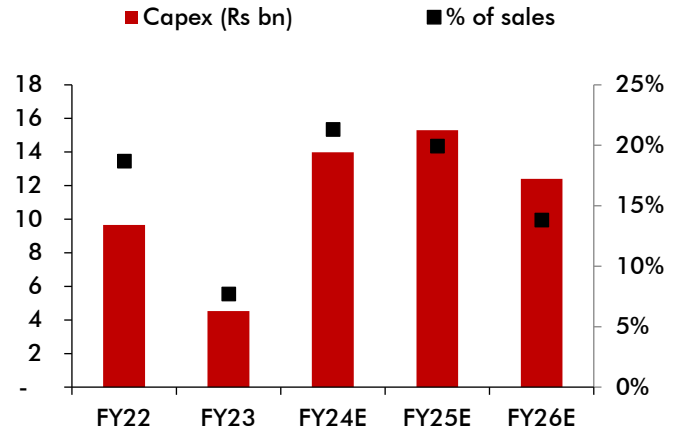


Source: Company, Ambit Capital research

...but financials unlikely to be under stress

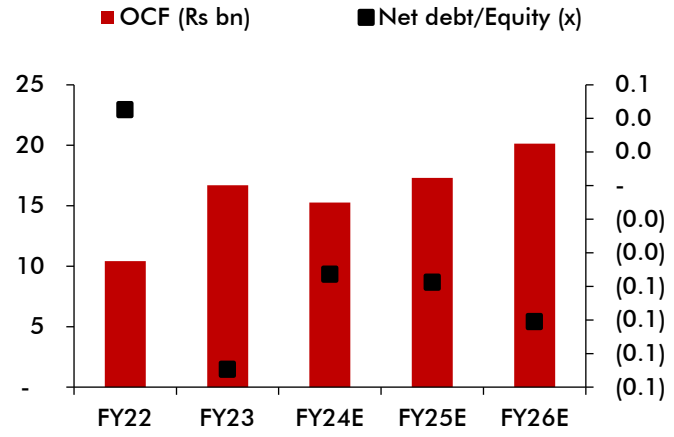
Total capex outlay over FY24-26 is likely to be in the range of ~₹42bn. Max's balance sheet position is comfortable with net-cash of ~₹8bn. Moreover, it is likely to generate cumulative OCF of ₹53bn over FY24-26E. As such, dependence on external capital (debt or equity) would be limited. Net Debt/Equity is likely to remain under (0.1x) through this expansion phase.

Exhibit 59: Max intends to incur cumulative capex of ~₹42bn over FY24-26...



Source: Company, Ambit Capital research

Exhibit 60: ...largely funded internally. We forecast cumulative OCF of ₹54bn over FY24-26

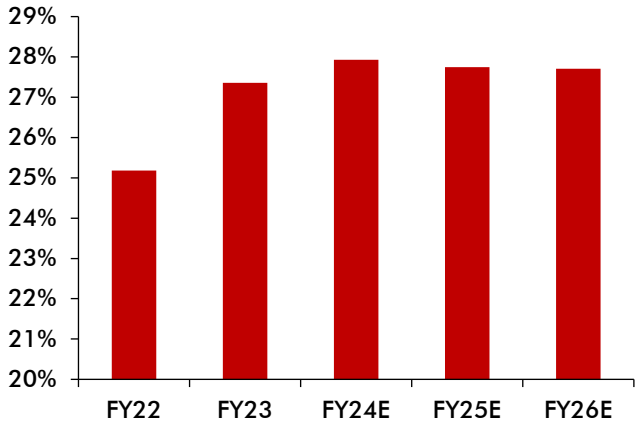


Source: Company, Ambit Capital research

Margins, RoCE to also remain stable

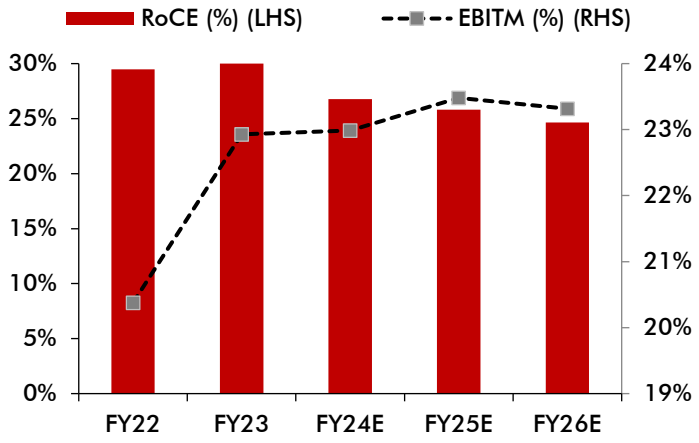
Brownfield projects achieve EBITDA breakeven and reach maturity much quicker than greenfield projects do. This should help Max sustain EBITDA margins and RoCE at ~27% and ~25-27% respectively.

Exhibit 61: We expect EBITDAM to sustain at FY23 levels...



Source: Company, Ambit Capital research

Exhibit 62: ...and RoCE to be in the ~25%-27% range

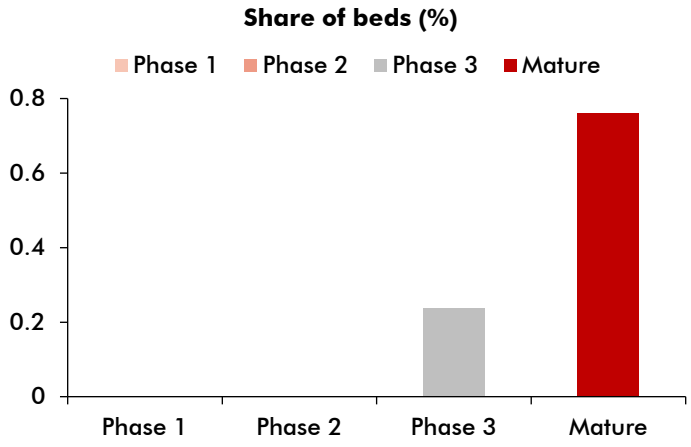


Source: Company, Ambit Capital research

Not much scope to grow in existing network...

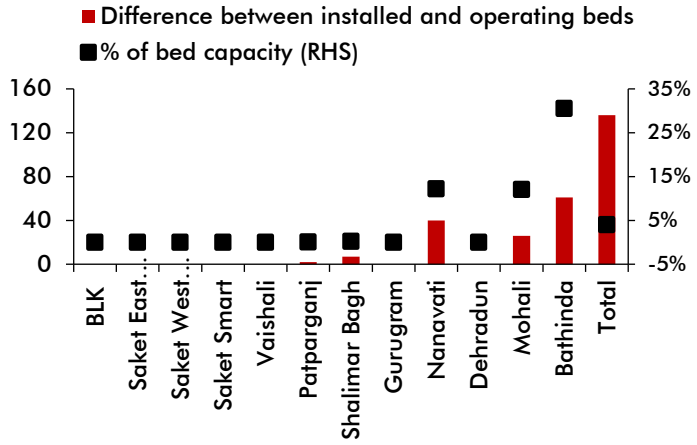
Max's current bed capacity is largely in mature hospitals, with only ~24% of beds in hospitals that are under ten years post commissioning. Even these are just a few years away from getting into the mature phase. This limits scope for growth and margin expansion in the current network through levers such as occupancy and activation of non-operational beds.

Exhibit 63: Over 75% of Max's current bed capacity is in mature hospitals



Source: Company, Ambit Capital research

Exhibit 64: Only ~5% of current bed capacity is non-operational



Source: Company, Ambit Capital research

...but payer mix improvement is a lever

Max has indicated intent to reduce salience of government scheme patients in revenues to ~15% from ~18-20% currently. High occupancy at most of its current hospitals should provide the company comfort to push back on this segment of the business without worrying about beds potentially lying vacant. This mix-change should be EBITDA margin accretive by ~300-400bps and help offset some of the upfront costs related to new bed addition. It however remains to be seen whether the company is able to keep government scheme patients' share low even after its new beds are commissioned and improving occupancy once again becomes a primary target for management.

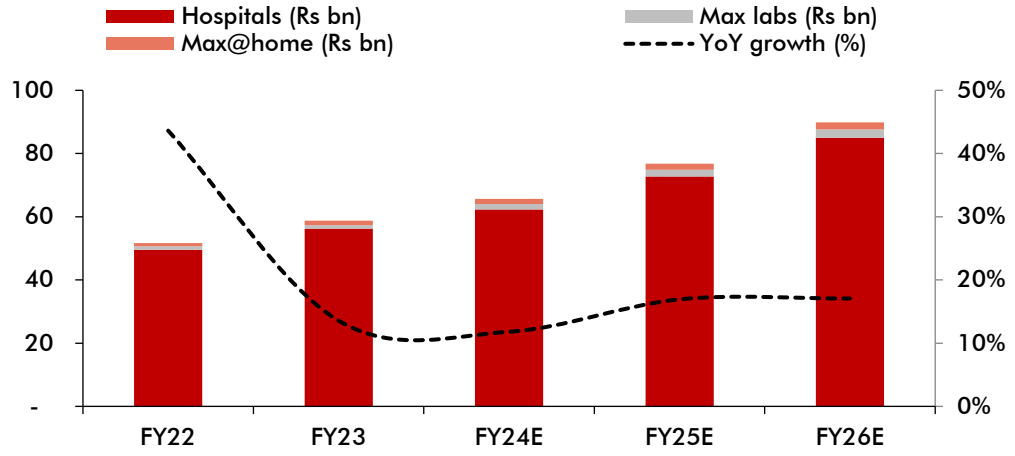
Growth step-up with limited margin/RoCE hit

Max has achieved industry-high margin and RoCE metrics by adopting a concentrated-cluster approach and executing well, particularly after the current management team took control in 2018. High share of beds in metros/large cities is another factor behind the company's success. Limited headroom in its current network however has led to the company planning to add over 80% to its current bed capacity over FY24-27. The brownfield-heavy nature of expansion indicates quick ramp-up in new beds and limited impact on margins and RoCE. We forecast 15%/16% CAGR in revenues/EBITDA over FY23-26. Cash on books (~₹15bn) and cumulative OCF of ~₹52bn over FY24-26 imply limited dependence on external funds. Scope to reduce share of government scheme patients in current network should also help partially offset expenses related to new bed addition. These factors should limit EBITDA margin hit to ~50bps and keep RoCE at 25%-27%.

15% revenue CAGR led by new bed addition

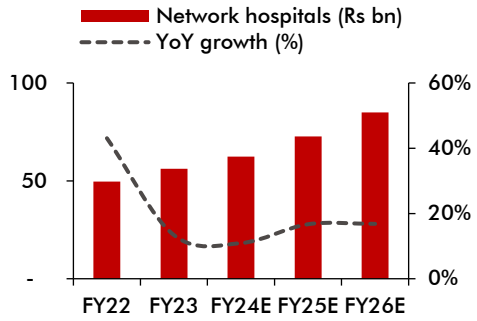
We forecast revenue CAGR of 15% over FY23-26 largely driven by addition of ~1,280 beds over this time frame. Brownfield nature of most projects should lead to quick ramp-up in occupancy and revenues post commissioning. The company's diagnostics and home health businesses should also witness 33% and 17% CAGR off a low base.

Exhibit 65: We forecast 15% revenue CAGR over FY23-26



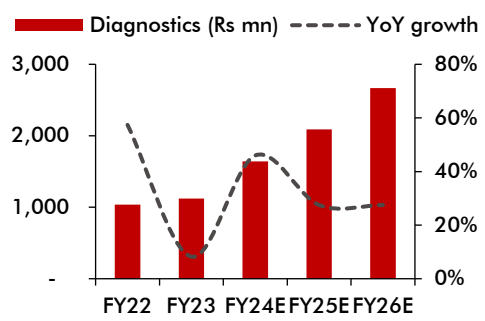
Source: Company, Ambit Capital research

Exhibit 66: We forecast 15% sales CAGR over FY23-26 for its hospitals business



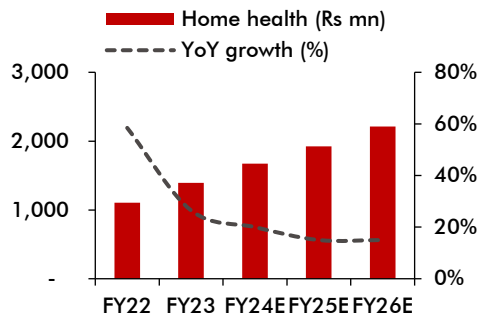
Source: Company, Ambit Capital research

Exhibit 67: We forecast 33% sales CAGR over FY23-26 for Max Labs



Source: Company, Ambit Capital research

Exhibit 68: We forecast 17% sales CAGR over FY23-26 for Max@Home



Source: Company, Ambit Capital research

Exhibit 69: Max's revenue model: big, brownfield-dominated expansion plan to drive ~15% CAGR over FY23-26E

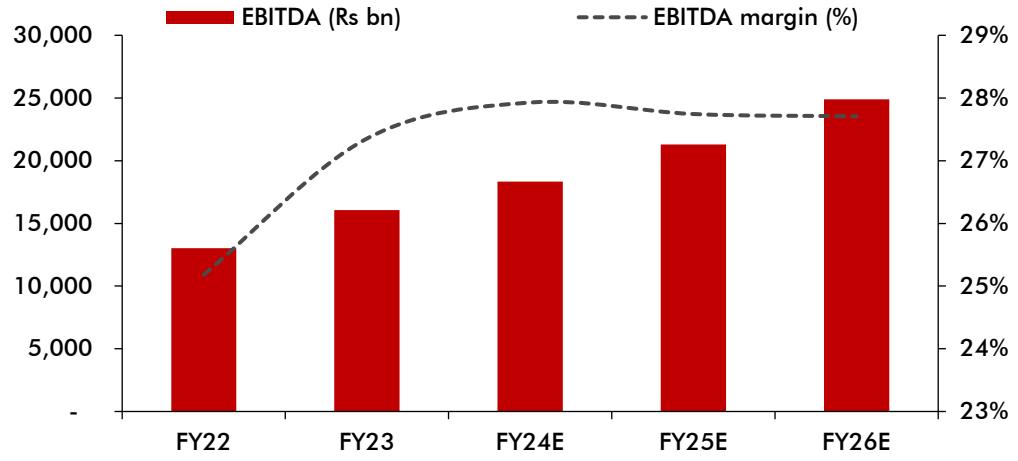
Particulars (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E	Comments
Gross cluster revenues						
Delhi	32,600	38,170	44,691	49,468	56,359	Majority of the bed expansion is in this region
YoY growth	*34%*	*17%*	*17%*	*11%*	*14%*	
UP	5,450	6,480	6,914	7,374	7,865	
YoY growth	*39%*	*19%*	*7%*	*7%*	*7%*	
Maharashtra	4,430	5,260	5,539	7,975	10,282	Bed addition in two phases at the Nanavati hospital
YoY growth	*41%*	*19%*	*5%*	*44%*	*29%*	
Punjab	4,290	5,200	4,926	6,450	7,823	New bed addition planned in Mohali
YoY growth	*36%*	*21%*	*-5%*	*31%*	*21%*	
Uttarakhand	1,930	2,340	2,468	2,567	2,669	
YoY growth	*26%*	*21%*	*5%*	*4%*	*4%*	
Haryana	1,700	2,000	2,142	3,983	5,911	New greenfield hospital planned at Gurugram
YoY growth	*45%*	*18%*	*7%*	*86%*	*48%*	
Gross total	**50,400**	**60,356**	**66,679**	**77,818**	**90,908**	
YoY growth	*35%*	*20%*	*10%*	*17%*	*17%*	
Inter-segment	(3,382)	(4,150)	(4,334)	(5,058)	(5,909)	
Net cluster revenues	**47,018**	**56,206**	**62,344**	**72,760**	**84,999**	
YoY growth	*36%*	*20%*	*11%*	*17%*	*17%*	
Diagnostics	**1,038**	**1,123**	**1,640**	**2,090**	**2,665**	High growth off a low-base, aided by better appreciation of services during Covid
YoY growth (%)	*57%*	*8%*	*46%*	*28%*	*28%*	
Home health	**1,103**	**1,395**	**1,674**	**1,925**	**2,214**	Mid-teens growth off a relatively low-base
YoY growth (%)	*58%*	*26%*	*20%*	*15%*	*15%*	

Source: Company, Ambit Capital research

Brownfield-heavy nature of expansion to limit margin pain

We forecast 16% EBITDA CAGR over FY23-26. Current operational beds would see some margin improvement on better payer mix (falling share of government scheme business) and some occupancy/pricing gains at the margin. At the same time, upfront losses on new bed addition would be limited due to the fact that over 80% of planned bed expansion is brownfield in nature. Scale-driven margin expansion in diagnostics and home health should also help offset margin pain on new beds to some extent. The net impact is likely to be more or less flat EBITDA margin over FY23-26.

Exhibit 70: We forecast 16% EBITDA CAGR over FY23-26E and 50bps margin improvement



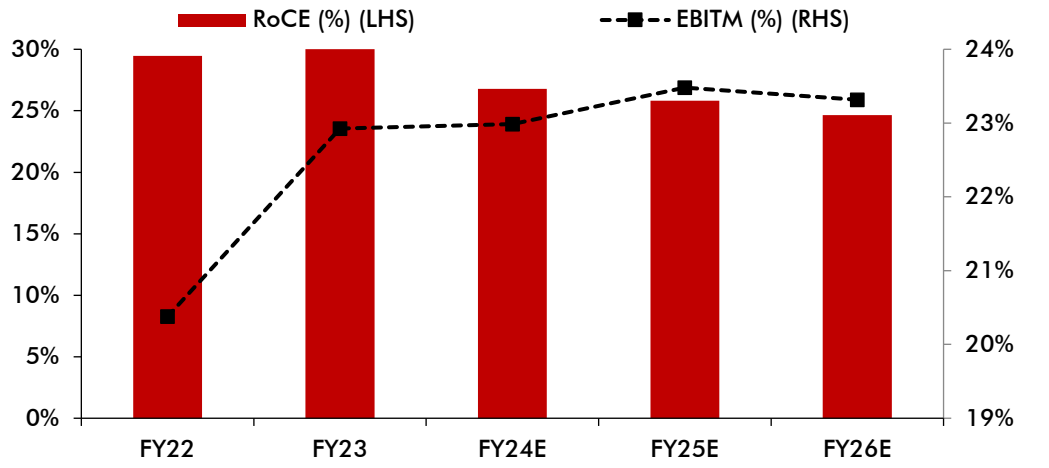
Source: Company, Ambit Capital research

Exhibit 71: EBITDA model: marginal dip in hospital margins to be offset by some improvement in diagnostics and home health

Particulars (₹ mn)	FY22	FY23	FY24E	FY35E	FY26E	Comments
Network facilities						
Owned facilities	9,793	12,872	14,711	16,981	19,876	
Partnered facilities	3,070	3,050	3,376	3,946	4,471	Limited margin impact despite heavy bed addition due to brownfield nature of most projects
Total Hospital EBITDA	**12,863**	**15,922**	**18,087**	**20,927**	**24,347**	
Margin (%)	27%	28%	29%	29%	29%	
Diagnostics	13	(33)	49	105	213	Turnaround driven by higher scale of revenues
Margin (%)	1%	-3%	3%	5%	8%	
Home health	145	141	201	270	343	Steady improvement in line with revenue growth
Margin (%)	13%	10%	12%	14%	16%	
Consolidated EBITDA	**13,021**	**16,030**	**18,337**	**21,301**	**24,903**	
Margin (%)	26%	27%	28%	28%	28%	

Source: Company, Ambit Capital research

Exhibit 72: RoCE to remain steady despite big bed addition



Source: Company, Ambit Capital research; Note: Capital employed calculation excludes the impact of purchase price allocation during the time of merger with Radiant

Impact of PHFs on financials

Max has five Partner Healthcare Facility (PHF) units, of which the company had majority of the exposure to three facilities – Devki Devi, Balaji society and GM Modi. As stated in the annual report, PHFs are the hospitals and medical centres wherein the company and its subsidiaries provide healthcare services in key specialties for a fee and/or for a share of revenue.

- As of 31 Mar 22, the company has given ₹1.8bn of loans, ₹1.8bn of interest-bearing security deposits and ₹914mn of non-interest bearing security deposits to these three PHFs. Loans and security deposits total ₹4.4bn.
- Trade receivables of ₹1.9bn were also outstanding with these PHFs as of 31 Mar'22.

Cumulatively, these balances formed ~10% of net worth as of 31 Mar 22. Max does not disclose the fee or revenue share earned through these PHFs. We believe it can make disclosures around the nature, purpose and utilization of these advances. Also, it would be a good practice to publish complete set of financial statements of these PHFs including audit report, balance sheet, cash flow statement and detailed notes to accounts.

Exhibit 73: Balances receivable from PHFs accounted for 10% of net worth as at 31 Mar'22

₹mn	FY21	FY22
Exposure to PHF		
Trade receivables	2,408	1,936
Loans given	1,674	1,760
Interest bearing security deposits given	1,785	1,785
Non-interest bearing security deposits given	724	914
Total	**6,591**	**6,395**
As a % of net worth	12%	10%

Source: Company, Ambit Capital research

RoCE resilience supports premium multiples

Valuations of hospital stocks correlate better with return-on-capital metrics rather than growth. Max's business model is closest to that of KIMS, another company with a concentrated position in a few key markets. However, unlike KIMS and most other peers, it has headroom to grow in markets where it is already well-established. Besides, over 80% of its planned bed addition over FY24-27 is via brownfield projects that are in ramp-up and get to maturity sooner than greenfield projects do. Max therefore would find it easiest to absorb additional capacity despite having the biggest bed count addition among peers. Ability to fund capex internally and management's track record on adding value via M&A also provide comfort. Our DCF-based TP of ₹670/share implies target EV/EBITDA multiple of 29x FY25E.

Leads peers in most metrics

Max has a dominant position in the Delhi NCR region and has chosen to focus its efforts there, which has resulted in a stronger competitive position. It has very low presence elsewhere. The company has successfully built a strong brand reputation, which it has used to its advantage, resulting in high occupancy rates and strong profit margins in its established hospitals.

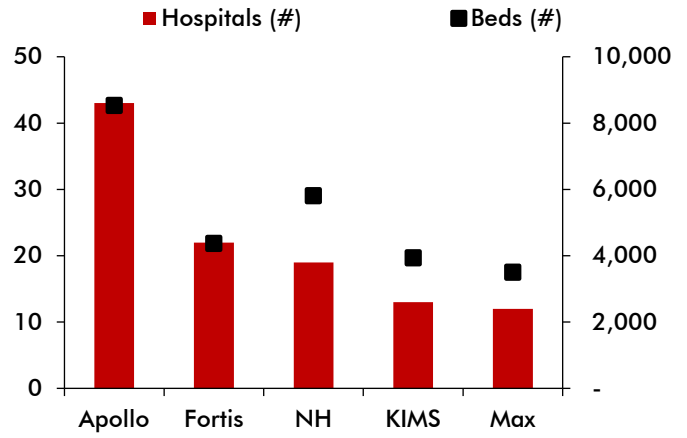
Exhibit 74: Max lags peers on bed count but scores high on attractiveness of its core markets, competitive positioning and financial strength. Scale and nature of expansion imply high growth potential with relatively limited risk

	Apollo	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	Max is a relatively small player compared to peers such as Apollo, Fortis and NH, who are present across multiple states
Competitive Positioning	●	◕	●	●	◕	Max is one of the go-to hospitals in the Delhi NCR region – one of the largest hospital chains in Delhi NCR
Brand equity	●	◕	◕	●	◕	Concentrated position in these markets make it dominant in a larger share of its bed capacity relative to the pan-India chains
Dominance in key markets	◕	◑	●	●	◕	
Expansion	◕	◕	◑	◕	◕	Max has the most aggressive bed expansion targets in the sector,
Relative to current capacity	●	◕	◑	◑	◕	It also has higher share of beds planned via brownfield projects: hence lower risk
Greenfield vs. brownfield	◑	◕	◔	●	◕	However, it has low headroom to grow in current network
Location	◕	◕	◑	●	●	Strong balance sheet and cash generation from mature beds to limit dependence on external funding, as with most peers
Headroom in current network	◑	◔	◑	◔	◕	
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	Max derives ~4% of its revenues from its SBUs viz. diagnostics and home health
Financial strength	◕	◑	◕	●	◑	Max's margins and RoCE are at industry-high levels and should remain in the 20%+ as majority of bed expansion is brownfield
Growth	◕	◑	●	◕	◑	Scale of expansion implies higher growth rate over the medium-to-long term vis-à-vis most peers
Profitability	◕	◑	◕	●	◑	
Return on capital	2	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

Source: Company, Ambit Capital research Note: ● *- Strong;* ◕ *- Relatively Strong;* ◑ *- Average;* ◔ *- Relatively weak* ○ *- Weak*

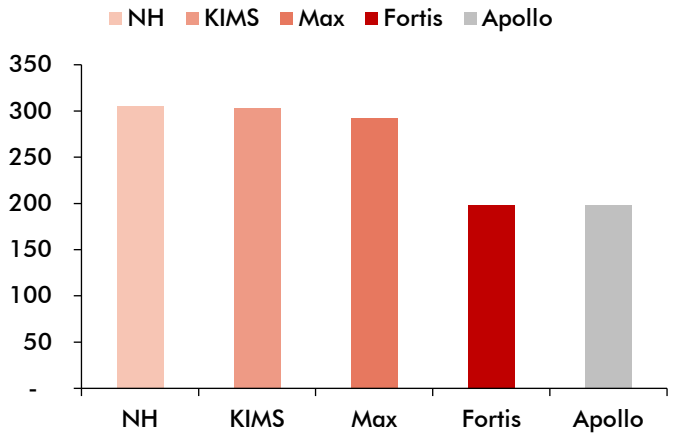
Max operates in a few select markets, namely Delhi/NCR, Mumbai, and a few cities in North India. Similar to KIMS, it is at a similar stage in its business cycle, with a mature bed capacity and meaningful bed addition ahead. While KIMS positions itself as an affordable care provider, Max's premium positioning sets it apart. However, despite its premium positioning and comparable financials, Max Healthcare's stock is trading at 29% premium to KIMS on FY25E EV/EBITDA. This is likely due to lower risk associated with its expansion projects which are mostly brownfield (82% of total expansion is brownfield in nature). Secondly, unlike AP/Telangana, where KIMS is a leading player, bed density in Delhi/NCR is lower, and that region has a higher inflow of upcountry/international patients. Over the next three to four years, Max Healthcare plans to expand its bed capacity primarily through brownfield projects. This strategy differs from KIMS, which is looking to expand through greenfield projects or potential acquisitions in new markets such as Maharashtra, Karnataka, and Tamil Nadu. The difference in risk profile between the two companies reflects in Max's current valuations.

Exhibit 75: Max lags its peers on bed capacity...



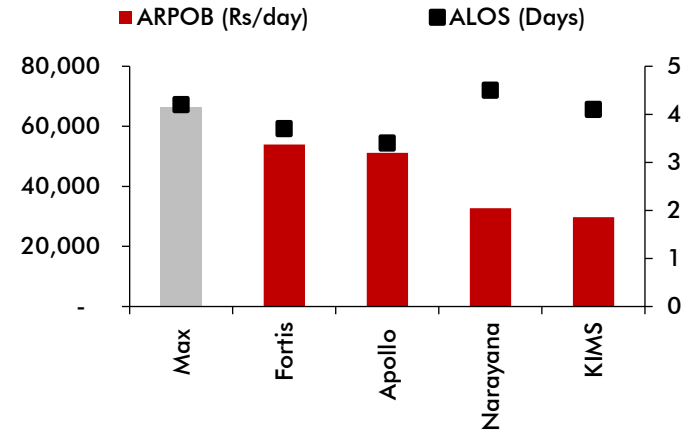
Source: Company, Ambit Capital research

Exhibit 76: ...and also lags some peers on beds/hospital...



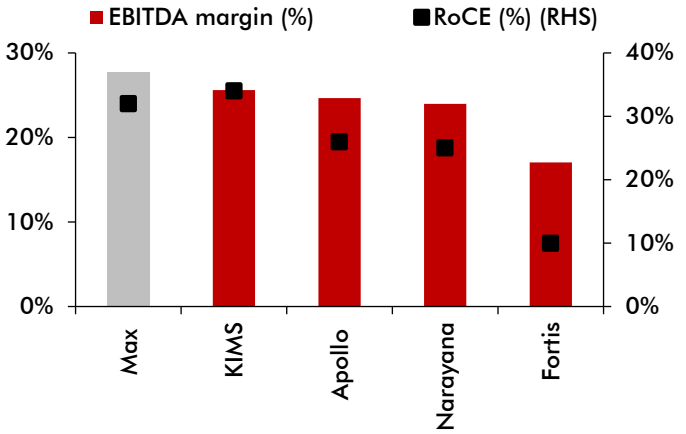
Source: Company, Ambit Capital research

Exhibit 77: ...but leads peers on ARPOB due to geographical spread and premium positioning...



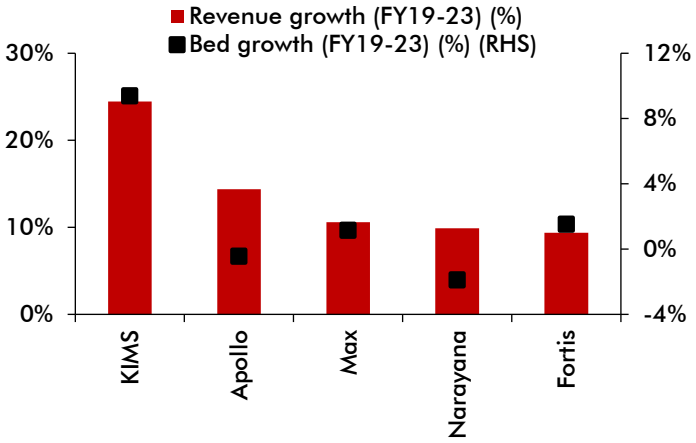
Source: Company, Ambit Capital research

Exhibit 78: ...leading to industry leading EBITDA margins



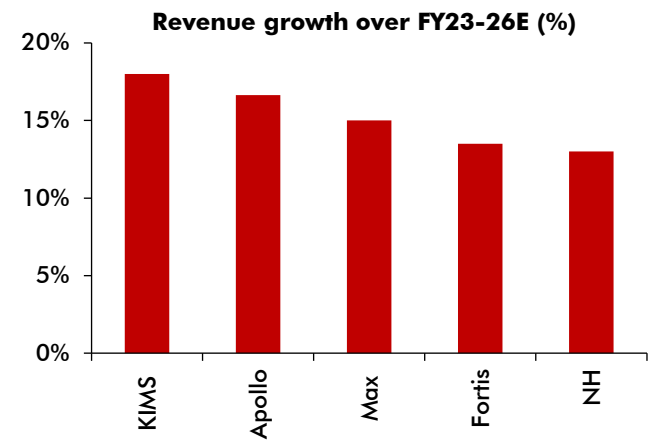
Source: Company, Ambit Capital research

Exhibit 79: KIMS leads the pack on revenue CAGR over FY19-23E through a mix of organic and inorganic initiatives



Source: Company, Ambit Capital research

Exhibit 80: Max should be among highest growth hospital chains over next few years on aggressive expansion



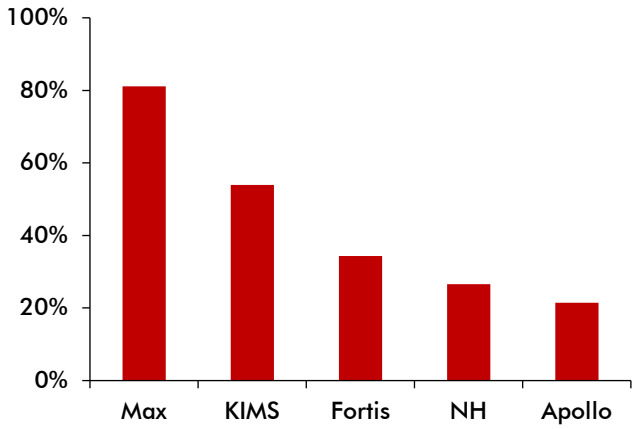
Source: Company, Ambit Capital research

Headroom to grow in home markets to reflect in valuations

Max's execution on its expansion plan would determine the stock's valuation trajectory over the next three to four years. It is the most ambitious among peers in terms of bed expansion, with planned addition of ~2,800 beds i.e. 83% of FY23 bed capacity.

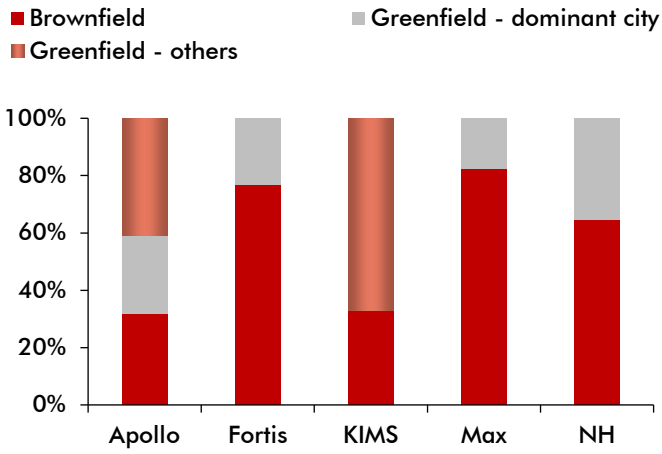
Lower bed-density in its core markets of Delhi and Mumbai however allows it to expand entirely in these cities. This is different from peers such as KIMS and Apollo which need to explore greenfield projects or acquisitions in areas where they are relatively less established. Additionally, majority of its incremental beds are brownfield in nature (~82% of planned expansion) unlike peers like KIMS where a large part of planned addition is in the form of greenfield projects in new markets. Brownfield projects often throw up positive surprises with respect to ramp-up timelines and profitability.

Exhibit 81: Max has one of the most ambitious expansion plans over FY24-27...



Source: Company, Ambit Capital research

Exhibit 82: ...but ~82% of planned expansion is brownfield in nature



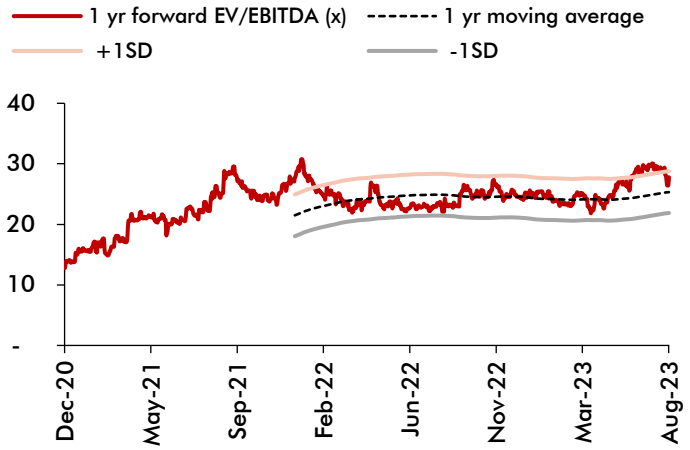
Source: Company, Ambit Capital research

Exhibit 83: Bed-density in Max's core markets is lower than most other cities

	Delhi	Mumbai	Chennai	Bengaluru	Hyderabad	Others
Bed density	2.7	3.3	4.0	4.0	3.6	NA
Share of beds						
Max	75%	9%	-	-	-	16%
KIMS	-	-	-	-	92%	8%
Apollo	8%	6%	27%	10%	17%	33%
Fortis	20%	15%	5%	7%	-	53%
Narayana	9%	4%	5%	28%	-	59%

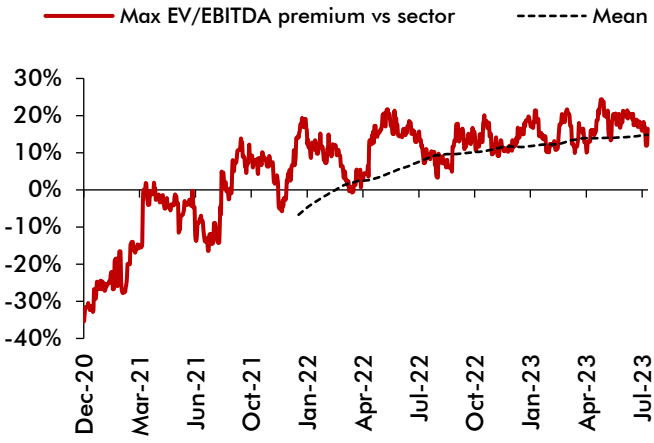
Source: Company, Ambit Capital research

Exhibit 84: Max Healthcare's valuations have re-rated in line with improving operating and financial metrics...



Source: Bloomberg, Ambit Capital research

Exhibit 85: ...leading the stock to trade at a ~16% premium to sector valuation



Source: Bloomberg, Ambit Capital research; Sector comprises of the following companies: Apollo Hospitals, Narayana Hrudayalaya, Max Healthcare, Fortis Healthcare and KIMS

Exhibit 86: Our DCF model builds in the long growth runway that hospital chains enjoy in India

Parameter	FY19-23	FY23-25E Near term	FY25-35 Medium term	FY35-50E Long-term	Remarks
Sales CAGR	13%	14%	14%	10%	Growth over FY25-35 supported by the growth in its brownfield projects as well as recent acquisition of Eqova Healthcare
EBITDA margin	20%	28%	28%	28%	Margins unlikely to improve much over current levels, capped by capacity addition
Capex as % of sales	14%	16%	8%	3%	Capex intensity is likely to gradually reduce over time with scale
pre-tax OCF/EBITDA	89%	81%	79%	81%	We expect Max's cash conversion to dip marginally in the medium term as share of non-cash/self-pay patients in revenues decline. This would lead to higher working capital
WACC		13%			
Cost of equity		14%			
Cost of debt (post-tax)		12%			
Target D/(D+E)		20%			
Terminal growth (%)		5%			
Implied Valuation	**FY23**	**FY24E**	**FY25E**	**FY26E**	
EV/Sales	11.0	9.8	8.4	7.2	
EV/EBITDA	40	35	29	25	
P/E	47.1	52.5	43.8	37.4	
P/B	8.0	6.9	6.0	5.2	

Source: Company, Ambit Capital research

Exhibit 87: TP of ₹670 implies ~29x FY25 EV/EBITDA, ~30% premium to sector-median

Particulars	₹m
Total EV	645,228
- Explicit period	339,636
- Terminal period	305,592
Net debt	(5,809)
WACC	13%
Equity value	643,963
No. of shares (mn)	970
Fair value/share (₹)	670

Source: Company, Ambit Capital research

Exhibit 88: Healthcare valuation snapshot

Global Healthcare	Mcap	Ambit's Stance	P/E (x)			EV/EBITDA (x)			RoE (%)			CAGR (FY23-25E) (%)		
	US$mn	BUY/SELL	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	Sales	EBITDA	EPS
India														
Apollo	8,543	BUY	87	75	50	36	31	24	13%	13%	17%	17%	19%	32%
Max	6,213	BUY	38	42	35	32	28	23	17%	13%	14%	14%	17%	4%
Fortis	2,902	BUY	47	32	25	22	18	14	8%	10%	11%	13%	21%	36%
Narayana	2,430	BUY	33	31	26	21	19	16	34%	28%	28%	14%	15%	13%
Medanta	2,226	-	57	44	37	30	24	20	16%	16%	16%	17%	21%	24%
Aster DM	1,866	-	37	28	19	14	11	10	10%	12%	14%	12%	17%	39%
KIMS	1,828	BUY	45	48	41	26	22	19	21%	17%	17%	20%	17%	5%
Rainbow	1,272	-	50	47	39	26	24	21	25%	19%	19%	20%	10%	14%
HCG	549	-	155	70	36	18	15	13	3%	7%	10%	12%	19%	108%
Shalby	244	-	30	25	20	16	13	11	8%	8%	9%	14%	22%	21%
Median			**46**	**43**	**35**	**24**	**21**	**18**	**15%**	**13%**	**15%**	**14%**	**18%**	**23%**
Thailand														
Bangkok Dusit	12,694	-	35	33	31	20	19	18	15%	15%	15%	6%	5%	7%
Bumrungrad Hospital	5,597	-	40	35	32	22	24	22	27%	27%	26%	10%	10%	12%
Bangkok Chain Hospital	1,297	-	15	31	26	17	15	14	24%	11%	12%	-17%	-19%	-24%
Chularat	927	-	12	28	28	19	17	16	37%	15%	16%	-9%	-28%	-36%
Median			**25**	**32**	**29**	**20**	**18**	**17**	**25%**	**15%**	**16%**	**-1%**	**-7%**	**-8%**
Indonesia														
Mitra Keluarga	2,554	-	37	36	30	26	24	21	19%	18%	19%	10%	7%	11%
Siloam International Hospitals	1,736	-	37	27	22	11	11	9	10%	14%	15%	11%	19%	29%
Median			**37**	**31**	**26**	**19**	**18**	**15**	**15%**	**16%**	**17%**	**11%**	**13%**	**20%**
Malaysia/Singapore														
IHH Healthcare	11,415	-	34	32	28	11	14	13	6%	6%	7%	5%	8%	9%
Raffles Medical Group	1,782	-	17	19	19	10	11	11	15%	12%	12%	3%	-4%	-5%
KPJ Healthcare	1,122	-	29	23	21	12	11	11	8%	10%	10%	7%	8%	17%
Median			**29**	**23**	**21**	**11**	**11**	**11**	**8%**	**10%**	**10%**	**5%**	**8%**	**9%**
Middle East														
Dr Sulaiman Al Habib Medical Services Group	24,638	-	56	49	41	43	41	34	29%	30%	32%	18%	17%	16%
Mouwasat Medical Services	5,632	-	35	31	27	24	22	20	22%	22%	23%	14%	14%	15%
Dallah Healthcare Co	3,897	-	49	44	35	30	27	24	14%	14%	15%	12%	14%	18%
Al Hammadi	2,257	-	33	28	25	20	19	17	15%	17%	18%	11%	12%	14%
Middle East Healthcare Co	1,477	-	74	33	23	19	18	15	6%	12%	15%	15%	34%	79%
Median			**49**	**33**	**27**	**24**	**22**	**20**	**15%**	**17%**	**18%**	**14%**	**14%**	**16%**
US														
HCA Healthcare	73,102	-	14	15	13	9	9	9	NA	NA	NA	6%	3%	2%
Universal Health Services	9,094	-	14	13	13	8	8	7	11%	12%	12%	5%	5%	4%
Tenet Healthcare	7,404	-	19	13	11	7	7	7	38%	33%	32%	5%	5%	31%
Community Health Systems	480	-	10	N/A	12	8	8	8	34%	6%	-3%	2%	2%	-10%
Median			**14**	**13**	**13**	**8**	**8**	**8**	**36%**	**9%**	**4%**	**5%**	**4%**	**3%**
China														
Aier Eye Hospital	23,099	-	60	46	35	NA	27	22	18%	18%	20%	22%	23%	30%

Source: Bloomberg, Ambit Capital research

Risks and catalysts

Risks

- **Execution risk on bed additions**: Max Healthcare has the most ambitious expansion plan among companies in our coverage list. It intends to add 81% of its installed bed capacity over the next five years. This could pose risk to margins and return on capital of execution challenges arise. However, the fact that 82% of planned execution is brownfield in nature gives us comfort on this front.
- **Regulatory changes on pricing, patient-mix:** Any move to regulate or cap pricing of drugs or diagnostics could impact profitability. In the past, governments have imposed price caps on consumables like stents and ortho implants. Hospitals are typically able to absorb these by raising prices elsewhere but this takes time. In the interim, there would be some hit on profitability.

Catalysts

- **Bed addition driven growth** – Max plans to add ~83% to its capacity beds over the next five years. Since almost all of the projects are brownfield in nature, they are expected to strengthen the company's positioning in current areas of dominance viz. Delhi/NCR (Saket, Patparganj) and Mumbai (Nanavati). We forecast 15%/16% CAGR in revenues/EBITDA over FY23-26.
- **Patient mix improvement -** Max's current occupancy stands at 76%. Almost all of its expansion is brownfield in nature, implying high latent demand. This allows the company to reduce dependence on government scheme patients further and improve profitability. We expect share of lower-margin, scheme patients in revenues to decline to ~15% over the next few years from ~19% currently.

HAWK Charts

Max ranks low on our HAWK framework. It ranks in D10 ('Zone of darkness') but has a greatness score of 67% ('Zone of Greatness'). Max gets penalized mainly on account of cash conversion, contingent liabilities, change in depreciation rate and Cum. FCF / median revenues.

Change in depreciation rate was largely due to the reverse merger of Max's healthcare business into Radiant Lifecare in 2020. Gross block increased due to purchase price allocation related to the Max Healthcare assets. This has led to higher D&A as well.

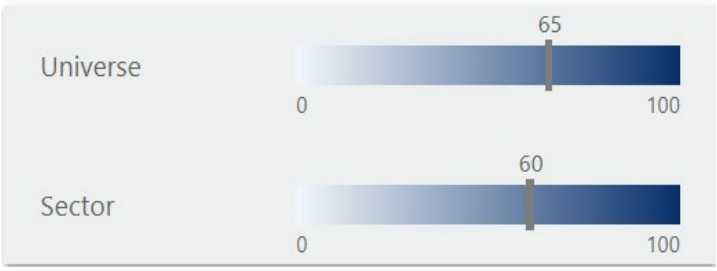
Contingent liabilities relates mainly to medical litigation brought against the company in various courts. This is common across most hospitals. Hospitals are usually insured for such eventualities.

Cash conversion has also been volatile over the last five years due to the covid-19 outbreak as well as the reverse merger of Max with Radiant Lifecare that changed balance sheet structure meaningfully.

Exhibit 89: Forensic accounting score

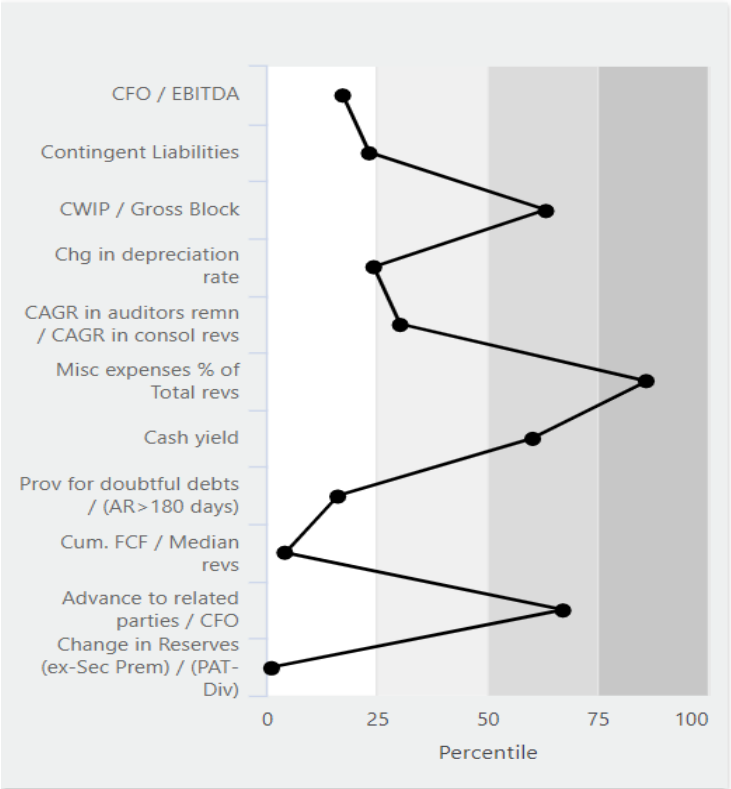
Source: Company, Ambit Capital research

Exhibit 90: Greatness score



Source: Company, Ambit Capital research

Exhibit 91: Accounting score contributors

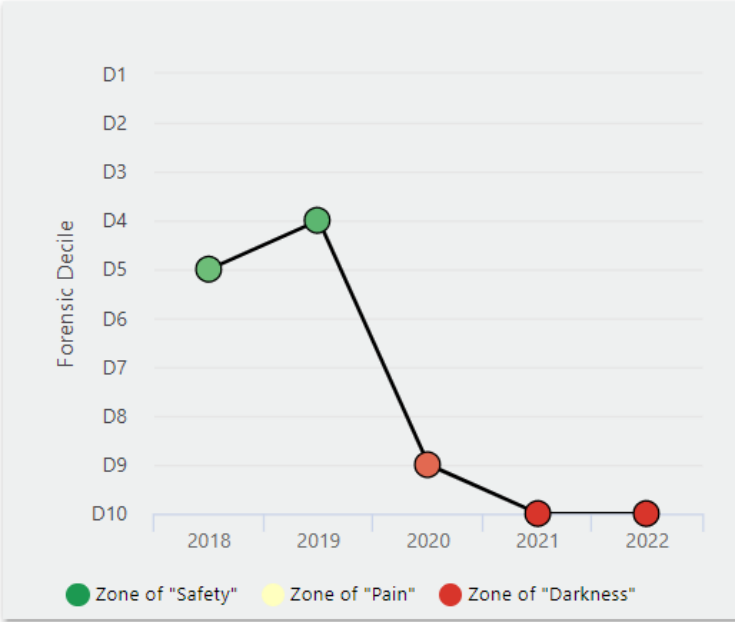


Source: Company, Ambit Capital research

Exhibit 92: Greatness score contributors

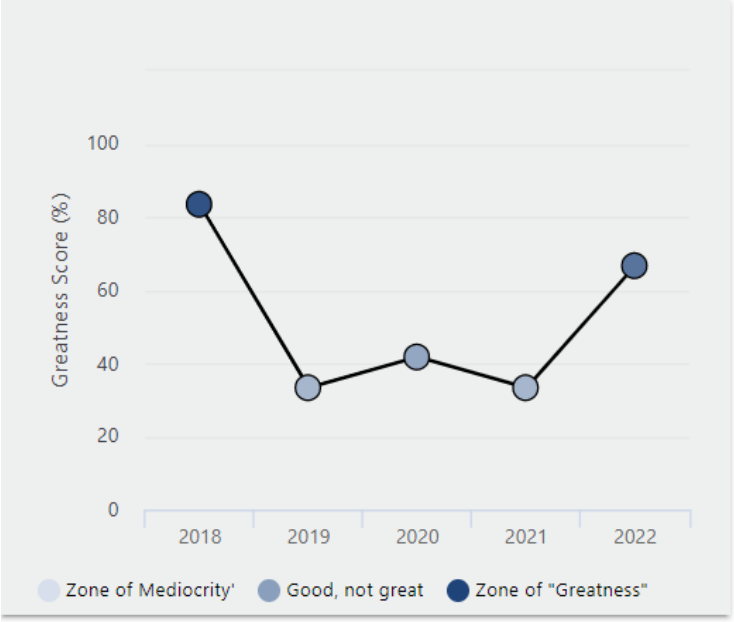
Source: Company, Ambit Capital research

Exhibit 93: Accounting score evolution



Source: Company, Ambit Capital research

Exhibit 94: Greatness score evolution



Source: Company, Ambit Capital research

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**51,709**	**58,750**	**65,658**	**76,775**	**89,878**
Gross profit	38,206	44,830	50,101	58,585	68,583
Employee cost	11,434	12,070	14,445	16,891	19,773
Other expenses	13,751	16,690	17,320	19,742	23,452
EBITDA (underlying)	**13,021**	**16,070**	**18,337**	**21,952**	**25,358**
Depreciation	2,484	2,600	3,244	3,925	4,404
Interest expense	1,118	390	368	351	267
Other income	472	290	65	65	130
Exceptional items	90	390	390	390	390
PBT (reported)	**9,801**	**12,980**	**14,401**	**17,352**	**20,427**
Tax provision	1,432	(300)	2,592	3,123	3,677
PAT pre-minority (reported)	8,369	13,280	11,808	14,228	16,750
Minority interest	-	-	-	-	-
PAT (reported)	**8,369**	**13,280**	**11,808**	**14,228**	**16,750**
PAT (adjusted)	**8,472**	**13,661**	**12,269**	**14,688**	**17,211**

Source: Company, Ambit Capital research

Balance sheet

Year to March (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	9,596	9,596	9,596	9,596	9,596
Reserves & surplus	57,584	71,104	83,373	98,061	115,272
Minority interest	-	-	-	-	-
Shareholders' fund	**67,180**	**80,700**	**92,969**	**107,657**	**124,868**
Borrowings	9,180	6,820	6,820	6,820	5,320
Lease liabilities	2,020	1,390	918	563	297
Put option liability	1,390	1,500	1,000	1,000	1,000
Contingent consideration payable	4,250	4,400	4,917	5,750	6,731
Deferred tax liability	1,850	1,850	1,850	1,850	1,850
Other net liabilities	5,244	6,040	4,540	3,540	2,540
Total equity & liabilities	**91,114**	**102,700**	**113,014**	**127,180**	**142,607**
Fixed assets (incl. CWIP)	34,620	36,610	47,360	58,730	66,730
Intangible assets	44,610	44,540	44,540	44,540	44,540
Others					
Non-current assets	**79,230**	**81,150**	**91,900**	**103,270**	**111,270**
Inventories	830	1,040	1,162	1,359	1,591
Trade receivables	4,884	4,340	4,704	5,501	6,439
Cash and cash equivalents	6,150	15,650	11,728	13,530	16,286
Loans & advances and others	20	520	3,520	3,520	7,020
Current assets	**11,884**	**21,550**	**21,114**	**23,910**	**31,337**
Total assets	**91,114**	**102,700**	**113,014**	**127,180**	**142,607**

Source: Company, Ambit Capital research

Per share data

Year to March (₹)	FY22	FY23	FY24E	FY25E	FY26E
No. of shares o/s (mn)	970	970	970	970	970
EPS (adjusted) basic	8.7	14.1	12.7	15.1	17.8
EPS (adjusted) diluted	8.7	14.1	12.7	15.1	17.8

Source: Company, Ambit Capital research

Cash flow statement

Year to March (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	9,799	12,980	14,401	17,352	20,427
Depreciation	2,484	2,600	3,244	3,925	4,404
Others	1,148	490	692	676	527
WC (build)/release	(1,573)	334	(486)	(993)	(1,171)
Tax	(1,432)	300	(2,592)	(3,123)	(3,677)
Cash flow from operations	**10,426**	**16,704**	**15,258**	**17,835**	**20,510**
Capex (net)	(9,664)	(4,520)	(13,994)	(15,295)	(12,404)
Others income/(expenditure)	(30)	(600)	(3,325)	(325)	(3,760)
Cash flow from investments	**(9,694)**	**(5,120)**	**(17,319)**	**(15,619)**	**(16,164)**
Proceeds from borrowings	(2,100)	-	-	-	(1,500)
Issuance/buyback of equity	(63)	-	-	-	-
Interest paid	(1,118)	(390)	(368)	(351)	(267)
Dividend paid	-	-	-	-	-
Others	213	(1,231)	(1,958)	(62)	176
Cash flow from financing	**(3,069)**	**(1,621)**	**(2,325)**	**(413)**	**(1,591)**
Net change in cash	(2,337)	9,963	(4,385)	1,803	2,756
FCF	**762**	**12,184**	**1,264**	**2,541**	**8,107**

Source: Company, Ambit Capital research

Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenue growth (%)	44%	14%	12%	17%	17%
EBITDA margin (%)	25.2%	27.4%	27.9%	28.6%	28.2%
EBIT margin (%)	20.4%	22.9%	23.0%	23.5%	23.3%
Net margin (%)	16.2%	22.6%	18.0%	18.5%	18.6%
RoCE pre-tax (%) (adjusted)	29%	30%	27%	26%	25%
RoIC pre-tax (%)	15%	19%	17%	18%	18%
RoE (%)	13%	17%	13%	14%	14%
Receivable days	34	27	26	26	26
Inventory days	6	6	6	6	6
Cash conversion cycle	40	33	33	33	33
Pre-tax CFO/EBITDA (%)	69%	106%	69%	67%	66%
Net debt / Equity (x)	0.1	0.1	0.1	0.1	0.0

Source: Company, Ambit Capital research

Valuation ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	61	38	42	35	30
P/B (x)	4	6	6	5	4
EV/EBITDA(x)	39	32	28	23	20
EV/EBIT(x)	48	38	34	28	24

Source: Company, Ambit Capital research

Fortis Healthcare

BUY

INITIATING COVERAGE | **FORH IN EQUITY** | **August 17, 2023**

In repair mode

Fortis is a good franchise that was poorly managed. IHH's takeover in 2018 marked a turning point. Leadership changes restored credibility with the medical community and regulators. Initiatives to repair balance sheet and improve profitability have started paying off - 328bps EBITDAM expansion and 93% lower net Debt/EBITDA over FY19-23. Planned bed-capacity addition (34% over FY23-27) indicates that growth is back on the agenda. High brownfield share implies fast ramp-up and should further narrow growth, margin and RoCE gaps vis-à-vis peers. Legal uncertainty related to the Daiichi-Ranbaxy deal is largely behind too. Our DCF-based TP of ₹415 implies FY25E exit EBITDA of 20x. Key risks: Unforeseen complications related to Daiichi litigation, adverse regulatory changes.

Competitive position: STRONG | Changes to this position: POSITIVE

Leading hospitals + diagnostics play

Fortis is dominant in North India and has emerging franchises in Mumbai and Bengaluru. It is also the 2nd largest diagnostics player in India. IHH has addressed most legacy issues after taking control. Transparency and profitability have improved: only 23% of hospitals have sub-10% EBITDAM. Balance sheet is stronger (net D/E at 0.0x) and Fortis is well placed to focus on growth again.

Brownfield-heavy expansion + headroom in current network augur well

Fortis plans to add ~1,500 beds over FY24-27 vs. under 300 over FY18-23. All expansion is in cities where the brand is well-established and ~77% is via the brownfield route. This implies faster ramp-up to break even and maturity. Scope to improve margins in current network (~49% of beds are in hospitals with sub-20% EBITDAM) should also help offset upfront costs on new beds

Growth step-up with margin and RoCE improvement

Revenue CAGR should step up (13% over FY23-26E vs. 9% over FY19-23), led by faster bed addition and occupancy/ALOS gains in current network. Efficiency initiatives would boost margins further in the current network and new brownfield beds should break even on EBITDA within a year. Consequent 400bps EBITDAM expansion over FY23-26 would drive RoCE higher by ~600bps to 16%.

Factors behind valuation overhang are fading

CG/legal issues related to founders, slower growth and lower RoCE vs. peers have weighed on valuations. Leadership changes and improved transparency after IHH's takeover have restored credibility. Efficiency measures and better balance sheet should help bridge gap on growth, margins and RoCE, in turn reducing valuation discount. Our DCF-based TP of ₹415 implies exit FY25E EBITDA multiple of 20x; 10-15% discount to implied multiples for coverage hospitals.

Key Financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net revenues (₹ mn)	57,176	62,976	71,263	80,861	92,057
EBITDA (₹ mn)	10,690	11,014	13,681	16,082	19,116
Net profits (₹ mn)	2,401	5,152	7,484	9,520	11,917
Diluted EPS (₹)	3.2	6.8	9.9	12.6	15.8
RoE (%)	4%	8%	10%	11%	12%
EV/EBITDA (x)	23	22	18	15	13

Source: Company, Ambit Capital research

Healthcare

Recommendation

Mcap (bn):	₹241/US$2.9
6M ADV (mn):	₹1.2/US$14.8
CMP:	₹320
TP (12 Mths):	₹415
Upside (%):	30

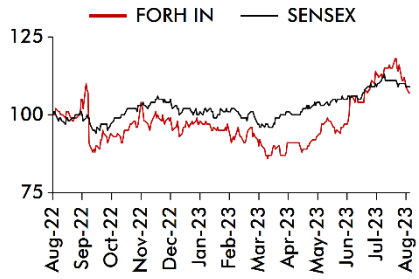
Flags

Accounting:	RED
Predictability:	GREEN
Earnings Momentum:	GREEN

Catalysts

- Step-up in revenue growth from FY24: 13% CAGR over FY23-26 vs. 9% over FY19-23
- Restructuring initiatives in current hospitals, especially FEHI-Delhi and Malar hospitals, to improve profitability

Performance



Source: ICE, Ambit Capital Research

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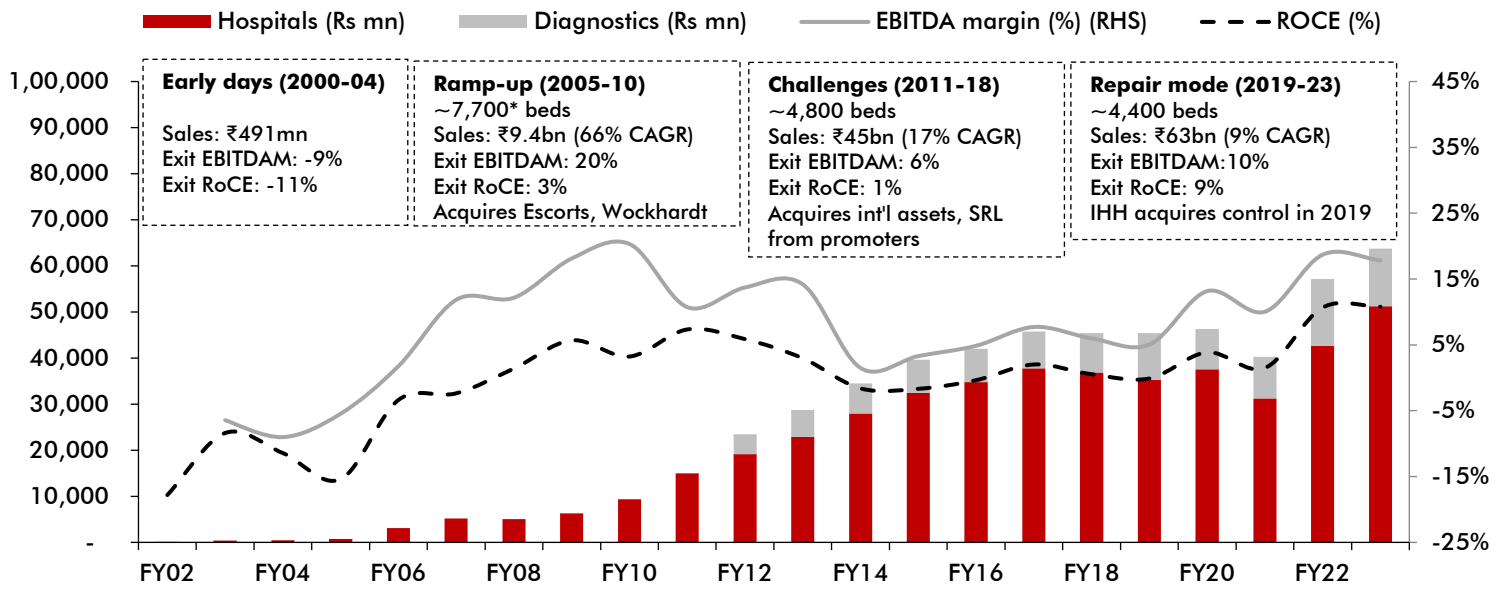
The Narrative in Charts

Exhibit 1: Fortis emerged as a leading healthcare-chain on the back of some good acquisitions but corporate governance issues led to significant balance sheet challenges. Appears to be on the turnaround path post IHH acquiring control



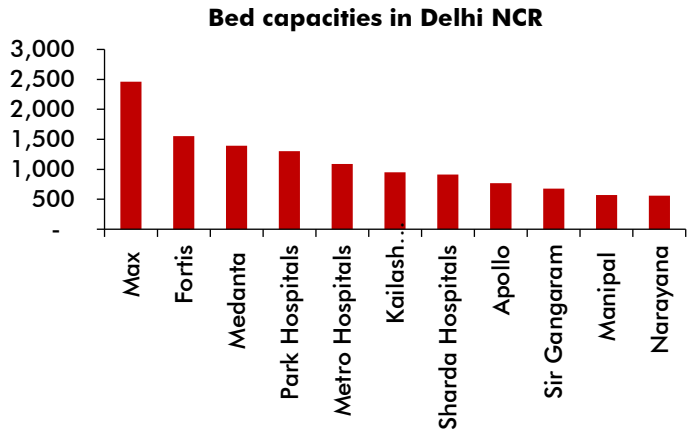
Source: Company, Ambit Capital research

Exhibit 2: Strongest in Delhi/NCR, Punjab and Maharashtra.

Region	No of hospitals	Bed capacity	% of total beds
New Delhi	5	847	19%
NCR	3	745	17%
Karnataka	5	564	13%
Maharashtra	4	649	15%
Punjab	3	677	15%
Tamil Nadu	2	239	5%
West Bengal	2	298	7%
Rajasthan	1	275	6%
Chhattisgarh	1	75	2%

Source: Company, Ambit Capital research

Exhibit 3: 2nd largest private hospital chain in Delhi NCR



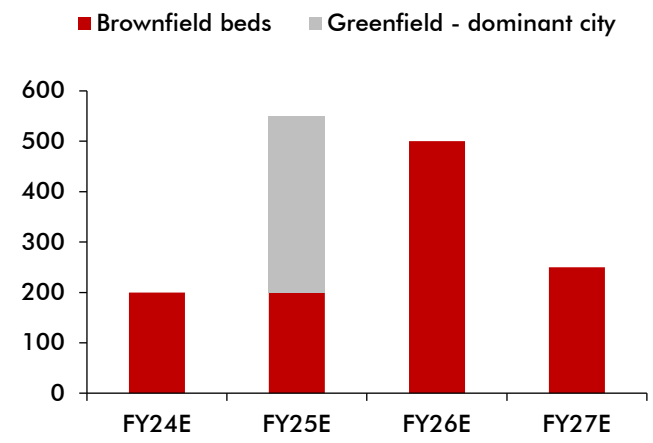
Source: Company, Ambit Capital research

Exhibit 4: All of Fortis' hospitals are mature. The company plans to add ~1,500 beds over FY24-27 with ~77% beds being in brownfield projects

Fortis' network	Pre-commissioning* (up to FY27)	New			Mature
		Phase-I (Yr. 1-3)	Phase-II (Yr. 4-6)	Phase-III (Yr. 7-10)	(Yr. 11 and beyond)
No. of hospitals	1	0	0	0	21
No. of beds (% of total)	1,500 (34%)	0 (0%)	0 (0%)	0 (0%)	4,271 (100%)

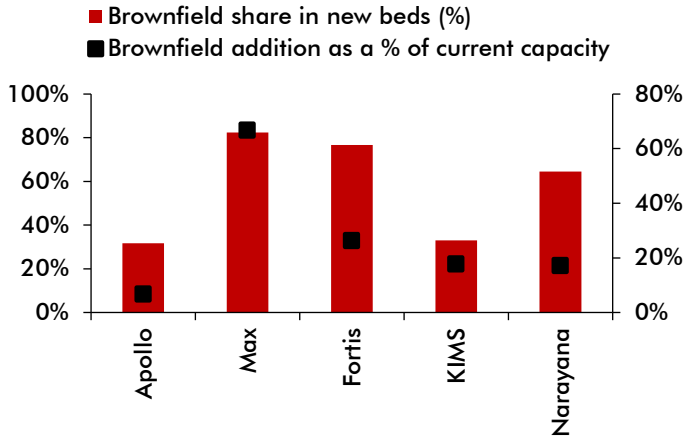
Source: Company, Ambit Capital research

Exhibit 5: 77% of Fortis' bed addition over FY24-27 is via brownfield projects



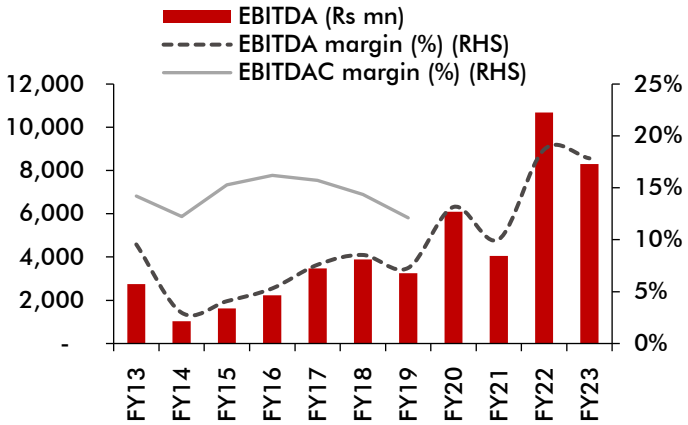
Source: Company, Ambit Capital research

Exhibit 6: 2nd highest share of brownfield projects after Max



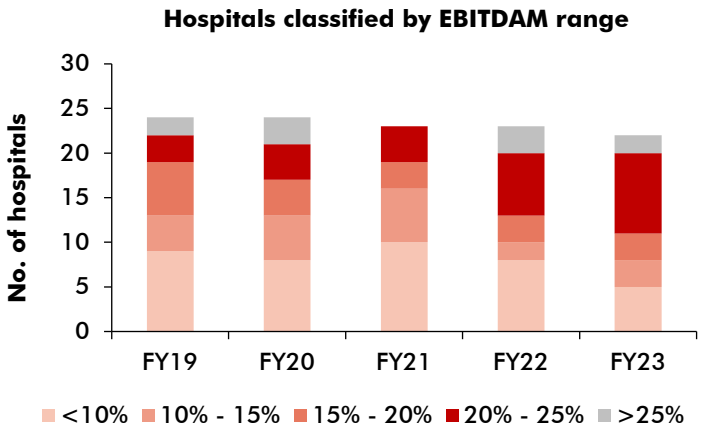
Source: Company, Ambit Capital research

Exhibit 7: EBITDAM improved ~1,200 bps over FY19-23 post acquisition of RHT assets and reduction in business-trust costs



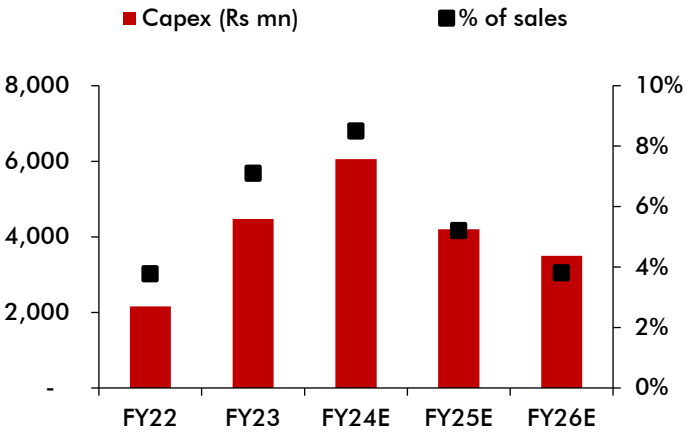
Source: Company, Ambit Capital research; EBITDAC – EBITDA before net business trust costs

Exhibit 8: Improvement in margins across hospitals post IHH takeover



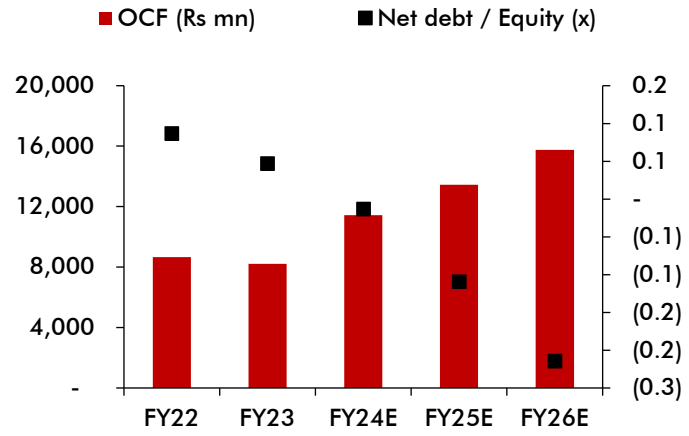
Source: Company, Ambit Capital research

Exhibit 9: Capex to increase in FY24 given acquisition in Manesar before settling down at lower levels...



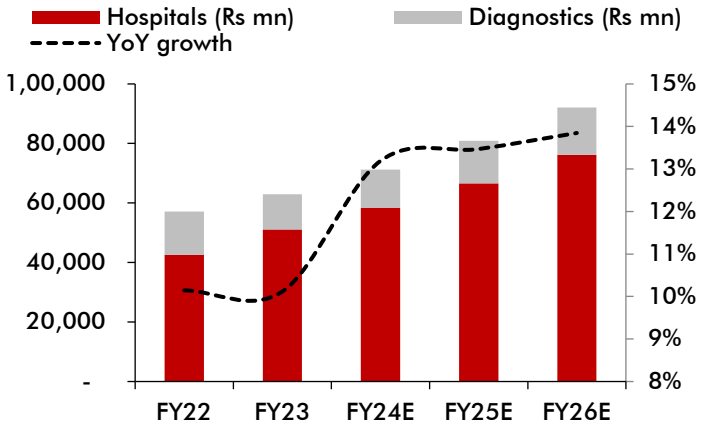
Source: Company, Ambit Capital research

Exhibit 10: ...pick-up in cash generation from mature hospitals to ensure declining net debt/equity



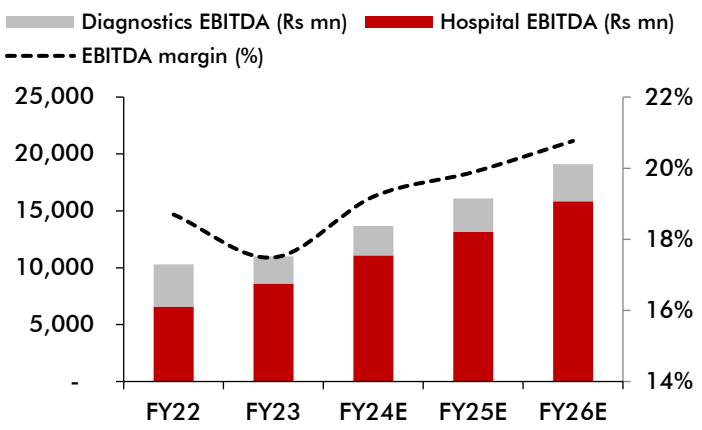
Source: Company, Ambit Capital research

Exhibit 11: We forecast 13% revenue CAGR over FY23-26E, 14% for hospitals and 10% for diagnostics



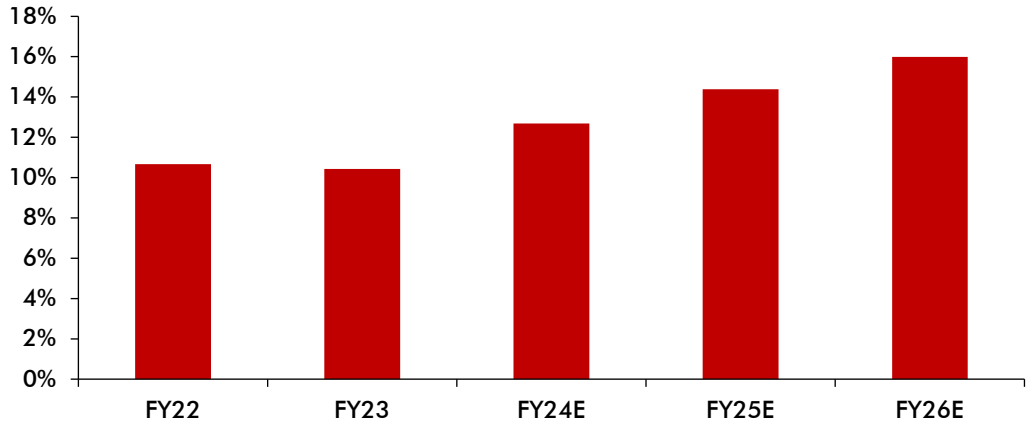
Source: Company, Ambit Capital research

Exhibit 12: We forecast 20% CAGR in EBITDA over FY23-26E. EBITDAM expansion of ~328bps to be driven by hospitals (~400bps) while diagnostics margins would remain flat



Source: Company, Ambit Capital research

Exhibit 13: We forecast ~600bps expansion in RoCE over FY23-26E



Source: Company, Ambit Capital research

Exhibit 14: Fortis scores high on network scale and spread as well as ability to absorb the next bed-addition phase. It continues to lag peers on growth, margins and return-on-capital metrics though the gap could narrow over next few years

	Apollo	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	Fortis is a relatively large player compared to peers such as Max and KIMS
Competitive Positioning	●	◕	●	●	◕	Fortis is one of the go-to hospitals in the Delhi NCR region – one of the largest hospital chains in Delhi NCR
Brand equity	●	◕	◕	●	◕	
Dominance in key markets	◕	◑	●	●	◕	Fortis has a pan-India presence and is not concentrated in a single region like Max and KIMS
Expansion	◕	◕	◑	◕	◕	
Relative to current capacity	●	◕	◑	◑	◕	Fortis has higher share of beds planned via brownfield projects: hence lower risk
Greenfield vs. brownfield	◑	◕	◔	●	◕	
Location	◕	◕	◑	●	●	However, it has lowest headroom to grow in current network
Headroom in current network	◑	◔	◑	◔	◕	Strong balance sheet and cash generation from mature beds to limit dependence on external funding, as with most peers
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	Fortis derives ~17% of its revenues from diagnostics and is a leading player in the segment.
Financial strength	◕	◑	◕	●	◑	
Growth	◕	◑	●	◕	◑	Fortis's margins and RoCE are below those of peers. Recent cost-reduction and efficiency initiatives across the network has helped bridge the gap to some extent. This process is likely to continue but it would continue to be weighed down by the diagnostics business and certain legacy hospitals.
Profitability	◕	◑	◕	●	◑	
Return on capital	◑	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

Source: Company, Ambit Capital research Note: ● *- Strong;* ◕ *- Relatively Strong;* ◑ *- Average;* ◔ *- Relatively weak* ○ *- Weak*

Getting back on the rails

Fortis Healthcare is a leading pan-India hospital-chain with dominant presence in North India and emerging franchises in Mumbai and Bengaluru. It is also the second-largest diagnostics company in India. Inorganic initiatives played a big role in growing both businesses. Execution on acquired assets has been a mixed-bag and resulted in profitability and return-ratios lagging peers. IHH's acquisition of majority stake in November 2018 was a key inflection point for the business after corporate governance issues related to erstwhile promoters brought it to the brink of bankruptcy.

Hospitals + Diagnostics play

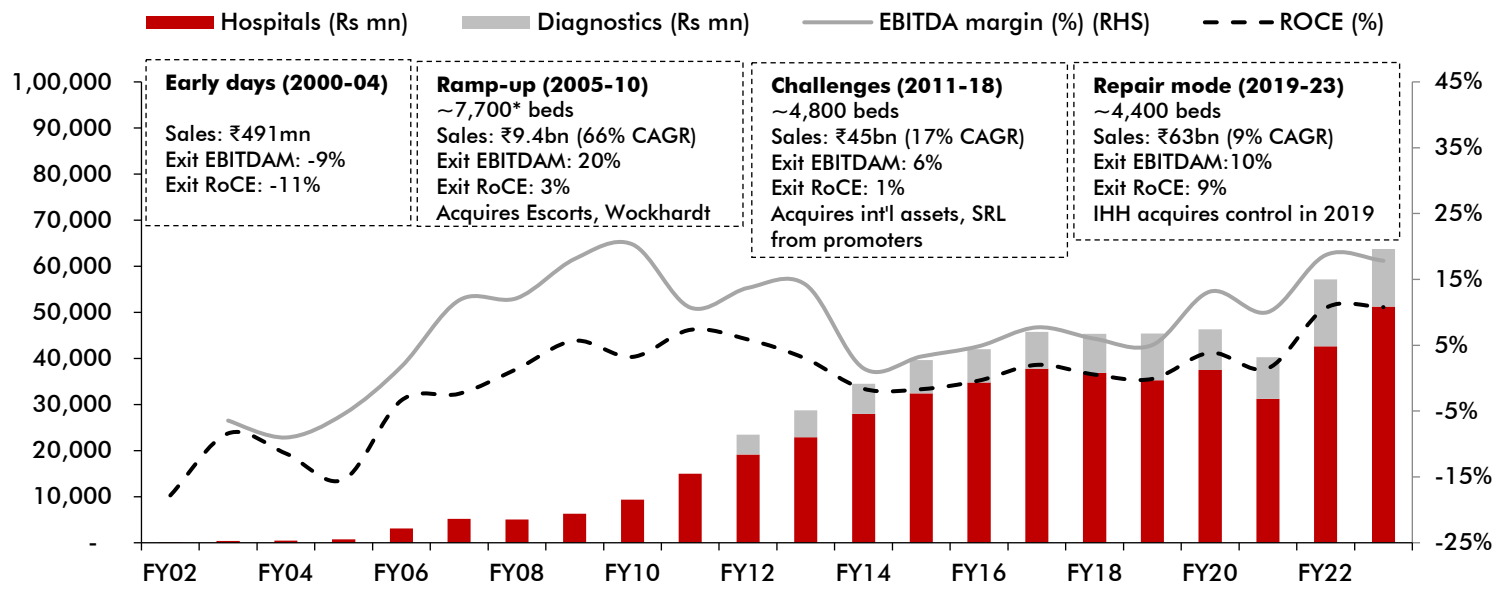
Fortis Healthcare is a leading integrated healthcare service provider in India. The company was founded in 2001 by Mr. Malvinder Singh and Mr. Shivinder Singh, who were also the promoters of Ranbaxy (now acquired by Sun Pharma). In 2018, regional healthcare major, IHH Healthcare Berhad, acquired majority control in the company. Fortis' operations consist of tertiary-care hospitals, diagnostic centers and day-care facilities.

- **Hospital services** – Fortis' network consists of 22 hospitals, with over 4,000 installed beds. It is primarily present in North India (mainly Punjab and Delhi NCR), Mumbai and Bengaluru. It offers a wide range of services including cardiology, neurology, orthopedics, oncology, gastroenterology, critical care, and organ transplantation among others. This business contributed 81% and 78% to revenues and EBITDA in FY23.
- **Diagnostics** – Fortis also operates a chain of diagnostic centers via a majority-owned subsidiary named Agilus Diagnostics, earlier called Super Religare Laboratories (SRL). Agilus ranks second among Indian diagnostics-chains in terms of revenues. It operates a network of over 400 laboratories and over 2,500 collection points across India. The business contributed to 19% and 22% to revenues and EBITDA in FY23.

A roller-coaster ride

Fortis began operations with a multi-specialty hospital in Mohali. It deepened its presence in North India, especially Delhi/NCR, with the acquisition of Escorts Heart Institute and Research Centre in Delhi, one of the leading cardiac care hospitals in India. Acquisition of ten hospitals from Wockhardt Hospitals made it a key player in Mumbai, Bengaluru and Kolkata. It also entered the Chennai market by acquiring Malar Hospitals in 2008. Erstwhile promoters lost control in 2018 and IHH acquired operating control in 2019 after a long, complex bidding process.

Exhibit 15: Fortis emerged as a leading healthcare-chain on the back of some good acquisitions but corporate governance issues led to significant balance sheet challenges. Appears to be on the turnaround path post IHH acquiring control.



*Source: Company, Ambit Capital research; *includes overseas facilities as well*

Corporate governance issues came to the fore as the company acquired a set of international hospitals and a diagnostics business (SRL Labs) from the promoter family. This led to high debt on the company's books. It sought to deleverage by selling the international hospitals and transferring property assets of a set of hospitals to Religare Health Trust. High fees related to the latter proved to be a big drain on EBITDA margins.

Promoters lost control in 2018 as pledged shares were acquired by banks. IHH gained control in 2019 after a long and complex bidding process. Legal uncertainty continued as Fortis was dragged into the legal conflict between Daiichi Sankyo and the erstwhile promoters. The worst on this front appears to be behind and operational turnaround is visible over the last two to three years.

Exhibit 16: Fortis Healthcare – key milestones since inception

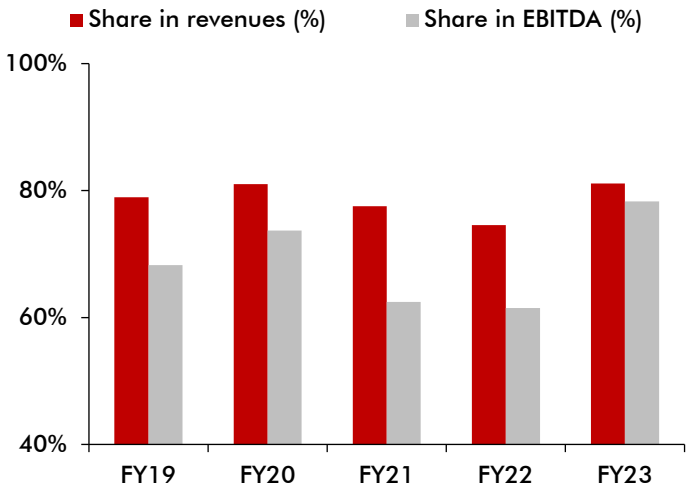
Year	Key events
2000-05	▪ Commenced commercial operations by setting up Fortis heart institute and multi-specialty hospital at Mohali ▪ In 2005, Fortis acquired Escorts heart institute further deepening its presence in North India
2006-10	▪ In 2007, Fortis acquired Hiranandani hospital in Mumbai ▪ Enters Chennai by acquiring Malar hospital ▪ Acquired 10 hospitals from Wockhardt in 2009 ▪ Attempted to acquire Singapore-based Parkway Holdings but was outbid by Khazanah Nasional Berhad of Malaysia
2011-15	▪ Acquired majority stake in the promoters' diagnostics business in 2011 ▪ Acquired international hospitals business from promoters in 2011 ▪ Transferred property ownership of multiple hospitals to Religare Health Trust (RHT) ▪ Commissioned hospitals in Gurugram, Shalimar Bagh and Ludhiana ▪ Divested its international assets over 2014-15
2015-present	▪ Fortis is pulled into legal proceedings between promoter family and Daiichi Sankyo over the former's sale of Ranbaxy to the latter ▪ IHH Healthcare Berhad (IHH) acquires 31% stake for US$1.1bn in 2018 and takes over from erstwhile promoters ▪ Buys out RHT Health Trust to get full ownership of hospitals in a bid to reduce debt and streamline operations

Source: Company, Ambit Capital research

Pan-India hospitals network

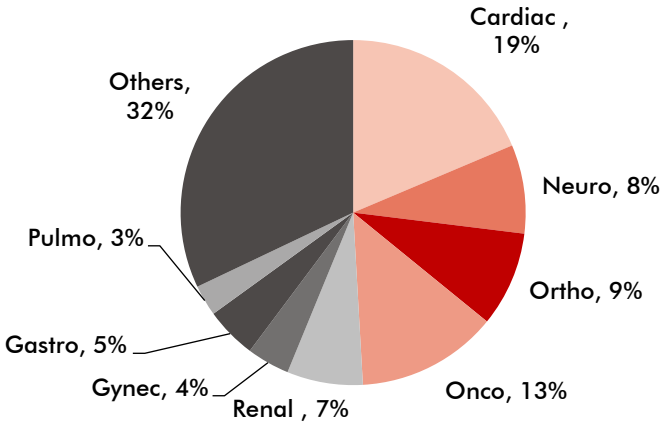
Fortis has grown its hospital network over the years through a combination of acquisitions and greenfield projects. It operates 27 healthcare facilities, including 22 hospitals and 5 day care centres, in eleven states of India. Installed and operating bed-count stands at 4,369 and 3,975 respectively. 26 facilities are NABH accredited and four are accredited by the JCI as well.

Exhibit 17: Fortis gets ~80% of revenues and EBITDA from hospitals and the rest from diagnostics



Source: Company, Ambit Capital research

Exhibit 18: Key specialties contribute to 56% of sales



Source: Company, Ambit Capital research

Fortis has highest exposure to North India, especially Delhi/NCR and Punjab. These two markets account for 15% and 36% of hospitals and bed-capacity respectively. Six out of its top-ten hospitals by revenues are in these markets. Maharashtra (Mumbai) and Karnataka (Bengaluru) are the other key markets for the company, accounting for 15% and 13% of bed-capacity. It also has operations in a few other cities such as Chennai, Kolkata and Jaipur but it is not as well-established in these markets.

Exhibit 19: Fortis is strongest in Delhi/NCR, Punjab and Maharashtra. It is present in other cities but not as well-established in these markets

Region	No of hospitals	Bed capacity	% of total beds
New Delhi	5	847	19%
NCR	3	745	17%
Karnataka	5	564	13%
Maharashtra	4	649	15%
Punjab	3	677	15%
Tamil Nadu	2	239	5%
West Bengal	2	298	7%
Rajasthan	1	275	6%
Chhattisgarh	1	75	2%

Source: Company, Ambit Capital research

Exhibit 20: Top-10 hospitals account for 64% of Fortis' hospitals revenues. Five out of top-ten hospitals are in Delhi/NCR

Hospital	Location	Start Year	Bed capacity	Key specialties	Occupancy	ARPOB (₹/day)	Revenues (₹ mn)
Top-10 hospitals							
FMRI Gurugram	NCR	2012	299	Robotic surgery, gynaec, cardiac, gastro, neuro, ortho	73%	96,000	7,530
Mohali	Punjab	2001	349	Cardiac care	72%	67,400	5,750
BG Road	Karnataka	2006	264	Cardiac, neuro, gastro, onco, urology, ortho, gynaec	64%	74,700	4,610
Mulund	Maharashtra	2002	291	Transplant, cardiac, urology, nephro, neuro, ortho	67%	52,700	3,950
FEHI	New Delhi	1988	330	Cardiac, gastro, urology, ortho, transplants	71%	55,100	4,070
Shalimar Bagh	New Delhi	2010	296	Onco, cardiac, gastro, nephro	75%	53,800	4,290
Noida	NCR	2004	236	Neuro, ortho, kidney & liver transplant	77%	66,300	4,200
Anandapur	West Bengal	2011	238	Cardiac, ortho, onco, nephro, neuro, gastro	74%	42,400	2,620
Faridabad	NCR	1982	210	Cardiac, neuro, ortho, gastro, obstetrics, gynaec	75%	33,800	1,810
Jaipur	Rajasthan	2007	275	Kidney transplant, cardiac, gastro, neuro, trauma & critical care	65%	33,400	2,110
Other hospitals							
C-DOC	New Delhi		23	Endocrine disorders, dialysis, pain management			
Vasant Kunj	New Delhi	2002	162	Cardiac, ortho, onco, renal			
La Femme	New Delhi	2004	36	Obstetrics, gynaec, cosmetic surgery, fertility & IVF			
Richmond road	Karnataka		80	Internal medicine, general surgery, obstetrics, paediatrics			
CG road	Karnataka	1990	119	Neuro, ortho, urology			
Rajajinagar	Karnataka	2007	48	-			
Nagarbhavi	Karnataka	2003	53	Internal medicine, general surgery, ortho, neuro			
Kalyan	Maharashtra	2001	50	-			
Vashi	Maharashtra	2007	138	-			
SL Raheja (associate)	Maharashtra		170	Diabetes, onco, ortho, cardiac, neuro			
Fortis Escorts, Amritsar	Punjab	2003	173	Cardiac, ortho, neuro urology, gastro, onco			
Ludhiana	Punjab	2013	155	Cardiac, ortho, onco, urology, neuro, gynec, paediatrics			
Rash Behari	West Bengal	1999	60	Urology, nephrology			
Raigarh	Chhattisgarh		75	-			
Malar	Tamil Nadu	1992	141	-			
Vadapalani	Tamil Nadu	2020	98	Recently sold to Cauvery Hospitals			

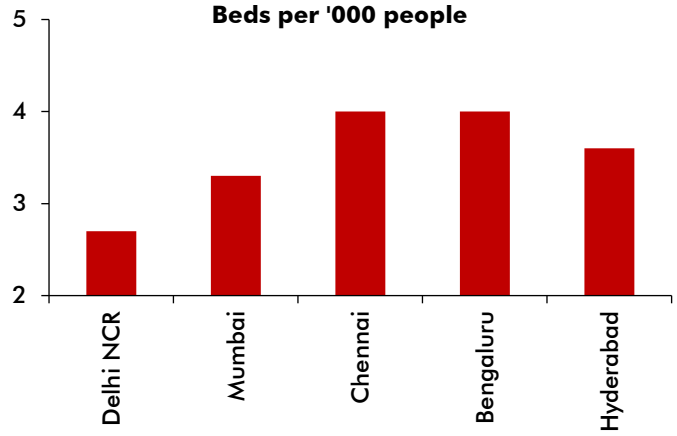
Source: Company, Ambit Capital research

Delhi/NCR – five out of its top-ten hospitals are in this market

Fortis is well-established in Delhi/NCR with eight hospitals across Delhi, Gurugram, Noida, and Faridabad. It has ~1,600 beds in this region contributing to ~36% of total beds, making it the second-largest private hospital-chain in this market after Max. Five of these hospitals feature in Fortis' top-ten hospitals by revenues.

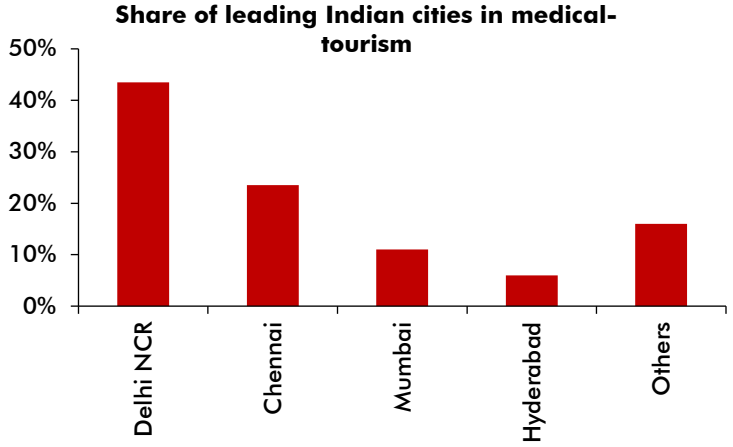
Delhi/NCR is among the most densely populated and economically important areas in India, with a population of ~58mn. Hospitals in this region also service patients from other parts of North/East India and also get ~40-45% of international patient flow to India. Bed-density at 2.7 beds/10,000 people is relatively low compared to other metro/tier-1 cities. This indicates significant potential for growth

Exhibit 21: Delhi/NCR has lowest bed-density among key cities



Source: Company, Ambit Capital research

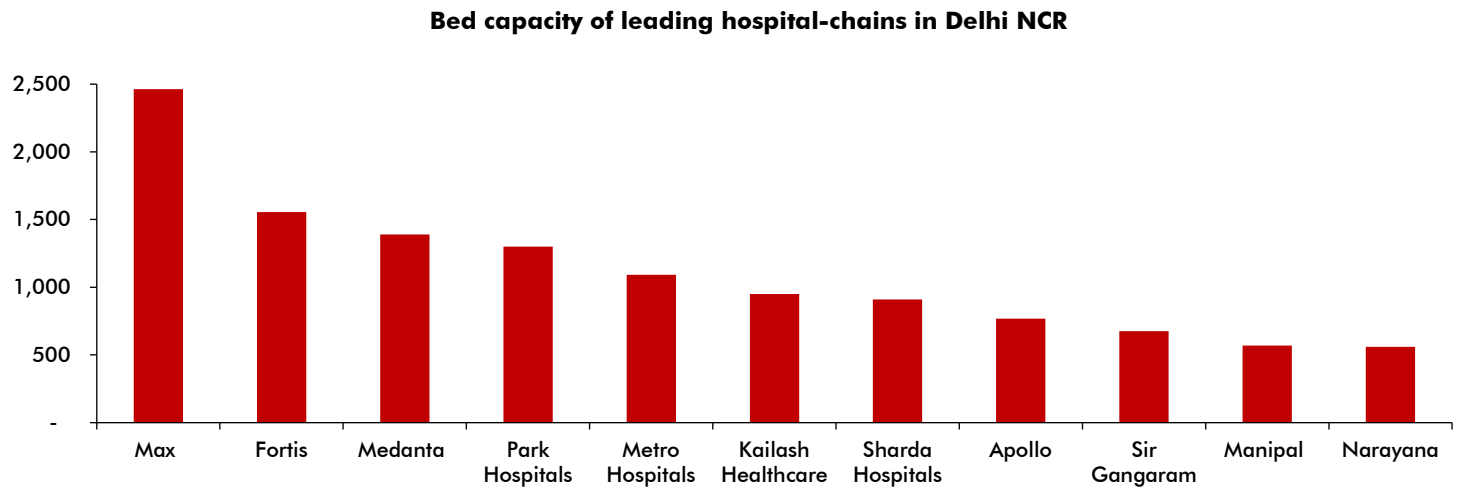
Exhibit 22: ...and highest share of international patients



Source: Company, Ambit Capital research

Fortis is well placed to benefit from these trends. It has the second-largest bed-count among private hospital-chains in this region. It also intends to augment bed-capacity by ~34% over FY24-27: 350-bed new hospital at Manesar, Gurugram and ~600 beds added via the brownfield route. This would make it one of the go-to hospital-chains for patients as well as doctors in the region

Exhibit 23: Fortis is the second-largest private hospital-chain in Delhi/NCR



Source: Company, Ambit Capital research

Beds/hospital in the region of ~200 lags peers such as Max and Medanta. But this should improve as it converts facilities in Shalimar Bagh, FMRI and Noida to large-format hospitals via brownfield expansion planned over the next few years.

Punjab – long-standing presence

Fortis has three hospitals in Punjab. These are in Mohali (349 beds), Ludhiana (155 beds) and Amritsar (173 beds). It has a total of 683 beds in the state i.e. ~15% of total bed capacity. The hospital at Mohali is one of the flagship hospitals of the company and is the second largest contributor to revenues. Fortis plans to add over 300 beds (~45% of current bed-count in the region) via brownfield expansion at Mohali, making it another large-format hospital.

Emerging clusters in other cities

- Fortis has five and four hospitals in Bengaluru and Mumbai, accounting for ~550 and ~568 beds respectively. In both cities, it has one flagship hospital and a few other smaller ones. In addition it has hospitals in
- Its hospital at Mulund, Mumbai is a leading tertiary-care center in the region and is the fourth largest contributor to hospital revenues. Fortis runs a very successful oncology block in this hospital.
- Similarly, the business in Bengaluru is built around the Bannerghatta (BG) Road facility that is the third largest contributor to revenues.
- In Kolkata, the business is built around a 300-bed hospital in Anandapur that is the eighth-highest contributor to hospital revenues.
- Fortis also has six other hospitals in the markets of Kolkata, Jaipur, Chennai and Chhattisgarh.

Focus appears to have shifted to depth from breadth

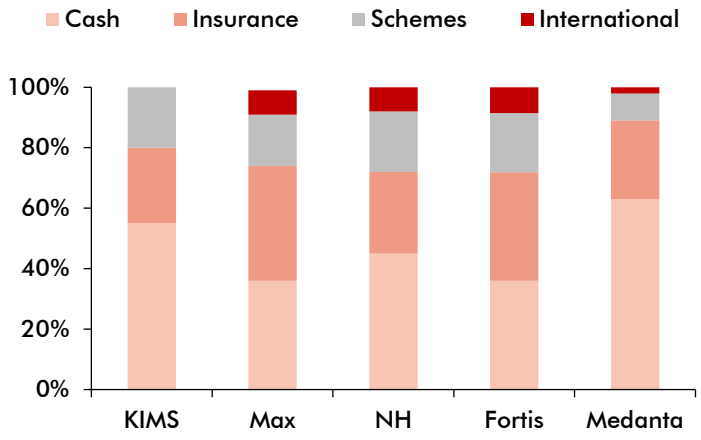
Under new management, Fortis appears focused on going deeper in a few markets rather than spreading itself across the country. Incremental bed-addition outside Delhi/NCR and Punjab appears restricted to Bengaluru (BG Road, ~230 beds), Mumbai (Mulund, ~50 beds), Kolkata (Anandapur, ~100 beds) and Jaipur (~50 beds). Each of these hospitals feature in the top-ten list of hospitals by revenues for the company. On the other hand, the recent sale of the Arcot Road hospital in Chennai indicates that it may deprioritize this market. This focused approach to expansion should reflect well in margins and RoCE over the medium-to-long-term.

Payor mix – rising share of international patients

Fortis gets 56% of its revenues from private-insurance and scheme patients. ~36% of its revenues are from self-pay/cash patients and the rest are from international patients. Relative to peers, share of cash patients is lower and that of private-insurance and government scheme patients is higher. The latter appears to be due to high share of Delhi/NCR region in bed-count and is unlikely to change meaningfully. At the same time, being a leading player in this geography has helped the company clock higher share of medical tourism patient revenues relative to most peers.

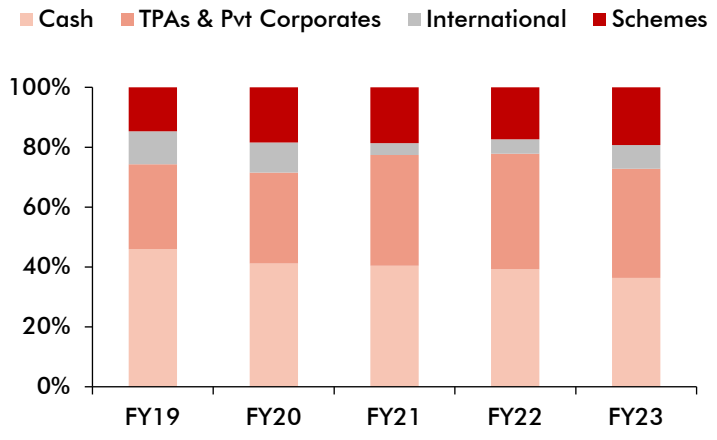
Prior to the COVID-19 pandemic, Fortis received ~11-12% of its revenues from international patients. In FY23, the share of international patients stood at 9%, which is higher than the 5% reported in FY22. This is likely to keep increasing as medical tourism recovery continues. Over 40% of overseas patients who come to India visit Delhi/NCR, making Fortis well-positioned to benefit from this trend.

Exhibit 24: Revenue share from cash patients is lower than most peers. Share of government-scheme patients is higher



Source: Company, Ambit Capital research

Exhibit 25: Share of self-pay patients has declined given pick-up in private-insurance covered patients



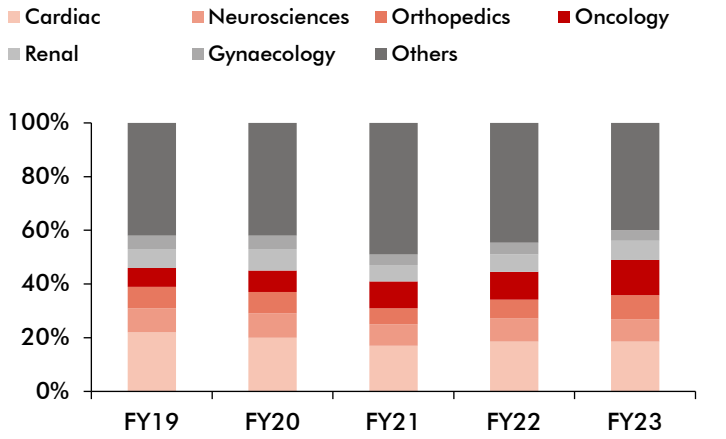
Source: Company, Ambit Capital research

Diversified case mix – cardiac leads other therapies

Fortis' network is largely made up of multi-specialty hospitals and this reflects in a diversified specialty-mix. Cardiac sciences (~19% of revenues) and Oncology (~13%) are the top-two therapies followed by neuro (~9%) and ortho (~9%)

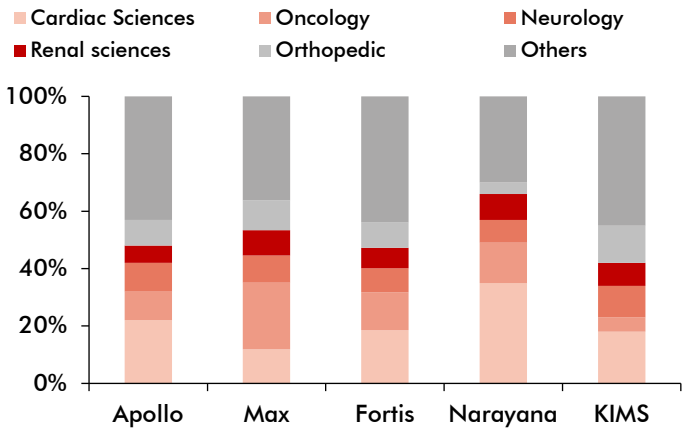
Relative to peers, it appears a lot more diversified. Oncology is a relatively strong suit, with share of revenues from this specialty only being behind that for Max Healthcare. This augurs well given high growth and relatively lower penetration seen in this segment. On the other hand, share of top-five specialties is lowest among peers given high degree of diversification in procedures

Exhibit 26: Case mix – cardiac and oncology dominates but fairly well-diversified...



Source: Company, Ambit Capital research

Exhibit 27: ...least share from top-five specialties. Among the leaders in oncology



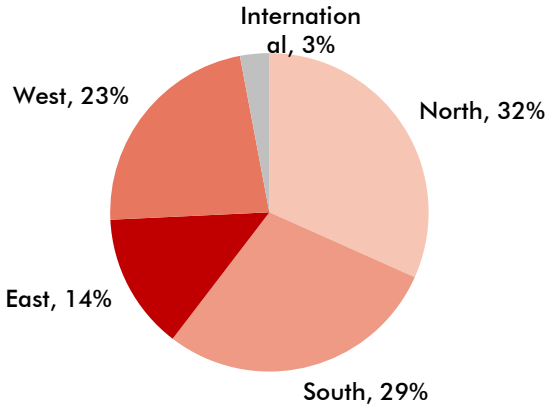
Source: Company, Ambit Capital research

Diagnostics: pan-India but low dominance

Fortis holds 57.7% stake in Agilus Diagnostics (formerly SRL Diagnostics), a leading diagnostic chain in India that offers pathology and radiology services. It is the second-largest diagnostics-chain in the country in revenue terms. The business was set up in 1995 by the erstwhile promoters. Fortis acquired majority stake in 2011. It contributed 19% and 22% of revenues and EBITDA respectively in FY23.

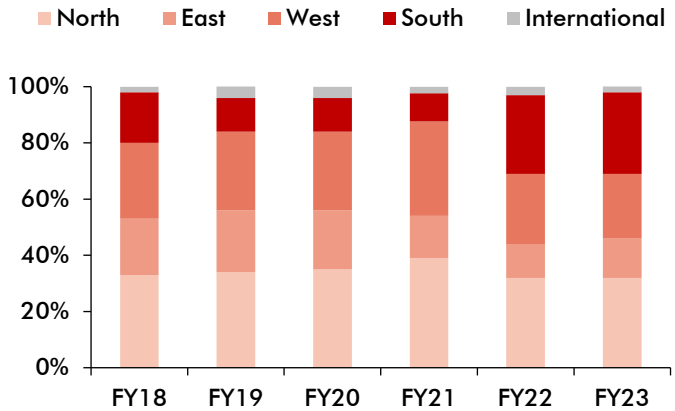
Agilus has five reference labs and over 400 network laboratories besides 2,500+ collection centres. It operates across the country with salience of North India (32%) and South India (29%) being relatively higher vis-à-vis other parts of the country.

Exhibit 28: Revenues are largely spread out across the country as it was built via acquisitions



Source: Company, Ambit Capital research

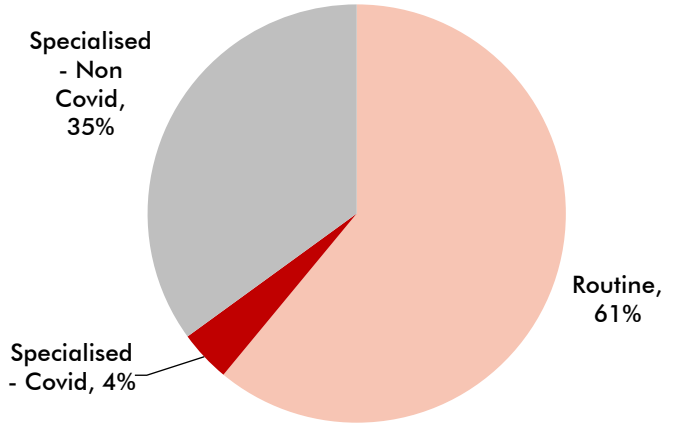
Exhibit 29: Sharp increase in revenue share from South post DDRC acquisition



Source: Company, Ambit Capital research

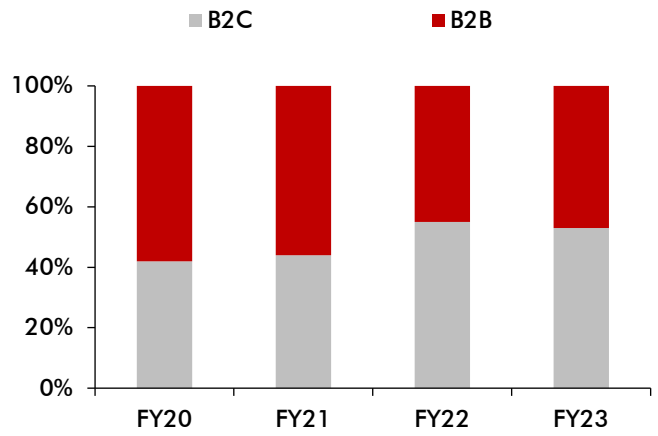
Ongoing transition in revenue mix augurs well. Share of B2C business in revenues has increased to 53% in FY23 from 42% in FY20. This is a key focus area for management and likely to continue. This, in turn, is also likely to drive higher share of routine tests from the current ~61% of revenues. This should drive gross-margins higher

Exhibit 30: Routine tests account for 61% of sales ...share likely to increase further in line with rising B2C salience



Source: Company, Ambit Capital research

Exhibit 31: B2C share in revenues has increased from 42% in FY20 to 53% in FY23, key focus area for management



Source: Company, Ambit Capital research

Lags listed peers on many counts

Agilus' test-menu and capabilities compare well with pure-play diagnostics leaders. But brand-equity and testing efficiency are diluted given acquisitions-driven growth in the past. The company needs to grow the business considerably in order to justify and optimize its current testing infrastructure.

Recent initiatives to rebrand the business (under the Agilus umbrella brand) and focus on increasing salience of B2C business are steps in the right direction. It would take some time before these reflect in step-up in growth rates. But once it does, the business has enough headroom in terms of testing capacity and network spread to grow without significant incremental investment in back-end infrastructure.

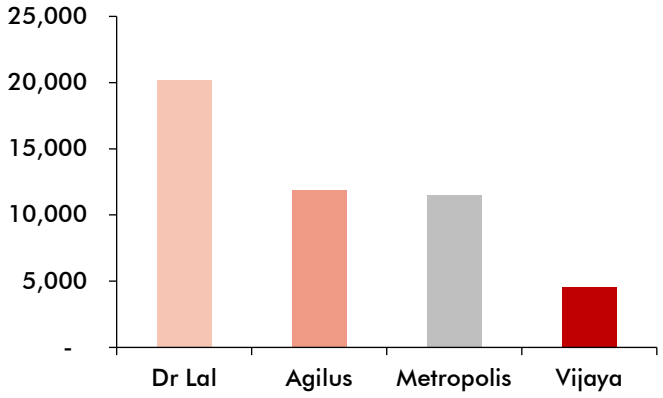
Exhibit 32: Mapping Agilus and its peers on IBAS

Parameter	Dr Lal	Metropolis	Agilus	Thyrocare	Vijaya	Comments
Innovation	●	◕	◕	◔	◕	▪ Dr Lal pioneered the hub & spoke model and B2C approach. Agilus is trying to catch up on the B2C front now. ▪ Centralized testing is common. Test-menu is the key differentiator: Agilus' test-menu is comparable to Dr Lal and Metropolis, wider than Thyrocare and Vijaya.
Branding	●	●	◑	◑	◕	▪ Agilus' brand equity is diffused due to it being a mix of multiple acquired brands and spread across various cities. ▪ Metropolis and Dr Lal are strong in multiple cities but strongest in respective home markets. Vijaya is dominant in Hyderabad/contiguous cities whereas Thyrocare is primarily B2B and will have to leverage the Pharmeasy brand
Architecture	●	●	◕	◑	◑	▪ Agilus appears to have overinvested in testing capacity, courtesy multiple acquisitions. All players barring Thyrocare have centralized testing (hubs) and spread-out collection points (spokes). ▪ Agilus is closer to Dr Lal and Metropolis in terms of network spread across multiple cities. Vijaya is a local player and Thyrocare does not have a meaningful collection network of its own.
Strategic Assets	●	◕	◕	◑	◑	▪ Wide network and centralized testing are key assets for Agilus ▪ Its relationship with Fortis (parent) also provides captive hospitals business
Overall	●	◕	◕	◑	◕	▪ Agilus needs to grow its business considerably in order to optimally utilize assets. It also lags Dr Lal and Vijaya in terms of dominance in home markets. On the other hand, there is good headroom to grow without meaningful investment in back-end infrastructure

Source: Company, Ambit Capital research; Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

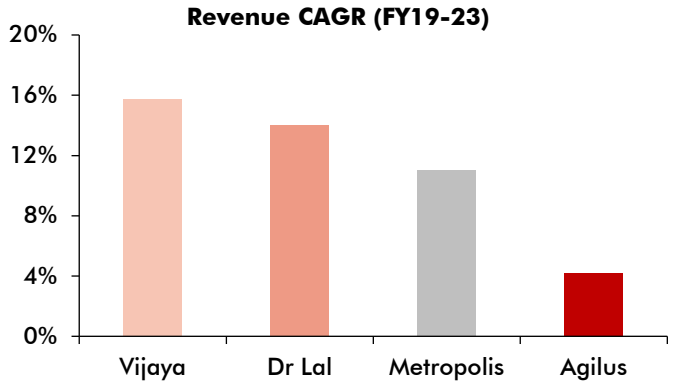
Agilus is the second largest diagnostics business in India, in terms of revenues. However, it has been lagging peers on growth over the last few years. This is mainly due to a shift in focus from growth to profitability. Network rationalization initiatives (especially on the radiology front) have led to slower topline growth but improving margins. Lower share of B2C business in revenues has also impacted topline growth.

Exhibit 33: Agilus is the second-largest diagnostics company in India, based on revenues (₹ bn)...



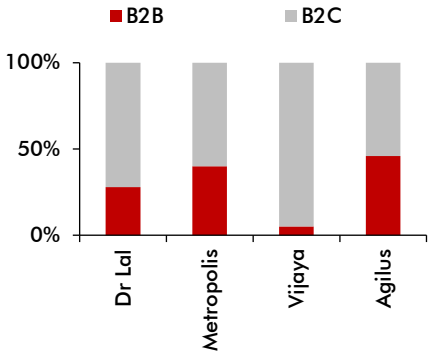
Source: Company, Ambit Capital research

Exhibit 34: ...but has lagged consistently on growth over the last few years as focus shifted to improving profitability



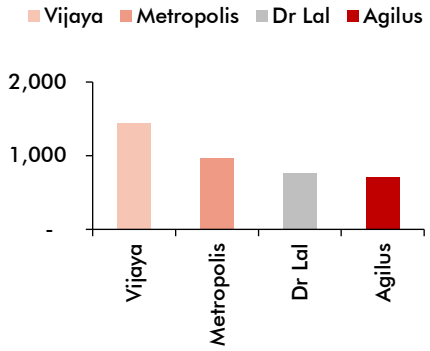
Source: Company, Ambit Capital research

Exhibit 35: Lags peers on B2C share..



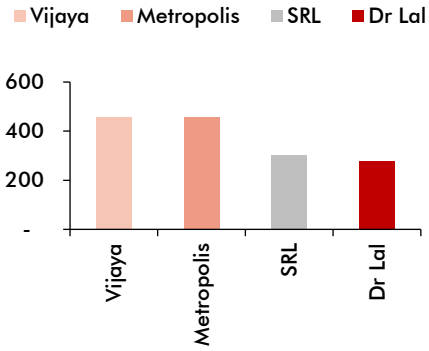
Source: Company, Ambit Capital research

Exhibit 36: ...revenue/patient (₹)...



Source: Company, Ambit Capital research

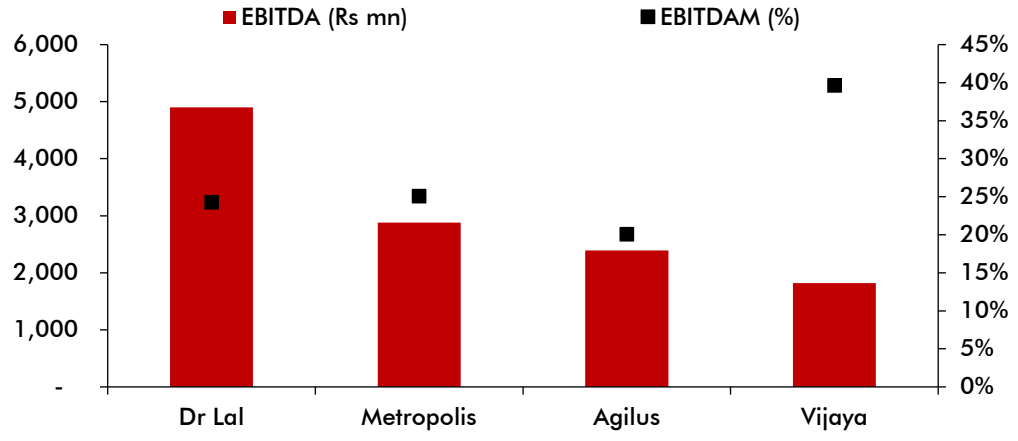
Exhibit 37: ...and revenue/test (₹)



Source: Company, Ambit Capital research

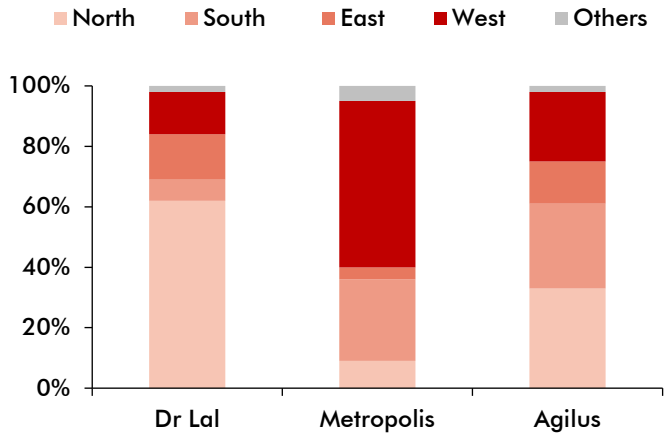
It lags peers on margins as well. EBITDA margin has expanded 1,200bps over FY19-23 but remains lowest among B2C-focused peers such as Dr Lal, Metropolis and Vijaya. There are two primary reasons for the same, both outcomes of acquisitions-led growth in the past. First, its diversified presence across India has led to limited dominance in any city or region. Secondly, testing is not as centralized and testing infrastructure is higher relative to its scale of operations.

Exhibit 38: Lags peers on EBITDA margins despite some expansion in recent years...



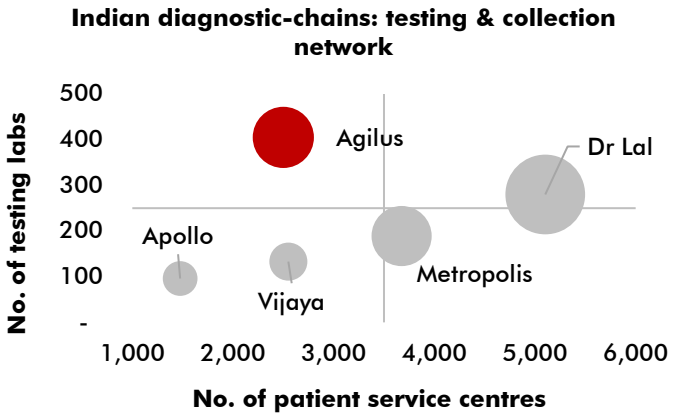
Source: Company, Ambit Capital research

Exhibit 39: ...reflects a more dispersed presence across India with limited dominance in any market...



Source: Company, Ambit Capital research

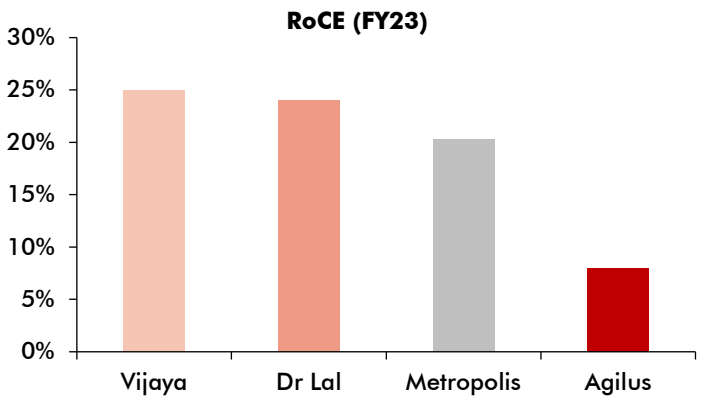
Exhibit 40: ...and higher testing infrastructure relative to scale of operations and revenues



Source: Company, Ambit Capital research; Note: bubble size reflects revenues

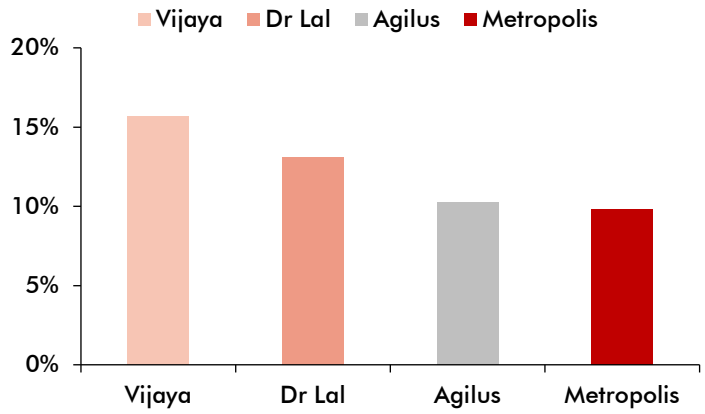
We expect revenue growth to step-up to 10% CAGR over FY23-26E. This would be led by a more focused approach by management on scaling up the B2C business. It would however take some time for the company to catch up with peers on either revenue growth or profitability.

Exhibit 41: Lower margins and acquisitions-led growth has led to RoCE lagging peers



Source: Company, Ambit Capital research

Exhibit 42: FY23-26 revenue CAGR of 10% CAGR is higher than ~4% over FY19-23... but still remain below most peers



Source: Company, Ambit Capital research

Exhibit 43: Head to Head: Agilus vs. listed peers: lags on growth and profitability due to a more diversified geographical footprint with limited dominance in any market and higher testing-infrastructure relative to current needs

	Dr Lal	Metropolis	Agilus	Vijaya	Apollo	Max H/C
Main markets	Delhi/NCR, Rest of North, East, West	West, South	Pan-India	AP/Telangana	South India	North India
Network						
Reference Labs	1	1	5	1	1	NA
Regional reference labs	2	13	NA	15	NA	NA
Clinical labs	277	175	400+	117	95	43
Patient service centres	5,102	3,675	2,500+	NA	1,475	403
Test menu	5,191	4,000+	4,000+	2,550+	NA	2,500+
Key financial metrics						
Revenues (FY23) (₹ m)	20,169	11,482	11,890	4,590	3,827	1,123
EBITDA margin (FY23)	24%	25%	20%	40%	7%	-3%
Growth (FY19-23 | FY23-26E)						
Revenue	14% | 13%	11% | 10%	4% | 10%	16% | 16%	43% | 28%	47% | 33%
EBITDA	14% | 16%	10% | 10%	11% | 11%	24% | 18%	NA* | 41%	NA**

Source: Company, Ambit Capital research; Negative number in FY19; **Negative number in FY19 and FY23*

Ownership change ushering turnaround

Leadership changes and greater transparency have improved credibility with the medical community, investors and regulators. IHH's ₹40bn fund-infusion and efficiency initiatives have improved profitability and repaired balance sheet. Legal issues related to the Daiichi-Ranbaxy transaction are also largely behind. Recent management commentary indicates that growth is back on the agenda, with ~34% bed-capacity addition planned over the next four-to-five years. These initiatives should help close the growth, margin and RoCE gaps vis-à-vis peers over the medium-to-long-term.

IHH has started ringing in changes

IHH Healthcare Berhad, a Malaysian-Singaporean healthcare company, acquired controlling stake (31.1%) in 2018 for ₹40bn. The acquisition followed a long-drawn-out bidding process that involved several parties, including IHH, TPG-backed Manipal Health Enterprises, and the Munjal-Burman consortium.

IHH's entry as promoter and change in management team have brought about significant changes in Fortis' operations and financial stability. Improvement in corporate governance practices has enhanced transparency in operations and improved credibility with investors and regulatory authorities. Fortis has also undertaken a debt restructuring exercise that helped improve its financial stability.

Professional management takes charge

The IHH takeover led to significant transformation in leadership and management. IHH brought in a team of experienced healthcare professionals to manage the business. This included several changes to the board of directors and senior leadership positions. The new team members have strong track record in healthcare management and focus on corporate governance and transparency. They prioritized streamlining operations and improving the efficiency of the organization, which had previously been impacted by allegations of financial irregularities and poor governance.

Dr. Ashutosh Raghuvanshi joined Fortis Healthcare as the CEO in March 2019 and has led the company through a transformation process. The company has been in the midst of implementing a comprehensive turnaround plan that involves stabilizing the business and consolidating its strengths.

Exhibit 44: Strong management team led by Dr Ashutosh Raghuvanshi

People	Designation	Previous experience
Dr. Ashutosh Raghuvanshi	Managing Director & Chief Executive Officer	Associated with the Bombay Hospital, Apollo Hospitals, Vijaya Heart foundation and Manipal Heart Foundation over 26 years Before joining Fortis, he worked at Narayana Health as Vice Chairman, Managing Director & Group CEO
Vivek Kumar Goyal	Chief Financial Officer	Prior to joining Fortis, Vivek was the Chief Finance Officer with the Tata Housing and Development Company since April 2015. Previously worked with Ballarpur Industries, Saw Pipes and Indo Asian Fusegear.
Anand K	CEO, Agilus Diagnostics	Over 25 years of experience in the healthcare industry. Worked with Apollo Group prior to joining Aglus Has been associated with Neuberg Diagnostics, Metropolis and others in the diagnostics sector
Murlee Manohar Jain	Company Secretary & Compliance Officer	Over 18 years' experience in Secretarial Affairs, worked with JK Paper, TV Today Network, Panacea Biotech, Apollo Tyres etc. Prior to joining Fortis he worked at Info Edge (India) Limited as a Senior Vice President – Secretarial & Company Secretary.

Source: Company, Ambit Capital research

Exhibit 45: Experienced board of directors

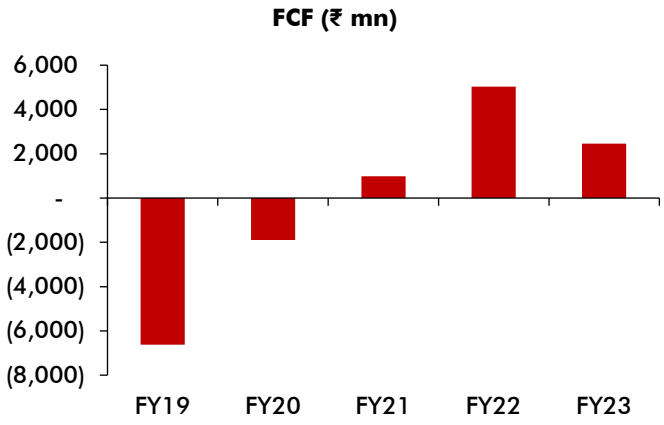
Board	Position	Previous experience
Mr. Ravi Rajagopal	Chairman	Over 35 years of experience in large consumer goods companies: 20 years with Diageo Plc in various senior leadership roles, including global head of mergers and acquisitions. He was also with ITC, where he held several progressively senior roles. Served on the board of Vedanta plc and United Spirits.
Dr. Ashutosh Raghuvanshi	Managing Director & Chief Executive Officer	Associated with the Bombay Hospital, Apollo Hospitals, Vijaya Heart foundation and Manipal Heart Foundation over 26 years Before joining Fortis, he worked at Narayana Health as Vice Chairman, Managing Director & Group CEO
Mr. Tomo Nagahiro	Additional Non-Executive Director	Over 20 years of experience in multiple divisions of Mitsui, including strategic planning, business development, and operations management.
Mr. Mehmet Ali Aydinlar	Additional Non-Executive Director	Chairman of Acibadem Saglik Yatirimlari Holding A.S. and a non-executive director of IHH Healthcare Berhad since 2012. Extensive experience in the healthcare sector since 1993, having served as the founding CEO of Acibadem Saglik Yatirimlari Holding A.S.
Mr. Indrajit Banerjee	Independent Director	Has held leadership positions in companies such as Ranbaxy, Cairn India, Lupin, and Indian Aluminium. Played a critical role in the transformation and rebranding of Lupin and successfully guided Cairn India's financing of the country's largest greenfield upstream onshore oil and gas development project.
Mr. Dilip Kadambi	Non-Executive Director	24 years of leadership experience in financial and healthcare institutions. Skilled in areas such as investor relations, corporate finance, and healthcare operations.
Mr. Joe Sim	Non-Executive Director	Group Chief Operating Office of IHH Healthcare Berhad. Currently serving as the CEO of Malaysia Operations Division for Parkway Pantai. Has held leadership positions at National University Healthcare System in Singapore, including Group Deputy CEO, COO, and CEO of National University Hospital. Also worked in the Singapore Administrative Service and founded a company before joining Accenture to develop thought leadership and innovations in next-generation revenue agency.
Mr. Joerg Ayrle	Non-Executive Director	Group CFO of IHH Healthcare Berhad since February 2021 Has international experience from the US, Germany, Singapore, China and Thailand. Before joining IHH, he was Group CFO of Thai Union Group, where he won Best CFO Asia by Corporate Treasurer in 2016.
Ms. Shailaja Chandra	Independent Director	Has worked in the central Ministries of Defence, Power and Health and the governments of Delhi, Manipur, Goa and the Andaman & Nicobar islands. In her 7 years at the Health Ministry, she handled budgets and proposals for several healthcare institutions. Post-retirement, held various positions including Chairman of the Pubic Grievances Commission, Executive Director of the National Population Stabilisation Fund, and Chairman of the Governing Bodies of two Delhi University colleges.
Ms. Suvalaxmi Chakraborty	Independent Director	32+ years' experience in financial services and banking; worked in areas including Corporate Banking, Treasury management, Micro-Banking, and Agri Business. Current Founder, CEO & MD of FinReach Solutions Private Ltd. Held several positions at ICICI Ltd. and ICICI Bank from 1989-2006. Also launched and ran the commercial banking business of Barclays Bank in India from 2007-10.

Source: Company, Ambit Capital research

Balance sheet stability and improving margins

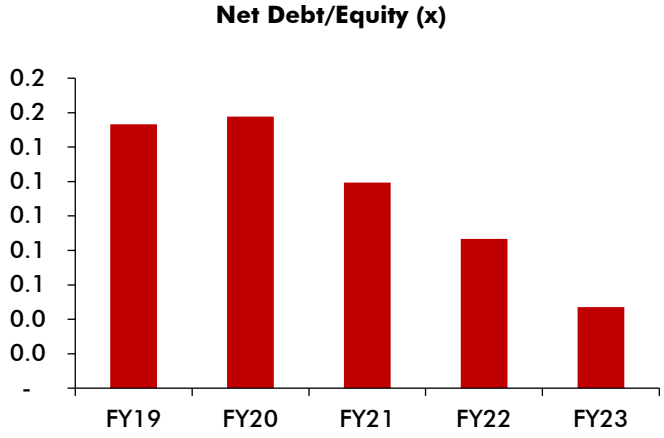
IHH' infusion of ₹40bn helped Fortis address immediate liquidity issues and reduce its debt burden. The company used the funds to buy back the property assets of some of its key assets from RHT Health Trust. This consolidated assets of ~₹47bn into the company's balance sheet and led to annualized savings of ~₹2.7bn in clinical establishment fees. This was a key driver of the 1,200bps improvement in Fortis' EBITDA margin over FY19-23. Cumulative FCF over FY20-23 stood at ₹6.6bn and it has reduced debt to the tune of ₹6bn. Net debt/equity and net debt/EBITDA have improved to 0.0x (vs. 0.2x) and 0.3x (vs. 1.7x) respectively.

Exhibit 46: Fortis' FCF improved since IHH took over on improving efficiency and limited growth capex...



Source: Company, Ambit Capital research

Exhibit 47: ...leading to greater comfort on leverage as net debt-equity dipped to 0.0x in FY23



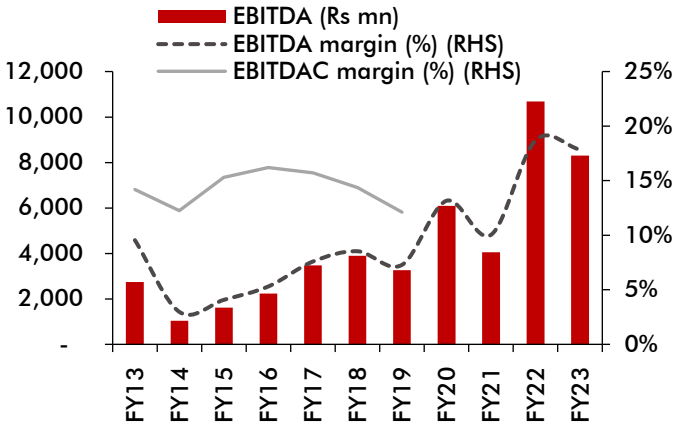
Source: Company, Ambit Capital research

Improving profitability in the network

The new management team's initial focus was on improving operational metrics and turning around sub-par hospitals in order to generate cash and reduce debt. Efforts to stabilize operations and strengthen liquidity ensured business continuity and arrested attrition of medical talent. This helped kick-start a turnaround in profitability. The management focused on improving efficiency levels across the network, optimizing cost structure and expanding digital capabilities. The results are now visible.

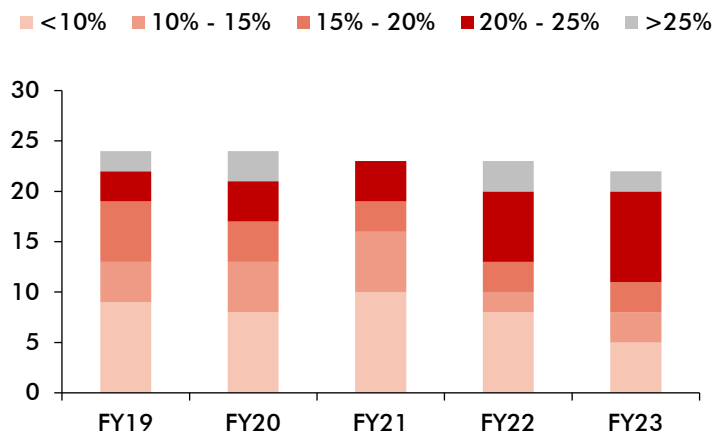
Over the last four to five years, Fortis has been able to improve profitability at multiple hospitals in its network. Share of hospitals with 20%+ EBITDA margin increased from ~21% in FY19 to ~40% in FY23. Hospitals that generate sub 10% EBITDAM now account for only 22% of network hospitals as compared to 36% in FY19.

Exhibit 48: EBITDAM improved ~1,200 bps over FY19-23 post acquisition of RHT assets and reduction in business-trust costs



Source: Company, Ambit Capital research | EBITDAC: EBITDA before clinical establishment fees paid to RHT

Exhibit 49: Improvement in margins across hospitals post IHH take over



Source: Company, Ambit Capital research

Fortis does not disclose the names of hospitals in each EBITDAM bucket. But our analysis suggests that FEHI (Escorts Heart Institute) in Delhi is the only large hospital that continues to operate at sub-10% margin. Two other hospitals that possibly fall in this bucket include Fortis Malar and Arcot Road hospitals in Chennai. The latter has recently been divested to Kauvery Hospitals, which should lead to further improvement in FY24 and beyond.

Exhibit 50: Fortis got ~51% of revenues from hospitals with 20%+ EBITDA margin in FY23. Only 10% of revenues came from hospitals with sub-10% EBITDA margin, of which one hospital has recently been sold

EBITDAM	Hospital count	Revenue share	Beds	Beds share	ARPOB	Occupancy
Over 25%	2	20%	614	15%	26	68%
20-25%	9	31%	1,426	36%	16	71%
15-20%	3	27%	754	19%	25	75%
10-15%	3	12%	466	12%	22	66%
Less than 10%	5	10%	715	18%	14	52%

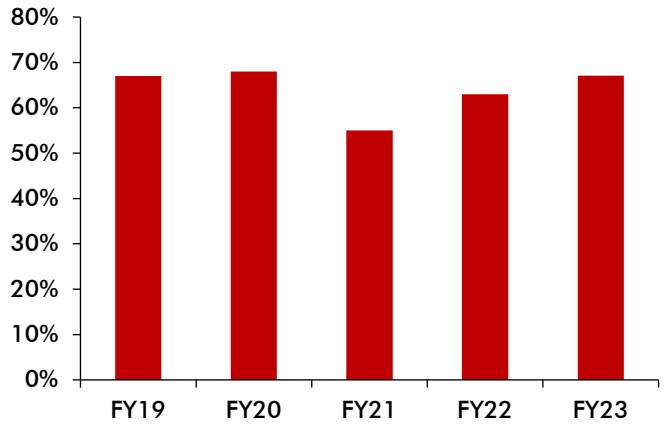
- Share of sub-10% hospitals in operating bed-count is at 18% currently vs. 35% in FY19.
- Share of 20%+ EBITDAM hospitals has increased to 51% of operating bed-count and revenues vs. 24%/13% in FY19.
- FEHI, Malar and Arcot Road hospitals are the known troubled assets. Cumulative bed-count at these hospitals is ~550, implying that the other two hospitals are smaller ones. Recent sale of the Arcot Road hospital should drive further improvement.

Source: Company, Ambit Capital research

Operating metrics moving in the right direction

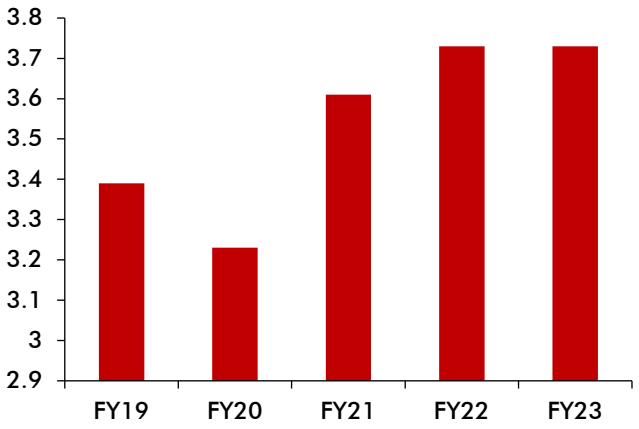
Fortis' focus on enhancing case mix towards higher margin tertiary/quaternary procedures such as ortho/oncology which were 8%/7% in FY19 and currently stand at 9%/13% as on FY23 and oncology has resulted in 7% growth in ARPOB over FY19-23.

Exhibit 51: Occupancy has recovered from Covid-period lows



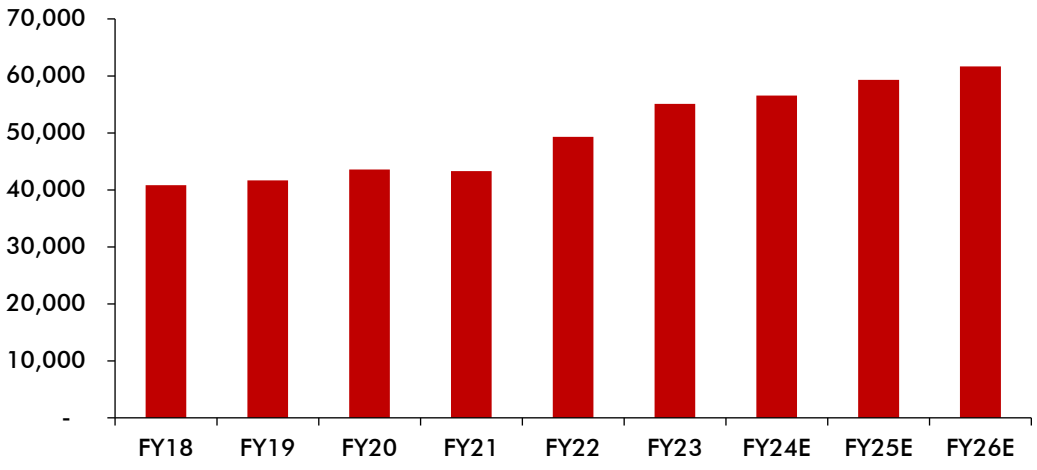
Source: Company, Ambit Capital research

Exhibit 52: ...partly aided by higher average-length-of-stay



Source: Company, Ambit Capital research

Exhibit 53: Improving case-mix and faster growth in big-city hospitals has led to gradual improvement in ARPOB. This trend should sustain



Source: Company, Ambit Capital research

Expansion and realignment back on the agenda

Prior to the fund infusion by IHH, Fortis had to put expansion plans on hold due to liquidity constraints. This has now changed. The company started with investing in expansion of clinical programs and refurbishing existing facilities. It launched a Cancer Institute at Fortis BG Road and a dialysis center at Fortis Vasant Kunj in FY20. In FY21, it commissioned a 250-bed multi-specialty hospital in Vadapalani, Chennai. Management commentary and action over the last few months also indicate greater comfort on moving ahead with bed expansion plans. It has also divested the hospital in Arcot Road, Chennai to Cauvery Hospitals for ₹1.5bn. This will part fund bed addition plans and also improve EBITDAM by ~300bps given that this is a relatively new hospital and still EBITDA negative.

Legal cloud not completely gone but fading

The promoters of Fortis Healthcare were also the promoters of Indian pharma major, Ranbaxy Laboratories. In 2008, they sold their stake in Ranbaxy to Daiichi Sankyo of Japan for US$4.6bn. The acquisition backfired as Ranbaxy got embroiled in serious compliance issues in the US market. Litigation related to this deal has been an overhang on Fortis in multiple ways over the last few years. Recent developments however indicate that a large part of this may be behind.

Background

- In 2013, Daiichi Sankyo filed a lawsuit against the Singh brothers, accusing them of concealing information about the regulatory probes in the US. It sought US$500mn (₹3.5bn) in damages. The Singapore International Arbitration Centre (SIAC) ruled in favor of Daiichi and ordered Fortis' promoters to pay US$500mn in damages.
- The latter challenged this ruling in the Delhi High Court and the Supreme Court of India but did not succeed in overturning the same. The courts had also instructed the promoters to maintain their shareholding in Fortis in order to protect Daiichi's interests. However, the Singh brothers' shareholding in Fortis dropped below 1% due to pledges being invoked by various banks.
- In 2018, IHH acquired a 31.1% stake in Fortis by infusing ~₹40bn via a preferential issue to become the controlling shareholder. Fortis used this money to buy back units of Religare Health Trust (RHT) that held the property assets of many of its leading hospitals. This allowed it to save on cash payouts to RHT at an effective yield of ~12-13% and improved cash generation.
- Daiichi Sankyo filed a case in the Supreme Court of India against the Singh brothers as well as Fortis and IHH. It alleged that majority of units in RHT were indirectly owned by the Singh brothers. Fortis' move to buy out units in RHT was thus a mechanism to transfer money to the Singh brothers and out of reach of Indian courts.
- In response to Daiichi Sankyo's plea, the Court put IHH's open offer for Fortis' minority shareholders on hold. The Singh brothers were arrested in 2019 on charges of fund misappropriation and money laundering related to the Fortis-Daiichi case and another case involving financial irregularities at Religare Enterprises.

Latest Supreme Court order clears the air partially

In its September 2022 order, after hearing depositions of all parties, the Supreme Court did not hold IHH in contempt of court with respect to its acquisition of stake in Fortis. It also stated that, prima facie, the buyback of units in RHT appears to be aimed at improving the business. At the same time, it suggested that the Delhi High Court could look into the matter and order a forensic audit of the transaction if it deems necessary. IHH believes that this is just a suggestion whereas Daiichi Sankyo holds that this is a requirement. SEBI has asked IHH to get clarification from the Delhi High Court before it seeks approval for the open offer. There are two implications:

- IHH needs to make an open offer to minority shareholders of Fortis at ₹170/share i.e. the price at which it acquired stake. This appears moot now given that the stock is ~97% higher at present.

However, this also implies that IHH's stake in Fortis is unlikely to increase beyond 31% for now. This may limit IHH's willingness to raise additional equity funding in order to fund expansion.

Calibrated expansion to support growth

Fortis is set to re-enter the bed-addition phase over the next three to five years. Having made significant progress on shoring up profitability in existing hospitals and repairing the balance sheet, the company is focusing on growth once again. Fortis plans to add ~35% to bed-capacity over FY24-27. Share of brownfield projects is high at ~77% and the only greenfield project is in Gurugram where it enjoys strong brand-equity. This implies limited drag on margins and RoCE. Current network is largely mature but there is scope to improve margins further through efficiency initiatives. Our analysis suggests that the latter would more than offset upfront expenses on new beds, allowing Fortis to continue expanding margins and RoCE over the medium-term.

Most hospitals in its network are mature

Fortis has a network of 22 hospitals. Our analysis suggests that the network is mature with limited headroom to grow. Most hospitals are over 10-years post commissioning. It is therefore critical for Fortis to get into bed-addition mode. Inability to do so over the last few years has been one of the key factors behind valuation discount vis-à-vis peers.

Exhibit 54: All of Fortis' hospitals are mature. The company plans to add ~1,500 beds over FY24-27 with ~77% beds being in brownfield projects

Fortis' network	Pre-commissioning*	New			Mature
	(up to FY27)	Phase-I (Yr. 1-3)	Phase-II (Yr. 4-6)	Phase-III (Yr. 7-10)	(Yr. 11 and beyond)
No. of hospitals	1	0	0	0	21
No. of beds (% of total)	1,500 (34%)	0 (0%)	0 (0%)	0 (0%)	4,271 (100%)

Source: Company, Ambit Capital research

Bed-addition is back on the agenda

Fortis intends to add ~1,750 beds over the next five years. Of these, we estimate ~1,500 beds (~34% of current capacity) to be added over FY24-27. This would take total bed-capacity to ~5,400. Brownfield projects would convert several hospitals viz. Gurugram, Shalimar Bagh, Mohali, Noida, BG Road and Mulund into large-format hospitals.

Exhibit 55: Planned bed expansion is largely brownfield in nature. NCR to remain largest market for the company

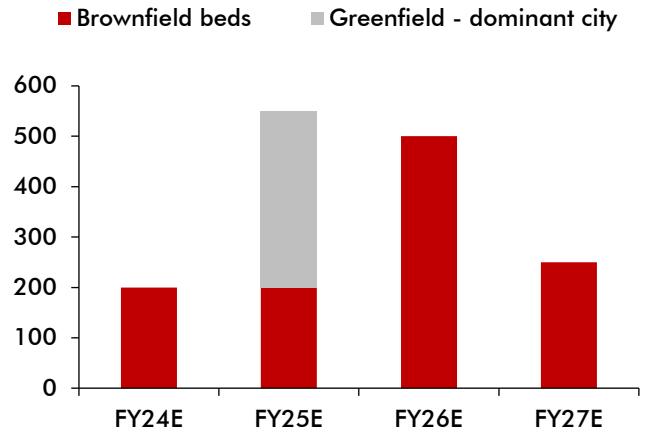
Facilities	Year	Type	Incremental beds	Comments
Manesar	FY25	Acquisition/ Greenfield	350	To be operationalized in April 2024. Plans to incur additional ₹1-1.25bn capex in this facility. ARPOB is likely to remain lower than at FMRI, which gets large number of international patients. Expects EBITDA break-even in 2nd year
NCR	FY24-27	Brownfield	600	Noida facility construction has begun and is on track Faridabad - construction is expected to be completed in 6 months FMRI - planning to add ~180 beds in next 3 years
Punjab	FY24-27	Brownfield	317	Most of the bed addition to be in the Mohali hospital
Jaipur	FY24-27	Brownfield	50	
Bengaluru	FY24-27	Brownfield	232	Largely in the BG Road facility
Chennai	FY24-27	Brownfield	74	Subject to plans for the city. Recent divestment of Arcot Road hospital indicates that Fortis may be thinking of deprioritizing this market
Mumbai	FY25-27	Brownfield	50	Out of 100 beds, 45 beds have already been commissioned rest would be commissioned in one to two years
Kolkata	FY25-27	Brownfield	100	Construction is completed, some last mile permissions are pending

Source: Company, Ambit Capital research

Brownfield dominant expansion should be easier to absorb

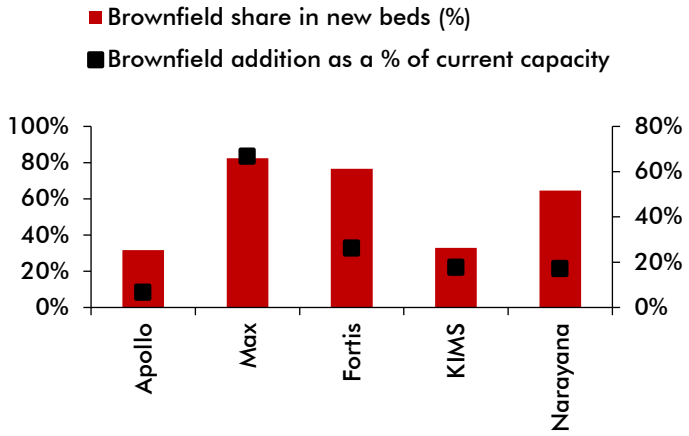
Fortis' bed-addition would largely be via brownfield projects that are easier to ramp-up given latent demand. There is only one greenfield project (recent acquisition in Manesar) in this plan, accounting for ~23% of incremental bed-count. This is in Gurugram, a market the company is already well-established in. Fortis thus appears well-placed to navigate the expansion phase without meaningful, adverse impact on profitability and RoCE.

Exhibit 56: 77% of Fortis' bed addition over FY24-27 is via brownfield projects



Source: Company, Ambit Capital research

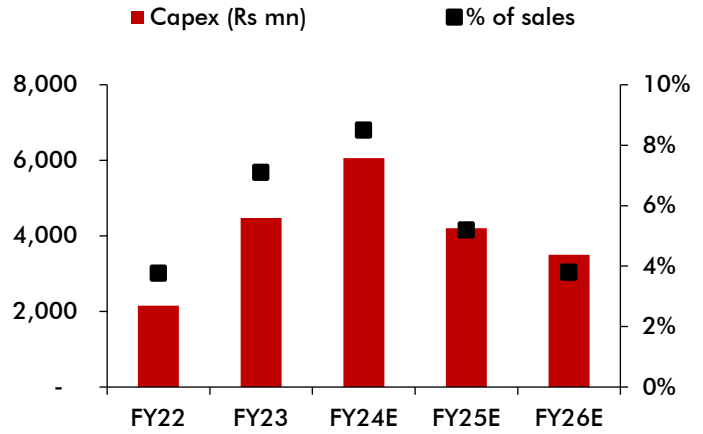
Exhibit 57: Second-highest share of brownfield projects after Max Healthcare



Source: Company, Ambit Capital research

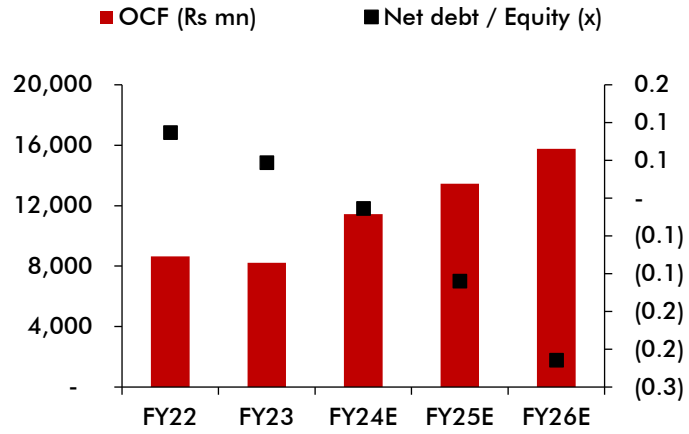
...and funding is unlikely to be a constraint

Exhibit 58: Capex to increase in FY24 given acquisition in Manesar before settling down at lower levels ...



Source: Company, Ambit Capital research

Exhibit 59: ...pick up in cash-generation from mature hospitals to ensure declining net debt/equity



Source: Company, Ambit Capital research

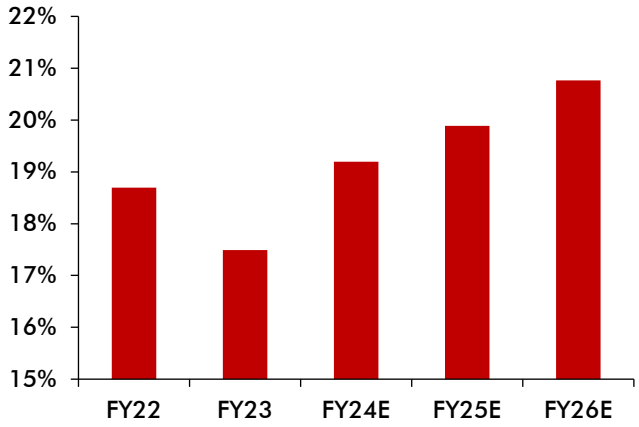
Headroom in current network is relatively limited

Fortis' current bed-capacity is entirely in mature hospitals i.e. those that have been operational for over ten years post commissioning. This limits scope for growth and margin-expansion in the current network through levers such as occupancy and activation of non-operational beds. Some of these hospitals still generate sub-par margins: eight out of 22 hospitals have EBITDA margin in the sub 15% range. There would be some improvement in these as the management's efficiency initiatives play out over the medium-term. But this would be gradual.

Margins and RoCE improvement to continue

Brownfield beds achieve EBITDA break-even and reach maturity much quicker than greenfield projects do. High proportion of brownfield beds in expansion plan should support margins and return on capital. At the same time, scope to improve profitability in current network hospitals as well as the diagnostics business is a key driver of profitability. We expect Fortis to improve EBITDA margin by 328bps over FY23-26E and RoCE to expand by 556bps over the same period.

Exhibit 60: EBITDA margin expansion likely to continue despite bed addition



Source: Company, Ambit Capital research

Exhibit 61: RoCE expansion to continue but could remain below peers in the foreseeable future

Source: Company, Ambit Capital research

Closing gap with peers

Fortis has lagged peers on growth, margins and RoCE in the past. IHH's efforts to turnaround operations are likely to partially bridge the gap over the next few years. Revenue growth should step up to 13% CAGR over FY23-26E vs. 9% CAGR over FY19-23, led by 34% addition in bed-count and continued ARPOB improvement across the network. Efficiency and cost-reduction initiatives would drive margins higher in current network while high share of brownfield projects in bed-addition would limit upfront losses. Margins and RoCE should improve 328bps and 556bps over FY23-26E.

Bed-addition to drive 13% revenue CAGR

We forecast 13% CAGR in revenues over FY23-26E. This would primarily be driven by the hospitals business (14% CAGR) whereas diagnostics business growth would be relatively subdued at ~10% CAGR.

Exhibit 62: Fortis Healthcare revenue model: brownfield bed-addition to drive 14% CAGR in hospital revenues over FY23-26E. Diagnostics to remain constrained in view of competitive intensity and Agilus' focus on improving profitability

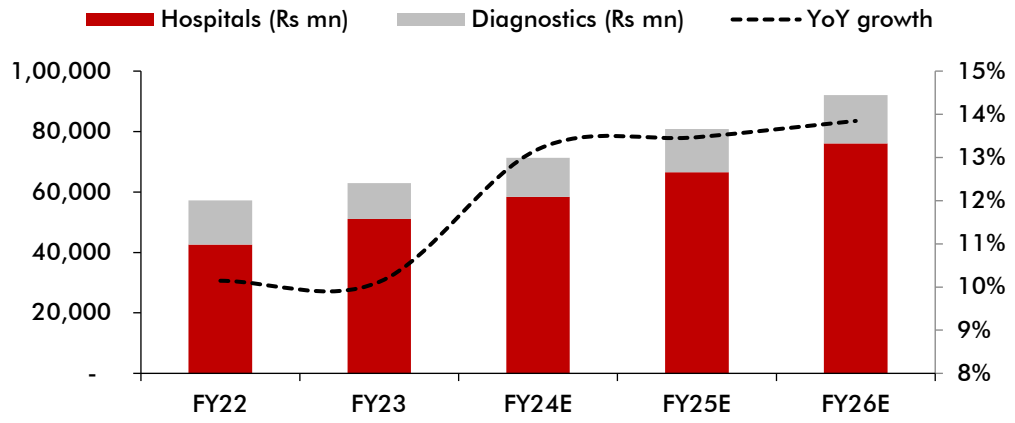
Revenue model	FY22	FY23	FY24E	FY25E	FY26E
Hospitals					
FMRI Gurugram	5,660	7,530	9,157	9,654	11,504
YoY growth	50%	33%	22%	5%	19%
Mohali	4,550	5,750	6,919	8,199	8,574
YoY growth	22%	26%	20%	19%	5%
BG Road	3,810	4,610	5,707	7,018	7,343
YoY growth	39%	21%	24%	23%	5%
Mulund	3,510	3,950	4,214	4,356	4,557
YoY growth	25%	13%	7%	3%	5%
FEHI New Delhi	3,350	4,070	4,466	4,749	4,966
YoY growth	27%	21%	10%	6%	5%
Shalimar Bagh	3,470	4,290	5,227	5,407	5,653
YoY growth	49%	24%	22%	3%	5%
Noida	3,220	4,200	5,084	6,349	7,704
YoY growth	40%	30%	21%	25%	21%
Anandapur	2,320	2,620	3,149	3,302	3,452
YoY growth	36%	13%	20%	5%	5%
Faridabad	1,800	1,810	2,032	2,124	3,278
YoY growth	24%	1%	12%	5%	54%
Jaipur	1,780	2,110	2,280	2,386	2,496
YoY growth	42%	19%	8%	5%	5%
Manesar				957	1,516
YoY growth					58%
Others	9,171	10,128	10,168	12,047	15,081
YoY growth	41%	10%	0%	18%	25%
Total hospitals	**42,645**	**51,070**	**58,404**	**66,548**	**76,128**
YoY growth	37%	20%	14%	14%	14%
Diagnostics	**14,532**	**11,890**	**12,860**	**14,313**	**15,931**
YoY growth	67%	-18%	8%	11%	11%
Company Revenues	**57,177**	**62,960**	**71,264**	**80,862**	**92,058**
YoY growth	42%	10%	13%	13%	14%

Comments:

- Hospitals revenue growth driven by improved occupancy in current network, brownfield bed-addition and one greenfield project
- Recently acquired hospital in Manesar to be commissioned in FY25 – likely to ramp up quicker than typical greenfield hospitals given Fortis' already strong brand-equity in Gurugram
  - To operationalize 150 beds in FY25 and then gradually build out to full capacity over the next few years
  - ARPOB to be at ~50% of FMRI Gurugram to start with and gradually improve
- Brownfield bed addition to drive growth in FMRI, Gurugram, Mohali, BG Road (Bengaluru), Faridabad, Noida and Mumbai
- Operational bed-addition assumptions:
  - 250 beds in FY24 (all brownfield)
  - 400 beds in FY25 (includes 150 beds in Manesar, rest brownfield)
  - 350 beds in FY26 (includes 50 beds in Manesar, rest brownfield)
- ARPOB to increase by ~4% across the network, mostly driven by lower ALOS and some pricing gains
- Occupancy gain to be marginal across hospitals given their maturity
- Focus on profitability could mean further rationalizing of network
- Competitive intensity to cap topline growth

Source: Company, Ambit Capital research

Exhibit 63: FY23-26 topline CAGR of 13%: ~14% for hospitals, ~10% for diagnostics



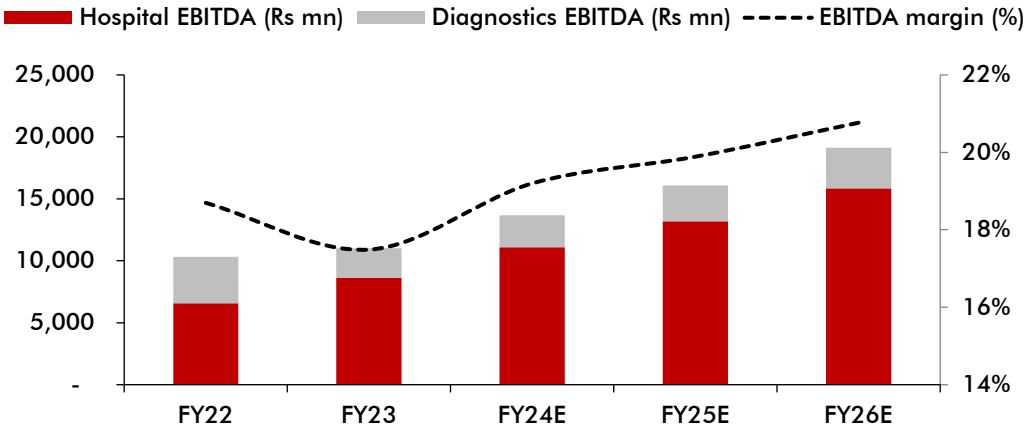
Source: Company, Ambit Capital research

We forecast addition of 1,000 operational beds over the next three years. 72% of these would be via the brownfield route. These should see quick ramp-up in occupancy and revenues post-commissioning. Growth would however remain subdued in diagnostics (10% CAGR) in view of competitive intensity.

Margin improvement to continue

Fortis' EBITDA margin has improved from 5% in FY19 to 15% in FY23. Efforts put in place by the new management to improve efficiencies and streamline costs have helped. These would continue to drive margins higher in current network-hospitals and help offset upfront costs related to newly operationalized beds.

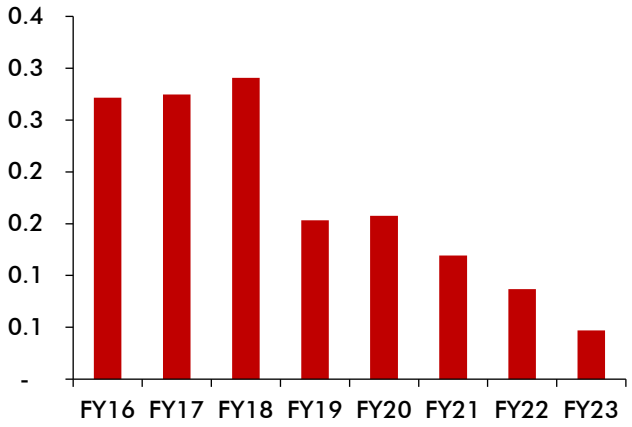
Exhibit 64: We forecast 20% CAGR in EBITDA over FY23-26E. EBITDAM expansion of ~328bps to be driven by hospitals (~400bps) while diagnostics margins would remain flat



Source: Company, Ambit Capital research

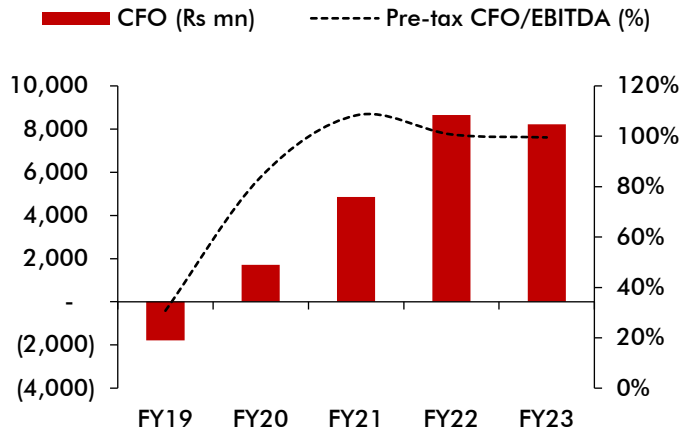
Balance sheet is also getting better. Fortis has reduced debt over the last few years on the back of fund infusion by IHH and improving cash generation. Net debt has decreased from ₹10bn in FY19 to ₹3bn in FY23. Cash flow from operations is improving consistently and we expect more of the same going forward.

Exhibit 65: Net Debt and Net D/E have consistently improved post IHH taking over...



Source: Company, Ambit Capital research

Exhibit 66: ...improving cash-conversion should limit dependence on external funds



Source: Company, Ambit Capital research

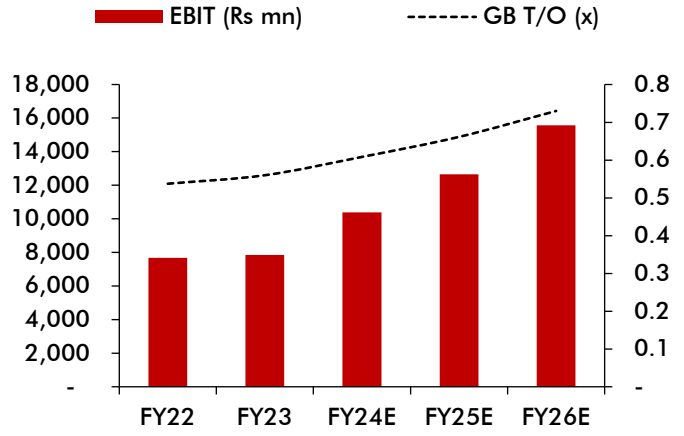
RoCE improvement to continue

Improving profitability in current hospitals would more than offset upfront costs on new beds. High share of brownfield projects in bed-expansion plan would also lead to faster scale up in new beds and help asset turnover improve further. With limited dependence on external capital to fund new projects, RoCE improvement is set to continue.

Exhibit 67: We expect 600bps RoCE expansion over FY23-26E

Source: Company, Ambit Capital research

Exhibit 68: ...led by improving margins and asset T/O



Source: Company, Ambit Capital research

Factors behind valuation overhang fading

Fortis is a good franchise that was in the wrong hands. Corporate governance and legal issues related to erstwhile founders, slower growth and lower RoCE vs. peers have been the primary valuation overhangs. IHH's acquisition of control in 2018 and initiatives undertaken to address these have begun paying off now. Legal issues related to the Daiichi-Ranbaxy deal are not fully behind but the recent Supreme Court ruling provides some comfort. Profitability has improved across the network and debt has reduced by ~60% over FY19-23. Improved balance sheet and cash-generation have put bed-addition back on the agenda. This augurs well for medium-to-long-term growth prospects. Valuation discount vis-à-vis peers should narrow in line with catch up on growth, margins and RoCE over the next two to three years. Our DCF-based TP of ₹415/share implies FY25E EV/EBITDA multiple of 20x – 10-15% discount to implied multiples for other coverage hospitals.

Lags peers but bridging the gap

Fortis is a large hospital-chain and enjoys strong brand-equity in key markets such as Delhi/NCR, Mumbai and Bengaluru. It has however consistently lagged peers on growth, margins and return-on-capital metrics. The erstwhile management team's ambition on scale led to large acquisitions in India and overseas markets. Integration was a challenge in some of these, most notably some of the Escorts hospitals and international assets. This led to inflated balance sheet and low margins, in turn translating into below-par RoCE. This reflected in stock multiples as well.

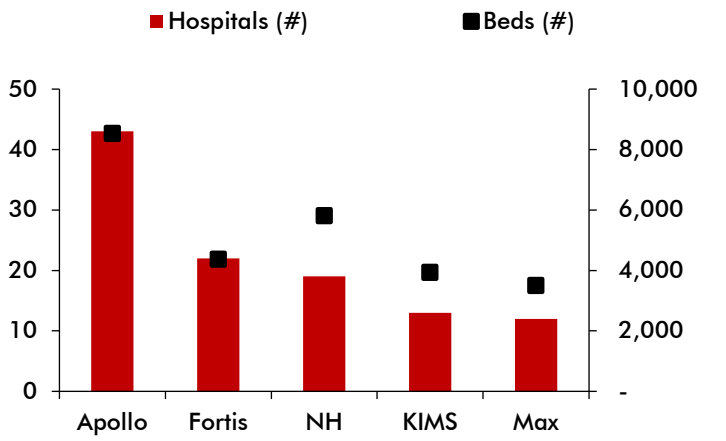
Exhibit 69: Fortis scores high on network scale and spread as well as ability to absorb the next bed-addition phase. It continues to lag peers on growth, margins and return-on-capital metrics though the gap could narrow over next few years.

	Apollo	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	Fortis is a relatively large player compared to peers such as Max and KIMS
Competitive Positioning	●	◕	●	●	◕	Fortis is one of the go-to hospitals in the Delhi NCR region – one of the largest hospital chains in Delhi NCR
Brand equity	●	◕	◕	●	◕	Fortis has a pan-India presence and is not concentrated in a single region like Max and KIMS
Dominance in key markets	◕	◑	●	●	◕	
Expansion	◕	◕	◑	◕	◕	
Relative to current capacity	●	◕	◑	◑	◕	Fortis has higher share of beds planned via brownfield projects: hence lower risk
Greenfield vs. brownfield	◑	◕	◔	●	◕	
Location	◕	◕	◑	●	●	However, it has lowest headroom to grow in current network
Headroom in current network	◑	◔	◑	◔	◕	Strong balance sheet and cash generation from mature beds to limit dependence on external funding, as with most peers
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	Fortis derives ~17% of its revenues from diagnostics and is a leading player in the segment.
Financial strength	◕	◑	◕	●	◑	Fortis's margins and RoCE are below those of peers. Recent cost-reduction and efficiency initiatives across the network has helped bridge the gap to some extent. This process is likely to continue but it would continue to be weighed down by the diagnostics business and certain legacy hospitals.
Growth	◕	◑	●	◕	◑	
Profitability	◕	◑	◕	●	◑	
Return on capital	◑	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

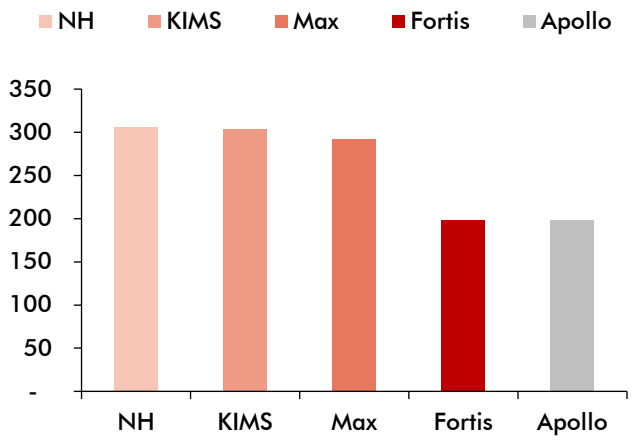
As a pan-India player, Fortis' business-model is closest to that of Apollo Hospitals and Narayana Hrudayalaya among our coverage companies. Its presence across various markets, especially Delhi/NCR, Mumbai and Bengaluru, make it the second-largest hospital-chain in terms of hospitals count. However, beds/hospital lags most peers. This dilutes economies of scale and is one of the key factors behind lower RoCE.

Exhibit 70: Fortis leads most of its peers on scale...



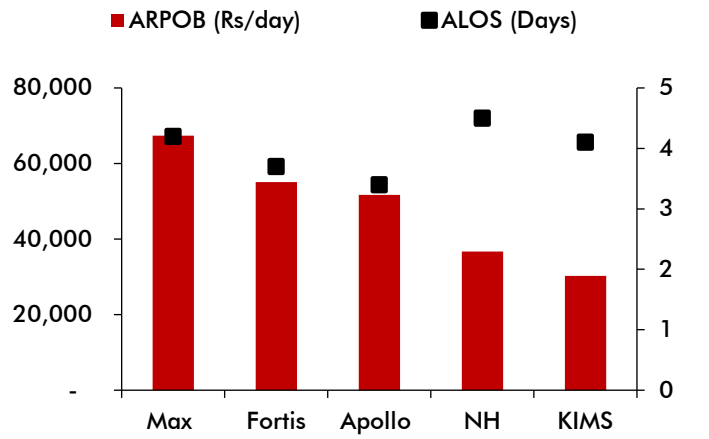
Source: Company, Ambit Capital research

Exhibit 71: ...but lags in beds/hospitals



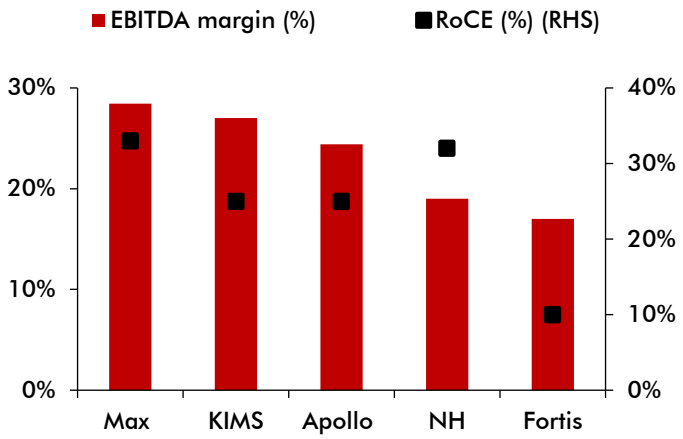
Source: Company, Ambit Capital research

Exhibit 72: Fortis is among the largest ARPOB generating hospitals owing to large city skew of hospitals...



Source: Company, Ambit Capital research

Exhibit 73: ...but lags peers on margins as well as return-on-capital metrics

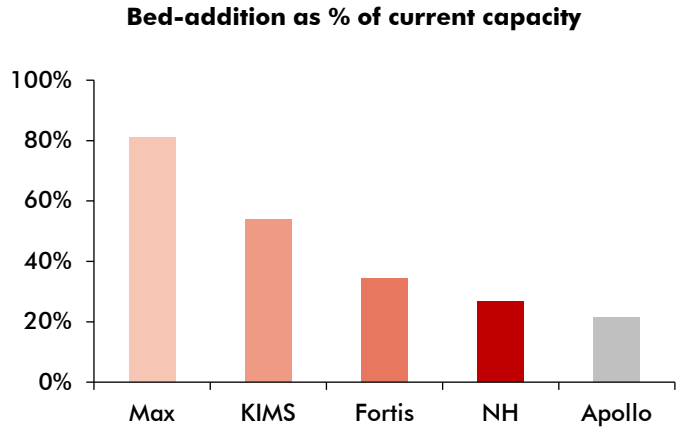


Source: Company, Ambit Capital research

Encouragingly, the focus of management is on converting many of its flagship facilities to large-format hospitals via brownfield bed-expansion. This is one of the factors that should help improve RoCE and narrow the gap vis-à-vis peers.

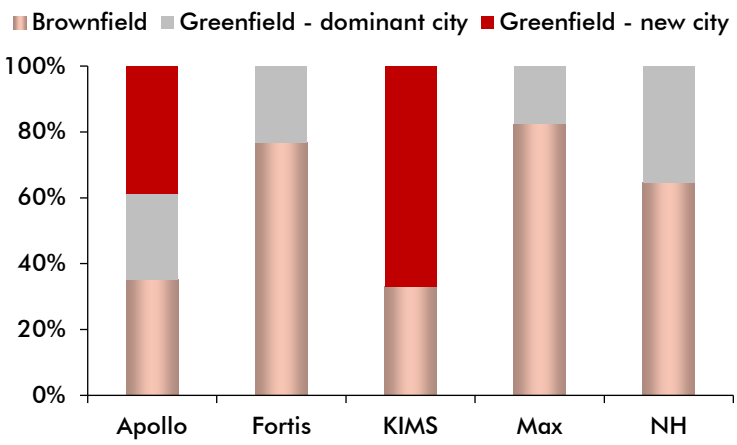
Fortis' ~34% bed-capacity addition target over the next four years is modest relative to peers. But it is a step up vis-à-vis its own trajectory in recent years. Moreover, over 75% of bed-addition is via brownfield projects in flagship hospitals where ramp-up to EBITDA break-even and maturity would be quicker. This brings growth back on the agenda without compromising on margin/RoCE expansion

Exhibit 74: Fortis' bed-expansion over FY24-27 is likely to be relatively modest vis-à-vis peers...



Source: Company, Ambit Capital research

Exhibit 75: ...and much higher share of brownfield projects vis-à-vis most as well

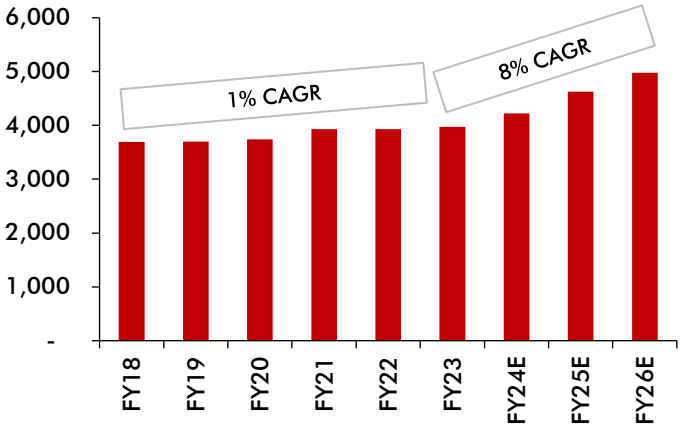


Source: Company, Ambit Capital research

Growth and RoCE step-up to support re-rating

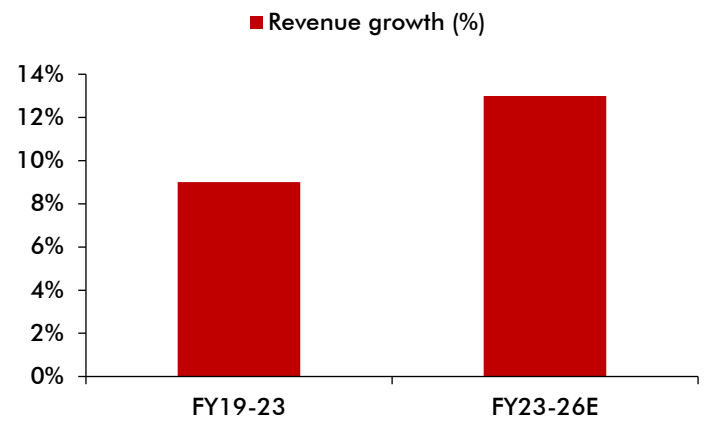
We expect Fortis' revenue growth, margins and RoCE to come closer to peers over the next few years. Step-up in brownfield-led bed-addition along with cost-reduction and other efficiency initiatives across the current network would be key drivers.

Exhibit 76: Bed-addition is back on the agenda for Fortis...



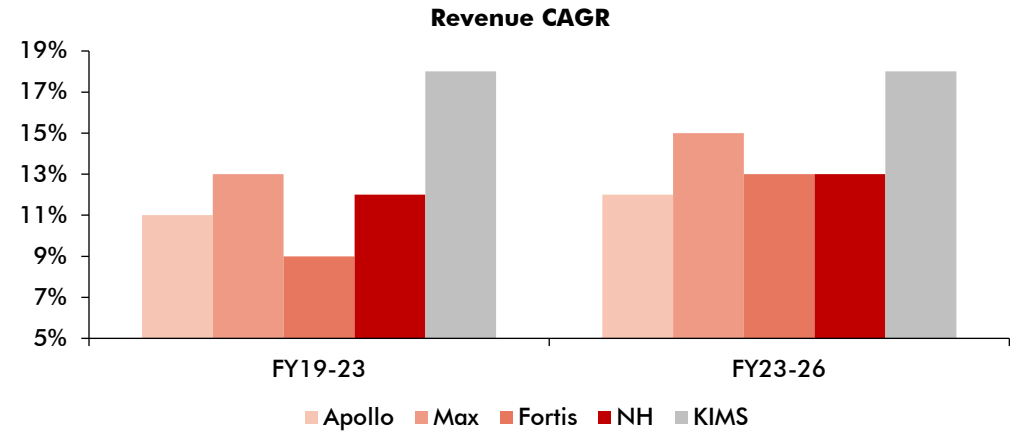
Source: Company, Ambit Capital research

Exhibit 77: ...and should drive a step-up in revenue growth



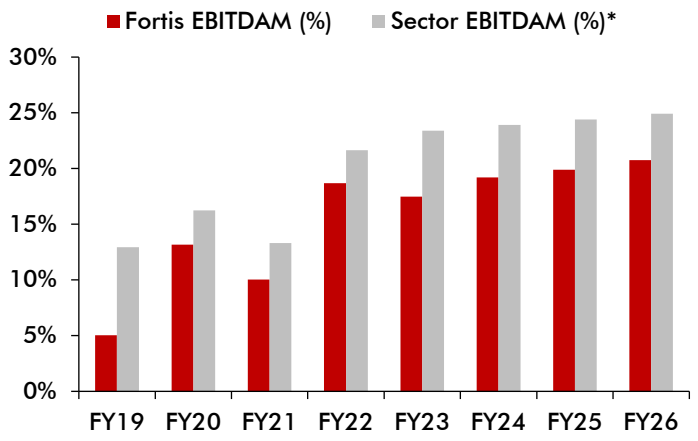
Source: Company, Ambit Capital research

Exhibit 78: ...leading to revenue growth catching up with peers



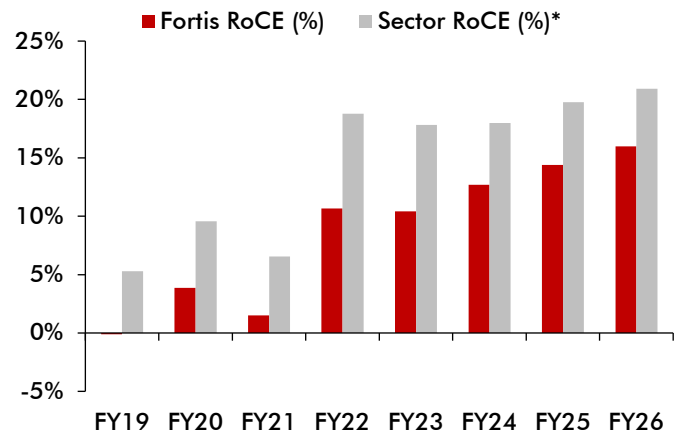
Source: Company, Ambit Capital research

Exhibit 79: We expect a similar trend in EBITDA margins...



*Source: Company, Ambit Capital research; *companies include KIMS, NH, Max, Fortis and Apollo*

Exhibit 80: ...and RoCE as well

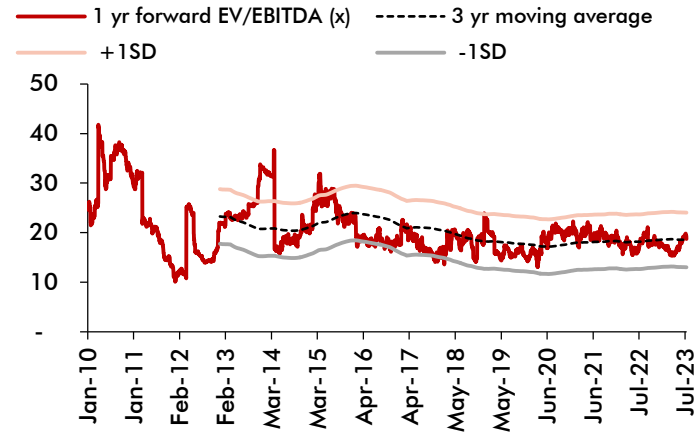


*Source: Company, Ambit Capital research; *companies include KIMS, NH, Max, Fortis and Apollo*

Valuation discount should narrow as well

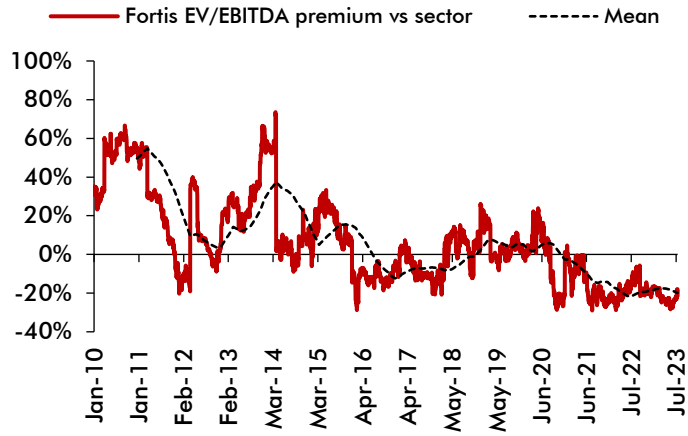
Fortis trades at 15x FY25E EV/EBITDA, which is at ~23% discount to the sector-median. This is due to a combination of inferior financial metrics (growth, margin, RoCE) and the legal uncertainty related to Daiichi Sankyo's conflict with the erstwhile promoters.

Exhibit 81: Fortis has re-rated to some extent over the last couple of years in line with recovery in business...



Source: Bloomberg, Ambit Capital research

Exhibit 82: ...but continues to trade at a discount to sector valuations



Source: Bloomberg, Ambit Capital research; Note: Companies considered for sector – Apollo Hospitals, Fortis Healthcare, Max Healthcare, KIMS and Narayana Hrudayalaya

Our DCF-based target-price of ₹415/share implies 20x FY25E target EV/EBITDA multiple. This is at a discount of 10-15% vis-à-vis implied multiples for other coverage companies, reflecting lower RoCE and lingering legal uncertainty.

Exhibit 83: Our DCF-model builds in the long growth-runway that hospital-chains enjoy in India

Parameter	FY19-23	FY23-25E Near-term	FY25-35E Medium-term	FY35-50E Long-term	Comments
Sales CAGR	9%	13%	13%	9%	Step-up in hospitals revenue growth in near-term driven by capacity addition after a lull in recent years. Long runway for hospitals and diagnostics in India to reflect in sustained growth trajectory over the longer-term as well.
EBITDA margin	13%	19%	21%	22%	Efficiency initiatives to drive margins higher in current network. This would help offset upfront costs on new beds. Expect steady improvement over the longer-term but steady state margins to remain below peers.
Capex as % of sales	4%	7%	4%	4%	Capital-intensity to gradually reduce over the years. Lower rate vis-à-vis pure hospitals peers due to much lower capital-intensity in the diagnostics business.
Pre-tax OCF/EBITDA (%)	85%	102%	103%	103%	Diagnostics business is less working capital intensive. FY19-23 cash-conversion skewed by sub 40% number for FY19 when the business was in very bad shape
WACC		**13%**			
Cost of equity		14%			
Cost of debt (post-tax)		8%			
Target D/(D+E)		20%			
Terminal growth (%)		5%			
Implied Valuation	**FY23**	**FY24E**	**FY25E**	**FY26E**	
EV/Sales	5	4	4	3	
EV/EBITDA	28.5	23.0	19.5	16.4	
P/E	60.8	41.9	32.9	26.3	
P/B	4.3	3.9	3.5	3.1	

Source: Company, Ambit Capital research

Exhibit 84: TP of ₹415/share implies 20x FY25 EV/EBITDA

	₹ mn
Total EV	314,280
- Explicit period	226,227
- Terminal period	88,053
Net debt	(5,436)
WACC	13%
Equity value	313,237
No. of shares (mn)	755
Fair value/share (₹)	415

Source: Company, Ambit Capital research

Exhibit 85: India healthcare valuation snapshot

Global Healthcare	Mcap	Ambit's Stance	P/E (x)			EV/EBITDA (x)			RoE (%)			CAGR (FY23-25E) (%)		
	US$mn	BUY/SELL	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	Sales	EBITDA	EPS
India														
Apollo	8,543	BUY	87	75	50	36	31	24	13%	13%	17%	17%	19%	32%
Max	6,213	BUY	38	42	35	32	28	23	17%	13%	14%	14%	17%	4%
Fortis	2,902	BUY	47	32	25	22	18	14	8%	10%	11%	13%	21%	36%
Narayana	2,430	BUY	33	31	26	21	19	16	34%	28%	28%	14%	15%	13%
Medanta	2,226	-	57	44	37	30	24	20	16%	16%	16%	17%	21%	24%
Aster DM	1,866	-	37	28	19	14	11	10	10%	12%	14%	12%	17%	39%
KIMS	1,828	BUY	45	48	41	26	22	19	21%	17%	17%	20%	17%	5%
Rainbow	1,272	-	50	47	39	26	24	21	25%	19%	19%	20%	10%	14%
HCG	549	-	155	70	36	18	15	13	3%	7%	10%	12%	19%	108%
Shalby	244	-	30	25	20	16	13	11	8%	8%	9%	14%	22%	21%
Median			**46**	**43**	**35**	**24**	**21**	**18**	**15%**	**13%**	**15%**	**14%**	**18%**	**23%**
Thailand														
Bangkok Dusit	12,694	-	35	33	31	20	19	18	15%	15%	15%	6%	5%	7%
Bumrungrad Hospital	5,597	-	40	35	32	22	24	22	27%	27%	26%	10%	10%	12%
Bangkok Chain Hospital	1,297	-	15	31	26	17	15	14	24%	11%	12%	-17%	-19%	-24%
Chularat	927	-	12	28	28	19	17	16	37%	15%	16%	-9%	-28%	-36%
Median			**25**	**32**	**29**	**20**	**18**	**17**	**25%**	**15%**	**16%**	**-1%**	**-7%**	**-8%**
Indonesia														
Mitra Keluarga	2,554	-	37	36	30	26	24	21	19%	18%	19%	10%	7%	11%
Siloam International Hospitals	1,736	-	37	27	22	11	11	9	10%	14%	15%	11%	19%	29%
Median			**37**	**31**	**26**	**19**	**18**	**15**	**15%**	**16%**	**17%**	**11%**	**13%**	**20%**
Malaysia/Singapore														
IHH Healthcare	11,415	-	34	32	28	11	14	13	6%	6%	7%	5%	8%	9%
Raffles Medical Group	1,782	-	17	19	19	10	11	11	15%	12%	12%	3%	-4%	-5%
KPJ Healthcare	1,122	-	29	23	21	12	11	11	8%	10%	10%	7%	8%	17%
Median			**29**	**23**	**21**	**11**	**11**	**11**	**8%**	**10%**	**10%**	**5%**	**8%**	**9%**
Middle East														
Dr Sulaiman Al Habib Medical Services Group	24,638	-	56	49	41	43	41	34	29%	30%	32%	18%	17%	16%
Mouwasat Medical Services	5,632	-	35	31	27	24	22	20	22%	22%	23%	14%	14%	15%
Dallah Healthcare Co	3,897	-	49	44	35	30	27	24	14%	14%	15%	12%	14%	18%
Al Hammadi	2,257	-	33	28	25	20	19	17	15%	17%	18%	11%	12%	14%
Middle East Healthcare Co	1,477	-	74	33	23	19	18	15	6%	12%	15%	15%	34%	79%
Median			**49**	**33**	**27**	**24**	**22**	**20**	**15%**	**17%**	**18%**	**14%**	**14%**	**16%**
US														
HCA Healthcare	73,102	-	14	15	13	9	9	9	NA	NA	NA	6%	3%	2%
Universal Health Services	9,094	-	14	13	13	8	8	7	11%	12%	12%	5%	5%	4%
Tenet Healthcare	7,404	-	19	13	11	7	7	7	38%	33%	32%	5%	5%	31%
Community Health Systems	480	-	10	N/A	12	8	8	8	34%	6%	-3%	2%	2%	-10%
Median			**14**	**13**	**13**	**8**	**8**	**8**	**36%**	**9%**	**4%**	**5%**	**4%**	**3%**
China														
Aier Eye Hospital	23,099	-	60	46	35	NA	27	22	18%	18%	20%	22%	23%	30%

Source: Bloomberg, Ambit Capital research

Risks and Catalysts

Risks

- **Regulatory changes on pricing, payer-mix:** Any move to regulate / cap pricing of drugs or diagnostics could impact profitability. In the past, governments have imposed price caps on consumables like stents and ortho implants. Hospitals are typically able to absorb these by raising prices elsewhere but this takes time. In the interim, there would be some hit on profitability. Similarly, any mandate to provide services at discounted rates to any group of patients could also pose risk to profitability. For instance, hospitals currently have flexibility to decide on the extent of their participation in government health schemes. Any change in this would have an adverse impact on profitability.
- **Rising competitive intensity in diagnostics**: Diagnostics, mainly pathology services, accounts for 19% of Fortis' FY23 revenues. Competitive intensity has been high in this space over the last two years. This could lead to a growth vs. margin trade-off for organized players as they step up investment in network, digital and promotion initiatives to ward off competition from other players. Higher share of B2B business in topline makes Fortis' relatively more vulnerable vis-à-vis peers such as Dr Lal and Metropolis.
- **Legal issues related to the Daiichi-Ranbaxy deal**: Litigation related to this deal has been an overhang on Fortis in multiple ways over the last few years. The latest Supreme Court order has cleared the air partially as far as IHH/Fortis is concerned. The court did not hold IHH in contempt of court and also opined that buyback of RHT units appear to be aimed at improving the business. However, it has also left the option of a forensic audit of this transaction open, at the discretion of the Delhi High Court. Any unforeseen, negative outcome of these proceedings would be a risk for valuations.

Catalysts

- **Bed-addition driven growth** – Fortis plans to add ~34% to its bed-capacity over FY24-27. Since over 75% of these are via the brownfield route in well-established hospitals, they are expected to ramp-up soon and lead to a step-up in revenue growth trajectory. FY23-26E topline CAGR of 13% would be much higher than the 9% CAGR clocked over FY19-23. This would contribute to higher margins and improved RoCE as well.
- **Rationalization or restructuring of current network** – IHH is engaged in improving profitability in the current network of hospitals. 18% of current operational beds are in hospitals that generate less than 10% EBITDA margin. This includes hospitals such as FEHI, Delhi and the hospitals in Chennai (Malar, Arcot Road). Efforts such as the recently announced divestment of the Arcot Road hospital would lead to margin improvement and act as catalysts for earnings/valuations.

HAWK Charts

On our proprietary forensic score framework, Fortis ranks in the D9 decile (Zone of Pain).

Exhibit 86: Fortis' accounting score

Source: Company, Ambit Capital research

Exhibit 87: Fortis' greatness score

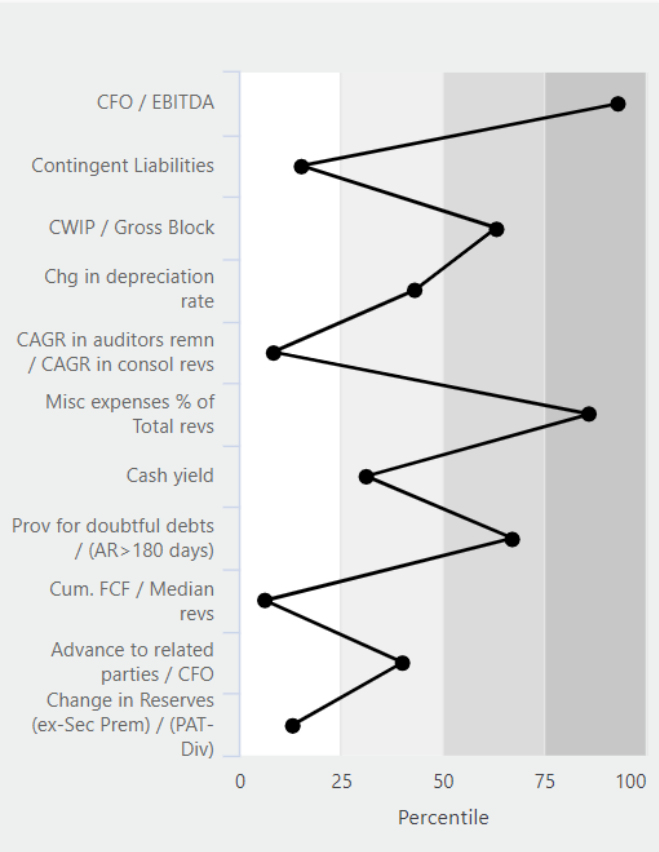
Source: Company, Ambit Capital research

Fortis is primarily penalized on three fronts: (a) contingent liabilities, (b) low cash generation relative to revenues and (c) disproportionate increase in auditors' remuneration relative to revenues. The covid-19 outbreak also led to significant volatility in most financial metrics over the last few years. This contributes to lower accounting scores as well.

Two of the abovementioned factors viz. low FCF in recent years and higher auditor remuneration are related to efforts taken by IHH to shore up margins and restore investor confidence. Fortis acquired the property assets of many of its key hospitals from RHT in order to eliminate business-trust expenses and shore up EBITDA margins. The same could also have led to increase in auditor fees. This however led to lower FCF.

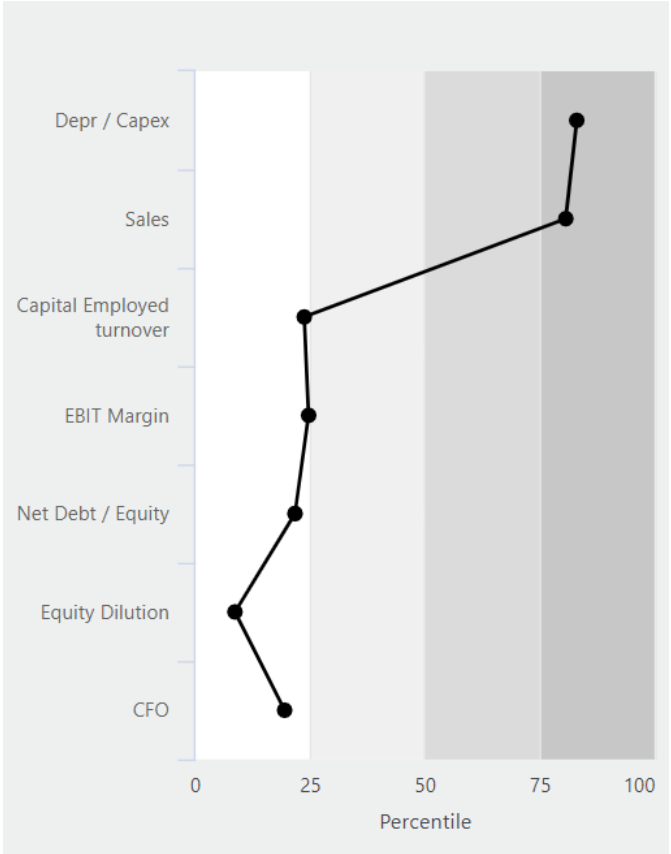
Contingent liabilities partly relate to medical litigation faced by the hospital and its doctors. This is quite common among hospitals (NH being the only exception) and unlikely to change. Hospitals are typically insured for such events. Another part of contingent liabilities relate to the legal issues surrounding the Daiichi-Ranbaxy deal. This is a long-drawn out affair and it is difficult to predict how long it could take before matters reach a conclusion. Uncertainty has however been gradually easing with the recent Supreme Court order also providing some comfort.

Exhibit 88: Accounting score contributors



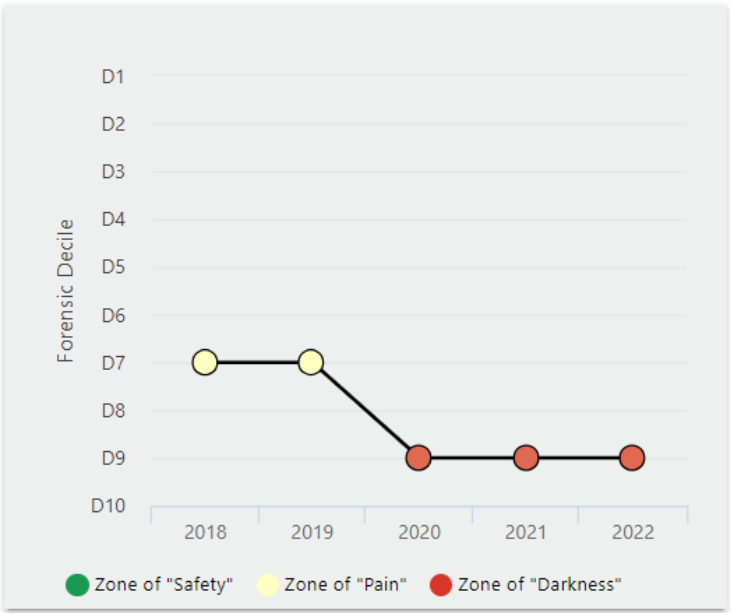
Source: Company, Ambit Capital research

Exhibit 89: Greatness score contributors



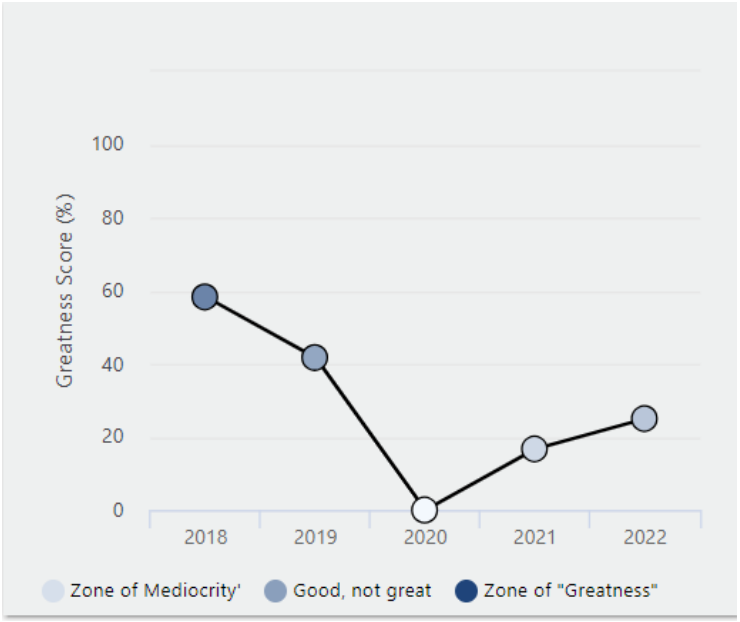
Source: Company, Ambit Capital research

Exhibit 90: Forensic score - evolution



Source: Company, Ambit Capital research

Exhibit 91: Greatness score - evolution



Source: Company, Ambit Capital research

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**40,301**	**57,176**	**62,976**	**71,263**	**80,861**	**92,057**
Gross profit	30,542	43,604	48,429	54,872	62,263	70,884
Employee cost	(8,490)	(9,729)	(10,469)	(11,306)	(12,437)	(14,159)
Other expenses	(18,008)	(23,185)	(26,947)	(29,885)	(33,744)	(37,609)
EBITDA (underlying)	**4,045**	**10,690**	**11,014**	**13,681**	**16,082**	**19,116**
Depreciation	(2,906)	(3,008)	(3,157)	(3,288)	(3,432)	(3,540)
Interest expense	(1,659)	(1,468)	(1,291)	(904)	(513)	(318)
Other income	466	273	617	679	747	821
PBT (reported)	**(43)**	**9,636**	**7,919**	**10,168**	**12,884**	**16,079**
Tax provision	(995)	(1,978)	(1,807)	(2,542)	(3,221)	(4,020)
PAT pre-minority (reported)	(1,037)	7,658	6,112	7,626	9,663	12,060
PAT (reported)	**(1,098)**	**5,551**	**5,888**	**7,484**	**9,520**	**11,917**
PAT (adjusted)	**(1,110)**	**2,401**	**5,152**	**7,484**	**9,520**	**11,917**

Source: Company, Ambit Capital research

Balance sheet

Year to March (₹ mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	7,569	7,567	7,550	7,550	7,550	7,550
Reserves & surplus	53,629	54,215	64,873	72,357	81,877	93,794
Shareholders' fund	**61,198**	**61,782**	**72,423**	**79,906**	**89,427**	**101,344**
Long term borrowings	9,677	7,791	5,722	3,222	722	722
Others	19,474	24,467	19,244	19,244	19,244	19,244
Non-current liabilities	**29,151**	**32,380**	**29,073**	**26,573**	**24,073**	**24,073**
Short term borrowings	1,796	1,697	1,309	1,309	1,309	1,309
Trade payables	5,482	6,609	7,143	8,083	9,171	10,441
Others	5,052	4,388	5,807	5,807	5,807	5,807
Current liabilities	**12,330**	**12,694**	**14,259**	**15,199**	**16,287**	**17,557**
Total equity & liabilities	**108,660**	**115,156**	**124,336**	**130,260**	**138,369**	**151,556**
Fixed assets	87,991	94,157	94,264	97,033	97,806	97,763
Capital work-in-progress	1,649	1,935	2,278	2,278	2,278	2,278
Intangible assets	-	-	-	-	-	-
Loans & advances and investments	7,740	7,653	2,604	2,604	2,604	2,604
Others	97	79	11,126	11,126	11,126	11,126
Non-current assets	**98,292**	**103,824**	**110,273**	**113,042**	**113,814**	**113,772**
Inventories	768	1,229	1,228	1,390	1,577	1,796
Trade receivables	4,578	5,122	5,816	6,833	7,754	8,827
Cash and cash equivalents	4,166	4,127	3,627	5,603	11,832	23,769
Loans & advances and others	857	855	3,392	3,392	3,392	3,392
Current assets	**10,368**	**11,333**	**14,064**	**17,218**	**24,554**	**37,784**
Total assets	**108,660**	**115,156**	**124,336**	**130,260**	**138,369**	**151,556**

Source: Company, Ambit Capital research

Per share data

Year to March (₹)	FY21	FY22	FY23	FY24E	FY25E	FY26E
No. of shares o/s (mn)	755	755	755	755	755	755
EPS (adjusted) basic	(1.5)	3.2	6.8	9.9	12.6	15.8
EPS (adjusted) diluted	(1.5)	3.2	6.8	9.9	12.6	15.8
DPS	-	-	1.0	1.5	1.8	2.3
Dividend payout (%)	0%	0%	15%	15%	15%	15%

Source: Company, Ambit Capital research

Cash flow statement

Year to March (₹ mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	433	9,878	8,137	10,168	12,884	16,079
Depreciation	2,906	3,008	3,157	3,288	3,432	3,540
Others	1,168	(2,016)	(78)	761	370	175
WC (build)/release	(127)	(102)	(252)	(239)	(19)	(22)
Tax	475	(2,114)	(2,742)	(2,542)	(3,221)	(4,020)
Cash flow from operations	**4,855**	**8,654**	**8,222**	**11,437**	**13,446**	**15,753**
Capex (net)	(2,185)	(2,155)	(4,472)	(6,057)	(4,205)	(3,498)
Others income/(expenditure)	834	(2,989)	735	-	-	-
Cash flow from investments	**(1,351)**	**(5,144)**	**(3,737)**	**(6,057)**	**(4,205)**	**(3,498)**
Proceeds from borrowings	494	(3,396)	(5,417)	(2,500)	(2,500)	-
Issuance/buyback of equity	-	-	-	-	-	-
Interest paid	(1,686)	(1,470)	(1,297)	(904)	(513)	(318)
Dividend paid	-	-	-	-	-	-
Cash flow from financing	**(1,429)**	**(5,173)**	**(4,712)**	**(3,404)**	**(3,013)**	**(318)**
Net change in cash	2,075	(1,663)	(227)	1,976	6,229	11,937
FCF	**984**	**5,029**	**2,453**	**4,476**	**8,729**	**11,937**

Source: Company, Ambit Capital research

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue growth (%)	-13%	42%	10%	13%	13%	14%
EBITDA margin (%)	10.0%	18.7%	17.5%	19.2%	19.9%	20.8%
EBIT margin (%)	3%	13%	12%	15%	16%	17%
Net margin (%)	-3%	4%	8%	11%	12%	13%
Gross block turnover (x)	0.4	0.5	0.6	0.6	0.7	0.7
RoCE pre-tax (%)	1%	11%	10%	13%	14%	16%
RoCE post-tax (%)	36%	8%	8%	10%	11%	12%
RoIC pre-tax (%)	2%	11%	11%	13%	16%	20%
RoE (%)	-2%	4%	8%	10%	11%	12%
Receivable days	41	33	34	35	35	35
Inventory days	7	8	7	7	7	7
Payable days	50	42	41	41	41	41
Cash conversion cycle	(1)	(2)	(1)	1	1	1
Pre-tax CFO/EBITDA (%)	108%	101%	100%	102%	104%	103%
Net debt / Equity (x)	0.1	0.1	0.0	(0.0)	(0.1)	(0.2)

Source: Company, Ambit Capital research

Valuation ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(218)	101	47	32	25	20
P/B (x)	4	4	3	3	3	2
EV/EBITDA(x)	60	23	22	18	15	13
EV/EBIT(x)	213	32	31	23	19	16

Source: Company, Ambit Capital research

Narayana Hrudayalaya

BUY

Valuation catch-up to continue

NH is best placed among peers to absorb the next bed expansion phase. Having pioneered affordable care in India led by process innovation and scale, NH evolved into a high-end, multispecialty hospital chain with dominance in Bengaluru and East India. Headroom in operational hospitals implies lower bed addition and better ability to offset upfront losses on new capacity beds. Bed addition via brownfield and greenfield projects in big city core markets supports faster ramp-up and breakeven points. We forecast 13%/14% revenue/EBITDA CAGR over FY23-26 and ~25-27% RoCE despite capex step-up. International exposure (Cayman-Islands) and lower RoCE in India are behind discount to peers. Former may not change but RoCE has caught up and should sustain in line with peers, and should reflect in valuations. DCF-based TP of ₹1,280 implies FY25E exit EV/EBITDA of 21x. Risks: Inability to ramp up Cayman Islands' second unit and adverse regulatory changes in India.

Competitive position: STRONG Changes to this position: POSITIVE

Leading hospital chain in Karnataka and East India

NH enjoys dominance in Karnataka and East India (~78% of beds) and is in catch-up mode in Delhi/NCR and Mumbai. It is also a rare Indian chain with meaningful international presence, viz. Cayman Islands (~19% of sales). Ability to diversify case mix beyond cardiac, especially in oncology, has driven ramp-up in mature hospitals. This in turn improved OCF (FY24-26: ₹33bn) and reduced net-D/E to 0.3x, leaving it well-placed for the next expansion phase.

Brownfield led expansion, headroom in current network augur well

FY24-27 bed expansion is likely to be modest (25-30%) given headroom to grow in current hospitals. Two-third of this is likely to be brownfield and the rest greenfield in core markets Kolkata and Raipur. Moreover, ~40% of current operational beds are not yet mature. Growth and margin improvement in these beds would offset upfront losses on new capacity beds.

Growth step-up with 25-27% RoCE

FY23-26 revenue CAGR of 13% would be driven by rising occupancy in existing network aided by debottlenecking and bed addition. Occupancy gains would offset upfront cost on new beds, leading to ~60bps EBITDAM expansion. RoCE would dip on capex step-up but stay above 25% and recover to ~27% by FY26.

Catching up with peers

Implied multiple for NH's India business (assuming 15x for Cayman), is 23x FY25E EBITDA: ~15-18% discount to Apollo/Max due to lower margins/RoCE. Growth/margin headroom in current network and brownfield-heavy expansion would help bridge this gap. This should reflect in valuations too. Our implied target multiple is at ~5% discount to sector given lower growth potential in overseas business.

Key Financials

Year to March (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	37,004	45,248	52,659	58,459	65,110
EBITDA	6,526	9,658	11,137	12,834	14,286
Net Profits	3,421	6,063	6,430	7,735	8,784
Diluted EPS (₹)	17	30	31	38	43
RoE (%)	27%	34%	28%	28%	27%
EV/EBITDA	32.3	21.8	18.9	16.4	14.8

Source: Company, Ambit Capital research

Healthcare

Recommendation

Mcap (bn):	₹202/US$2.4
6M ADV (mn):	₹267/US$3.2
CMP:	₹989
TP (12 Mths):	₹1,280
Upside (%):	29

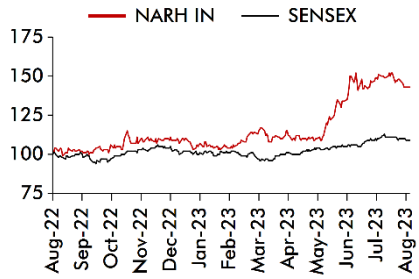
Flags

Accounting:	GREEN
Predictability:	GREEN
Earnings Momentum:	GREEN

Catalysts

- Commissioning and ramp-up of second unit in Cayman Islands
- Margin expansion in Delhi/NCR and Mumbai, at 600bps and 750bps over FY23-25

Performance



Source: ICE, Ambit Capital Research

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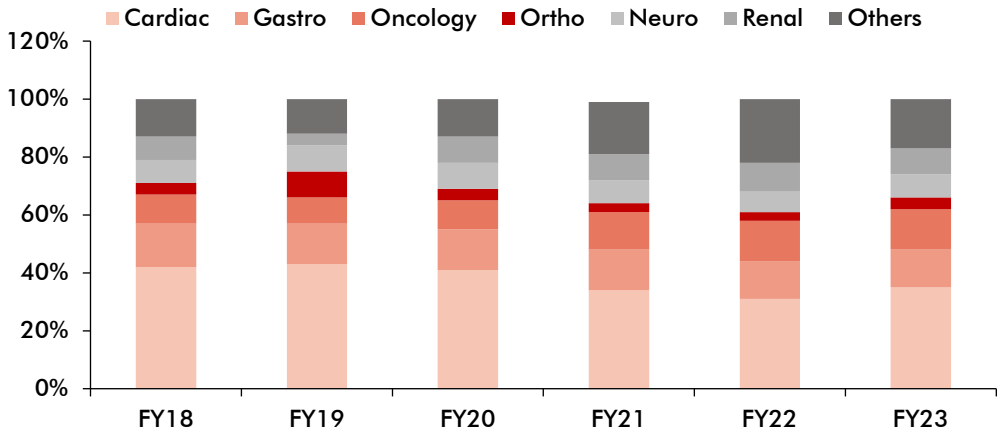
The Narrative in charts

Exhibit 1: NH is dominant in Karnataka and East India, emerging in Delhi/NCR, Mumbai

Parameter	Karnataka	Eastern	Western	Northern
No. of hospitals	6	7	2	3
Key hospitals	NICS, MSMC	RTIICS, Raipur, Jamshedpur	Mumbai, Ahmedabad	Jaipur, Gurugram, New Delhi
Operational beds (# beds)	2,027	2,134	373	800
% of total operational beds	38%	40%	7%	15%
Revenue share (%)	43%	37%	6%	14%
EBITDA share (%)	56%	37%	0%	7%
Occupancy (%)	51%	49%	46%	45%
ARPOB (₹/day)	52,497	43,475	39,630	51,481

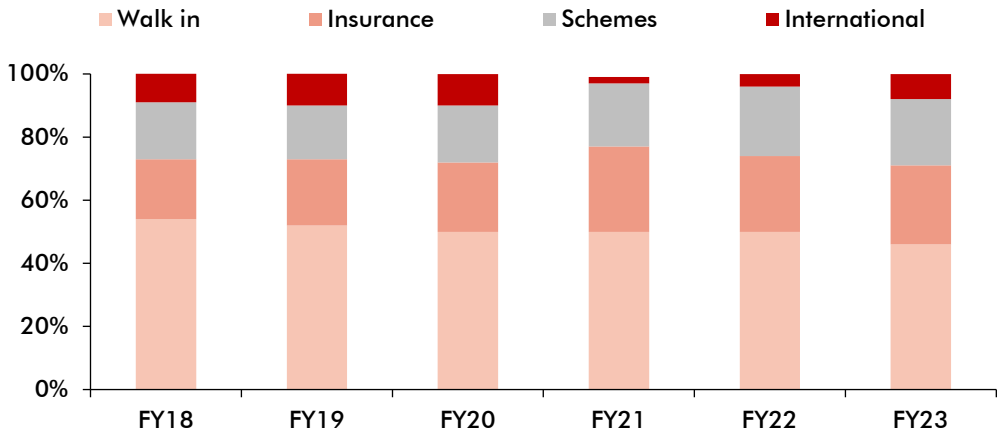
*Source: Company, Ambit Capital research; Note: excluding Jammu, *Based on data provided by NH till 2QFY23*

Exhibit 2: Case mix: cardiac continues to dominate but gradually reducing in share. NH has made good progress in oncology services over the last few years



Source: Company, Ambit Capital research

Exhibit 3: Payer mix: share of patients with health coverage (insurance and state schemes) in revenues has increased consistently over the years



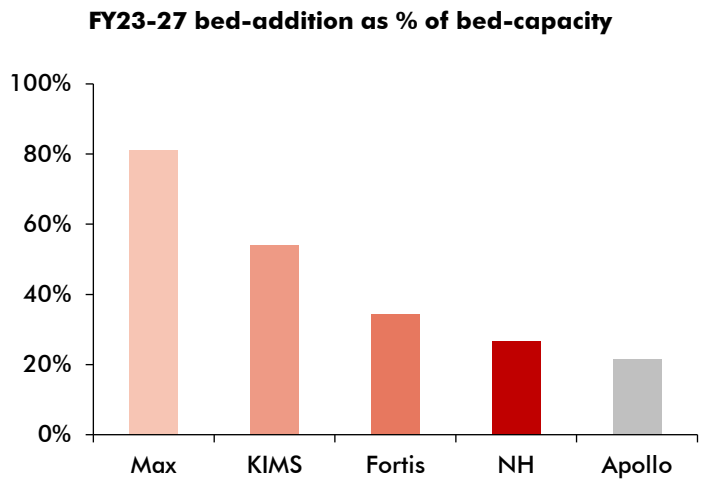
Source: Company, Ambit Capital research

Exhibit 4: Headroom to grow in current network hospitals: 13 hospitals in the network have not yet completed 10 years post commissioning. Growth and margin expansion in these should help offset upfront costs on new beds

NH's network	Pre-commissioning	New			Mature
		Phase-I	Phase-II	Phase-III	
No. of hospitals	1	0	4	9	6
No. of beds (% of total)	1,550 (27%)	0 (0%)	970 (18%)	1,624 (29%)	2,868 (53%)

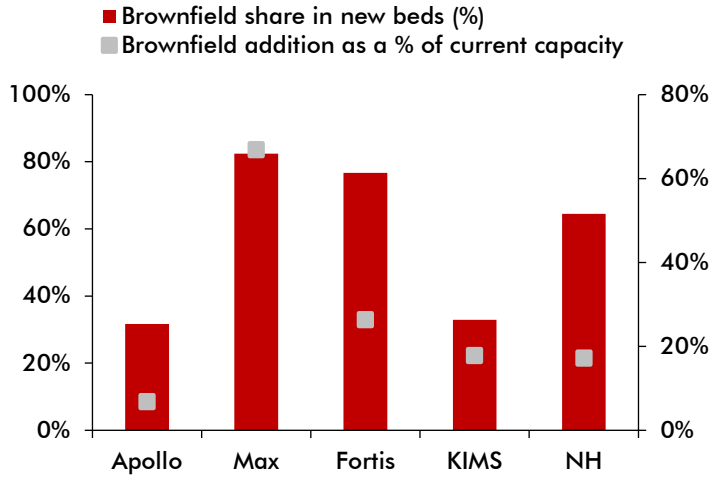
Source: Company, Ambit Capital research

Exhibit 5: Relatively modest bed expansion vis-à-vis peers...



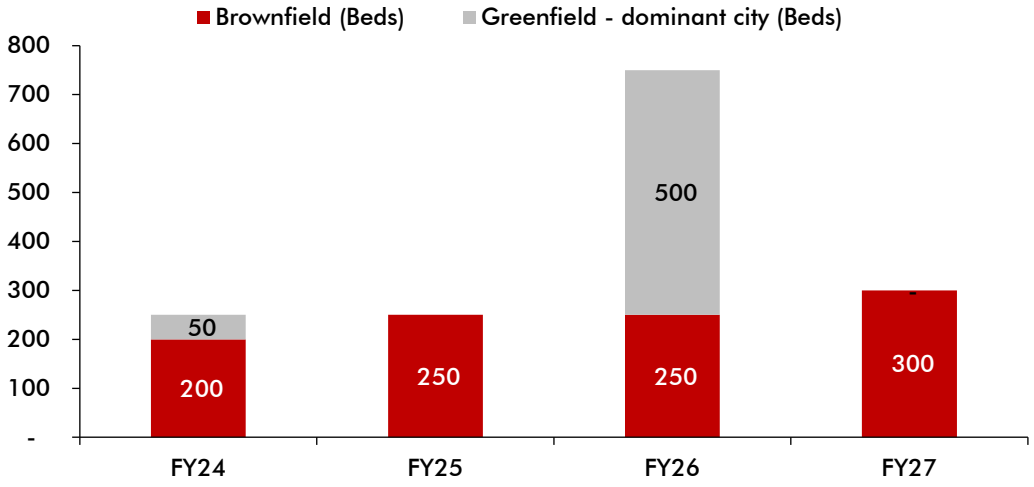
Source: Company, Ambit Capital research

Exhibit 6: ...and largely via the brownfield route



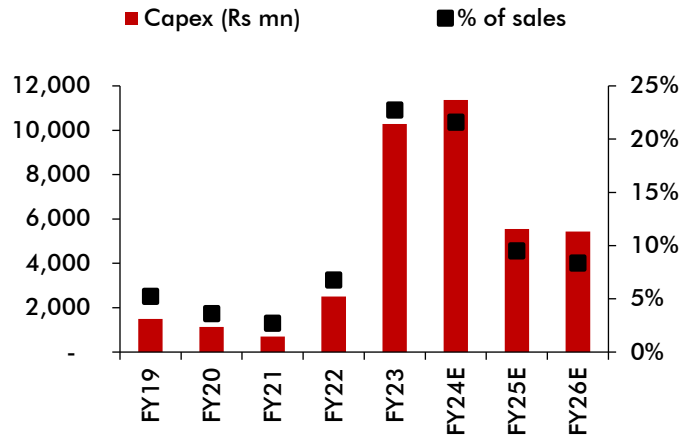
Source: Company, Ambit Capital research

Exhibit 1: Bed expansion is back-ended and in dominant cities: 65% via brownfield projects, ~68% over FY26-27



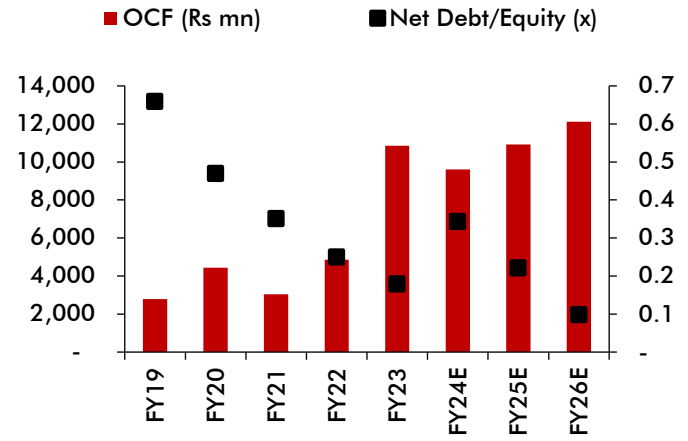
Source: Company, Ambit Capital research

Exhibit 7: We envisage cumulative capex of ₹22bn over FY24-26 as bed addition steps up...



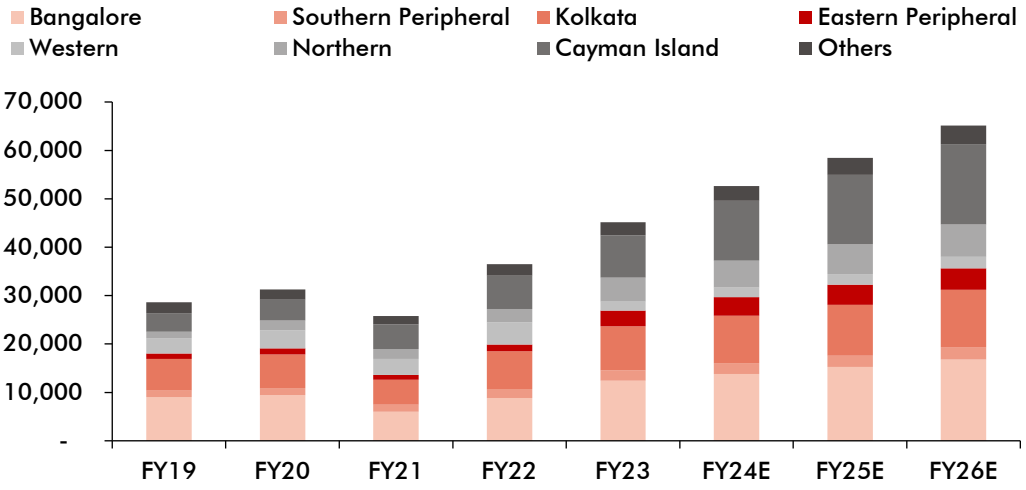
Source: Company, Ambit Capital research

Exhibit 8: ...largely funded internally. We forecast cumulative OCF of ₹33bn over FY24-26



Source: Company, Ambit Capital research

Exhibit 2: We forecast 13% revenue CAGR over FY23-26 aided by improving utilization in the current network of hospitals and some new bed addition

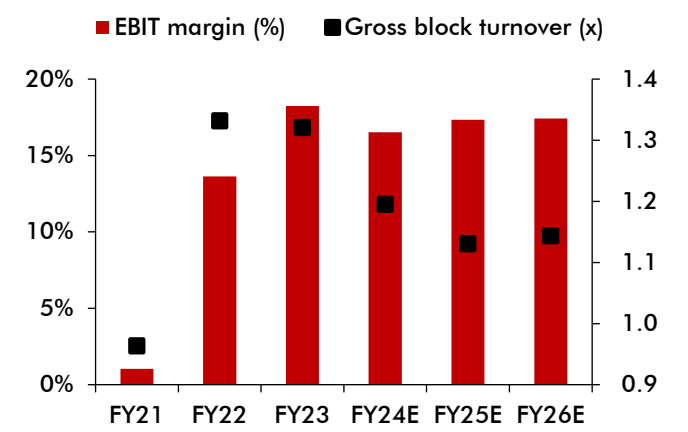


Source: Company, Ambit Capital research

Exhibit 9: RoCE to dip but stay in the ~25-27% range...

Source: Company, Ambit Capital research

Exhibit 10: ...as margin resilience makes up for lower GB T/O



Source: Company, Ambit Capital research

Cardiac and more

Narayana Hrudayalaya (NH) was one of the pioneers of the low-cost healthcare model in India. Having commenced operations as a cardiac-focused hospital in Bengaluru, it has diversified case-mix and geographical presence over the years. It has well-established networks and enjoys strong brand recognition in Karnataka and eastern India and is an emerging player in the high-potential Delhi/NCR and Mumbai markets. The Covid-19 outbreak also proved to be an inflection point for its operations in the Cayman Islands. Current bed capacity and occupancy levels indicate that debottlenecking initiatives could create ample growth headroom in current network. Expansion plans are also entirely in markets where the brand is well-established. These augur well for ability to grow without material margin/RoCE dilution.

Increasingly diversified across markets and specialties

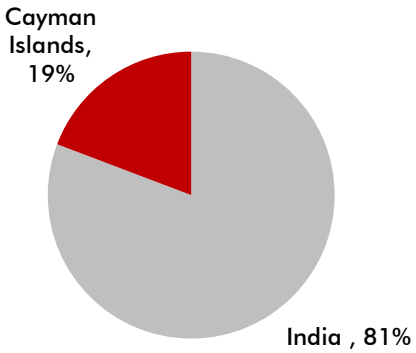
NH was set up in 2000 by Dr. Devi Shetty, a renowned cardiac surgeon. It set up its first hospital in Bengaluru, with a focus on cardiac care. Over the years, the company has expanded services to include specialties such as orthopaedics, neurology, and oncology, and established hospitals in other parts of India. Currently, it operates 19 owned/operated hospitals, two managed hospitals and four heart centres in India. It also operates one hospital in Cayman Islands. Total operational bed-count stands at ~5,888.

Exhibit 11: NH's hospital network

Facilities	Beds
Owned/operated	**5,334**
- Bangalore	1,494
- Southern Peripheral	533
- Kolkata	1,387
- Eastern Peripheral	747
- Western	373
- Northern	800
Managed	178
Heart centres	266
Cayman Islands	110
Total	5,888

Source: Company, Ambit Capital research

Exhibit 12: India contributes ~81% to NH's revenues



Source: Company, Ambit Capital research

Established in South and East India

NH is well-established with strong brand recognition in Karnataka and eastern India, especially Bengaluru and Kolkata. It also has five hospitals in the western and northern parts of India but is still an emerging player in these markets. Karnataka and the Eastern region cumulatively account for ~78% of operational beds and ~80% of revenues respectively in its India operations.

Exhibit 13: Dominant in Karnataka and East India

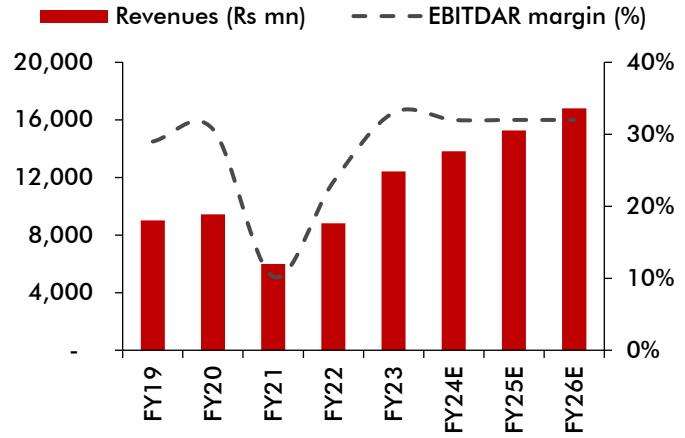
Parameter	Karnataka	Eastern	Western	Northern
No. of hospitals	6	7	2	3
Key hospitals	NICS, MSMC	RTIICS, Raipur, Jamshedpur	Mumbai, Ahmedabad	Jaipur, Gurugram, New Delhi
Operational beds (# beds)	2,027	2,134	373	800
% of total operational beds	38%	40%	7%	15%
Revenue share (%)	43%	37%	6%	14%
EBITDA share (%)	56%	37%	0%	7%
Occupancy (%)	51%	49%	46%	45%
ARPOB (₹/day)	52,497	43,475	39,630	51,481

*Source: Company, Ambit Capital research; Note: excluding Jammu facility, *Based on data provided by the company till 2QFY23*

Karnataka: most profitable cluster

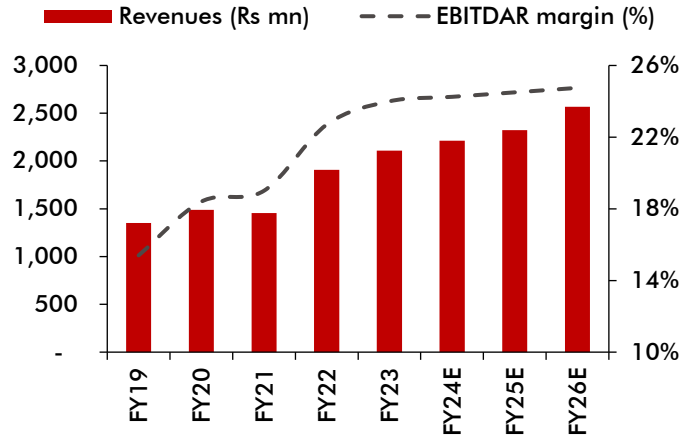
Karnataka is the largest cluster in NH's network, accounting for ~38%, ~43% and ~56% of operational beds, revenues and EBITDA respectively. The company has six hospitals in this region – four in Bengaluru and one each in Mysore and Shimoga. This is also the most profitable cluster in NH's network with ~30% EBITDA margin. Bengaluru is highly profitable (~33% EBITDA margin) while the hospitals in other parts of Karnataka are still operating at lower profitability viz. ~22-23% range. NH has two flagship hospitals in Bengaluru viz. Narayana Institute of Cardiac Sciences (NICS) and Mujumdar Shaw Medical Center (MSMC). Occupancy at 51% implies reasonable headroom to grow, albeit with some debottlenecking initiatives, and there is likely to be some brownfield capacity expansion in this cluster over the next few years. We forecast 11% and 10% CAGR in revenues and EBITDA for the Karnataka region over FY23-26.

Exhibit 14: An 11%/10% revenue/EBITDA CAGR for its Bangalore cluster...



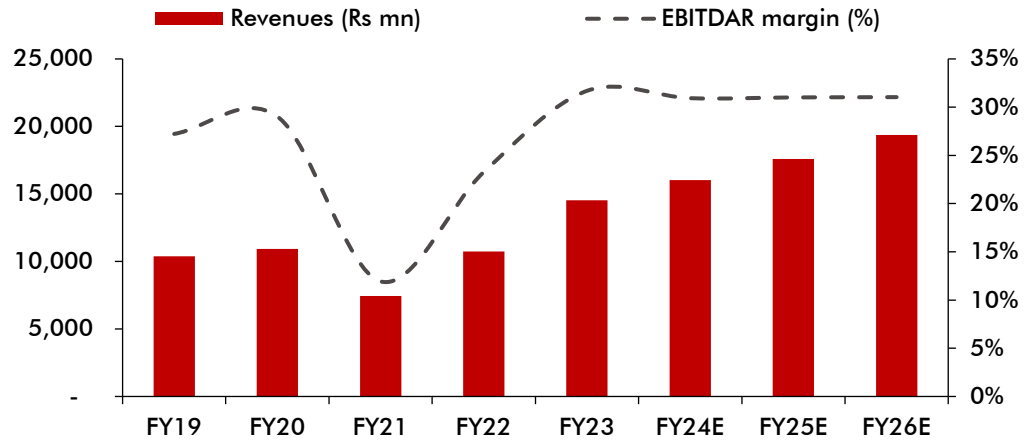
Source: Company, Ambit Capital research

Exhibit 15: ...and 7%/8% revenue/EBITDAR CAGR for its Southern Peripheral cluster...



Source: Company, Ambit Capital research

Exhibit 16: ...adding up to 10%/9% revenue/EBITDAR CAGR in Karnataka over FY23-26E. Bengaluru would remain the key driver on debottlenecking, brownfield initiatives



Source: Company, Ambit Capital research

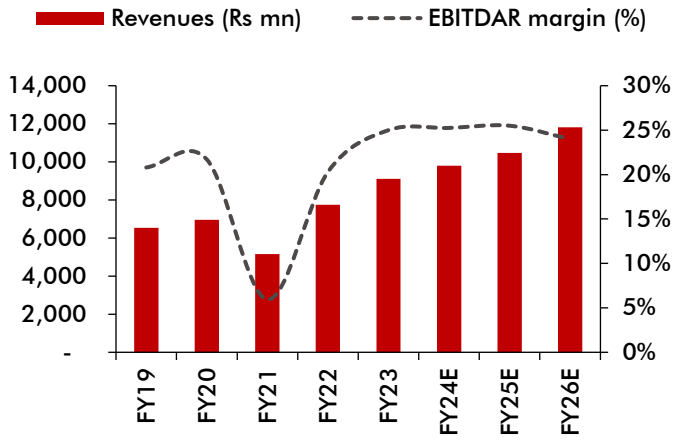
- **Eastern region: largest in terms of bed count**

NH has a majority of its operational bed count in the eastern part of India, viz. ~40% of total operational beds. It contributes ~37% and ~37% to revenues and EBITDA respectively. NH's third flagship hospital, viz. Rabindranath Tagore International Institute of Cardiac Sciences (RTIICS), is in this cluster. This is a multi-specialty hospital with ~665 operational beds, located in Kolkata. It also has hospitals in other cities such as Guwahati, Jamshedpur and Raipur. The network in this region includes:

- Four facilities in Kolkata – RTIICS, Barasat, NMH & NSH and NSC. This cluster accounts for ~27% of revenues and enjoys EBITDA margin of ~25%.
- Three facilities in other cities, viz. Jamshedpur, Guwahati and Raipur. EBITDA margin for these hospitals is in the 23-24% range. Profitability in these hospitals has improved over the last few years and drawn close to the company's hospitals in Kolkata.

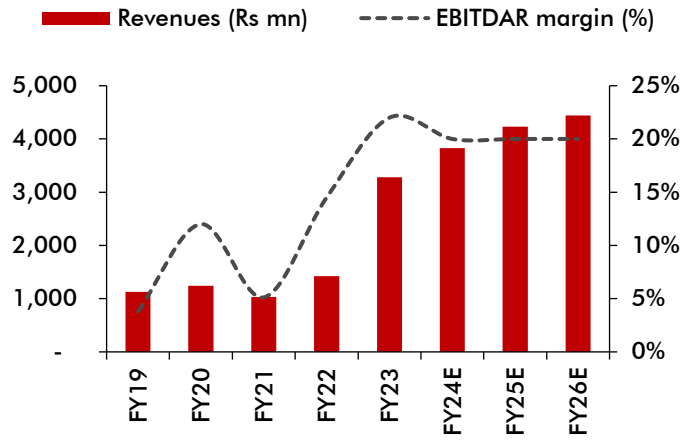
NH is likely to set up greenfield hospitals in Kolkata and Raipur over the next few years to capitalize on latent demand for its services in these cities. This cluster is, therefore, likely to be a key driver of revenue growth over the medium-to-long term. We forecast 10%/8% revenue/EBITDA CAGR in this region over FY23-26.

Exhibit 17: Kolkata cluster to see revenue/EBITDA CAGR of 9%/8% over FY23-26E...



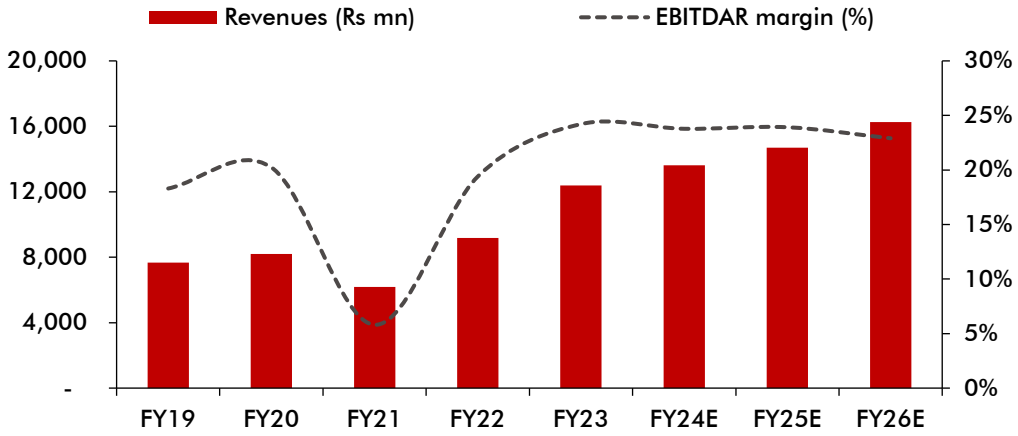
Source: Company, Ambit Capital research

Exhibit 18: ...Eastern Peripheral region to clock 11%/7% CAGR in revenues/EBITDA over FY23-26E...



Source: Company, Ambit Capital research

Exhibit 19: ...leading to 9%/7% revenue/EBITDA CAGR in East India over FY23-26E



Source: Company, Ambit Capital research

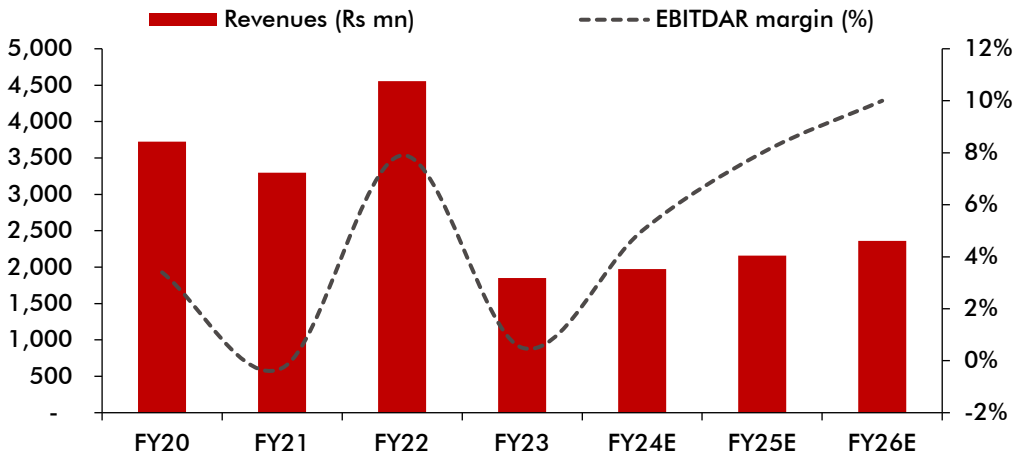
Emerging player in the West and North

NH has also forayed into cities in the western and northern parts of India. The company's brand is not as established in these markets and these hospitals remain in ramp-up mode.

- The western region comprises two hospitals, in Mumbai and Ahmadabad. This cluster contributes 7% and 6% to operational bed-count and revenues respectively. The hospital in Mumbai (SRCC) is the flagship hospital in this cluster. It is a pediatric focused hospital with 210 beds that was commissioned in FY18. Ramp-up has been slow and it is now on the verge of EBITDA break-even.

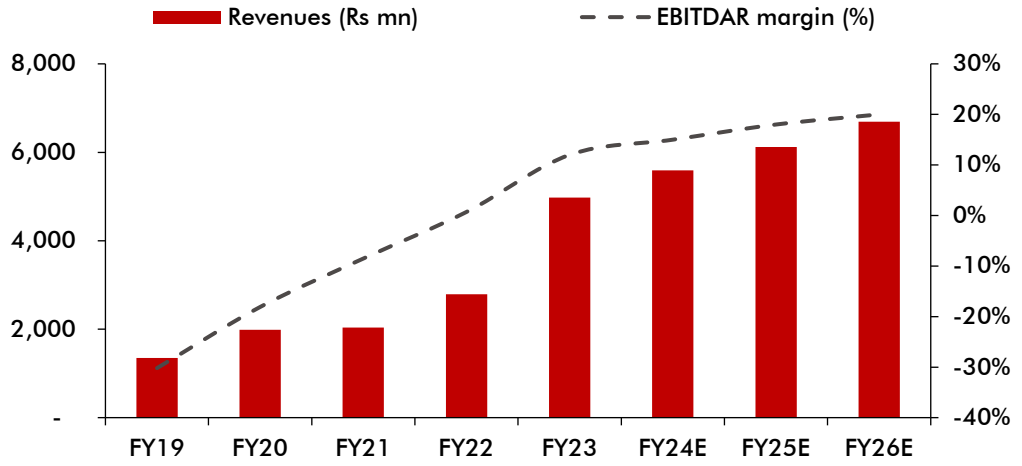
This northern region comprises three hospitals in New Delhi, Gurugram and Jaipur. This cluster contributes 15%, 14% and 7% to operating beds, revenues and EBITDA respectively. The hospitals in New Delhi and Gurugram are part of its "new hospitals" cohort. These have now achieved double-digit EBITDA margins on the back of rising occupancy. NH still lags peers such as Max and Fortis, which have been operating in this market over a much longer period. It would take a long time to bridge this gap but we see room for further improvement in ARPOB and margins, given attractive nature of the market as well as operating leverage as occupancy improves.

Exhibit 20: We forecast 8% revenue CAGR and ~950bps margin expansion in the western region over FY23-26 as occupancy improves at Mumbai



Source: Company, Ambit Capital research

Exhibit 21: We forecast 10% revenue CAGR and 800bps EBITDAM improvement in the Northern region, primarily driven by operating leverage at the Delhi/NCR hospitals

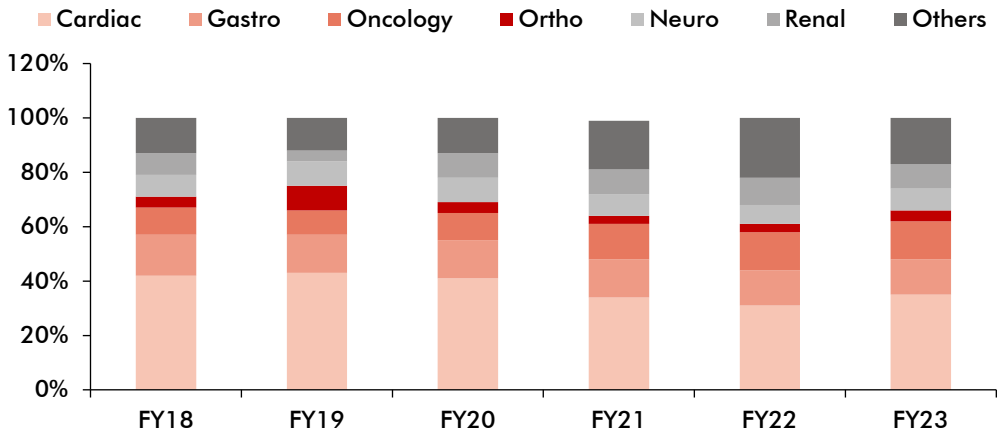


Source: Company, Ambit Capital research

Case mix getting more diversified

The founder's (Dr Devi Shetty) reputation as one of the most renowned cardiac surgeons in the country is the primary reason for the disproportionately high share of cardiac in NH's case mix. This high concentration in one segment has been a concern in the past. But it has been receding over the two to three years as NH's efforts to diversify the mix have started paying off. Share of cardiology in revenues reduced from ~42% in FY18 to ~35% currently. At the same time, share of oncology services increased from 10% of revenue in FY18 to 14% in FY23 given rising incidence of cancer in India and NH's focus on this segment.

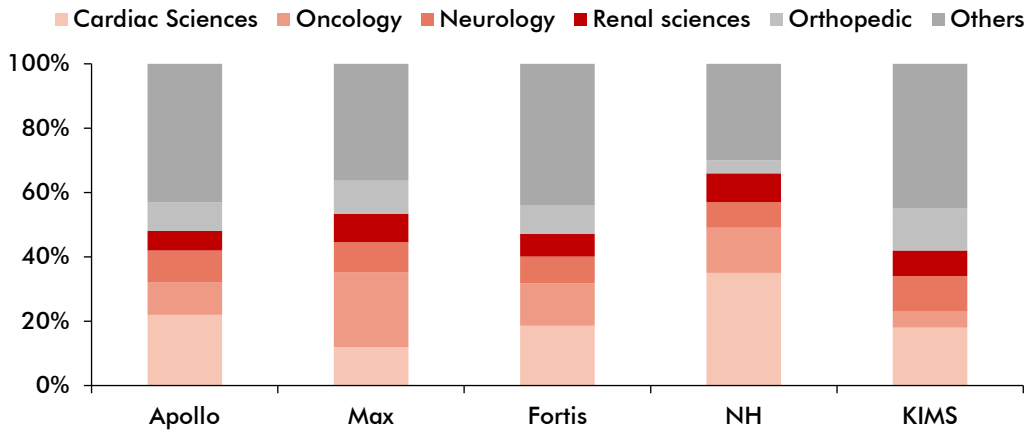
Exhibit 22: Case mix: cardiac continues to dominate but gradually reducing in share. NH has made good progress in oncology services over the last few years



Source: Company, Ambit Capital research

Relative to large listed peers, NH gets highest share of revenue from cardiology (Apollo/Max/Fortis: 21%/12%/19%) and is second only to Max Healthcare (23%) in oncology.

Exhibit 23: NH remains most leveraged to cardiac services vs peers

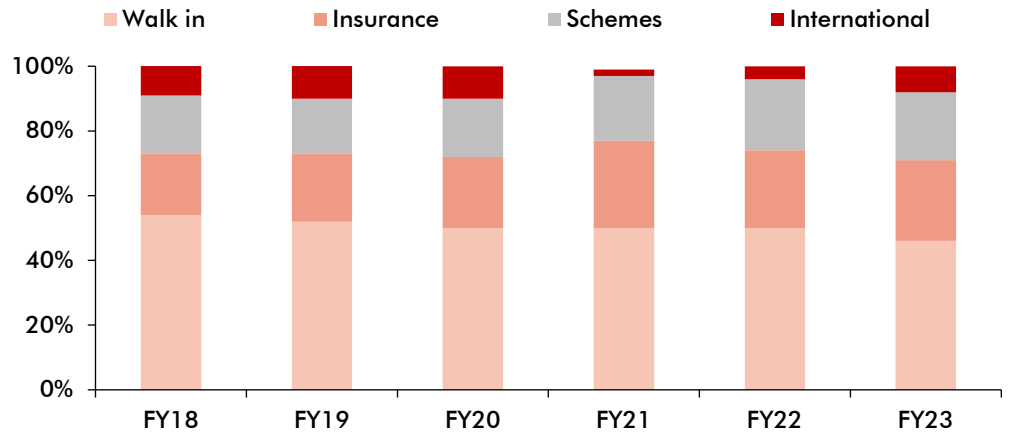


Source: Company, Ambit Capital research

Rising share of insured and international patients

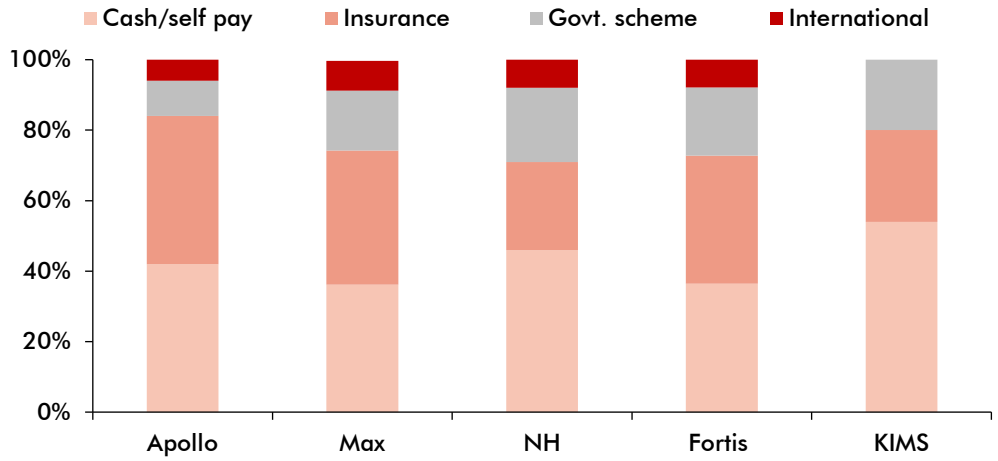
Cash (walk-in) patients form the primary cohort for NH from a payer mix perspective, as with most other private hospital chains. Cash patients accounted for 46% of revenues as on FY23. However, share of patients with health coverage has increased from 19% in FY18 to 25% in FY23. This includes private insurance coverage as well as those covered by government healthcare schemes. Share of revenues from international patients used to be 10-11% pre-Covid. This now stands at ~8% (up from ~2% in FY21) and is likely to increase over the next few years.

Exhibit 24: Share of patients with health coverage (insurance and state schemes) in revenues has increased consistently over the years



Source: Company, Ambit Capital research

Exhibit 25: Reasonably diversified payer mix, not very different from most peers

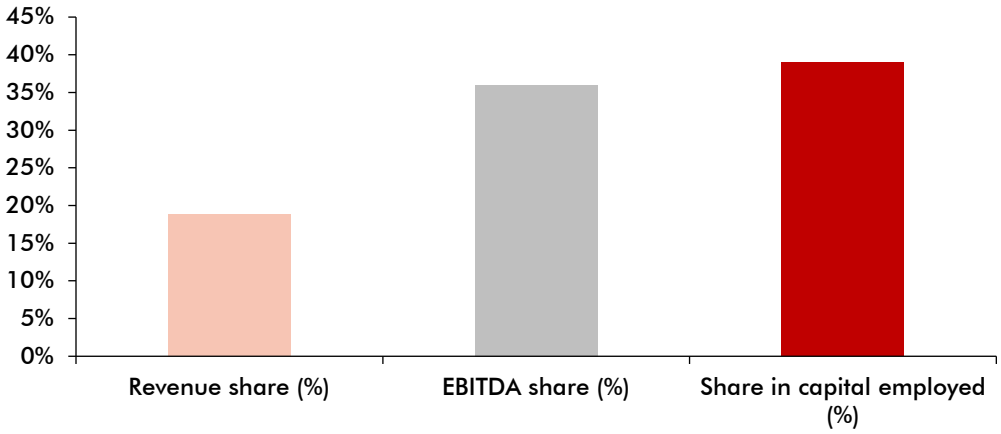


Source: Company, Ambit Capital research

Cayman Islands: building on initial success

NH's 110-bed hospital in the Cayman Islands was commissioned in 2014. The company invested US$17mn for 28.6% stake initially. Later, in 4QFY18, it acquired the balance shareholding for US$31mn. The hospital offers cardiac care services at around a fourth of the cost in the US. The original plan was to attract patients from the US as well as surrounding Caribbean islands. The business took time to scale up and achieved EBITDA break-even only in 2019.

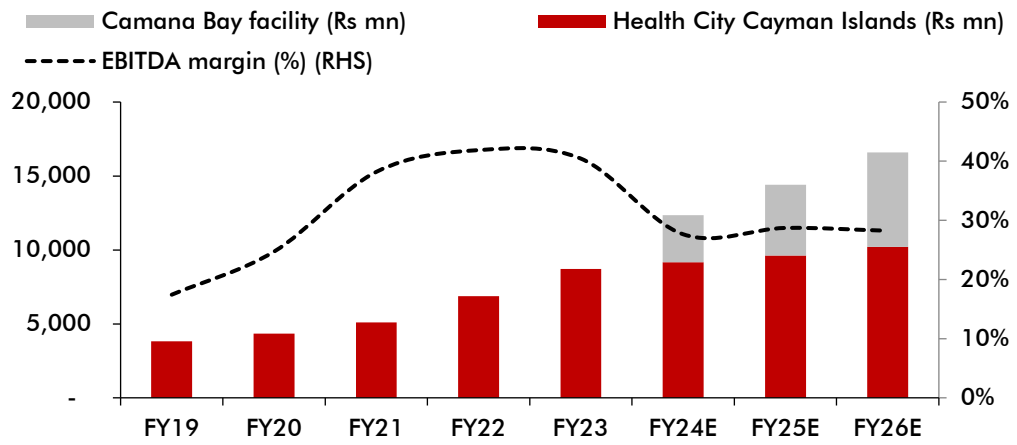
Exhibit 26: Cayman Islands accounted for ~19% of revenues, 36% of EBITDA and 39% of capital employed in FY23



Source: Company, Ambit Capital research

The Covid-19 outbreak acted as a positive catalyst for the business. Travel restrictions limited the local population's ability to travel to the US for treatment. This led to pick up in occupancy at local hospitals, including NH's facility. Occupancy improved from 40% in 3QFY20 to 47% currently. Over the same time-frame, EBITDA margin went up from 24% to 42% and has been stable around the ~40% range for the last several quarters. Encouragingly, revenues and margins have held up even after travel restrictions eased. This prompted NH to invest in an additional facility (50 beds) in the country. The new facility would be close to the city centre (at Camana Bay) and complement its existing facility by largely focusing on day-care procedures. It will include an advanced cancer-care centre as well as offer robotic surgeries, a neonatal ICU, emergency and critical care services. NH's operations in Cayman Islands will remain a key contributor to the business. Commissioning of a second unit would lead to revenue and EBITDA share of 25% and 33% by FY26E vs. 19% and 36% in FY23. EBITDA share decline is a result of lower initial-period margins in the second unit.

Exhibit 27: We forecast 24% revenue CAGR over FY23-26 and margin contraction of ~1,200bps on commissioning of new facility in FY24



Source: Company, Ambit Capital research

Management team

Exhibit 28: Experienced management team

People	Designation	Previous work experience
Mr. Viren Prasad Shetty	Executive Vice Chairman	▪ Second generation founder, been associated with NH since 2004 ▪ Executive Director and Senior Vice President – Strategy since 2012, took on additional responsibility as Chief Operating Officer in 2019 and designated Whole-time Director & Group COO after that
Dr. Emmanuel Rupert	Managing Director and Group Chief Executive officer	▪ 25+ years of clinical experience and 10 years of experience as an administrator in healthcare delivery. ▪ Joined NH in 2000 at the RTIICS facility
Ms. Sandhya J	Group Chief Financial Officer (CFO)	▪ Joined NH recently, has close to 20 years of experience prior to that in Unilever and Wipro groups, performing a broad spectrum of roles
Mr. R. Venkatesh	Group Chief Operating Officer (COO)	▪ Prior to joining NH, he worked in merchant banking. He has exposure in Advance Financial Accounting and around 15 Years of experience in handling P&L Management and operations of healthcare facilities.
Mr. Ashish Bajaj	Chief Marketing Officer (CMO)	▪ 12+ years of marketing experience in both agencies and brands, successfully managing marketing and product initiatives for start-ups that have scaled up. ▪ Worked at Maxus, Microsoft, and Ola, and was the head of marketing, partnerships, and PR at Medibuddy, where he managed the B2C business.
Mr. Sirshendu Mookherjee	Group Head – Human Resources	▪ Wide range of experience in Food and Beverages, Consumer Durable, Science & Technology, and IT industries.
Mr. Sridhar S	Group Company Secretary, Legal and Compliance Officer	▪ Worked with various organisations including Vysya Bank, Alpha Systems, Avasarala Technologies etc. Was with SABMiller India Limited before joining NH.
Mr. Kumar K V	Group Head- Information Technology	▪ Before NH, he was Director for PWC's Cloud Computing practice.
Dr. Milind Inamdar	Senior Vice-President - Supply Chain	▪ Prior to joining NH, Dr. Milind worked as Consultant - Operations at Hosmac India – a healthcare consultancy company.
Mr. Navneet Bali	Senior Vice President & Group Head - Advocacy & Strategic Relations	▪ Prior to joining NH, he was associated with IOSPL (Cancer Therapy Centres) as Group COO and Head of Business. He also worked with Rockland Hospitals as Unit Director. Before venturing into the Healthcare Industry, he served the Indian Navy for almost 30 years.
Mr. Sunil Kumar C. N	Senior Vice-President & Head - Business Transformation and Key Initiatives	▪ Sunil has around 28 years of experience. In the past, he has worked with Manipal Heart Foundation, Trichur Heart Hospital Limited, B.M. Birla Heart Research Centre, amongst other.
Mr. Srikanth Raman	Group Head Internal Audit	▪ He has worked as a finance manager for two medium sized services companies that were part of a diversified conglomerate in Muscat. He has around 23 years of experience. In the past, he has worked with the OMZEST Group.
Dr. Vijay Singh	Director - Karnataka Cluster and West Cluster	▪ He has over 20 years of experience across industries. In the past he has been associated with Southern Railways, Mysore, Finpoint Global Healthcare Solutions & Bangalore Medical Services Trust and Research Centre, among others.
Ms. Rashmi Srivastava	Vice President – Quality	▪ Associated with NH since inception. She was initially involved with commissioning and operations of various units, post which (in 2006) she took on the responsibility of establishing the Quality Management System for the group.

Source: Company, Ambit Capital research

Exhibit 29: Board of directors

People	Designation	Previous work experience
Dr. Devi Prasad Shetty	Chairman & Executive Director	▪ Cardiac surgeon with around 34 years of experience. ▪ Founded Narayana Health in the year 2000.
Mr. Viren Prasad Shetty	Executive Vice Chairman	▪ Associated with NH since 2004. Dr Devi Prasad Shetty's elder son
Dr. Emmanuel Rupert	Managing Director and Group Chief Executive Officer	▪ 25+ years of clinical experience and 10 years of experience as Administrator in healthcare delivery. Dr Rupert joined NH in 2000 at the RTIICS facility
Ms. Kiran Mazumdar Shaw	Non-Executive Director	▪ First generation entrepreneur with 42+ years' experience in biotechnology. She is the Chairperson and Managing Director of Biocon Limited.
Mr. Dinesh Krishna Swamy	Independent Director	▪ Professional with ~34 years of experience, one of the 7 founding members of Infosys
Mr. Arun Seth	Independent Director	▪ Associated with Alcatel-Lucent India as a non-executive chairman from May 2011 to May 2014. He has worked for the BT Group in India in a variety of positions for over 17 years, retiring in July 2012.
Mr. Muthuraman Balasubramanian	Independent Director	▪ Served on the board of Bosch India Ltd for six years. Was also on the board of directors of Tata Industries. Currently, also on the board of Sundaram Fasteners. ▪ Was Chairman of the Board of Governors of the Indian Institute of Technology, Kharagpur, National Institute of Technology, Jamshedpur and Xavier Labour Relations Institute, Jamshedpur.
Mr. B. N. Subramanya	Independent Director	▪ Began career with Varsons Chemicals, worked as GM-Finance for four years. ▪ Has been a member of the board at M.S.Ramaiah University of Applied Sciences, M.S.Ramaiah – HCG Cancer Centre and Governing Council of International Medical School, Bengaluru.
Ms. Terri Smith Bresenham	Independent Director	▪ Career spans roles in hospital, R&D, commercialization and operational environments. Spent nearly 30 years with GE's Healthcare business, most recently serving as Chief Innovation Officer
Mr. Shankar Arunachalam	Independent Director	▪ Since 2002 he is practicing as an advocate and has been advising various reputed domestic and multi-national companies on taxation, finance and other matters. He has rich experience in accounting, auditing, taxation and legal field.
Dr. Nachiket Mor	Independent Director	▪ Positions held include: Deputy Managing Director of ICICI Bank (until 2007) and Board Member of CRISIL (2008-2018), RBI (2013-2018), and NABARD (2014-2017).
Mr. Naveen Tewari	Independent Director	▪ Founder of InMobi, a mobile advertising technology company. Has invested in and supported several start-ups.

Source: Company, Ambit Capital research

Brownfield dominated expansion

NH is best placed among peers to absorb the next bed expansion phase. Headroom to grow in operational hospitals is likely to keep the company's bed addition over the next few years at a lower level vis-à-vis most peers. We expect 25-30% addition in bed capacity over FY24-27. Two-third of this is likely to be via the brownfield route and greenfield projects in core markets like Kolkata and Raipur would account for the balance. Moreover, ~47% of its current, operational bed-count is not yet mature. Growth and margin improvement in these beds would offset upfront losses on new capacity beds.

Many hospitals are still in ramp-up mode

NH's network has grown from a single hospital in 2000 (720 beds) to 19 hospitals (5,334 beds) over the last two decades. Thirteen of these hospitals are still in ramp-up mode as defined in our framework to assess maturity profile of hospitals. Three of these hospitals were added in 2017-18 and have just achieved EBITDA breakeven recently. These have meaningful potential to improve on growth as well as profitability over the next few years.

Exhibit 30: Scaled up rapidly in terms of bed count over the last two decades

Cluster / Hospitals	Operational Beds	Year of commissioning
Bangalore		
NICS	720	2000
MSMC	705	2009
HSR	80	2013
Sparsh (acquired)	104	2022
Southern Peripheral		
Mysore	235	2012
Shimoga	250	2012
Eastern		
Jamshedpur	200	2008
Raipur	245	2011
Guwahati	170	2013
Kolkata		
RTIICS	665	2008
NSC	35	2012
Barasat	190	2014
NMH & NSH	400	2015
Western		
Ahmedabad	160	2012
Mumbai	210	2017
Northern		
Jaipur	333	2011
New Delhi	300	2017
Gurugram	230	2018
Jammu	230	2016
Cayman Islands	110	2014

Source: Company, Ambit Capital research

Exhibit 31: Thirteen hospitals in the network have not yet completed ten years post commissioning

NH's network	Pre-commissioning	New			Mature
		Phase-I	Phase-II	Phase-III	
No. of hospitals	1	0	4	9	6
No. of beds (% of total)	1,550 (27%)	0 (0%)	970 (18%)	1,624 (29%)	2,868 (53%)

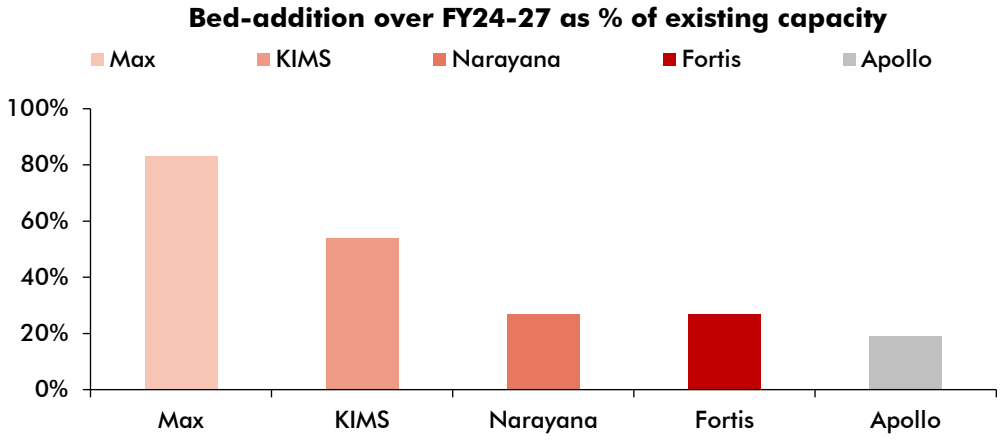
Source: Company, Ambit Capital research

Expansion is largely brownfield

NH has not outlined its bed expansion plans explicitly as yet. But it has indicated intent to invest in bed capacity and has talked about some projects at various points in time. Based on these, we estimate that the company could expand bed capacity by ~27% (~1,550 beds) over FY23-27 through a combination of brownfield and greenfield projects. It intends to add beds in Bengaluru, Kolkata, Raipur and Cayman Islands. Besides evaluating new hospitals, the company intends to step up investment in its flagship hospitals to remove bottlenecks (in the form of surgery rooms, ICU beds etc.) and release capacity. We see bed expansion in the following cities:

- **Bengaluru**: NH plans to add to the infrastructure in its Health City campus. This includes beds in the cardiac center and acquiring space nearby to cater to other specialties. Bed addition in this campus would account for ~65% of total bed addition over FY23-27 and would be entirely via the brownfield route.
- **Kolkata**: NH's current hospital is running full and there is no space to expand in the existing campus. It therefore plans to build a 1,000-bed greenfield hospital in the city. Beds would be operationalized in a phased manner. We estimate addition of 500 beds by FY26.
- **Cayman Islands**: NH is in the process of setting up a 50-bed oncology block at Camana Bay in Cayman Islands. This would complement its existing 110-bed hospital (Unit-1) in the country. The new facility would be close to the city centre and largely focused on day-care procedures. It is likely to be commissioned in FY24.
- **Raipur**: NH is in the process of looking for land near its existing hospital for another hospital in the city.

Exhibit 32: NH lags Max and KIMS on scale of capacity addition but is higher than Fortis and Apollo Hospitals

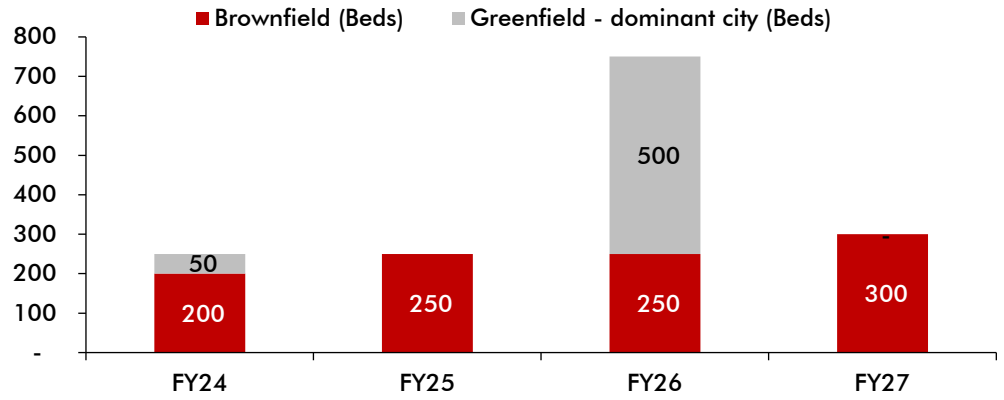


Source: Company, Ambit Capital research

Largely via the brownfield route

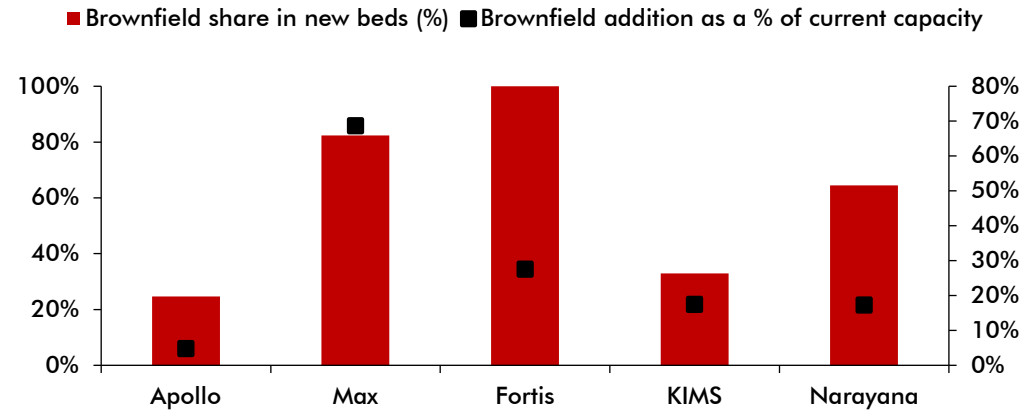
NH's bed-expansion appears to be entirely via the brownfield route and greenfield projects in cities where its brand is well-established. We estimate ~65% of planned bed expansion to be brownfield in nature. There is no greenfield expansion planned in new cities at the moment. This augurs well for the company's ability to ramp-up new bed utilization and profitability. Brownfield projects achieve EBITDA break-even and reach maturity much quicker than greenfield projects do. This should help NH sustain EBITDA margins and RoCE above 20% despite the new bed additions.

Exhibit 33: 65% of the total planned expansion is via brownfield projects



Source: Company, Ambit Capital research

Exhibit 34: NH is third-highest behind Fortis and Max in terms of share of brownfield projects in bed addition plans

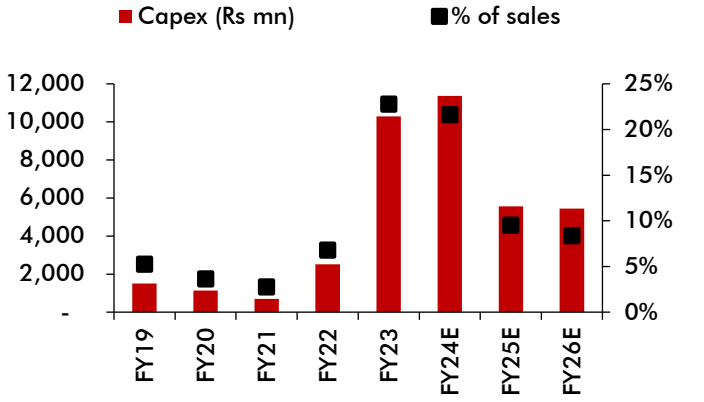


Source: Company, Ambit Capital research

Well placed to absorb capex

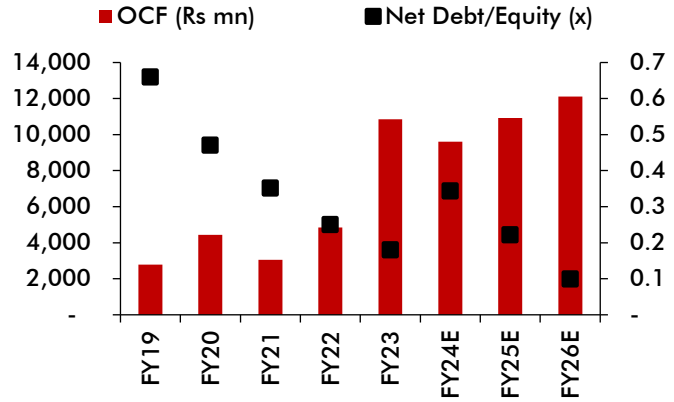
We envisage total capex outlay of ₹22bn over FY24-26. NH's balance sheet position is comfortable. Net debt stands at ₹4bn, implying net-debt/equity and net-debt/EBITDA of 0.2x and 0.4x respectively. NH is likely to generate a cumulative OCF of ₹33bn over FY24-26E. We estimate exit net-debt/equity and net-debt/EBITDA of 0.1x and 0.2x respectively in FY26.

Exhibit 35: We envisage cumulative capex of ₹22bn over FY24-26 as bed addition steps up...



Source: Company, Ambit Capital research

Exhibit 36: ...largely funded internally. We forecast cumulative OCF of ₹33bn over FY24-26

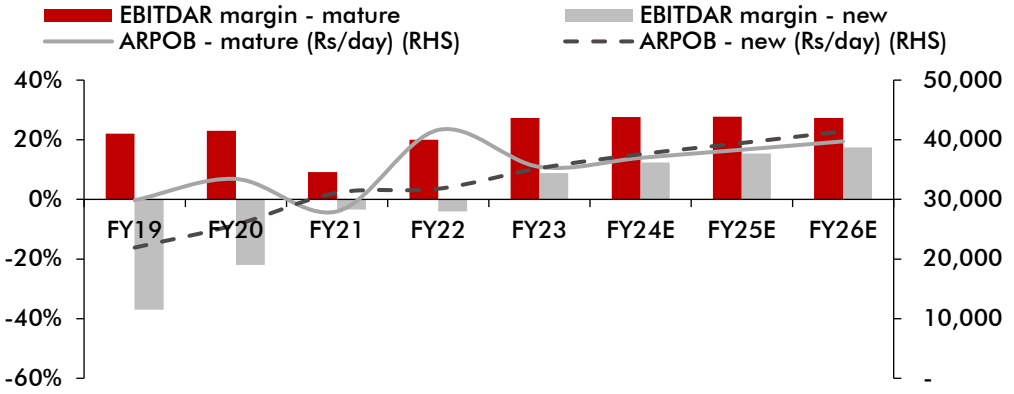


Source: Company, Ambit Capital research

Good headroom in current network

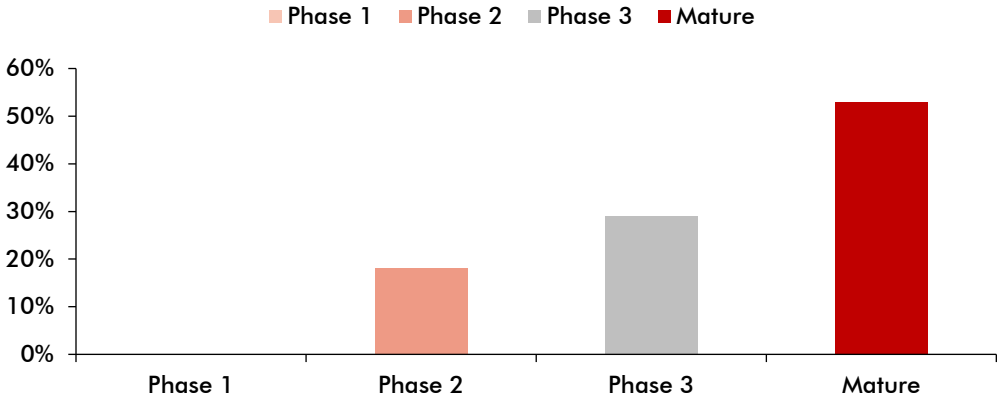
Our analysis suggests that NH has ample room to grow and expand margins within its current network of operationalized beds. Around 47% of the company's beds are in hospitals that are not yet mature i.e. less than ten years post commissioning. This includes the hospitals at Dharmshila (New Delhi), Gurugram and Mumbai that form part of the "New-hospitals" cohort as reported by the company. These three hospitals alone cumulatively account for ~20% of revenues and have achieved EBITDA margin of ~9% in FY23. We expect these to ramp up further and draw level with the ~27-30% EBITDA margin clocked by the company's other hospitals in India.

Exhibit 37: NH's new hospitals are set to drive meaningful margin and RoCE expansion over the next few years



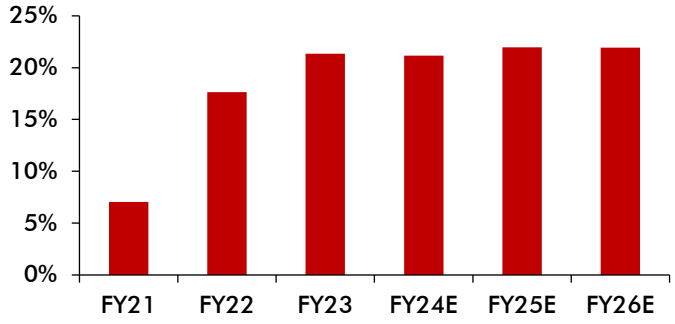
Source: Company, Ambit Capital research

Exhibit 38: ~47% of NH's current bed capacity is not yet mature, implying ample headroom to improve on margins and offset pressure from new, operationalized beds



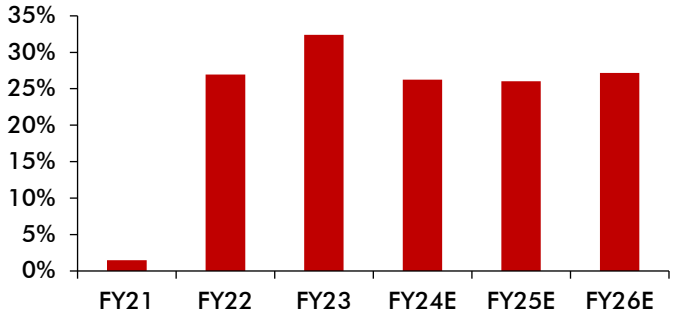
Source: Company, Ambit Capital research

Exhibit 39: EBITDA margin to remain in the ~22% range as upside in existing network offsets drag from new beds...



Source: Company, Ambit Capital research

Exhibit 40: ...leading to stable RoCE in the ~25-27% range despite investment in new bed capacity



Source: Company, Ambit Capital research

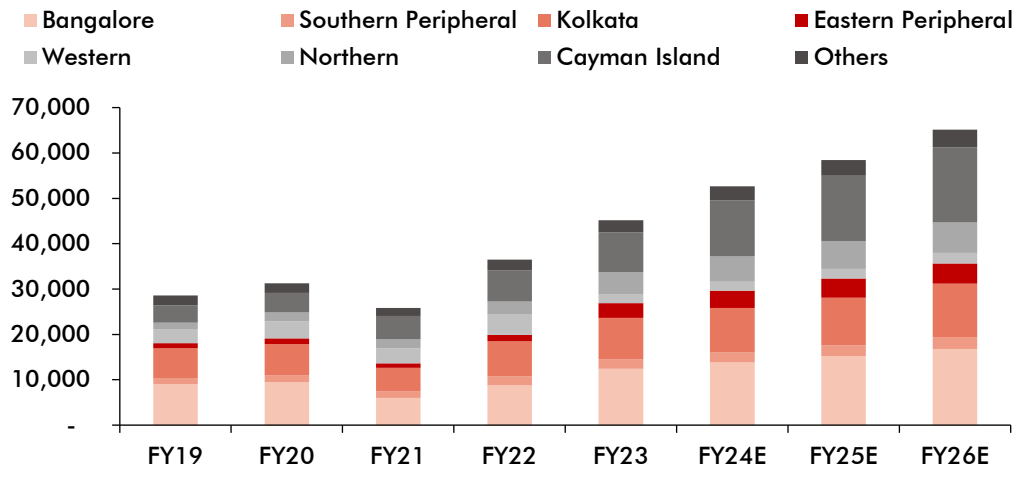
Growth step-up with 25-27% RoCE

Rising occupancy in existing network aided by debottlenecking initiatives and planned bed addition (~25-30% of FY23 levels) should drive 13% revenue CAGR over FY23-26E. EBITDA margin should expand by ~60bps over the period as improvement in current network offsets upfront costs on new beds. EBIT margin should sustain in the 17-18% range. Share of international revenues/EBITDA is likely to change from 19%/37% in FY23 to 25%/33% in FY26 following addition of an extra hospital in the Cayman Islands. Pre-tax RoCE is likely to dip owing to step-up in capital expenditure but would stay above 25% levels and should recover to ~27% by FY26.

Low-teen revenue CAGR over FY23-26E

We forecast 13% revenue CAGR over FY23-26 driven by: (a) improving occupancy in India hospitals, primarily in the new-hospitals cohort and partly in mature hospitals through debottlenecking initiatives, (b) addition of 1,350 beds over this time-frame and (c) continued improvement in case and payer mix.

Exhibit 41: We forecast 13% revenue CAGR over FY23-26E aided by improving utilization in current network of hospitals and some new bed addition



Source: Company, Ambit Capital research

Exhibit 42: NH's revenue model: de-bottlenecking, improved occupancy and some new bed addition are key drivers

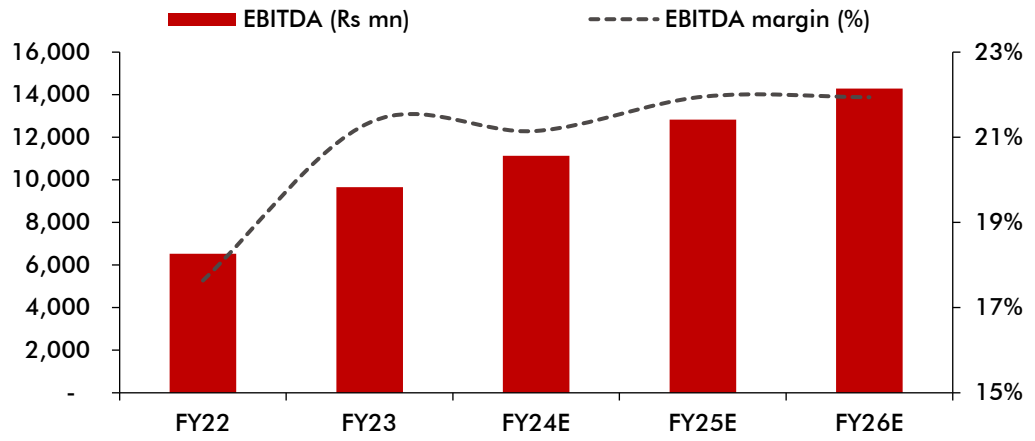
₹ mn	FY22	FY23	FY24E	FY25E	FY26E	Comments
Bangalore	8,820	12,416	13,824	15,272	16,812	Flagship unit: we forecast ~10% CAGR over FY23-26E driven by brownfield bed addition
Southern Peripheral	1,907	2,108	2,213	2,324	2,567	We expect a steady growth of ~7% over FY23-26E
Kolkata	7,754	9,110	9,796	10,464	11,812	We forecast ~9% CAGR over FY23-26E owing to some occupancy bottlenecks; growth to pick up post greenfield addition
Eastern Peripheral	1,425	3,282	3,827	4,233	4,444	~10% CAGR over FY23-26E for this cluster driven by continued traction in Raipur and Guwahati units
Western	4,555	1,850	1,972	2,158	2,359	~8% CAGR over FY23-26E as Mumbai facility scales up
Northern	2,788	4,973	5,593	6,122	6,691	10% CAGR over FY23-26E largely driven by ramp-up in Dharmshila facility
Jammu	1,010	1,228	1,412	1,553	1,709	
Heart centres & other	1,373	1,457	1,676	1,927	2,132	
India	**29,632**	**36,424**	**40,312**	**44,054**	**48,526**	We forecast 10% CAGR over FY23-26E; ramp up in new hospitals and improvement in occupancies to drive growth
HCCI	6,873	8,720	9,161	9,627	10,212	We expect mid-single digit growth at its Cayman facility
Camana Bay			3,186	4,779	6,372	
Cayman Islands	**6,873**	**8,720**	**12,346**	**14,405**	**16,584**	~24% CAGR over FY23-26E as the Camana Bay facility starts contributing to sales
Total	**36,505**	**45,144**	**52,659**	**58,459**	**65,110**	

Source: Company, Ambit Capital research

Headroom in non-mature beds to offset expenses related to new bed addition

We forecast 14% EBITDA CAGR over FY23-26. EBITDA margin should expand marginally (~60bps over FY23-26E) despite new bed addition due to: (a) improvement in occupancy and profitability at current non-mature beds, especially in Delhi, Gurugram and Mumbai and (b) largely brownfield nature of new bed addition would limit upfront losses on new beds.

Exhibit 43: We forecast 14% EBITDA CAGR over FY23-26 as improvement in the current "new hospitals" cohort offsets upfront expenses related to future bed addition



Source: Company, Ambit Capital research

Exhibit 44: NH's EBITDA model: marginal expansion in margin over FY23-26E as upfront costs on new beds are offset by improving profitability in current "New-beds" cohort

₹ mn	FY22	FY23	FY24E	FY25E	FY26E	Comments
Bangalore	2,064	4,097	4,424	4,887	5,380	Steady margins given mature nature of hospital. Bangalore to sustain at 32-33% EBITDAR margins
Margin (%)	23%	33%	32%	32%	32%	To remain the highest-margin cluster in NH's network. Brownfield bed addition unlikely to dilute profitability given strong brand-equity
Southern Peripheral	433	506	537	569	635	
Margin (%)	23%	24%	24%	25%	25%	
Kolkata	1,574	2,277	2,474	2,668	2,835	Margin compression driven by new greenfield facility addition in FY26E
Margin (%)	20%	25%	25%	26%	24%	
Eastern Peripheral	207	722	765	847	889	Margin compression owing to greenfield addition at Raipur
Margin (%)	15%	22%	20%	20%	20%	
Western	360	9	99	173	236	EBITDA breakeven in FY23, sharp pick-up in occupancy in Mumbai would drive ~900bps EBITDAM expansion over FY23-26E
Margin (%)	8%	1%	5%	8%	10%	
Northern	20	597	839	1,102	1,338	~800bps margin expansion over FY23-26E largely driven by Dharmshila facility
Margin (%)	1%	12%	15%	18%	20%	
India	**4,658**	**8,210**	**9,138**	**10,247**	**11,314**	
Margin (%)	16%	23%	23%	23%	23%	
HCCI	2,878	3,526	3,573	3,754	3,983	Margins to sustain at ~39%
Margin (%)	42%	40%	39%	39%	39%	
Camana Bay	-	-	(159)	382	701	Likely to be a drag in FY24, will steadily scale up over FY24-26E
Margin (%)			-5%	8%	11%	
Cayman Islands	**2,878**	**3,526**	**3,413**	**4,137**	**4,684**	Margin contraction over FY23-26E on commissioning of Camana Bay facility
Margin (%)	42%	40%	28%	29%	28%	
EBITDAR (total)	**7,535**	**11,736**	**12,551**	**14,384**	**15,998**	
Margin (%)	21%	26%	24%	25%	25%	

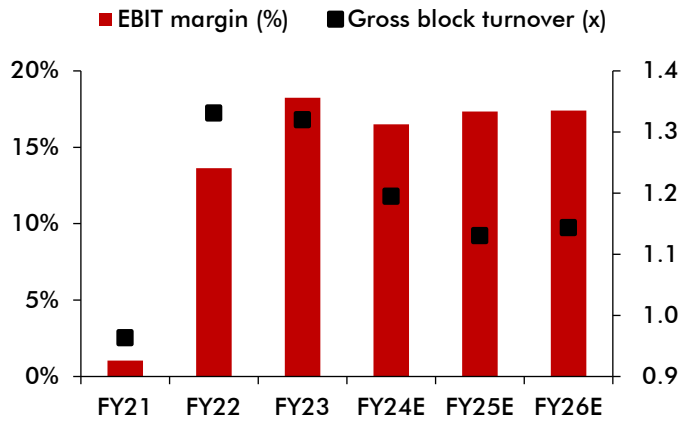
Source: Company, Ambit Capital research

Capex has already stepped up in FY23 – up to ₹10bn vs. ₹4bn in FY20-22. This is likely to continue with the company investing ~₹22bn in the business over FY24-26. This includes new facilities in Cayman Islands, Kolkata and Raipur as well as building capabilities in its current network hospitals. Asset turnover is therefore likely to take a hit. However, EBIT margins are likely to sustain in the 17-28% range as improving profitability in older hospitals helps offset upfront losses in newly commissioned beds. This would lead to pre-tax RoCE staying in the 25%+ range; after a 600bps dip in FY23 to 26%, we expect recovery to ~27% by FY26.

Exhibit 45: RoCE is likely to sustain in the 25-27% range...

Source: Company, Ambit Capital research

Exhibit 46: ...as margin resilience makes up for lower GB T/O



Source: Company, Ambit Capital research

Valuation gap with peers to close

NH has traditionally traded at a discount to peers due to its presence in the lower-growth Cayman Islands market and relatively lower margins/RoCE in its India business. The former is unlikely to change much but the company's India business has meaningfully narrowed the gap vis-à-vis peers. Headroom to grow in its current network and brownfield-heavy expansion plan should ensure that this trend continues over the medium-term. Assuming 10-12x FY25E EV/EBITDA for the Cayman Islands business, implied EV/EBITDA for NH's India business works out to ~23x, which is at a ~5% premium to the sector median and ~20% discount to Apollo Hospitals and Max Healthcare. This gap should narrow over the next few years. Our DCF-based TP of ₹1,280 implies exit FY25E EV/EBITDA of 21x.

Has lagged peers in the past but catching up now

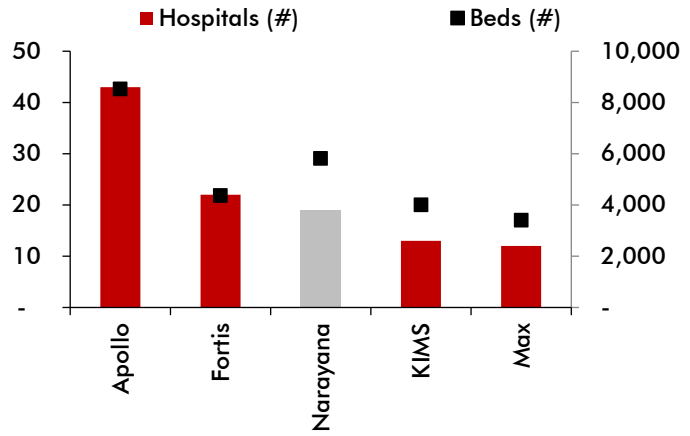
NH's hospitals network in India is more spread out, particularly relative to peers such as Max Healthcare and KIMS. This has led to it being quite dominant in certain markets (viz. Bengaluru, Kolkata) but still in catch-up mode in others (viz. Delhi/NCR, Mumbai). At the same time, inability to ramp up occupancy in network hospitals due to operational bottlenecks also led to margins and RoCE lagging peers in the past. On the other hand, it has significant headroom to grow in its current network on the back of: (a) debottlenecking initiatives in its flagship hospitals, especially in Bengaluru and (b) rising occupancy in its hospitals at Delhi/NCR and Mumbai as it builds its brand equity in these markets.

Exhibit 47: NH ranks high on ability to absorb bed addition and competitive positioning in key metros but bottlenecks that limit occupancy gains and lower growth in ex-India hospitals are valuation dampeners

	Apollo	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	NH is a pan-India player with a dominance in Karnataka and Eastern India. Less established in the west and north.
Competitive Positioning	●	◕	●	●	◕	NH is a leading player in Bengaluru and Kolkata in addition to the Cayman Islands.
Brand equity	●	◕	◕	●	◕	It however lags behind other listed peers in cities such as Delhi, Gurugram and Mumbai, where it is still an emerging player.
Dominance in key markets	◕	◑	●	●	◕	
Expansion	◕	◕	◑	◕	◕	
Relative to current capacity	●	◕	◑	◑	◕	NH's bed-expansion as a percentage of current capacity beds is likely to be only behind Max and KIMS.
Greenfield vs. brownfield	◑	◕	◔	●	◕	It however has a high share of brownfield beds in its expansion plan. Greenfield projects are also likely to be in markets where the brand is well-established.
Location	◕	◕	◑	●	●	
Headroom in current network	◑	◔	◑	◔	◕	NH also has more headroom to grow in current network relative to peers – should help offset early pain on new beds/hospitals.
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	NH does not have exposure to any other healthcare segment unlike Apollo (pharmacy, diagnostics, clinics, 24/7 etc.), Fortis (diagnostics) or Max (diagnostics, home-health)
Financial strength	◕	◑	◕	●	◑	NH's margins and RoCE are behind only KIMS and Max. These should remain in the 20%+ range despite new bed addition.
Growth	◕	◑	●	◕	◑	Headroom to grow in current network and scale of expansion implies higher growth rate over the medium-to-long term in vis-à-vis most peers in India. However, the Cayman Islands business would pull down consolidated growth rates.
Profitability	◕	◑	◕	●	◑	
Return on capital	◑	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

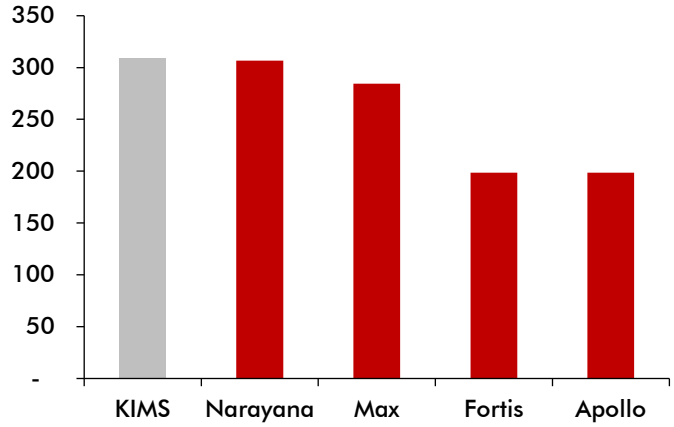
Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

Exhibit 48: Lags Apollo and Fortis in terms of total bed capacity...



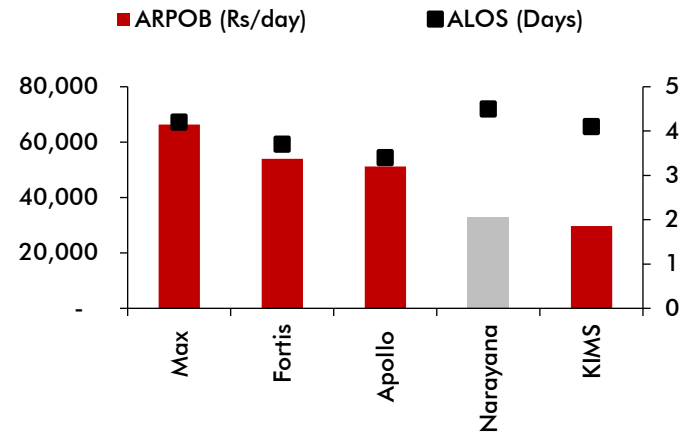
Source: Company, Ambit Capital research

Exhibit 49: ...but is the second-highest in terms of beds/hospital, only behind KIMS



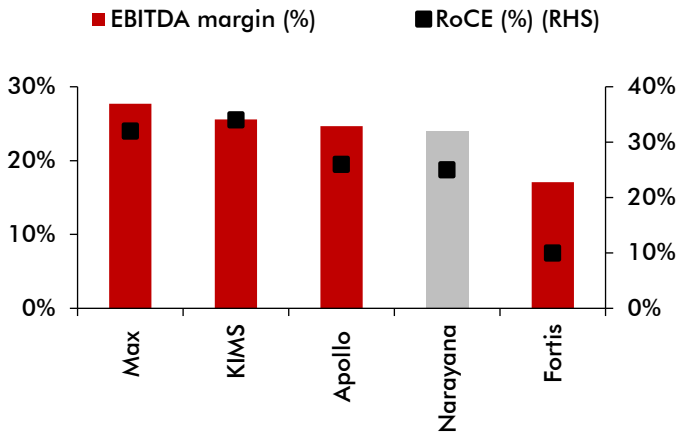
Source: Company, Ambit Capital research

Exhibit 50: Affordable positioning and beds in Tier 2/3 markets reflect in lower ARPOB...



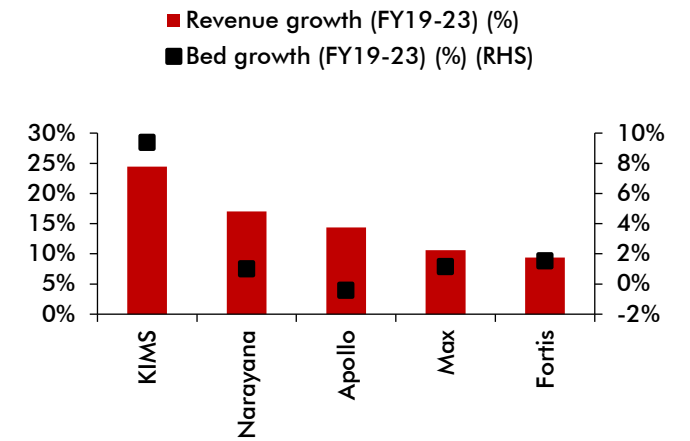
Source: Company, Ambit Capital research

Exhibit 51: ...but margins and return ratios have caught up with peers in recent years



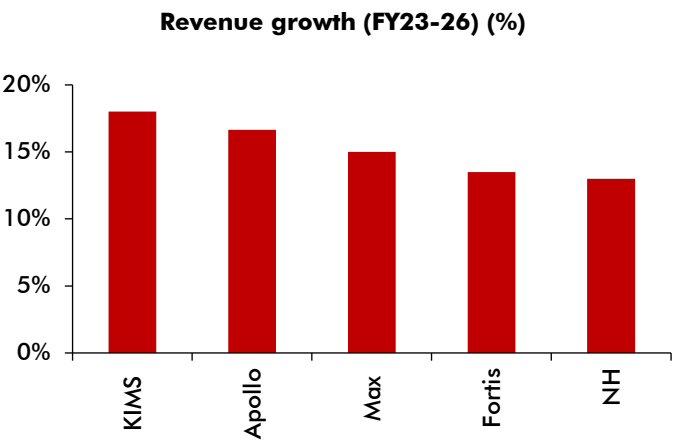
Source: Company, Ambit Capital research

Exhibit 52: Second highest revenue CAGR over FY19-23, aided by traction in new hospitals...



Source: Company, Ambit Capital research

Exhibit 53: ...should continue being among the higher-growth hospitals over the next few years

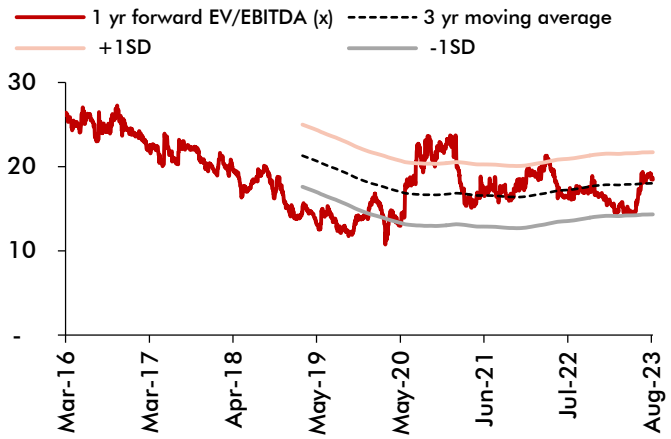


Source: Company, Ambit Capital research

Valuation gap with peers should narrow

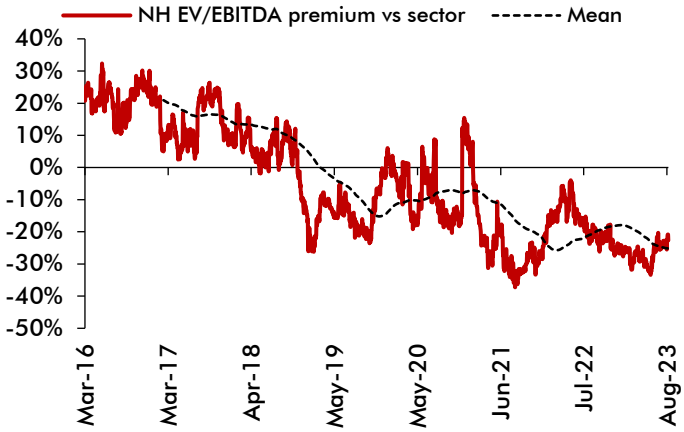
NH has traditionally lagged peers such as Apollo Hospitals and Max Healthcare on valuations. This is primarily due to two reasons: (a) exposure to overseas markets that have lower growth and greater level of uncertainty and (b) inferior margins and RoCE in India operations given slow scale-up in its hospitals at Mumbai and Delhi/NCR.

Exhibit 54: NH's valuations have re-rated over the last few years on the back of improving return-on-capital metrics...



Source: Bloomberg, Ambit Capital research

Exhibit 55: ...but it still trades at a discount to larger companies such as Apollo Hospitals and Max Healthcare



Source: Bloomberg, Ambit Capital research; Note: Sector comprises of Apollo Hospitals, Fortis Healthcare, Max Healthcare, KIMS and Narayana Hrudayalaya

Exhibit 56: Healthcare valuation snapshot

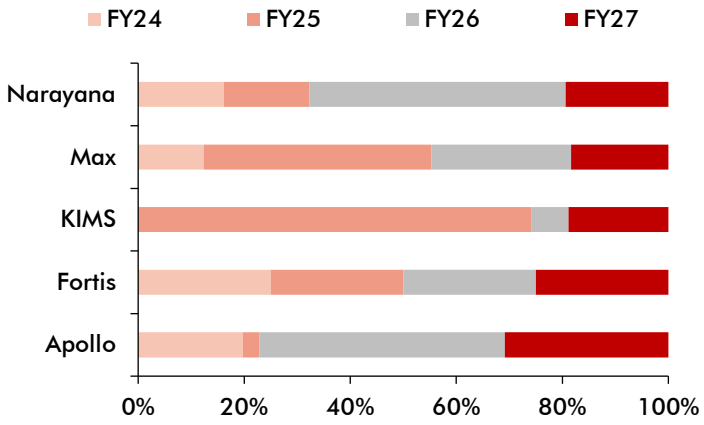
Global Healthcare	Mcap	Ambit's Stance	P/E (x)			EV/EBITDA (x)			RoE (%)			CAGR (FY23-25E) (%)		
	US$mn	BUY/SELL	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	Sales	EBITDA	EPS
India														
Apollo	8,543	BUY	87	75	50	36	31	24	13%	13%	17%	17%	19%	32%
Max	6,213	BUY	38	42	35	32	28	23	17%	13%	14%	14%	17%	4%
Fortis	2,902	BUY	47	32	25	22	18	14	8%	10%	11%	13%	21%	36%
Narayana	2,430	BUY	33	31	26	21	19	16	34%	28%	28%	14%	15%	13%
Medanta	2,226	-	57	44	37	30	24	20	16%	16%	16%	17%	21%	24%
Aster DM	1,866	-	37	28	19	14	11	10	10%	12%	14%	12%	17%	39%
KIMS	1,828	BUY	45	48	41	26	22	19	21%	17%	17%	20%	17%	5%
Rainbow	1,272	-	50	47	39	26	24	21	25%	19%	19%	20%	10%	14%
HCG	549	-	155	70	36	18	15	13	3%	7%	10%	12%	19%	108%
Shalby	244	-	30	25	20	16	13	11	8%	8%	9%	14%	22%	21%
Median			**46**	**43**	**35**	**24**	**21**	**18**	**15%**	**13%**	**15%**	**14%**	**18%**	**23%**
Thailand														
Bangkok Dusit	12,694	-	35	33	31	20	19	18	15%	15%	15%	6%	5%	7%
Bumrungrad Hospital	5,597	-	40	35	32	22	24	22	27%	27%	26%	10%	10%	12%
Bangkok Chain Hospital	1,297	-	15	31	26	17	15	14	24%	11%	12%	-17%	-19%	-24%
Chularat	927	-	12	28	28	19	17	16	37%	15%	16%	-9%	-28%	-36%
Median			**25**	**32**	**29**	**20**	**18**	**17**	**25%**	**15%**	**16%**	**-1%**	**-7%**	**-8%**
Indonesia														
Mitra Keluarga	2,554	-	37	36	30	26	24	21	19%	18%	19%	10%	7%	11%
Siloam International Hospitals	1,736	-	37	27	22	11	11	9	10%	14%	15%	11%	19%	29%
Median			**37**	**31**	**26**	**19**	**18**	**15**	**15%**	**16%**	**17%**	**11%**	**13%**	**20%**
Malaysia/Singapore														
IHH Healthcare	11,415	-	34	32	28	11	14	13	6%	6%	7%	5%	8%	9%
Raffles Medical Group	1,782	-	17	19	19	10	11	11	15%	12%	12%	3%	-4%	-5%
KPJ Healthcare	1,122	-	29	23	21	12	11	11	8%	10%	10%	7%	8%	17%
Median			**29**	**23**	**21**	**11**	**11**	**11**	**8%**	**10%**	**10%**	**5%**	**8%**	**9%**
Middle East														
Dr Sulaiman Al Habib Medical Services Group	24,638	-	56	49	41	43	41	34	29%	30%	32%	18%	17%	16%
Mouwasat Medical Services	5,632	-	35	31	27	24	22	20	22%	22%	23%	14%	14%	15%
Dallah Healthcare Co	3,897	-	49	44	35	30	27	24	14%	14%	15%	12%	14%	18%
Al Hammadi	2,257	-	33	28	25	20	19	17	15%	17%	18%	11%	12%	14%
Middle East Healthcare Co	1,477	-	74	33	23	19	18	15	6%	12%	15%	15%	34%	79%
Median			**49**	**33**	**27**	**24**	**22**	**20**	**15%**	**17%**	**18%**	**14%**	**14%**	**16%**
US														
HCA Healthcare	73,102	-	14	15	13	9	9	9	NA	NA	NA	6%	3%	2%
Universal Health Services	9,094	-	14	13	13	8	8	7	11%	12%	12%	5%	5%	4%
Tenet Healthcare	7,404	-	19	13	11	7	7	7	38%	33%	32%	5%	5%	31%
Community Health Systems	480	-	10	N/A	12	8	8	8	34%	6%	-3%	2%	2%	-10%
Median			**14**	**13**	**13**	**8**	**8**	**8**	**36%**	**9%**	**4%**	**5%**	**4%**	**3%**
China														
Aier Eye Hospital	23,099	-	60	46	35	NA	27	22	18%	18%	20%	22%	23%	30%

Source: Bloomberg, Ambit Capital research

Improving metrics in India business is a key driver

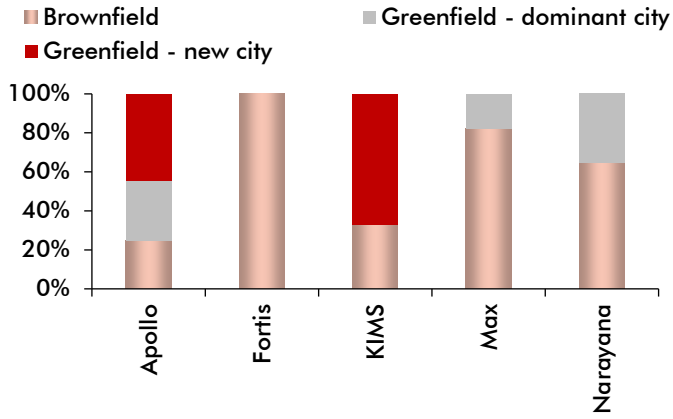
This is gradually changing and should lead to the gap narrowing over the next few years. Improving India operations is the key driver. NH's India business EBITDA margin improved from 9% in FY18 to 22% in FY23 driven primarily by improving occupancy in its new hospitals at Mumbai, Delhi and Gurugram. Brownfield dominated expansion plan over FY24-27 implies limited compression on this front over the next few years.

Exhibit 57: NH aims to add ~27% of current bed capacity over FY24-27, largely back-ended...



Source: Company, Ambit Capital research

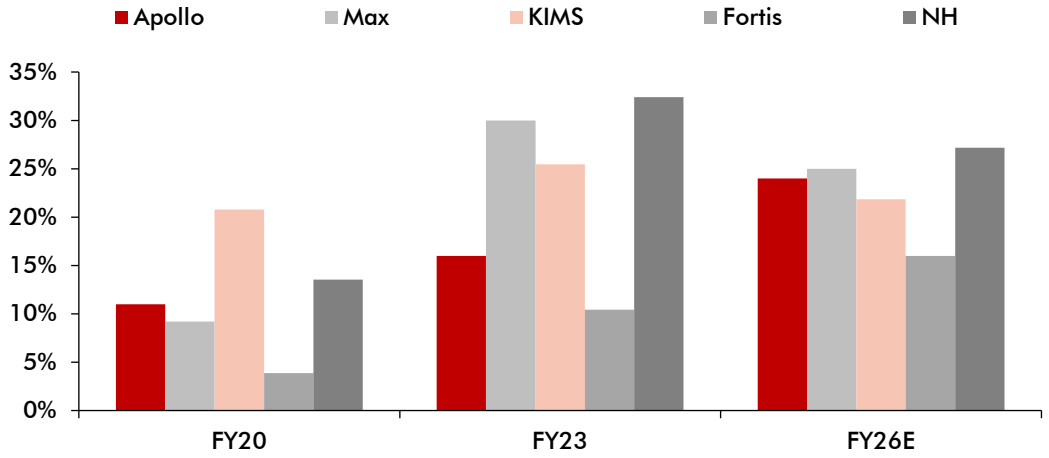
Exhibit 58: ...mostly via the brownfield route, making it easy to absorb in financials



Source: Company, Ambit Capital research

RoCE gap has narrowed as well with the margin pick-up and there appears more headroom on this front. Hospital stock valuations typically correlate well with return-on-capital ratios. This trend is therefore likely to be a key valuation driver over the next 3-4 years as all companies go into expansion mode since NH's expansion plan is likely to be less RoCE-dilutive relative to most peers.

Exhibit 59: RoCE gap among companies has likely cleared with the margin pick up, expect the trend to sustain



Source: Company, Ambit Capital research

Cayman Islands business likely to remain a valuation dampener

Growth headroom is limited in the Cayman Islands given the relatively small size of the market. This could change if NH is able to position it as a medical tourism hub for the US and other Caribbean Islands. But it has not achieved much success on this front. Besides, the company will have to pay additional tax if it has to bring cash generated in this market to the parent company for use in India operations. These factors would lead to lower multiples for this business relative to India operations. Cayman Islands is likely to contribute 25% and 33% respectively to consolidated revenues and EBITDA in FY26. If we assume 10-15x EV/EBITDA for this business, NH's India business is trading at implied EV/EBITDA of 18-20x FY25E vs. median sector EV/EBITDA of 19x.

Exhibit 60: NH's India business trades at around sector-median levels on FY25E EV/EBITDA assuming 10-15x multiple for the company's business in Cayman Islands

(₹ mn)	FY25E EBITDA	EV/EBITDA (x)	EV	Comments
Consolidated	12,834	17	217,570	Current traded multiple on FY25 EBITDA
Cayman Islands	4,137	10-15	62,050	Assume fair multiple of 13-15x given limited growth headroom
India	8,697	18-20	155,521	Implied FY25 EV/EBITDA of 18-20x
Sector-Median		19		Includes Apollo, Max, NH, Fortis and KIMS

Source: Company, Ambit Capital research

Exhibit 61: Our DCF model builds in the long growth runway that hospital chains enjoy and improving blended margins as share of mature beds increases in proportion

Parameter	FY19-23	FY23-25E Near term	FY25-35E Medium term	FY35-50E Long-term	Remarks
Sales CAGR	12%	14%	11%	9%	Bed-expansion over FY24-27 should drive higher-than-average near-term growth. Long-term growth to be stable in the ~10% range with intermittent spikes during bed addition phases
EBITDA margin	14%	21%	23%	27%	Near-term EBITDA margin to be suppressed by upfront costs on new beds before reverting to the mid-to-high-20s range over the medium-to-long-term
Capex as % of sales	8%	18%	5%	4%	Near-term spike in capex due to bed-expansion phase before settling down at lower levels over the longer term
pre-tax OCF/EBITDA	111%	95%	83%	81%	Cash generation to remain high but rising share of insurance patients could lead to some moderation at the margin over time
Gross block turn (x)	1.2	1.3	1.5	2.3	GB T/O to improve as share of large, mature hospitals increases over time
WACC		**13%**			
Cost of equity		14%			
Cost of debt (post-tax)		12%			
Target D/(D+E)		20%			
Terminal growth (%)		**5%**			
Implied Valuation	**FY23**	**FY24E**	**FY25E**	**FY26E**	
EV/Sales	5.9	5.1	4.6	4.1	
EV/EBITDA	28	24	21	19	
P/E	43	41	34	30	
P/B	12.2	10.4	8.8	7.5	

Source: Company, Ambit Capital research

Exhibit 62: TP of ₹1,280 implies an exit multiple of 21x FY25E EV/EBITDA

Particulars	₹ mn
Total EV	268,491
- Explicit period	192,138
- Terminal period	76,353
Net debt	7,570
WACC	13%
Equity value	261,021
No. of shares (mn)	204
Fair value/share (₹)	1,280

Source: Company, Ambit Capital research

Risks and Catalysts

Risks

- **Overseas expansion:** NH is one of the few Indian hospital chains that has operations outside the country too. It is currently setting up a new 50-bed oncology focused facility in Cayman Islands, where it already operates a 110-bed facility. It has earmarked US$100mn (~₹8bn) capex for this project accounting for ~30% of FY23 gross block. The company's first unit in this region has done well – achieved EBITDA break-even in two years and currently operating at 40%+ EBITDA margin. Restrictions on travel to the US during Covid helped the business ramp up. If the trend reverses over the next few years, this may end up being a drag on profitability and return-on-capital. We have been conservative in our forecasts for the new unit – building in EBITDA breakeven only in FY25.
- **Regulatory changes on pricing, payer mix:** Any move to regulate or cap pricing of drugs or diagnostics could impact profitability. In the past, governments have imposed price caps on consumables like stents and ortho implants. Hospitals are typically able to absorb these by raising prices elsewhere but this takes time. In the interim, there would be some hit on profitability. Similarly, any mandate to provide services at discounted rates to any group of patients could also pose risk to profitability. For instance, hospitals currently have flexibility to decide on the extent of their participation in government health schemes. Any change in this could pose a risk to our thesis.

Catalysts

- **Improvement in occupancy leading to better financial metrics:** NH has historically faced challenges in raising occupancy at its hospitals to similar levels as peers. There are two primary reasons: (a) bottlenecks at existing facilities due to lower surgical/ICU beds and (b) last round of bed addition was in new cities where the company's brand is not well-established. NH has started implementing debottlenecking initiatives at its existing facilities. Occupancy in the mature hospitals cohort is therefore likely to expand by 200-300bps over the next 2-3 years, driving margins and RoCE higher. This is likely to be a key catalyst.
- **Ramp-up in new hospitals:** NH has seen a significant improvement in the financial performance of its new hospitals as evidenced by the decline in EBITDA losses from -38% in FY19 to a positive margin of 8% currently. This suggests that the new hospitals are gaining traction and becoming more profitable. We expect the western and northern region clusters to clock 8-10% revenue CAGR and 850-1000bps EBITDAM improvement over FY23-26.

HAWK Charts

NH scores well on our forensic accounting HAWK framework as well as on Greatness score. Both scores have improved over the years.

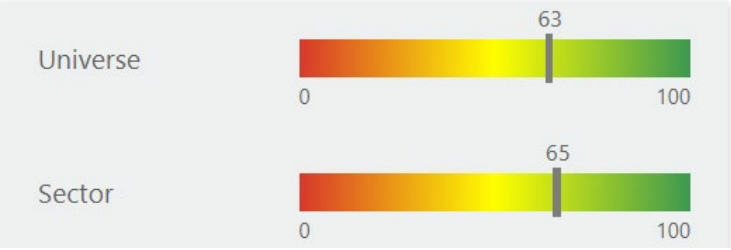
NH features in D2 of forensic accounting score

Forensic percentile score for NARH is higher owing to a number of parameters: 1) contingent liabilities are not material, 2) miscellaneous expenses are under check, 3) auditor's remuneration hasn't drastically increased

Greatness score is trending up as well

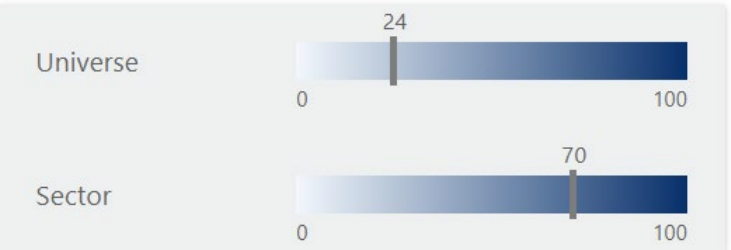
NH features in our "Zone of Greatness". Improvement in metrics like Net debt/Equity, depreciation/capex, lower equity dilution has resulted in the uptick uptrend.

Exhibit 63: Forensic accounting score



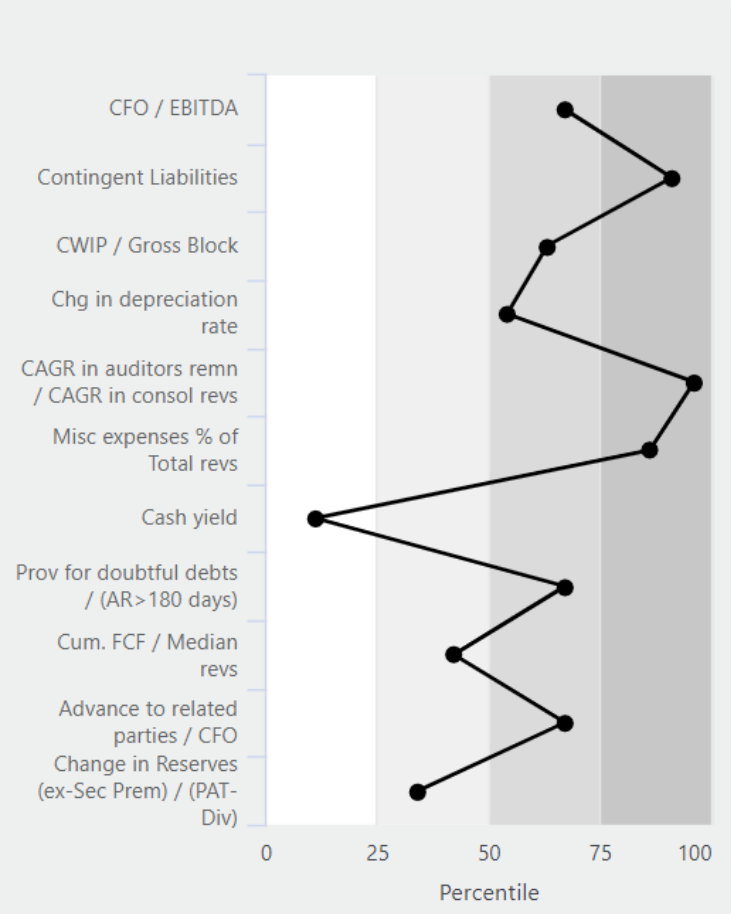
Source: Company, Ambit Capital research

Exhibit 64: Greatness score



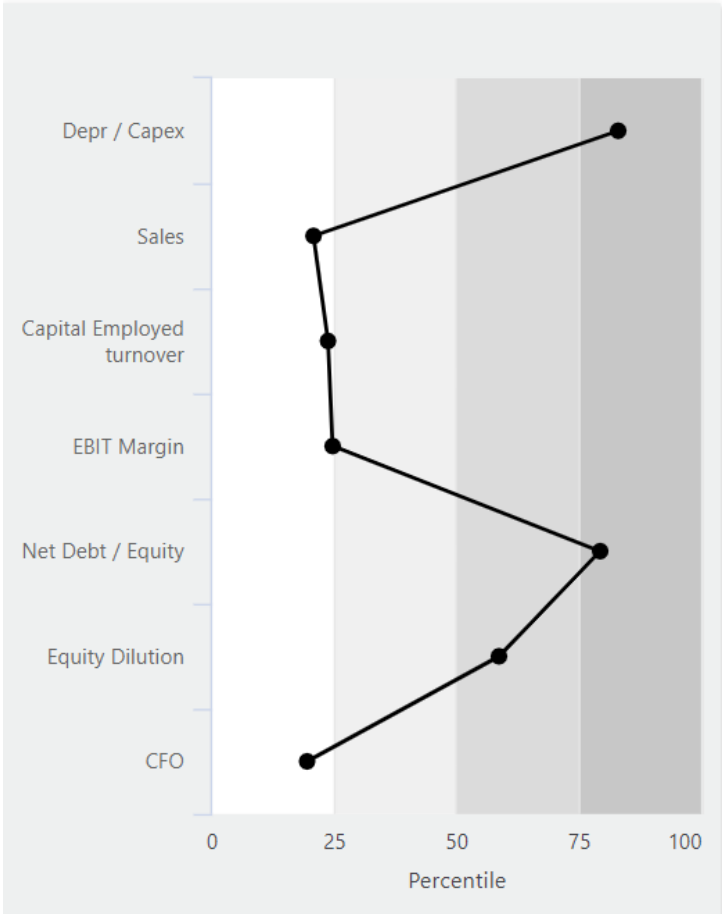
Source: Company, Ambit Capital research

Exhibit 65: Accounting score contributors



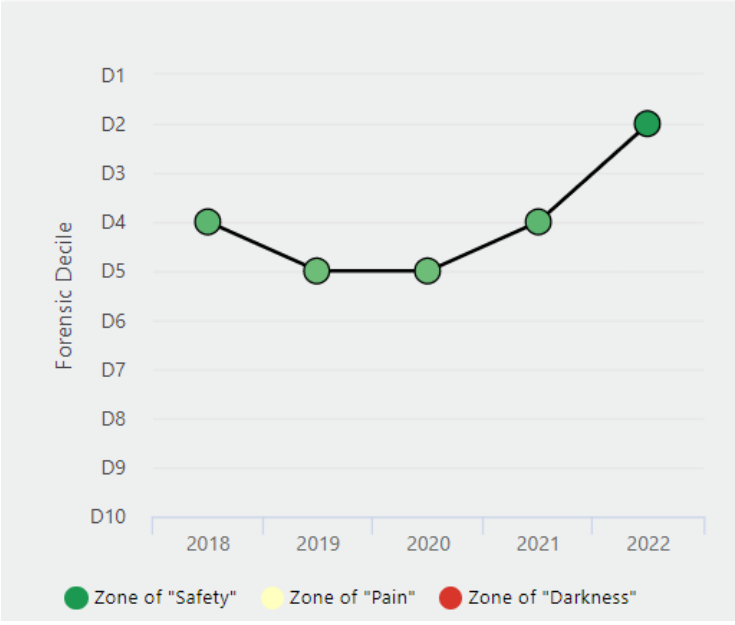
Source: Company, Ambit Capital research

Exhibit 66: Greatness score contributors



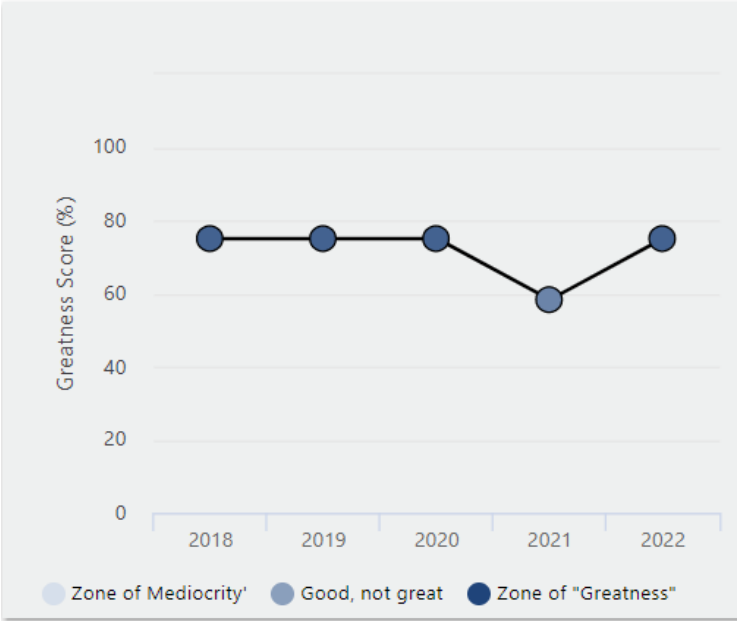
Source: Company, Ambit Capital research

Exhibit 67: Accounting score evolution



Source: Company, Ambit Capital research

Exhibit 68: Greatness score evolution



Source: Company, Ambit Capital research

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**37,004**	**45,248**	**52,659**	**58,459**	**65,110**
-growth (Rev)	43.3%	22.3%	16.4%	11.0%	11.4%
Cost of goods sold	(9,092)	(10,012)	(12,112)	(13,446)	(14,975)
Gross profit	**27,912**	**35,236**	**40,547**	**45,013**	**50,135**
Gross profit growth	46.6%	26.2%	15.1%	11.0%	11.4%
Employee expenses	(7,685)	(8,792)	(11,585)	(12,861)	(14,109)
Other expenses	(13,701)	(16,786)	(17,826)	(19,319)	(21,740)
EBITDA	**6,526**	**9,658**	**11,137**	**12,834**	**14,286**
-growth (EBITDA)	258%	48.0%	15.3%	15.2%	11.3%
Depreciation	(1,835)	(2,100)	(2,669)	(2,991)	(3,307)
EBIT	**4,691**	**7,558**	**8,468**	**9,842**	**10,979**
-growth (EBIT)	-	61.1%	12.0%	16.2%	11.5%
Other income	355	654	622	684	752
EBIT (including other income)	**5,046**	**8,212**	**9,089**	**10,526**	**11,731**
Finance costs	(663)	(695)	(951)	(735)	(612)
Share of profit/loss of associates and JVs	(85)	-	-	-	-
Profit before tax	**4,298**	**7,518**	**8,139**	**9,791**	**11,119**
Profit before tax (adjusted)	**4,298**	**7,518**	**8,139**	**9,791**	**11,119**
-growth (PBT)	(867%)	74.9%	8.3%	20.3%	13.6%
Tax	(877)	(1,450)	(1,709)	(2,056)	(2,335)
PAT	**3,421**	**6,068**	**6,430**	**7,735**	**8,784**
Profit after tax (adjusted)	**3,421**	**6,068**	**6,430**	**7,735**	**8,784**
-growth (PAT)	(2493%)	77.4%	6.0%	20.3%	13.6%
Consolidated profit after tax	**3,421**	**6,068**	**6,430**	**7,735**	**8,784**
-growth (CPAT)	-	77.4%	6.0%	20.3%	13.6%
EPS (basic) (₹)	16.7	30	31	38	43
EPS (diluted)	16.7	30	31	38	43

Source: Ambit Capital research, Company

Balance sheet

Year to March (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Property, plant and equipment	18,110	22,058	30,752	33,313	35,446
Capital work in progress	669	2,592	2,592	2,592	2,592
Right of use assets	1,689	1,306	1,306	1,306	1,306
Total fixed assets	**20,468**	**25,956**	**34,650**	**37,211**	**39,344**
Non-current investments	11.6	11.6	11.6	11.6	11.6
Other non-current assets	1,727	2,714	2,714	2,714	2,714
Total non-current assets	**22,207**	**28,682**	**37,375**	**39,937**	**42,070**
Inventories	594	716	833	925	1,030
Current investments	474	727	727	727	727
Trade receviables	4,369	4,315	5,022	5,575	6,209
Cash and cash equivalents	1,723	3,799	4,895	4,464	5,990
Other current assets	1,932	3,383	3,383	3,383	3,383
Total current assets	**9,091**	**12,939**	**14,860**	**15,073**	**17,339**
Total assets	**31,298**	**41,621**	**52,235**	**55,010**	**59,409**
Total equity	**14,894**	**21,324**	**25,053**	**29,540**	**34,635**
Long-term borrowings	5,449	7,622	13,500	11,000	9,400
Deferred payment liabilties	510	870	870	870	870
Other non-current liabilities	3,779	3,290	3,290	3,290	3,290
Total non-current liabilities	**9,737**	**11,782**	**17,660**	**15,160**	**13,560**
Trade payables	4,490	6,150	7,158	7,946	8,850
Other current liabilities	2,177	2,364	2,364	2,364	2,364
Total current liabilities	**6,668**	**8,515**	**9,522**	**10,310**	**11,214**
Total liabilities	**16,404**	**20,297**	**27,182**	**25,470**	**24,774**
Total equity and liabilities	**31,298**	**41,621**	**52,235**	**55,010**	**59,409**

Source: Ambit Capital research, Company

Cash flow statement

Year to March (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	**3,421**	**7,518**	**8,139**	**9,791**	**11,119**
Depreciation	1,835	2,100	2,669	2,991	3,307
Other items	1,779	3,718	329	51	(140)
Working capital changes	(1,518)	(1,040)	183	144	165
Taxes	(668)	(1,450)	(1,709)	(2,056)	(2,335)
Cash flow from operations	**4,850**	**10,846**	**9,611**	**10,921**	**12,115**
(Net) capital expenditure	(2,507)	(10,291)	(11,363)	(5,553)	(5,440)
Other items	(162)	(1,451)	622	684	752
Cash flow from investments	**(2,669)**	**(11,741)**	**(10,741)**	**(4,869)**	**(4,688)**
Net long-term borrowings	(679)	2,174	5,878	(2,500)	(1,600)
Interest paid	(362)	(695)	(951)	(735)	(612)
Other items	(548)	(602)	(2,700)	(3,249)	(3,689)
Cash flow from financing	**(1,589)**	**877**	**2,227**	**(6,484)**	**(5,901)**
Net change in cash	**592**	**(18.0)**	**1,096**	**(431)**	**1,526**
Free cash flow to firm	**2,343**	**555**	**(1,752)**	**5,368**	**6,675**

Source: Ambit Capital research, Company

Ratio analysis

Year to March (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Gross margin	75.4%	77.9%	77.0%	77.0%	77.0%
EBITDA margin	17.6%	21.3%	21.1%	22.0%	21.9%
EBIT margin	13.6%	18.1%	17.3%	18.0%	18.0%
Net profit margin	9.5%	13.4%	12.2%	13.2%	13.5%
Interest cover	3.5	2.3	3.0	3.9	3.0
Net debt/equity	0.3	0.2	0.3	0.2	0.1
Net debt/EBITDA	0.6	0.4	0.8	0.5	0.2
Working capital turnover	78	(40)	(40)	(40)	(40)
Cash conversion days	4.7	(9.0)	(9.0)	(9.0)	(9.0)
Inventory days	5.9	5.8	5.8	5.8	5.8
Receivable days	43	35	35	35	35
Payable days	44	50	50	50	50
Gross block turnover	1.3	1.4	1.3	1.2	1.2
pre-tax CFO/EBITDA	84.5%	89.2%	102%	101%	101%
pre-tax RoCE	27.0%	32.4%	26.3%	26.0%	27.2%
post-tax RoCE	21.6%	26.2%	20.7%	20.6%	21.5%
pre-tax RoIC	29.3%	36.4%	30.0%	29.5%	30.9%
post-tax RoIC	23.5%	29.4%	23.7%	23.3%	24.4%
ROE (%)	26.9%	33.5%	27.7%	28.3%	27.4%

Source: Ambit Capital research, Company

Valuation ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	57.6	33.3	31.4	26.1	23.0
P/B (x)	13.6	9.5	8.1	6.8	5.8
EV/EBITDA(x)	32.3	21.8	18.9	16.4	14.8
EV/EBIT(x)	41.8	25.7	23.2	20.0	18.0

Source: Company, Ambit Capital research

Per share data

Year to March (₹)	FY22	FY23E	FY24E	FY25E	FY26E
No. of shares o/s (mn)	204	204	204	204	204
EPS (adjusted) basic	17	30	31	38	43
EPS (adjusted) diluted	17	30	31	38	43
DPS	1	10	11	13	15
Dividend payout (%)	6%	35%	35%	35%	35%

Source: Company, Ambit Capital research

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INITIATING COVERAGE | **KIMS IN EQUITY** | **August 17, 2023**

New frontiers beckon

KIMS is a dominant chain in AP/Telangana with 3,940 beds across 12 hospitals. Cluster-based approach, affordable care positioning and doctor equity participation are differentiators that yield industry-high margins/RoCE. Planned bed capacity increase of 54% over FY24-27 will aid growth but ~67% share of greenfield projects/acquisitions in new markets (Maharashtra, Bengaluru, Chennai) adds risk. Valuation trajectory depends on execution in new markets. KIMS's affordable care positioning should help it stand out vs incumbents. Headroom in ~59% of current beds and ability to fund capex internally mitigate risk. We forecast 18%/16% topline/EBITDA CAGR over FY23-26 and expect EBITDAM/RoCE to stay at ~26%/~22%. Successful execution could narrow ~20% valuation gap with sector-leaders. DCF-based TP (₹2,165) implies 22xFY25E EV/EBITDA. Risks: Slower ramp-up in new markets and market concentration.

Competitive position: STRONG Changes to this position: POSITIVE

Dominant at home, seeking new frontiers

Cluster-based approach and affordable pricing (10-15% discount to peers) have made KIMS a leader in AP/Telangana - 1.5x Apollo on sales. No-frills facilities and higher beds/hospital (~54% more than sector average) limit capex/bed and opex. Equity for doctors boosts retention and reduces cost. Industry-high margins/RoCE and net-cash B/S position it well for expansion in new markets.

Greenfield-heavy expansion presents opportunity and risk

KIMS plans to expand beds by ~53% over FY24-27; ~67% in new markets viz. Maharashtra, Bengaluru etc. Affordable care positioning should help carve a niche and equity participation for doctors make it an attractive suitor for M&A. Capex step-up (~80% of FY23 GB) poses risk but growth headroom in ~59% of current beds and limited need for external funding are mitigating factors.

Headroom in current hospitals to offset drag from new beds

FY23-26 revenue CAGR of 18% would be led by: a) mid-to-high single-digit growth in mature hospitals, b) ~33%/16% CAGR in Nagpur/Sunshine hospitals and c) ~9% contribution from new hospitals in Nashik, Mumbai and Bengaluru. Margin gains in Sunshine and Nagpur should partly offset upfront losses in new beds, driving 16%/10% CAGR in EBITDA/EPS and 22% RoCE in FY26E.

Making new markets work key to valuation trajectory

Hospital stock valuations correlate better with return-on-capital than growth. KIMS and Max follow similar concentrated cluster-based models and lead peers on margins/RoCE. But KIMS trades at ~20% discount on FY25E EV/EBITDA due to higher-risk greenfield expansion and more saturated home market. Successful execution in new markets should help narrow the valuation gap.

Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues (₹ mn)	16,508	21,977	25,030	31,392	35,779
EBITDA (₹ mn)	5,158	6,040	7,038	8,240	9,480
Net Profits (₹ mn)	3,327	3,363	3,195	3,731	4,441
Diluted EPS (₹)	41.6	42.0	39.9	46.6	55.5
RoE (%)	30%	21%	17%	17%	17%
EV/EBITDA (x)	31	27	23	20	17

Source: Company, Ambit Capital research

Healthcare

Recommendation

Mcap (bn):	₹152/US$1.8
6M ADV (mn):	₹108/US$1.3
CMP:	₹1,900
TP (12 Mths):	₹2,165
Upside (%):	14

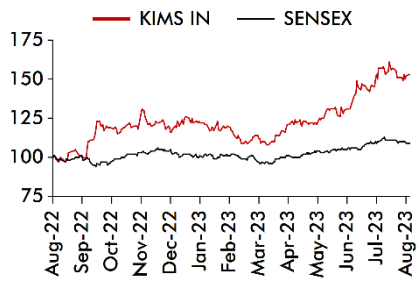
Flags

Accounting:	GREEN
Predictability:	GREEN
Earnings Momentum:	GREEN

Catalysts

- Sunshine turnaround: FY23-26 sales/EBITDA CAGR of 16%/28% EBITDAM at 26% vs. 17% pre-deal.
- Commentary on projects in new markets viz. Nagpur, Bengaluru, Nashik etc.

Performance



Source: ICE, Ambit Capital Research

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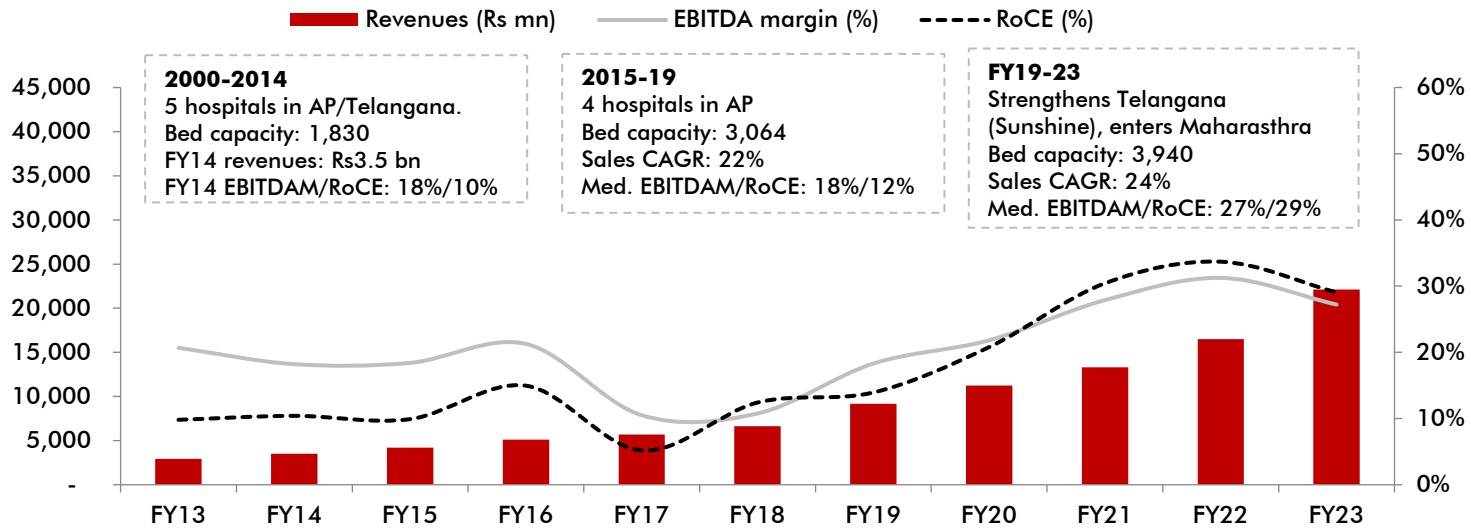
The Narrative in Charts

Exhibit 1: KIMS built dominance in AP and Telangana over the last two decades and is set to seed new markets such as Maharashtra, Karnataka and Chennai in the next phase of its evolution



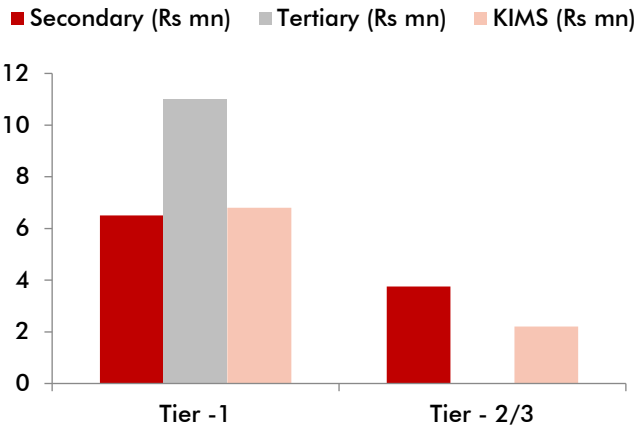
Source: Company, Ace Equity, Ambit Capital research

Exhibit 2: Entrenched in Telangana and Andhra Pradesh, just ventured into Maharashtra

FY23	Telangana	Andhra Pradesh	Maharashtra
No. of hospitals	5	7	1
Key hospitals	Secunderabad, Kondapur, Sunshine*	Nellore, Rajahmundry, Srikakulam, Ongole, Vizag, Anantapur, Kurnool	Nagpur
Operational beds (# beds)	1,687	1,606	250
% of total operational beds	49%	46%	7%
Revenue share (%)	70%	27%	2%
EBITDA share (%)	74%	26%	1%
Occupancy (%)	70%	93%	44%
ARPOB (₹/day)	50,890	14,829	17,312

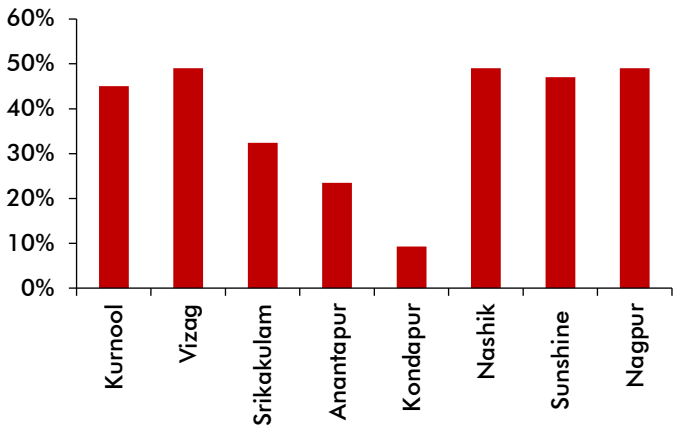
*Source: Company, Ambit Capital research; * recently acquired Sunshine hospitals: consists of 3 hospitals*

Exhibit 3: KIMS's capex/bed is lower than industry average



Source: Company, Ambit Capital research

Exhibit 4: Doctor equity participation boosts retention



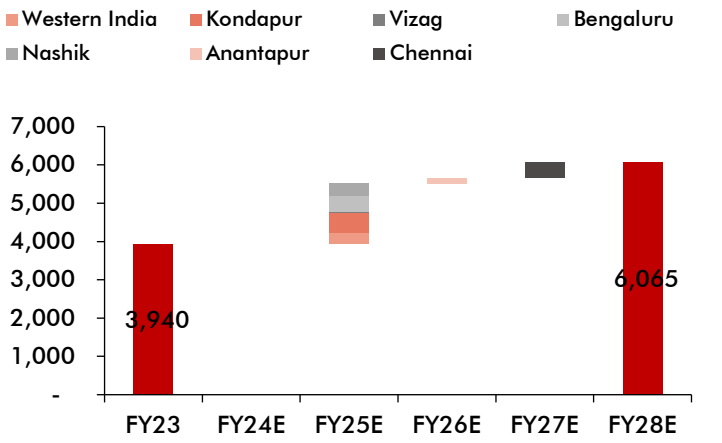
Source: Company, Ambit Capital research

Exhibit 5: Mature hospitals account for ~67% of bed capacity. Set to add ~53% of current bed capacity over FY24-27

KIMS's network	Pre-commissioning*	New			Mature
	(up to FY27)	Phase-I (Yr. 1-3)	Phase-II (Yr. 4-6)	Phase-III (Yr. 7-10)	(Yr. 11 and beyond)
No. of hospitals	3	4	4	1	4
No. of beds (% of total)	2,125 (53%)	936 (23%)	1,234 (31%)	200 (5%)	1,630 (41%)
Share of revenues#	NA	2%	20%	11%	67%
Share of EBITDA#	NA	1%	11%	11%	77%

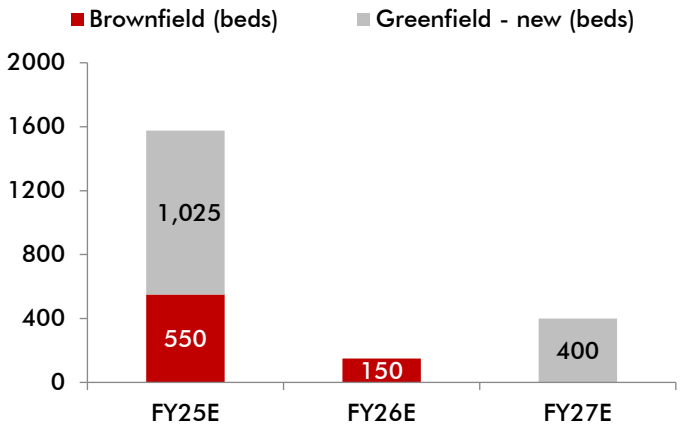
*Source: Company, Ambit Capital research; *% of beds is calculated on current capacity; #estimated based on last available information*

Exhibit 6: Adding 2,125 beds over FY24-27



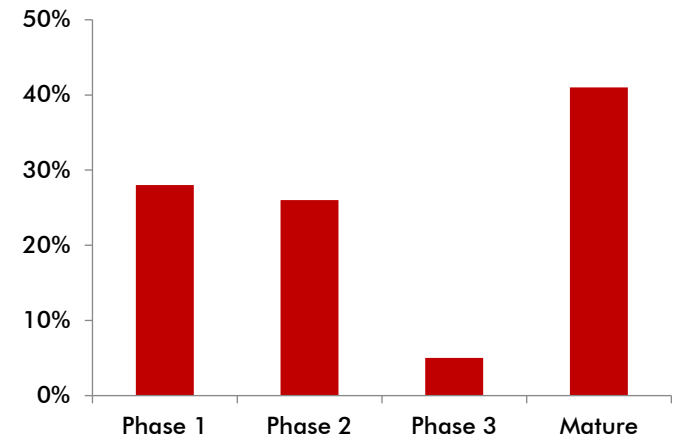
Source: Company, Ambit Capital research

Exhibit 7: Expansion is front-ended, greenfield-heavy



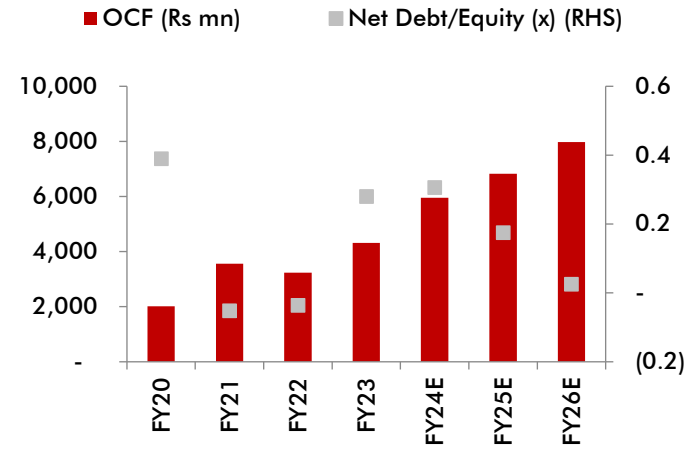
Source: Company, Ambit Capital research

Exhibit 8: ~59% of KIMS's current bed capacity is not yet mature; should help offset pressure from new beds



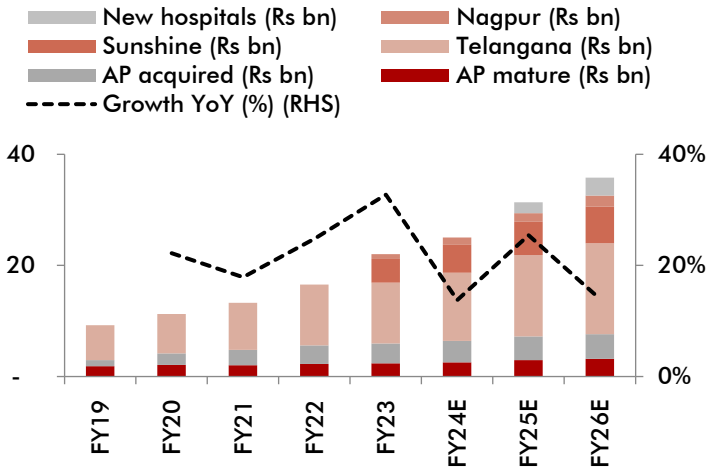
Source: Company, Ambit Capital research

Exhibit 9: Capex to be largely funded using cash-on-books and operating cashflow



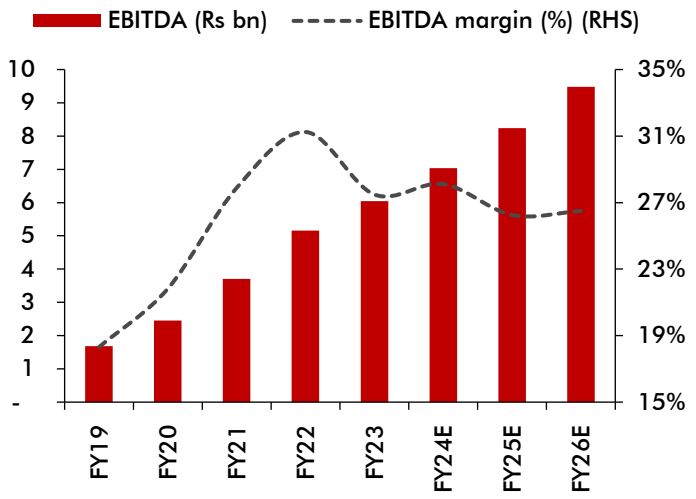
Source: Company, Ambit Capital research

Exhibit 10: 18% revenue CAGR over FY23-26E aided by new bed additions and recent Sunshine acquisition



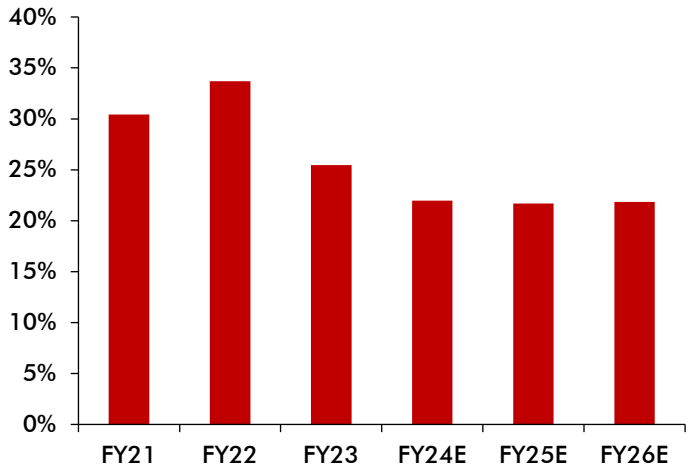
Source: Company, Ambit Capital research

Exhibit 11: EBITDA margin to dip ~200bps on new bed commissioning but stay likely in the 24-26% range



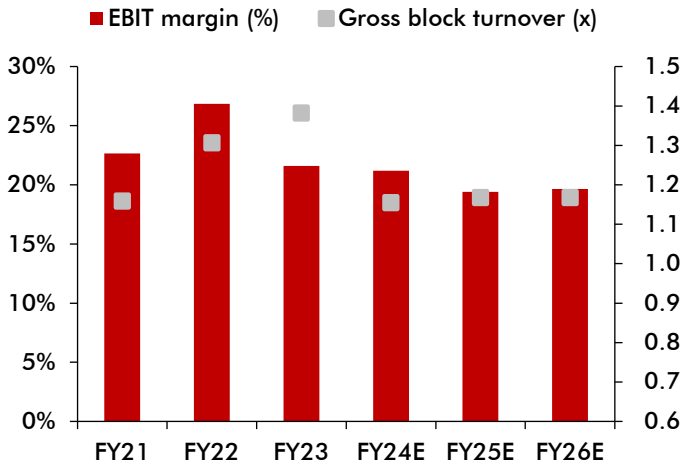
Source: Company, Ambit Capital research

Exhibit 12: RoCE to dip but remain in the 20%+ range...



Source: Company, Ambit Capital research

Exhibit 13: ...despite some decline in EBITM and GB T/O



Source: Company, Ambit Capital research

Exhibit 14: KIMS lags peers on scale and non-hospitals businesses but ranks high on competitive positioning and financial strength. Scale and nature of expansion implies higher risk, partly offset by greater headroom in current network

	Apollo	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	KIMS is a relatively small player compared to peers such as Apollo, Fortis and NH, who are present across multiple states
Competitive Positioning	●	◕	●	●	◕	KIMS is one of the go-to hospitals in the AP/Telangana region – one of the largest hospital chains in the state
Brand equity	●	◕	◕	●	◕	Concentrated position in these markets make it dominant in a larger share of its bed-capacity relative to the pan-India chains
Dominance in key markets	◕	◑	●	●	◕	
Expansion	◕	◕	◑	◕	◕	KIMS has one of the most aggressive bed-expansion targets in the sector, behind only Max Healthcare
Relative to current capacity	●	◕	◑	◑	◕	It also has higher share of beds planned in new markets via greenfield projects/acquisitions: hence higher risk
Greenfield vs. brownfield	◑	◕	◔	●	◕	However, it also has more headroom to grow in current network – should help partially offset early pain on new beds/hospitals
Location	◕	◕	◑	●	●	Net-cash balance sheet and cash generation from mature beds to limit dependence on external funding, as with most peers
Headroom in current network	◑	◔	◑	◔	◕	
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	No exposure to any other healthcare segment unlike Apollo (pharmacy, diagnostics, clinics, 24/7 etc.), Fortis (diagnostics) or Max (diagnostics, home-health)
Financial strength	◕	◑	◕	●	◑	KIMS's margins and RoCE are at industry-high levels and should remain in the 20%+ range despite some compression on addition of new beds
Growth	◕	◑	●	◕	◑	Relatively low base and scale of expansion implies higher growth rate over the medium-to-long term vis-à-vis most peers
Profitability	◕	◑	◕	●	◑	
Return on capital	◑	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

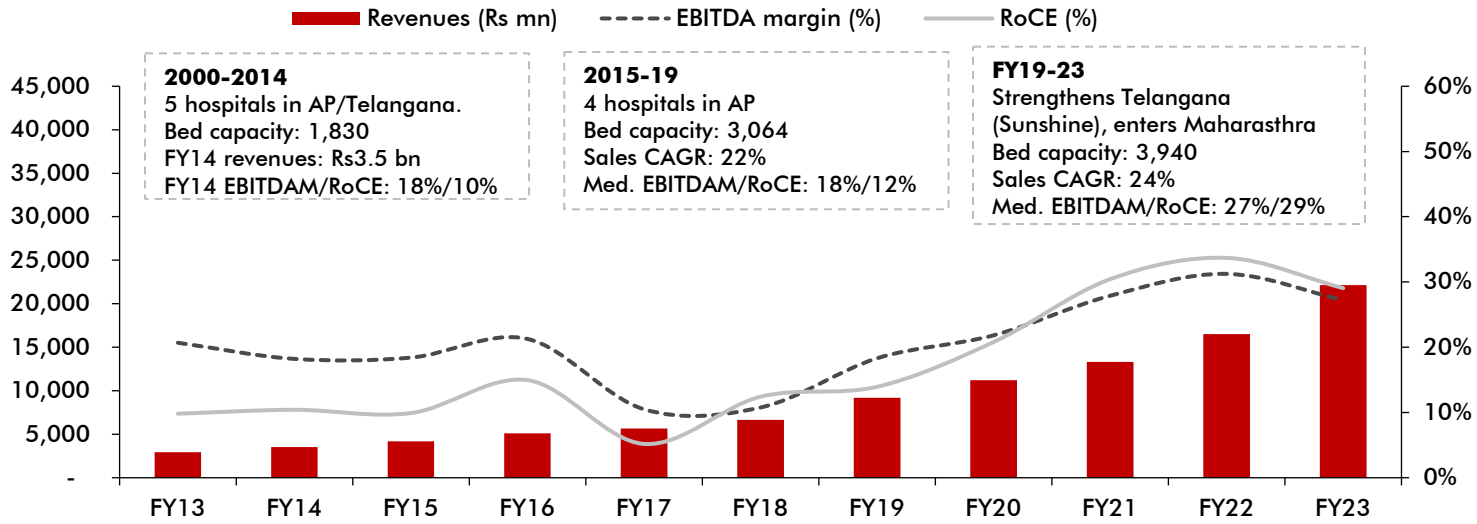
Riding on affordable healthcare

KIMS is a leading hospital chain in the AP/Telangana region with a capacity of 3,940 beds across 12 hospitals. It is headed by well-known cardiothoracic surgeon Dr. Bhaskara Rao Bollineni. The company has adopted a cluster-based approach, opting to go deep in its states of interest rather than building pan-India presence. It has positioned itself as an affordable provider of quality tertiary-care services by pricing its services at 10-15% discount to other large hospitals. Low capex-per-bed and operating expenses courtesy its no-frills facilities and higher beds per hospital (~54% higher than median for the sector) allow it to generate industry-high margins and RoCE despite ARPOB being ~40% lower than sector average. A unique doctor equity-participation model boosts doctor retention, reduces cost and makes it an attractive suitor in M&A deals. Having achieved dominance in AP/Telangana, KIMS is set for the next phase in its evolution as it expands in new markets such as Maharashtra, Karnataka and Chennai over the next few years.

Rapid scale-up over last two decades

Krishna Institute of Medical Sciences Ltd (KIMS) is a leading multi-specialty hospital chain in the Andhra Pradesh (AP) and Telangana region, with 12 hospitals and a total capacity of 3,940 beds. The company was founded in 2000 by Dr. Bhaskara Rao Bollineni, a well-known cardiothoracic surgeon. Dr. Rao completed his medical education in Russia and worked in the UK for a few years before returning to India to establish KIMS. The company started with one hospital in Nellore, Andhra Pradesh. Since then, it has grown organically and through strategic acquisitions to become one of the largest hospital chains in the AP/Telangana region.

Exhibit 15: KIMS has built dominance in AP and Telangana over the last two decades and is set to seed new markets such as Maharashtra, Karnataka and Chennai in the next phase of its evolution



Source: Company, Ace Equity, Ambit Capital research

A few key milestones in the company's evolution:

- The first KIMS hospital was started in Nellore, Andhra Pradesh in 2001. It was a 200-bed multi-specialty hospital with state-of-the-art facilities and equipment. The hospital quickly gained a reputation for providing high-quality healthcare services at an affordable cost. KIMS leveraged this to expand to other parts of Andhra Pradesh, including Ongole, Srikakulam, and Rajahmundry.
- In 2004, it commissioned its hospital at Secunderabad, Telangana. This hospital became the flagship hospital of KIMS and is one of the largest, single-hospitals (by bed-count) in India.
- Having built dominance in the markets of Andhra Pradesh and Telangana, the company is now gearing up to target new markets.

- In 2022, it ventured into the Western India market by acquiring a majority stake in a Nagpur hospital and entering into a JV for a hospital in Nashik.
- Has outlined plans to target Bengaluru, Mumbai and Chennai too.

Exhibit 16: KIMS has scaled up from one hospital in 2000 to 13 in 2023

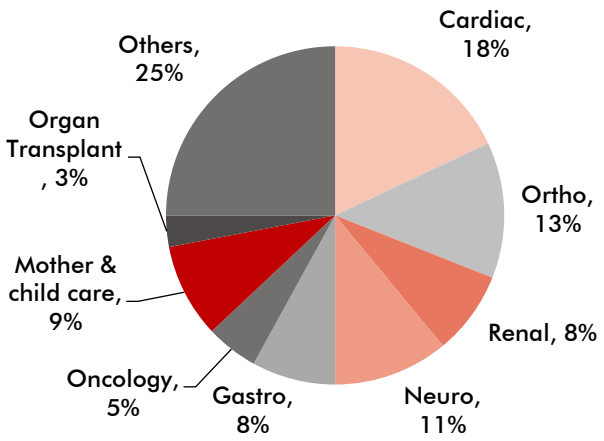
Year	Milestones
2000	▪ Commenced operations with a multi-specialty hospital at Nellore ▪ Key specialties: cardiac, renal, gastro, mother and child and orthopaedics
2002	▪ Commissioned a multi-specialty hospital at Rajahmundry – largest private hospital in Rajahmundry in terms of bed capacity ▪ Key specialties: cardiac, renal, neuro and orthopaedics
2004	▪ Commissioned flagship hospital at Secunderabad, Telangana. One of the largest single location hospitals in India ▪ Key specialties: cardiac, onco, neuro, gastro, ortho, organ transplant, renal and mother & child
2011	▪ Acquired multi-specialty hospital at Srikakulam. Largest hospital in Srikakulam by bed capacity ▪ Key specialties: renal, cardiac, ortho, neuro and mother & child
2014	▪ Acquired and set-up a multi-specialty hospital in Kondapur ▪ Key specialties: cardiac, renal, gastric, neuro, ortho and onco
2017	▪ Acquired a multi-specialty hospital in Ongole ▪ Key specialties: cardiac, renal, neuro, gastric, mother & child and ortho
2018	▪ Acquired and set-up hospitals at Vizag and Anantapur ▪ Key specialties: cardiac, renal, gastro, ortho, neuro, mother & child and organ transplant
2019	▪ Acquired a mother & child focused hospital at Kurnool and scaled it up to a multi-specialty hospital ▪ Key specialties: mother & child, cardiac, renal, gastro, ortho and neuro
2021	▪ Acquired 51% stake in Sunshine Hospitals, further consolidating its presence in Telangana ▪ Sunshine is a leading player in orthopaedic segment
2022	▪ Acquired 51% stake in Kingsway Hospitals in Nagpur ▪ Announced an MoU to set up a hospital in Nashik

Source: Company, Ambit Capital research

Case mix – a wide range of specialties

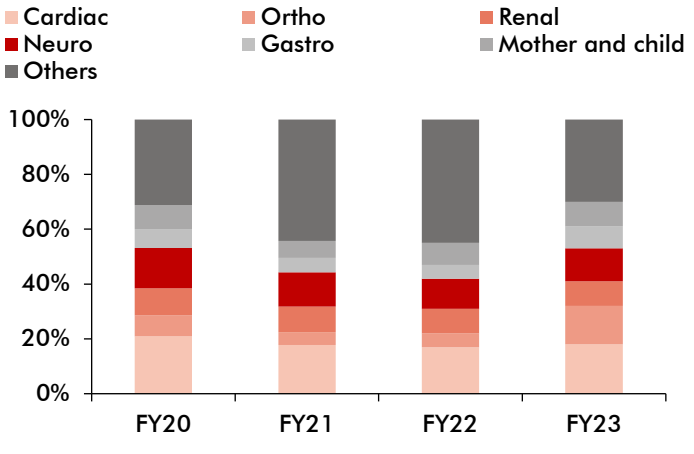
Case mix is diversified. The hospitals in KIMS's network offer a wide range of healthcare services across over 25 specialties and super specialties. Cardiac care is the highest contributor to revenue (~18% revenue share for FY23), followed by ortho (14%), neuro (12%) and Mother-and-child (9%) and multiple other therapies. The recent acquisition of Sunshine Hospitals has increased share of ortho. Other than this, there has been no meaningful change in case mix in recent years.

Exhibit 17: Top-5 therapies contribute ~59% to revenues



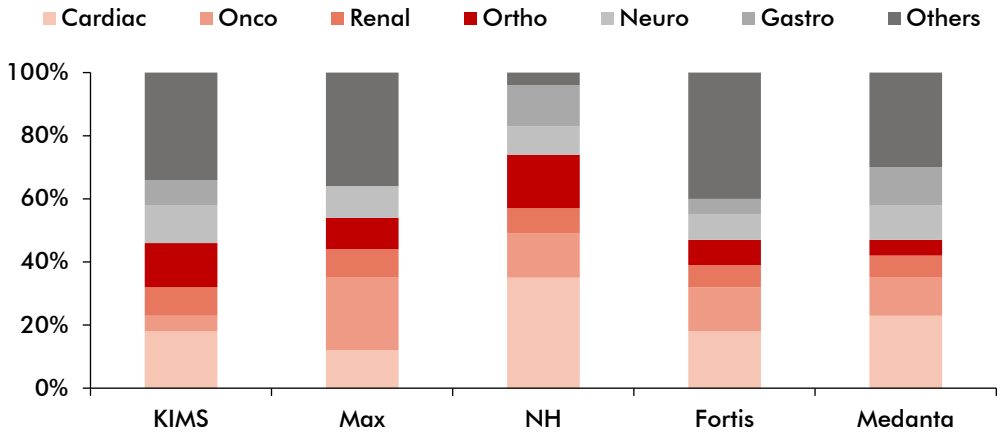
Source: Company, Ambit Capital research

Exhibit 18: Sunshine acquisition has raised share of ortho



Source: Company, Ambit Capital research

Exhibit 19: KIMS's vs. peers – higher salience of ortho following the Sunshine acquisition. Lags most players on oncology, a fast growing segment

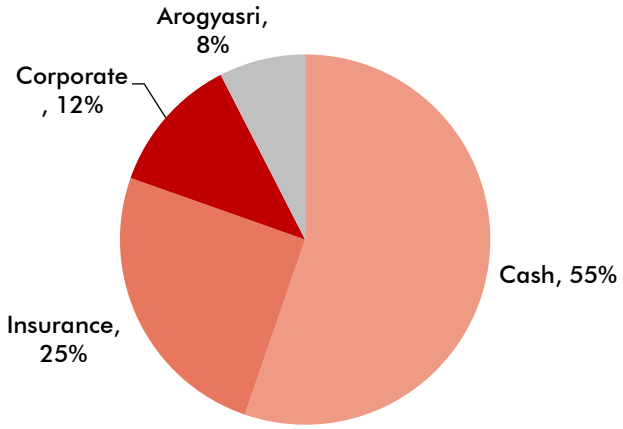


Source: Company, Ambit Capital research

Payer-mix – rising share of cash and insured patients

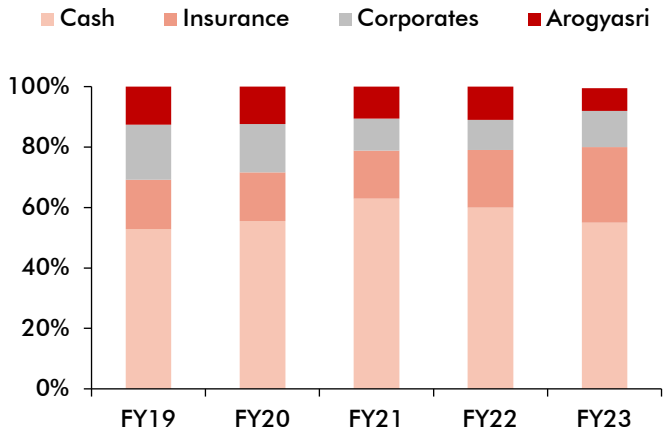
As with most private healthcare companies, cash patients form the KIMS's primary source of revenues. Share of patients with insurance has also increased consistently, from 16% in FY19 to 25% in FY23. Payment terms for insured patients range from 15-30 days with pricing for private-insurance and public-insurance being at 15% premium and 15% discount to cash patients respectively. On the other hand, pricing for central and state government schemes are at a higher discount of 35-40%. Shift in payer mix has been favourable over the last few years. Share of cash and insurance patients has increased from ~69% in FY19 to ~80% in FY23. Correspondingly, share of scheme patients (state and central) and (viz. Arogyasri) has dipped to ~20% in FY23 from ~31% in FY19.

Exhibit 20: Cash and insurance patients made up ~80% of revenues in FY23



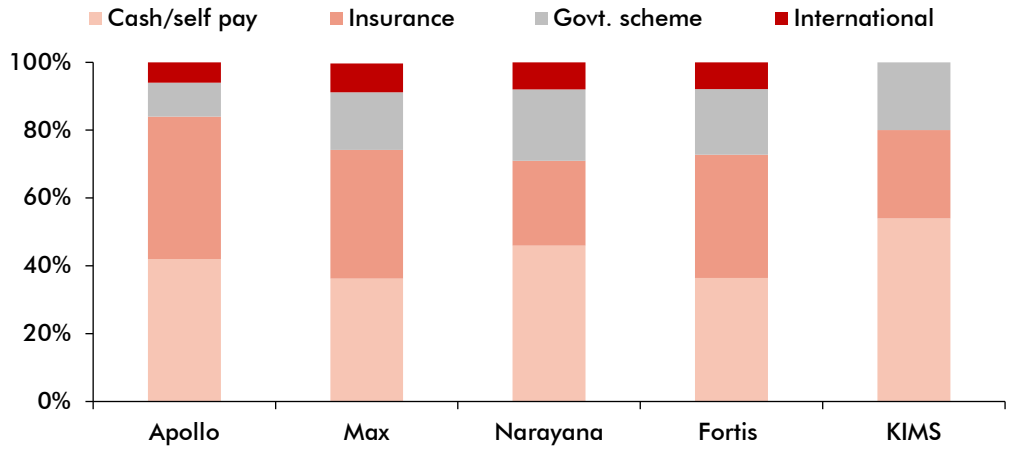
Source: Company, Ambit Capital research; Note: "Corporates" refers to state and central govt. scheme patients excluding Arogyasri

Exhibit 21: Contribution from scheme patients declined to ~20% from ~31% over last four years



Source: Company, Ambit Capital research; Note: "Corporate" refers to state and central govt. scheme patients

Exhibit 22: KIMS derives higher percentage of revenue from government scheme patients compared to most peers

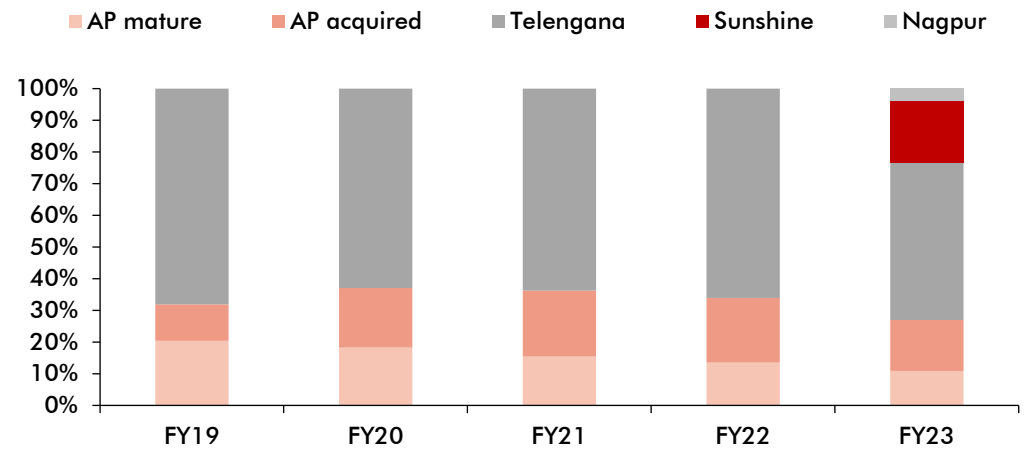


Source: Company, Ambit Capital research

Dominant in AP, Telangana; seeding Maharashtra

KIMS has adopted a cluster-based approach to grow, opting to go deep in its states of interest rather than try to build a pan-India presence. It has focused on the southern region and is one of the largest corporate hospitals operating in Andhra Pradesh and Telangana. The company has grown through a combination of organic and inorganic initiatives and has 11 hospitals in these two states. Having established dominance in AP and Telangana, it made its first foray into the western part of India recently. It acquired 51% stake in a hospital in Nagpur, Maharashtra. It also entered into a JV to set up a hospital in Nashik.

Exhibit 23: Building depth in core markets before expanding into others



Source: Company, Ambit Capital research

Exhibit 24: Entrenched in Telangana and Andhra Pradesh, just ventured into Maharashtra

FY23	Telangana	Andhra Pradesh	Maharashtra
No. of hospitals	5	7	1
Key hospitals	Secunderabad, Kondapur, Sunshine*	Nellore, Rajahmundry, Srikakulam, Ongole, Vizag, Anantapur, Kurnool	Nagpur
Operational beds (# beds)	1,687	1,606	250
% of total operational beds	49%	46%	7%
Revenue share (%)	70%	27%	2%
EBITDA share (%)	74%	26%	1%
Occupancy (%)**	70%	93%	44%
ARPOB (₹/day)	50,890	14,829	17,312

*Source: Company, Ambit Capital research; * recently acquired Sunshine hospitals: consists of 3 hospitals*

Telangana: most profitable cluster, Sunshine acquisition to drive growth

Telangana is the largest region for KIMS, accounting for ~49% of its operational beds, 70% of revenues and 74% of EBITDA.

Exhibit 25: Post addition of Sunshine hospitals, Telangana cluster contributes ~45% to bed capacity

Telangana Cluster	Year of commissioning	Bed capacity
Secunderabad	2004	1,000
Kondapur	2014	200
Sunshine*		
- Secunderabad	2009	290
- Gachibowli	2018	237
- Karimnagar (**now exited**)	2016	75

*Source: Company, Ambit Capital research; *Sunshine hospitals acquired by KIMS in 2021*

- It has five hospitals in this cluster, viz. its flagship hospital at Secunderabad, one in Kondapur and three hospitals that came along with its recent acquisition of Sunshine Hospitals.
- Total bed capacity in this cluster stands at 1,802, of which 1,000 beds are at its flagship Secunderabad hospital. The Sunshine acquisition added 602 beds.
- EBITDA margin stood at 32% in FY23. This has come down following the Sunshine acquisition. KIMS's two hospitals (Secunderabad and Kondapur) enjoy EBITDA margin of 30% whereas Sunshine's EBITDA margin is ~19%.

Sunshine acquisition adds headroom to grow

KIMS acquired 51.07% in Sunshine Hospitals, a leading player in the orthopaedic segment, in October 2021. This gave it access to three hospitals, two in Hyderabad (Secunderabad, Gachibowli) and one in Karimnagar. The acquisition added ~50% to KIMS's bed capacity. ARPOB of the acquired hospital is high at ~₹62,829/day (112% higher vs. KIMS) but occupancy lags meaningfully at ~31% vs. ~57% for KIMS's hospitals. This implies good headroom to grow.

KIMS intends to move Sunshine's hospital in Secunderabad to a new, improved campus. It also plans to add doctors across specialties to position Sunshine as a multi-specialty chain rather than primarily an orthopaedic one. Proximity to its own hospitals should also allow KIMS to leverage its stronger brand-equity and drive occupancy higher. This, in-turn, should lead to step-up in growth and profitability.

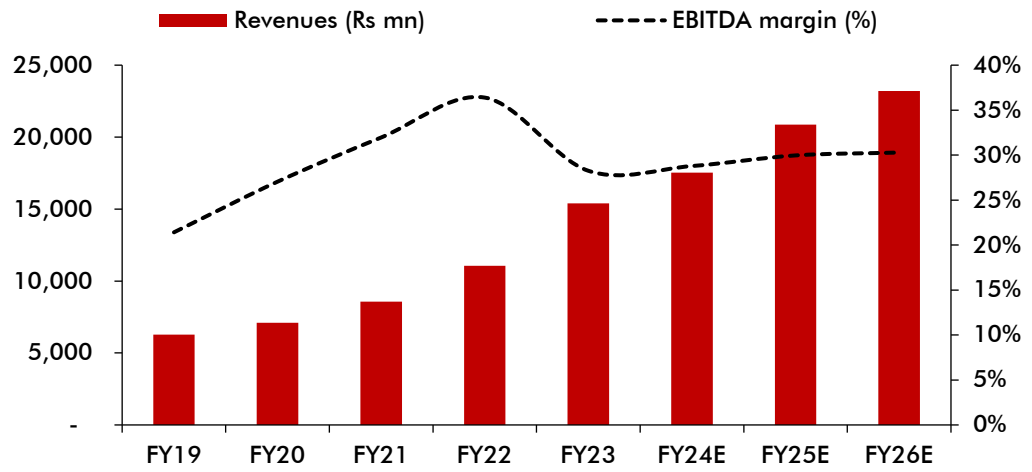
Exhibit 26: Sunshine: improving operating and financial metrics post acquisition

Sunshine hospitals	1QFY23	2QFY23	3QFY23	4QFY23
Revenues (₹ mn)	1,110	1,162	1,031	1,000
Share of KIMS's revenues (%)	22%	20%	18%	17%
EBITDA (₹ mn)	194	212	219	190
Share of total EBITDA (%)	15%	15%	15%	12%
EBITDA margin (%)	**17%**	**18%**	**21%**	**19%**
Operational beds	602	602	602	527
Occupancy (%)	32%	34%	28%	31%
ARPOB (₹/day)	**62,706**	**60,419**	**65,246**	**67,935**
ALOS (days)	3.1	3.2	3.3	3.2

Source: Company, Ambit Capital research

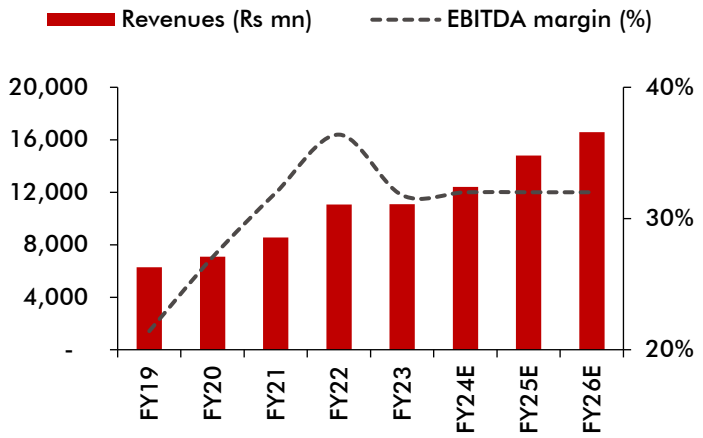
EBITDA margin at Sunshine Hospitals has improved ~400bps despite dip in occupancies respectively over the last three quarters

Exhibit 27: Growth, margin expansion in Sunshine hospitals and bed addition in Kondapur to drive 15%/17% CAGR in revenues/EBIDTA over FY23-26E



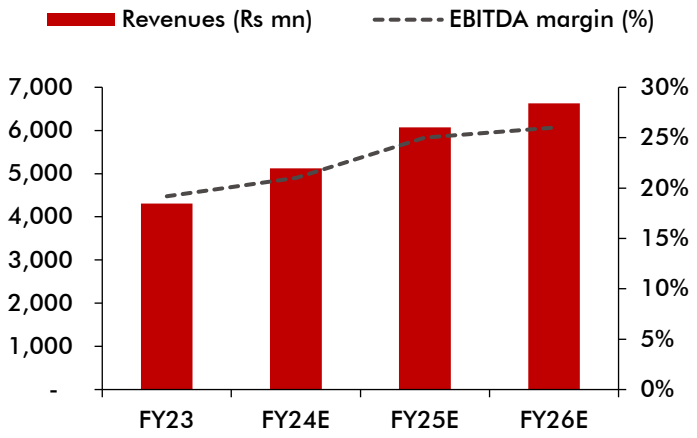
Source: Company, Ambit Capital research

Exhibit 28: Kondapur bed addition to drive 14% organic revenue CAGR in Telangana over FY23-26E



Source: Company, Ambit Capital research

Exhibit 29: Sunshine hospitals to grow at ~16% CAGR over the same period with ~700bps EBITDAM expansion



Source: Company, Ambit Capital research

Andhra Pradesh: mature but room for margin improvement in acquired units

KIMS's hospitals in Andhra Pradesh can be split into two groups, viz. (a) three hospitals the company set up in the early part of its evolution and (b) four hospitals it acquired post 2017. The former set is close to maturity whereas there is room to improve on efficiency, occupancy and profitability in the latter.

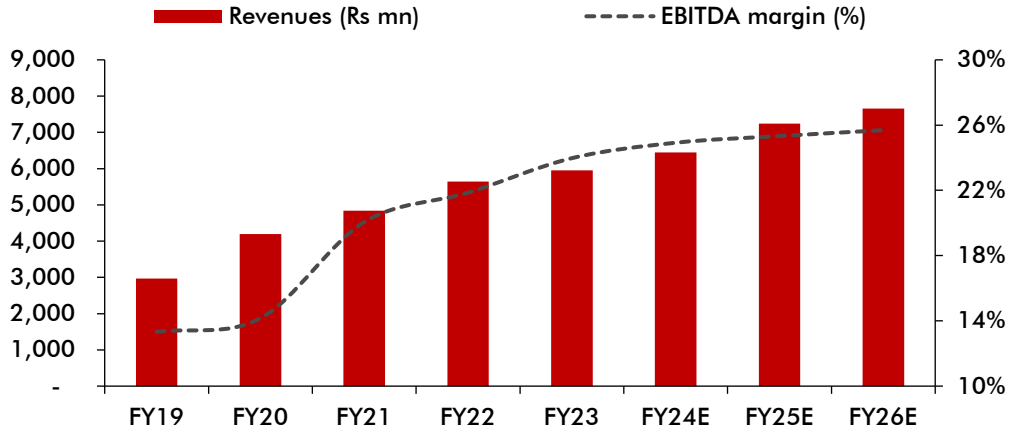
Exhibit 30: Andhra Pradesh cluster accounts for 46% of total bed capacity

Andhra Pradesh cluster	Year of commissioning	Bed capacity
Nellore	2000	250
Rajahmundry	2002	180
Srikakulam	2011	200
Ongole	2017	350
Vizag	2018	434
Anantapur	2018	250
Kurnool	2019	200

Source: Company, Ambit Capital research

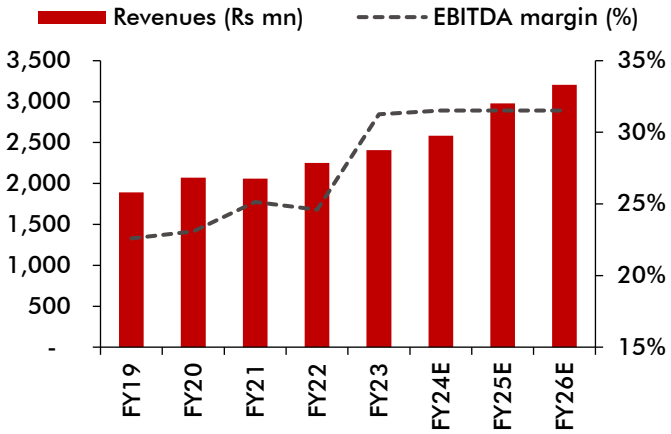
- The AP mature cluster comprises hospitals in Nellore, Rajahmundry and Srikakulam. Nellore and Rajahmundry commenced operations in 2000 and 2002 respectively while Srikakulam was commissioned in 2011.
- These three hospitals account for ~16% of operational beds, ~11% of total revenues and ~13% of total EBITDA. EBITDA margin stood at 31% in FY23.
- The AP-acquired cluster comprises hospitals that KIMS acquired in or post 2017 – Ongole (2017), Vizag (2018), Anantpur (2018) and Kurnool (2019). They account for ~38% of operational beds, ~20% of total revenues and ~12% of total EBITDA.
- EBITDA margin in the group of acquired hospitals is inferior to those in the AP mature cluster but there is scope to improve. Occupancy in these hospitals has now hit the ~70% range, allowing KIMS to use other levers such as ALOS, case mix and pricing to improve efficiency and profitability.

Exhibit 31: Andhra Pradesh hospitals have room to grow and improve margins...



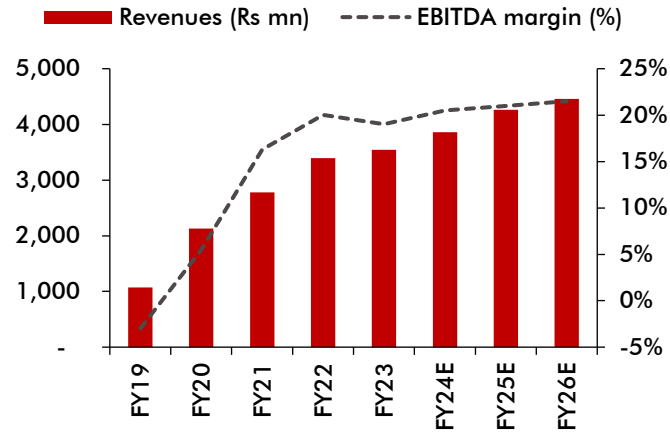
Source: Company, Ambit Capital research

Exhibit 32: AP mature cluster to post single-digit revenue CAGR and steady margins over FY23-26



Source: Company, Ambit Capital research

Exhibit 33: AP acquired cluster to see faster margin gains as management focuses on improving operating metrics



Source: Company, Ambit Capital research

Head-to-head comparison: KIMS vs Apollo's AP/Telangana cluster

A comparison with Apollo Hospitals' AP/Telangana cluster highlights the difference in approach of the two market leaders. KIMS's hospitals are larger in terms of average bed-capacity and it leads on occupancy and revenue growth. Apollo Hospitals, on the other hand, appears to be focusing on raising revenue intensity.

Exhibit 34: KIMS scores higher on scale and patient volumes despite similar number of hospitals – positioned as an affordable care provider as compared to Apollo's relative premium positioning

Parameter	KIMS	Apollo	Comments
No. of hospitals	12	13	
No. of beds	3,940	1,632	▪ Similar number of hospitals but KIMS's beds/hospital is more than double that of Apollo
No. of operational beds	3,468	1,297	▪ KIMS has also operationalized ~89% of its capacity beds vs. ~79% for Apollo
Beds/hospital	289	100	
ARPOB	30.290	50,308	
Occupancy	57%	57%	▪ Lower pricing (~10-15% discount) and higher ALOS leads to lower ARPOB and average revenue per patient (ARPP) for KIMS
ALOS	4.1	3.6	▪ KIMS sees far more patient flow, given its pricing strategy and greater willingness to target govt.-scheme patients
ARPP	124,187	178,921	
IP volumes ('000)	177	76	
Revenues (₹ mn)	22,235	13,559	
Growth (FY20-23)			
- IP volumes	25%	-1%	▪ Neither player has added much by way of bed capacity in recent years. KIMS saw additional bed-count (~16%) post the Sunshine acquisition in FY23
- Revenue	16%	7%	▪ KIMS has been able to grow revenues faster on the back of rising occupancy whereas Apollo has managed to improve revenue-intensity and ARPOB at a faster pace over the last three years
- ARPOB	32%	12%	
- ARPP	16%	8%	
- Beds	13%	-1%	

Source: Company, Ambit Capital research

Maharashtra: recent entry, next growth frontier

Maharashtra accounted for 7% of operating beds, 3% of revenues and 1% of EBITDA. This cluster currently comprises one recently acquired hospital in Nagpur and an under-construction hospital in Nashik. KIMS also plans to explore greenfield expansion in Mumbai.

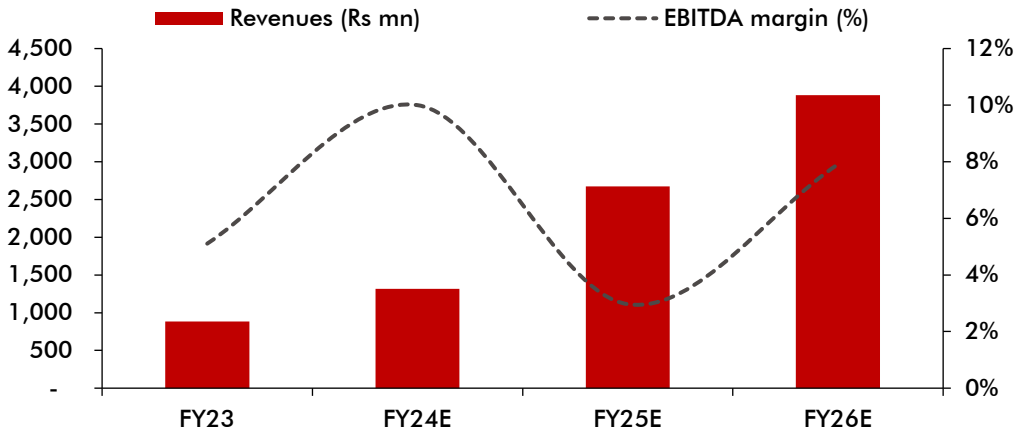
Exhibit 35: Maharashtra cluster formed ~7% of operating beds as on FY23

Maharashtra	Year of commissioning	Bed capacity
Nagpur	FY23	334
Nashik	FY25	325

Source: Company, Ambit Capital research

- KIMS acquired ~51% stake in Kingsway Hospitals, a 334 bed hospital in Nagpur, for ~₹800m and integrated it from 2QFY23. This marked the company's entry into Maharashtra.
- In May'22, it signed an MoU with Dr. Raj Nagarkar, a Nashik-based oncological surgeon, to set up a 325 bedded multi-specialty hospital via the JV route. The hospital would be called KIMS Manavata and KIMS will own 51% stake in the JV.

Exhibit 36: We forecast 64% CAGR over FY23-26 in Maharashtra. Nagpur is EBITDA positive but commissioning of Nashik, Mumbai hospitals to pull down margins again



Source: Company, Ambit Capital research

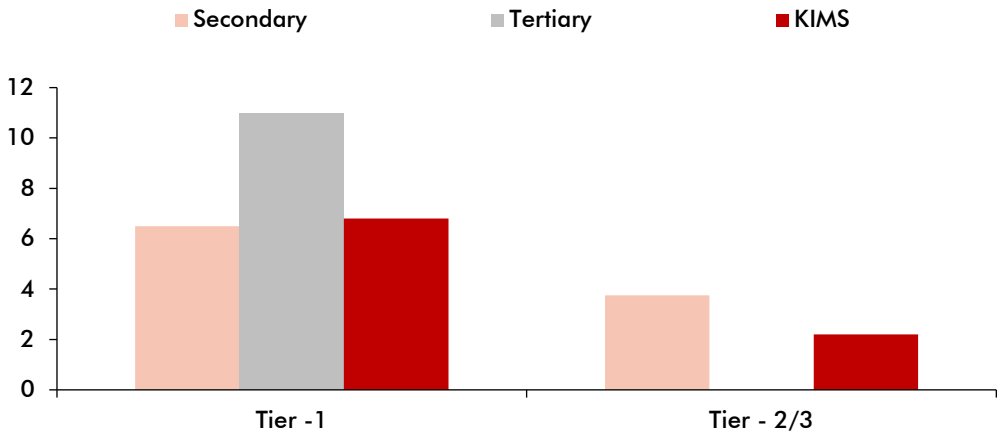
Positioned as an affordable provider of care

Unlike most other listed peers, KIMS has positioned itself as a provider of quality healthcare services at affordable prices in Tier 1 as well as Tier 2/3 cities. The company offers medical procedures at 10-15% discount to other private hospitals in any city that it operates in. It is able to do so by achieving lower capex per bed vis-à-vis industry standards as well as managing costs effectively.

Lower capital cost

KIMS's average capex/bed (excluding land) is similar to industry average for setting up a secondary care hospital and at a 38% discount to that for tertiary/quaternary care hospitals in tier-1 cities. This is a conscious effort in order to sustain the affordable pricing value proposition without compromising on return on capital metrics.

Exhibit 37: Lower capex/bed vis-à-vis industry average



Source: Company, Ambit Capital research

Besides the no-frills nature of its hospitals, scale is a key factor behind this. KIMS buys land in advance and builds hospitals with flexibility to add beds over time. It continues to invest in enhancing clinical capabilities and bed-count in existing hospitals. The company's beds/hospital ratio is among the highest in the sector at 309. It has a median bed-count of 250, with the smallest hospital having 180 beds and the largest hospital having 1,000 beds. Larger number of beds in the same facility provides economies of scale and helps bring capex/bed down. We note that most of the large private sector hospitals are following a similar approach in recent years as many micro-markets now have the demand to support larger hospitals. KIMS has been able to follow this approach since the beginning by virtue of being a relatively recent entrant in the industry.

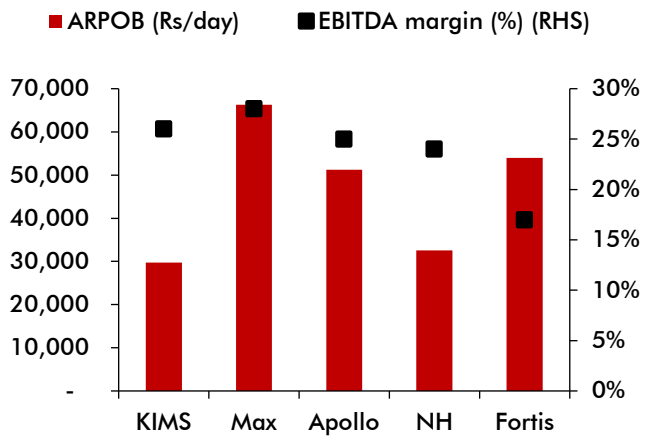
Lean cost structure

KIMS also manages its costs effectively, including doctor, procurement, and administrative costs. A successful doctor engagement model built around fixed+variable compensation arrangements and direct equity participation have led to low dependence on star doctors. Building dominance in a couple of clusters (AP and Telangana) rather than spreading itself thin across multiple regions has also led to strong brand equity in these clusters. This leads to lower promotional spend relative to most peers. Finally, ability to provide quality care at affordable price points has led to significant volume throughput at its hospitals. This keeps occupancy consistently high, in turn translating into high margins and ability to sustain the affordable-pricing approach.

High margins and RoCE despite low ARPOB

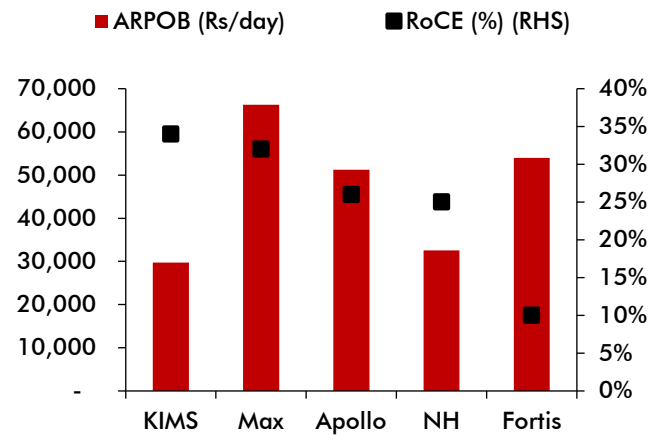
Lower capital-cost and a leaner cost structure along with the ability to drive high occupancy across hospitals have led to industry-high margins and RoCE.

Exhibit 38: Lean cost structure and high occupancy lead to industry-high margins despite lowest ARPOB...



Source: Company, Ambit Capital research

Exhibit 39: ...high margins along with low capital-cost per bed translates into superior RoCE

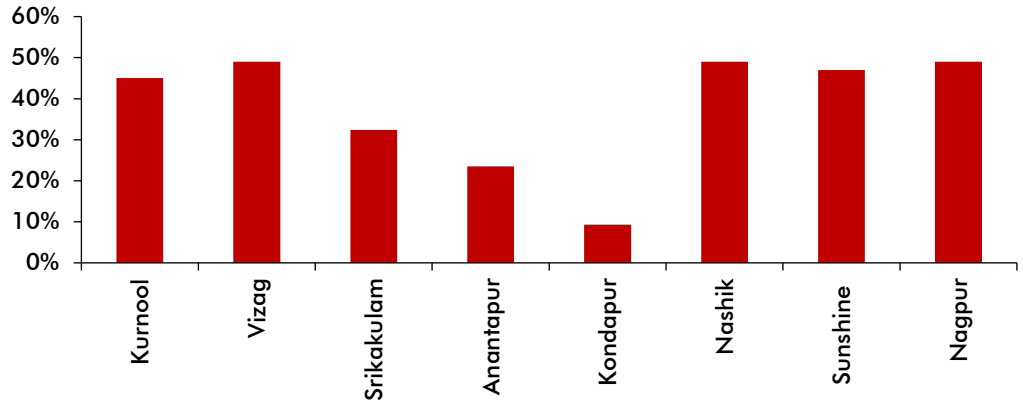


Source: Company, Ambit Capital research

Doctor equity participation boosts retention and makes KIMS an attractive suitor

KIMS works on a unique doctor equity participation model in most of its hospitals. It encourages doctors to become stakeholders in the hospitals where they work by participating in equity of those hospitals. Leading doctors at hospitals that KIMS acquires are also encouraged to stay with the organization and participate in equity ownership in order to contribute to growth. Many other leading hospital chains have similar models in place at a few hospitals but it appears a lot more integral to KIMS. Doctors own direct equity in the hospitals at Kurnool (45%), Vizag (49%), Srikakulam (32%), Anantpur (24%) and Kondapur (9%). Even the recently announced expansion into Maharashtra involves the use of this model – doctors own ~49% stake in the hospitals at Nagpur and Nashik respectively.

Exhibit 40: Shareholding (%) of doctors in company/subsidiaries



Source: Company, Ambit Capital research

The approach helps in many ways:

- High rate of doctor retention: Over 80% of doctors have remained with KIMS since its inception in 2000. It has allowed the company to benefit from the long-term relationships that patients develop with their doctors.
- Lower attrition among doctors has reduced KIMS's dependence on star doctors. It is a key factor behind KIMS's ability to maintain a leaner cost structure and offer treatment at lower pricing without compromising on margins or RoCE.
- It has also allowed KIMS to offer a different value proposition to doctors who own hospitals that the company would like to acquire. For instance, the selling/partner doctors own 47%, 49% and 49% stakes in Sunshine Hospitals, the Nagpur hospital and the Nashik JV. This approach would be particularly handy as the company attempts to expand in regions where its brand-equity is not strong at the moment.

Management is largely founder family driven

KIMS's founder and managing director, Dr. Bhaskara Rao Bollineni, is a highly regarded cardiothoracic surgeon in India with over 27 years of experience. His son, Dr. Abhinay Bollineri, joined the company in 2014 and took over as CEO in 2019. The latter has been in charge of the company's expansion over the last five years.

Exhibit 41: Founder family members, viz. Dr. Bhaskara Rao and Dr. Abhinay Bollineri, lead the management team

People	Designation	Qualifications	Experience
Dr Bhaskara Rao Bollineni	Chairman and Managing Director	Bachelor's in medicine and surgery Masters in general surgery Admitted as a Diplomate of National Board of Examinations, New Delhi for practice of cardio-thoracic surgery	Over 27 years of experience in cardiothoracic surgery Held various positions with Apollo Hospitals, Austin Hospital, University of Melbourne and Mahavir Hospital and Research Centre, prior to establishing KIMS.
Dr Abhinay Bollineni	Chief Executive Officer	Bachelor's in medicine and surgery	Joined KIMS in 2014, CEO since 2019. Played a leadership role in expanding KIMS network across Andhra Pradesh. Was also the key player in acquisition on Sunshine Hospitals.
Sachin Ashok Salvi	Chief Financial Officer	Chartered Accountant	Joined KIMS w.e.f. 2nd August, 2023. Has been associated with SD Khanolkar & Co., Chartered Accountants and Thyrocare group More than 20 years of experience in Finance and Accounts
Anitha Dandamudi	Director (Operations]	Diploma in business management from ICFAI university	With KIMS since 2008 Over 16 years of experience in hospital industry, held various positions at KIMS Has also served as VP of administration at e-Talent Software Limited
Bharath Kanth Reddy R.Y.	Chief Operating Officer	Master of Hospital Management (MHM)	With KIMS from 2020 Previously associated with Apollo Hospitals, Dr. Agarwal's Eye Hospital, AMRI Hospital among others
Umashankar Manta	Company Secretary & compliance officer	Bachelor's in Commerce, Degree of Law from Osmania University	17+ years' experience in secretarial and legal sectors Previously associated with S. Chidambaram (Company Secretary in Practice), Lanco Wind Power, IVRCL Assets and Holdings and Navketan Nursing Home Pvt Ltd

Source: Company, Ambit Capital research

Exhibit 42: Supported by a diverse board

People	Designation	Background/Previous experience
Dr Bhaskara Rao Bollineni	Chairman and Managing Director	Over 27 years of experience in cardiothoracic surgery Held various positions with Apollo Hospitals, Austin Hospital, University of Melbourne and Mahavir Hospital and Research Centre, prior to establishing KIMS
Dr Abhinay Bollineni	Director & Chief Executive Office	Joined KIMS in 2014, CEO since 2019. Played a leadership role in expanding KIMS network across Andhra Pradesh. Was also the key player in acquisition on Sunshine Hospitals.
Anitha Dandamudi	Whole-time Director	She holds a diploma in business management from ICFAI University. Has over 16 years of experience in hospital industry having held various positions with KIMS
Mr. Shantanu Rastogi	Investor Director	He holds a Bachelor's degree and Master's in technology from IIT, Bombay. He also did his MBA from Wharton School of Business. He is currently an MD at General Atlantic, responsible for investments in financial services, healthcare, retail and consumer sectors in India and Asia Pacific.
Mr. Rajeswara Rao Gandu	Independent Director	He holds a bachelor's degree in science from Andhra University and a bachelor's degree in law from Osmania University. He has over 37 years of experience as a civil servant and has worked in the Department of Supply, GoI in the past.
Mr. Saumen Chakraborty	Independent Director	Holds bachelor's degree in science from Visva Bharati University. He completed his post-graduate diploma in management from IIM Ahmedabad. He was previously employed with Dr Reddy's where he held various positions
Mr. Pankaj Vaish	Independent Director	He holds a bachelor's degree in mechanical engineering from IIT Banaras and MBA from Carlson school of Management, Minnesota. He has over 35 years of experience in various fields with 28 years of experience in Accenture.
Mr. Venkata Ramudu Jasthi	Independent Director	He holds a bachelor's degree in arts and a master's degree in arts (economics) from Sri Venkateswara University and a master's degree in law from Osmania University. He worked in the Indian revenue service (Income tax) from 1979 to 1981
Mr. Kaza Ratna Kishore	Independent Director	He holds a bachelor's degree in science and a master's degree in science in nuclear physics from Andhra University. He has held the position of Principal Secretary (health, medical and family welfare) to the Government of Andhra Pradesh
Smt. Prameela Rani Yalamanchili*	Independent Director	She is a veteran banker with 36 years of varied experience with Andhra Bank, where she retired as General Manager.

*Source: Company, Ambit Capital research; *appointed as additional director – independent on 19th May, 2022*

New markets dominate growth plans

KIMS is set for another meaningful bed expansion phase over the next three to four years. The company intends to expand bed-capacity by ~53% over FY24-27. Unlike in the last bed-expansion phase (2017-19), a large part (~67%) of this bed addition would be in the form of greenfield projects/acquisitions in states like Maharashtra (Nagpur, Nashik, Mumbai), Karnataka (Bengaluru) and Tamil Nadu (Chennai), where it is not present currently. Ability to absorb new beds without materially impacting profitability and return on capital metrics would be the key to valuations. Our analysis suggests additional risk due to scale of capex and entry into new markets where large hospital chains are already established. However, headroom to grow in current hospitals and limited dependence on external capital would limit impact on EBITDA margins and RoCE, keeping them at ~26-28% range and ~22% respectively over FY24-26.

Most hospitals are mature, some in ramp-up mode

KIMS's network has grown from a single hospital (200 beds) to 12 hospitals (3,940 beds) over the last two decades. Our analysis suggests that while many of its large hospitals are mature, several are still in ramp-up mode. The company has added ~2,170 beds (~119% of FY16 bed capacity) over FY17-23.

Exhibit 43: KIMS's network has grown to 13 hospitals over the last two decades

Hospitals	Commencement of operations	Installed bed capacity	Engagement model	Stake (%)
Nellore	2000	250	Owned	100%
Rajahmundry	2002	180	Owned	100%
Secunderabad	2004	1,000	Owned	100%
Srikakulam	2011	200	Acquired	57.83%
Kondapur	2014	200	Acquired	86.32%
Ongole	2017	350	Acquired	100%
Vizag	2018	434	Acquired	51%
Anantapur	2018	250	Acquired	80%
Kurnool	2019	200	Acquired	55%
Sunshine	Apr-22	527	Acquired	51.07%
Nagpur	Aug-22	334	Acquired	51%

Source: Company, Ambit Capital research

Exhibit 44: Mature beds account for over 50% of all leading Indian hospitals' capacity. Expansion plans announced indicate that the industry is moving into the next investment phase

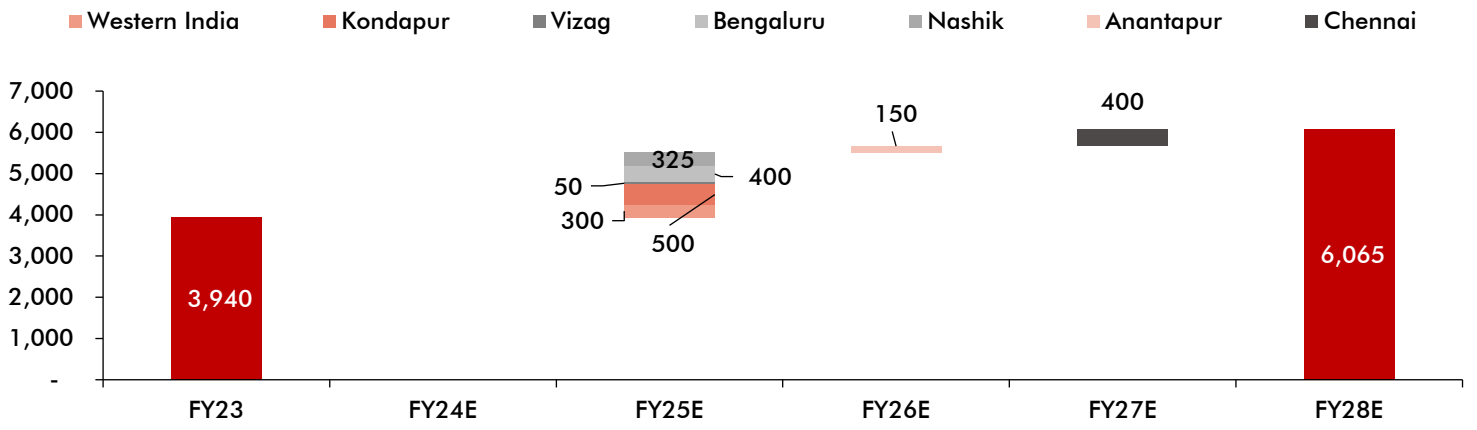
KIMS's network	Pre-commissioning*	New			Mature
	(up to FY27)	Phase-I (Yr. 1-3)	Phase-II (Yr. 4-6)	Phase-III (Yr. 7-10)	(Yr. 11 and beyond)
No. of hospitals	3	4	4	1	4
No. of beds (% of total)	2,125 (53%)	936 (23%)	1,234 (31%)	200 (5%)	1,630 (41%)
Share of revenues#	NA	2%	20%	11%	67%
Share of EBITDA#	NA	1%	11%	11%	77%

*Source: Company, Ambit Capital research; *% of beds is calculated on current capacity; #estimated based on last available information*

Big-ticket expansion ahead

KIMS intends to expand bed capacity by 53% (~2,125 beds) over FY23-27 through a combination of brownfield and greenfield initiatives. These would be spread across current markets of dominance as well as new micro-markets. The main areas that KIMS intends to expand into outside AP/Telangana include Nashik (Maharashtra), Karnataka (Bengaluru), Mumbai (Maharashtra), Tamil Nadu (Chennai) and Odisha. The brand has some salience in some of the neighbouring states owing to proximity to its flagship hospitals and patient flow from these locations.

Exhibit 45: Envisages expansion of ~2,125 beds (53% of current bed capacity) over FY24-27E



Source: Company, Ambit Capital research

Mix of brownfield and greenfield projects

Capacity expansion is likely to be front-ended, with ~74% of proposed additional bed capacity to be commissioned over FY24-25. These include additional beds at Kondapur, Vizag and Anantpur and one greenfield facility each in Nashik and Bengaluru. Longer-term, the company has also outlined intent to expand in Chennai and Mumbai. These plans are however still fluid and are intended to provide a more directional sense of capacity addition over this time frame.

Exhibit 46: Bed expansion plan – aims to expand through brownfield/acquisition route

Facilities	Year	Type	Current beds	Incremental beds	Capex (₹ mn)	Comment
Kondapur	FY25	Brownfield	200	500	3,000	
Vizag	FY25	Brownfield	434	50	150	
Anantapur	FY26	Brownfield	250	150	500	
Ongole	FY25	Brownfield	350		200	No bed addition planned but to invest in more services
Bangalore	FY25	Acquisition/ Greenfield		350-400	3,150	Planning two projects – has acquired a mall in North Bengaluru – intends to build a 400-450 bed hospital
Western	FY25	Acquisition/ Greenfield		300	2500-4,500	Planned in Thane, multi-specialty hospital Still working out whether it will be asset-light or fully owned – final capex outlay will depend on this
Nashik	FY25	JV (Greenfield)		325	2,250	Entered into a JV (51% stake) with Dr. Raj Nagarkar (a leading oncology surgeon) to set up a multi-specialty hospital.
Chennai	FY27	Acquisition/ Greenfield		350-400	4,000	Has acquired land but project currently on hold

Source: Company, Ambit Capital research

- **Brownfield projects**: KIMS intends to deepen its presence in the existing cluster by expanding its specialty offerings across the current network and adding beds in some of them. Brownfield capacity expansion is planned at the Kondapur, Vizag and Anantpur hospitals. This would account for ~33% of the proposed bed expansion. Most of these beds are likely to be commissioned over FY25/26.
- **Maharashtra**: Maharashtra is fast emerging as a key focus micro-market for the company. The recent acquisition of a hospital in Nagpur and JV entered into for a hospital in Nashik have marked KIMS's foray into this state. Construction of the Nashik hospital is underway. It is likely to be commissioned towards the end of FY24 or FY25. Mumbai is a key market of interest. The company has finalized a project in Thane and expects to commission a 300-bed hospital in FY25. Capex would range between ₹2.5bn to ₹4.5bn depending on whether it is asset-light or fully-owned.
- **Karnataka**: Karnataka presents another natural growth opportunity for the company. There are several Telugu speaking people in the state, especially in regions that lie along the border of the two states. Demand for good quality healthcare services at affordable price points also exists in this region. KIMS is working on two projects in this state. It has acquired a distressed shopping mall in North Bengaluru (Mahadevapura) for ~₹1.2bn and intends to build a 400-450 bed hospital in the premises. This is likely to be operational in FY25.

- **Tamil Nadu**: Chennai is another market of interest for KIMS given that it draws patients from four southern districts of Andhra Pradesh, viz. Chittoor, Kadapa, Nellore and Ongole. The city also has a large Telugu-speaking population. KIMS has acquired land in the city to build a new 350-400 bed facility in the future. The project is on hold currently and is unlikely to be commissioned within the next two to three years.

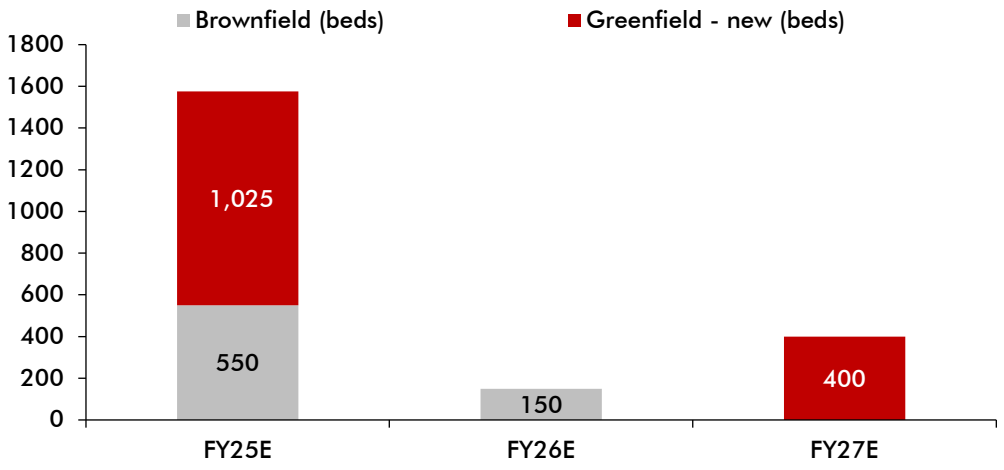
Greenfield projects pose risk but offsetting factors exist

Ability to absorb the ambitious expansion plan without materially impacting profitability and return on capital metrics would be the key to the stock's valuation trajectory over the next few years. Our framework for analysing this indicates that there is some additional risk but a few offsetting factors would limit negative impact on financial metrics.

Ambitious in scale...

KIMS intends to add 2,125 beds over FY23-27. This is ~53% of current bed-capacity. If all plans fructify, it could imply a cumulative capex of ~₹15bn over FY24-27 i.e. 93% of FY23E gross block. Bed addition is front-ended too. About 74% of KIMS's planned bed addition is likely over FY24-25. Moreover, if all projects take off, greenfield projects in new cities would account for ~67% of new bed addition over FY24-25. Margins could therefore be under some pressure over the medium term.

Exhibit 47: Expansion is front-ended, heavy on greenfield projects

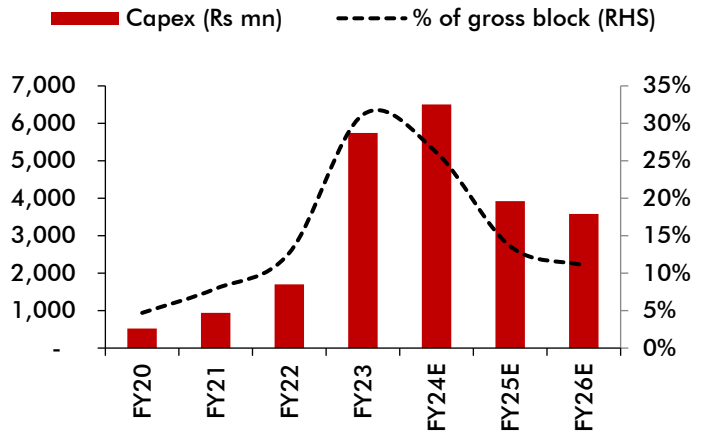


Source: Company, Ambit Capital research

...but balance sheet unlikely to be under stress

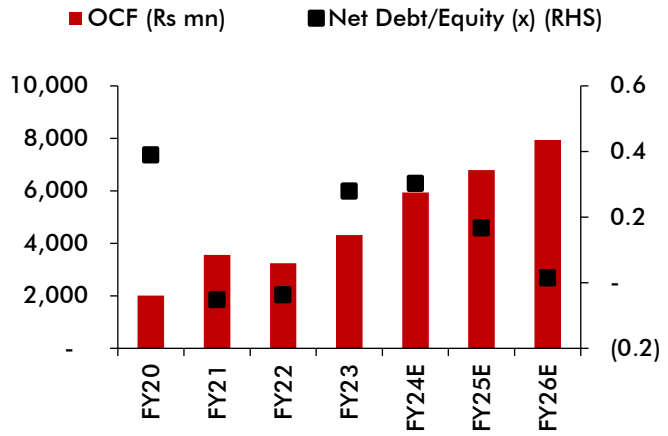
Funding is not a constraint. KIMS has net cash of ~₹3bn courtesy funds raised during the IPO. It is also likely to generate cumulative operating cashflow of ~₹19bn over the next three years. Dependence on external capital, debt or equity, would be limited. Net-debt/equity is likely to remain negative over the next few years.

Exhibit 48: We envisage cumulative capex of ₹14bn over FY23-26E…



Source: Company, Ambit Capital research

Exhibit 49: …to largely be funded internally – we forecast cumulative OCF of ₹21bn over FY23-26E

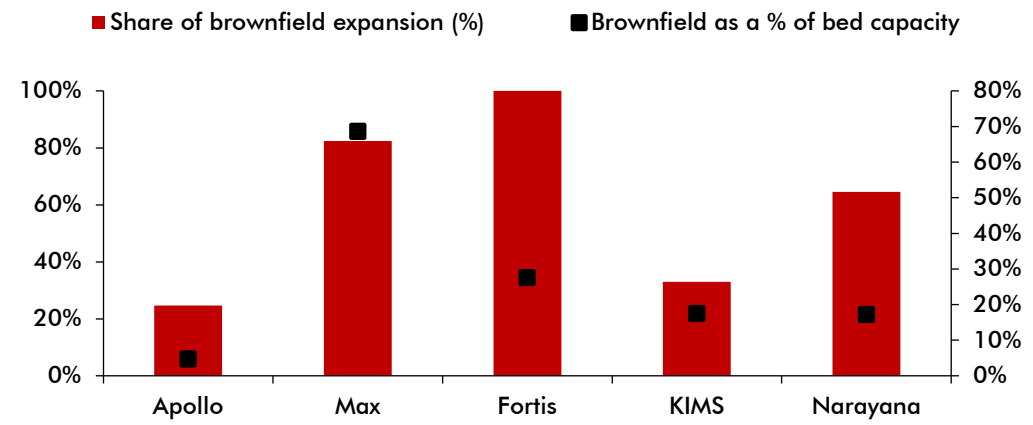


Source: Company, Ambit Capital research

Bed addition is greenfield-heavy and in new cities

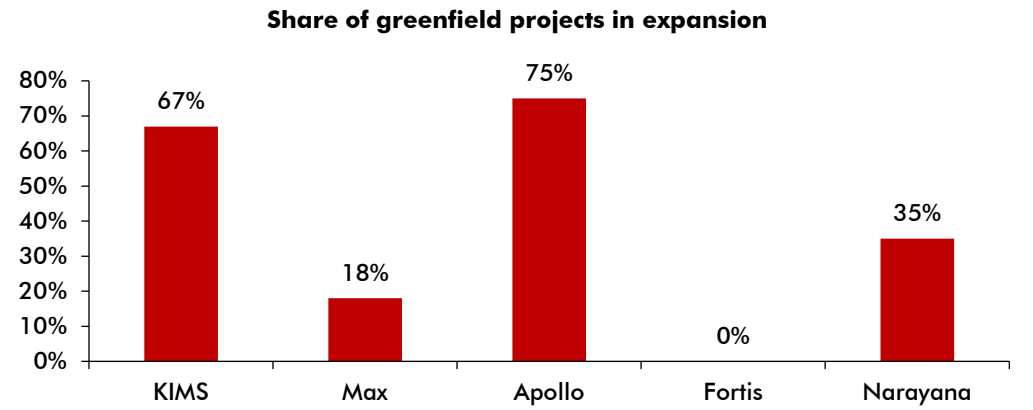
Two-third of KIMS's planned bed-addition is via greenfield projects in cities where the company's brand is not yet established. This is much higher than for most peers. Greenfield projects provide much better scope and flexibility to expand over the long-term. However, track records of most peers in India suggest that such projects also take longer to break even and reach maturity.

Exhibit 50: Brownfield projects account for only ~33% of KIMS's planned bed addition



Source: Company, Ambit Capital research

Exhibit 51: Share of greenfield beds in expansion is 2nd highest among peers

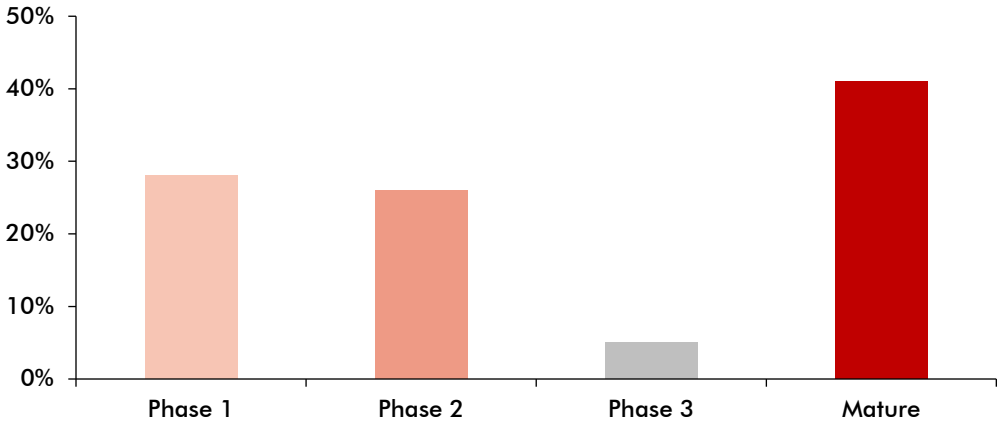


Source: Company, Ambit Capital research

Reasonable headroom in current network

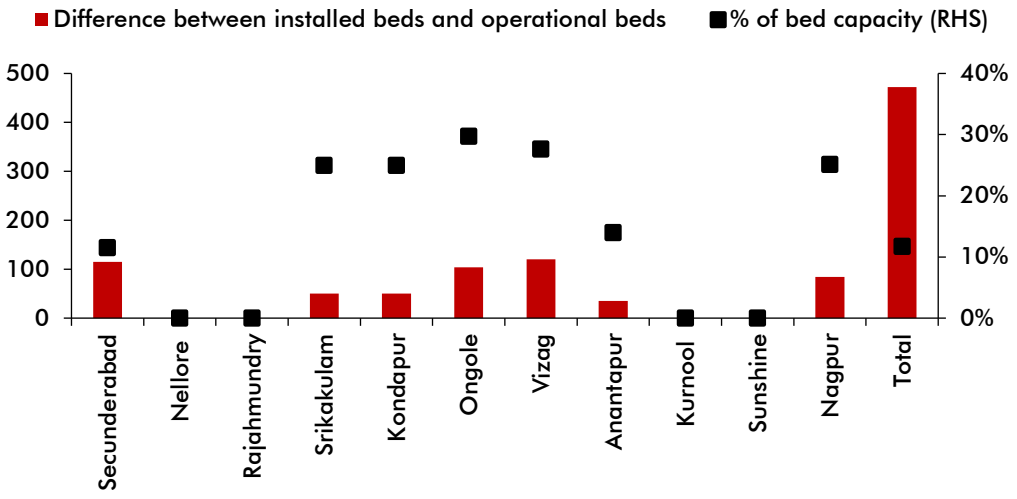
KIMS appears to have ample scope to grow and expand margins within its current operationalized beds. Around 60% of the company's current beds are in hospitals that are not yet mature, i.e. less than 10 years post commissioning. The recently acquired Sunshine group (~527 beds, ~19% EBITDA margin at ~35% occupancy) and multiple hospitals in the AP-acquired cluster have room for margin improvement. There may be some scope to activate non-operational capacity in current hospitals as well at limited incremental cost. This should help offset the pressure that newly commissioned beds are likely to put on costs in initial years.

Exhibit 52: ~59% of KIMS's current bed capacity is not yet mature, implying ample headroom to improve on margins and offset pressure from new, operationalized beds



Source: Company, Ambit Capital research

Exhibit 53: Non-operational capacity across the network



Source: Company, Ambit Capital research

Some growth pain but manageable

KIMS has achieved industry-high margin and RoCE metrics by setting up multiple hospitals and ramping occupancy up to achieve dominance in Andhra Pradesh and Telangana. There is some headroom on revenues and margins in the current network. But financial performance over FY24-27 will be more about heavy-bed expansion (~53% of FY23 bed capacity) through a combination of brownfield and greenfield projects. We forecast 18%/16%/10% CAGR in revenues, EBITDA and EPS over FY23-26. Cumulative OCF of ~₹30bn over FY24-27 implies limited dependence on external funds. Scope to improve margins in part of its network viz. AP acquired cluster, Sunshine and Nagpur hospitals would help offset upfront costs on new beds. This would limit EBITDA margin hit to ~300bps and keep RoCE at ~22% levels despite heavy capex.

Forming base for the next leg-up

KIMS's topline CAGR of ~25% over FY20-23 was driven by consistent growth in matured units (Telangana, AP mature) and ramp-up in its acquired units. Occupancy is high across the board. There is room to grow further in certain hospitals by optimizing on ALOS and case/payer mix. But the story over the next four to five years will be around bed addition.

Exhibit 54: KIMS's hospitals have achieved high occupancy levels leading to ~25% revenue CAGR and ~31%+ EBITDA margin in mature clusters. Acquired hospitals in Andhra appear to have some more headroom on growth and profitability

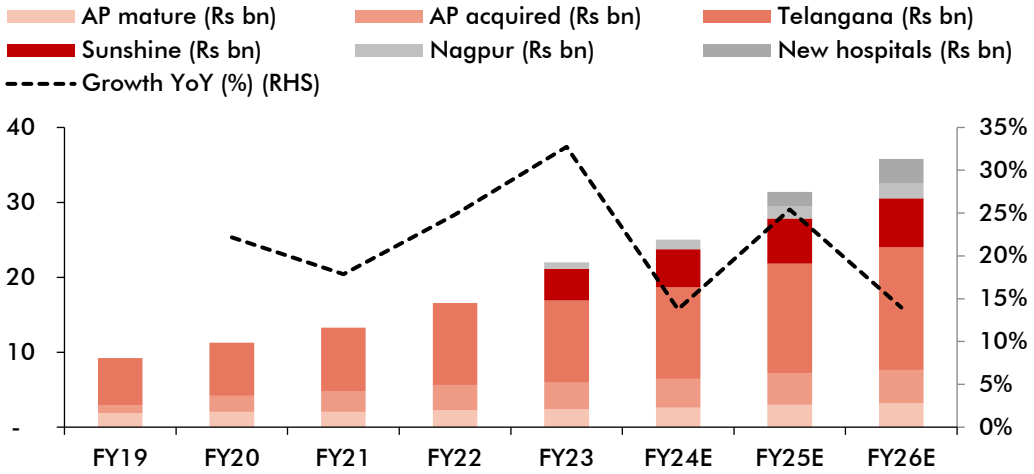
Clusters	FY19	FY20	FY21	FY22	FY23
Telangana cluster*					
Revenues (₹mn)	6,276	7,088	8,560	11,066	11,096
EBITDA (₹mn)	1,344	1,917	2,705	3,987	3,483
EBITDA margin (%)	21%	27%	32%	36%	31%
Bed capacity	1,200	1,200	1,200	1,200	1,200
Operational beds	1,035	1,035	1,035	1,035	1,085
Occupancy (%)**	63%	68%	57%	62%	60%
ARPOB (₹/day)	26,166	27,484	40,054	47,165	46,385
ALOS (days)	4.5	4.5	4.7	4.4	4.0
AP Mature cluster					
Revenues (₹mn)	1,890	2,072	2,060	2,252	2,408
EBITDA (₹mn)	427	478	518	554	753
EBITDA margin (%)	23%	23%	25%	25%	31%
Bed capacity	570	570	630	630	645
Operational beds	520	520	580	580	595
Occupancy (%)**	73%	73%	71%	70%	67%
ARPOB (₹/day)	13,558	14,961	13,608	15,194	16,637
ALOS (days)	4.1	3.7	5.0	4.8	4.5
AP Acquired cluster					
Revenues (₹mn)	1,073	2,127	2,781	3,392	3,544
EBITDA (₹mn)	(31)	116	450	676	671
EBITDA margin (%)	-3%	5%	16%	20%	19%
Bed capacity	1,034	1,234	1,234	1,234	1,234
Operational beds	679	879	975	975	1,011
Occupancy (%)**	49%	68%	79%	77%	70%
ARPOB (₹/day)	8,705	9,727	9,881	12,388	13,775
ALOS (days)	5.1	4.7	6.8	5.2	4.6

Source: Company, Ambit Capital research

Mid-teen revenue CAGR led by new bed addition

We forecast revenue CAGR of 18% over FY23-26E largely driven by 16% and 33% CAGR in Sunshine Hospitals and Nagpur respectively and new hospitals in Nashik, Bengaluru and Mumbai. Mature hospitals are likely to grow in the mid-to-high single-digit range.

Exhibit 55: We forecast 18% revenue CAGR over FY23-26 aided by new-bed additions and the recent Sunshine Hospitals acquisition



Source: Company, Ambit Capital research

Exhibit 56: KIMS's revenue model - new hospitals and acquisitions are key growth drivers over FY23-26

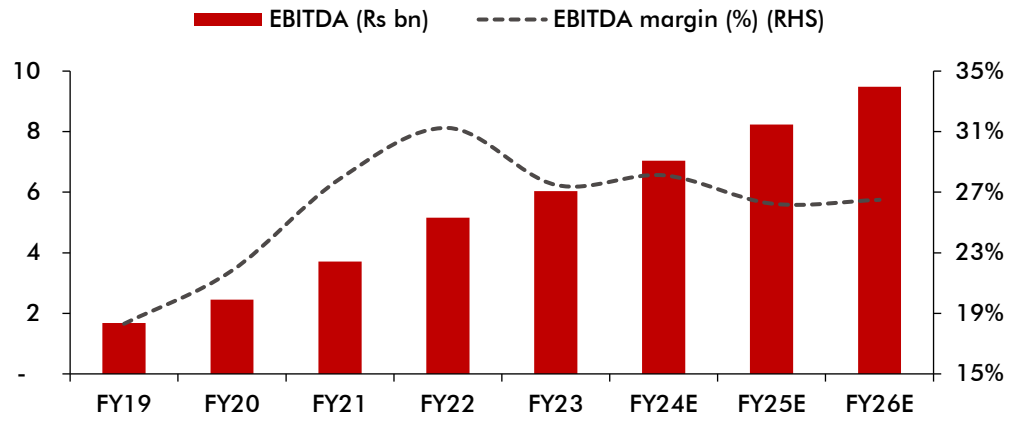
(₹ mn)	FY23	FY24E	FY25E	FY26E	CAGR (FY23-26E)	Remarks
AP mature	2,403	2,580	2,973	3,197	10%	Limited growth given high occupancy and limited bed-addition
% of total sales	11%	10%	9%	9%		
AP acquired	3,529	3,843	4,240	4,434	8%	High occupancy but scope to work on other levers such as ALOS and case-mix to drive low double-digit growth
% of total sales	16%	15%	14%	12%		
Telangana	10,961	12,248	14,631	16,370	14%	Mature cluster, bed addition in Kondapur to help from FY26
% of total sales	50%	49%	47%	46%		
Sunshine	4,248	5,058	5,996	6,547	16%	Sub-40% occupancy provides ample headroom to grow, KIMS's efforts to strengthen case-mix beyond ortho to aid step-up
% of total sales	19%	20%	19%	18%		
Nagpur	862	1,303	1,585	2,050	34%	New hospital, occupancy pick-up is the key growth lever
% of total sales	4%	5%	5%	6%		
New hospitals			1,967	3,181	62%	We build in new hospitals in Nashik, Bengaluru and Mumbai
% of total sales			6%	9%		
Consol revenues	**22,004**	**25,030**	**31,392**	**35,779**	**18%**	**Key drivers: new beds, recent Sunshine acquisition**
Growth YoY (%)	33%	14%	25%	14%		

Source: Company, Ambit Capital research

Ramp-up in current non-mature beds to stem bed addition pain

We forecast 16% EBITDA CAGR over FY23-26. Current operational beds would continue to see margin improvement. This would be primarily be driven by improving efficiency in the AP acquired cluster hospitals and occupancy ramp-up at the Sunshine and Nagpur hospitals. At the same time, upfront losses on new hospitals, viz. Nashik (FY25), Bengaluru (FY25) and Mumbai (FY25/26) would be a drag. The net impact is likely to be ~300bps reduction over FY23-26E.

Exhibit 57: We forecast 16% EBITDA CAGR over FY23-26



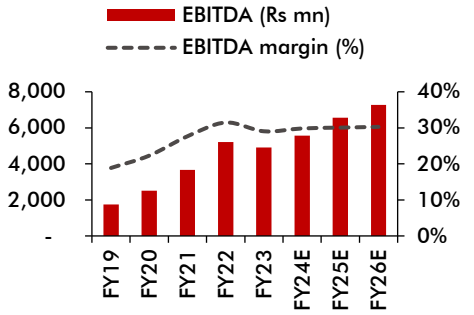
Source: Company, Ambit Capital research

Exhibit 58: KIMS' EBITDA model: margin expansion in acquired Sunshine hospitals and the AP-acquired cluster to help offset upfront costs on new hospitals and keep EBITDA margins steady at ~26% levels over the next three years

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E	Remarks
AP mature	554	753	813	937	1,008	Flat to marginal improvement in margins given mature nature of hospitals
EBITDA margin (%)	*25%*	31%	32%	32%	32%	
AP acquired	676	671	788	890	953	Improvement in ALOS, case and payer mix to drive 150-200bps gains
EBITDA margin (%)	*20%*	19%	21%	21%	22%	
Telangana	3,987	3,483	3,969	4,739	5,304	Mature hospitals, no meaningful improvement likely
EBITDA margin (%)	*36%*	32%	32%	32%	32%	
Sunshine		815	1,062	1,499	1,702	Rising occupancy and improving efficiency to drive ~500-600bps gains
EBITDA margin (%)		19%	21%	25%	26%	
Nagpur		44	132	240	352	Achieved break-even within a year despite it being in anew geography, occupancy improvement to drive ~300-400bps improvement over FY23-26E
EBITDA margin (%)		5%	10%	15%	17%	
New hospitals				(340)	(113)	New hospitals in Bengaluru, Nashik and Mumbai likely to remain a drag over the next three to four years
EBITDA margin (%)				-17%	-4%	
Consol EBITDA	**5,158**	**5,766**	**6,764**	**7,966**	**9,206**	
EBITDA margin (%)	*31%*	26%	27%	25%	26%	

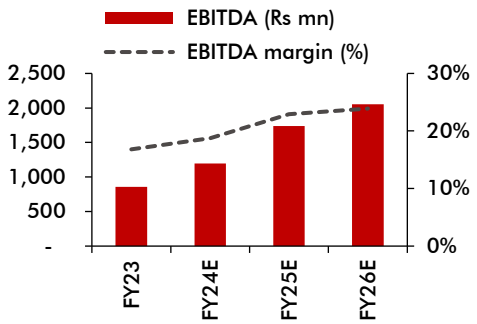
Source: Company, Ambit Capital research; Note: Pre-IND AS EBITDA

Exhibit 59: Limited scope to improve margins in pre-FY22 beds



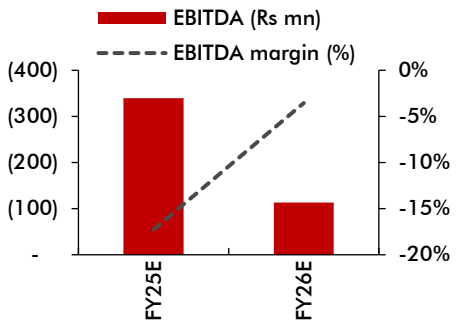
Source: Company, Ambit Capital research

Exhibit 60: Recent acquisitions (Nagpur + Sunshine) have upside



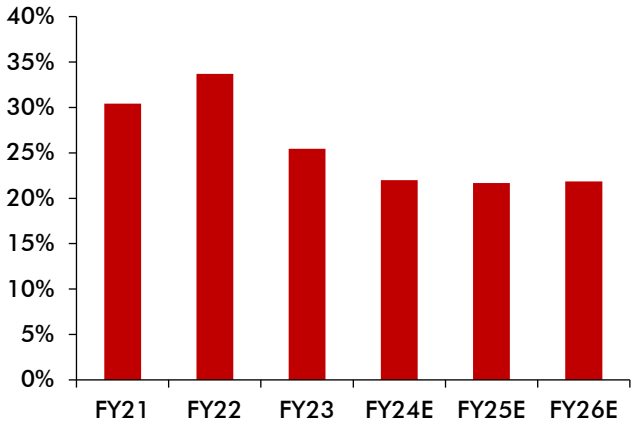
Source: Company, Ambit Capital research

Exhibit 61: New hospitals will be a drag on EBITDA



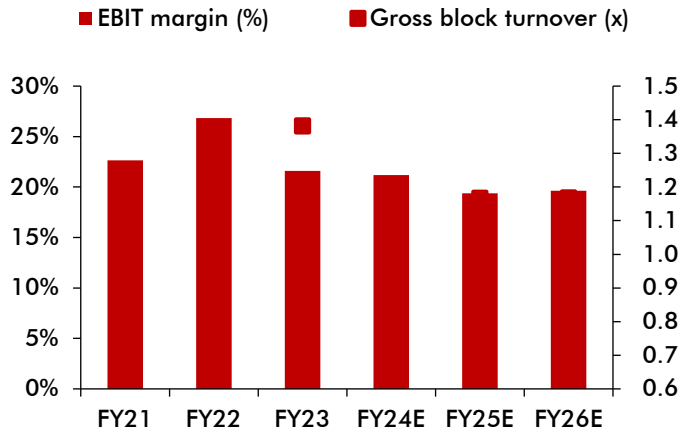
Source: Company, Ambit Capital research

Exhibit 62: RoCE to dip but remain in the 20% range...



Source: Company, Ambit Capital research

Exhibit 63: ...despite marginal dip in EBITM and GB T/O



Source: Company, Ambit Capital research

Execution on expansion to drive valuations

Valuations of hospital stocks correlate better with return-on-capital metrics rather than growth. KIMS's business model is closest to that of Max Healthcare, another company with a concentrated position in a few key markets. Despite establishing itself as an affordable care provider compared to Max's premium positioning, the two companies lead peers on margins and return on capital. KIMS trades at a ~20% discount to Max on FY25E EV/EBITDA due to less growth headroom in core markets and a higher-risk expansion plan dominated by greenfield projects in new cities. Successful execution could lead to narrowing of the valuation gap. Ability to fund planned bed-addition internally and headroom available to improve margins in ~59% of its current bed-capacity provide comfort. These should limit downside to EBITDA margin and RoCE. Our DCF-based TP of ₹2,165/share implies target EV/EBITDA multiple of 22x FY25E.

Compares well with peers

KIMS is a regional player with a position of dominance in the Andhra Pradesh and Telangana regions and very low presence elsewhere. It therefore lags peers Apollo, Fortis and Narayana on scale. On the other hand, this concentrated approach leads to better competitive positioning since brand equity of healthcare services businesses in India is not equally strong across regions. Expansion outside home markets is likely to be margin/RoCE-dilutive for a longer period of time. KIMS's ability to establish strong brand-equity and leverage it to the utmost, as reflected in high occupancy and margins clocked in its mature hospitals. Headroom in home markets is thus a key consideration in our valuation framework for hospital chains.

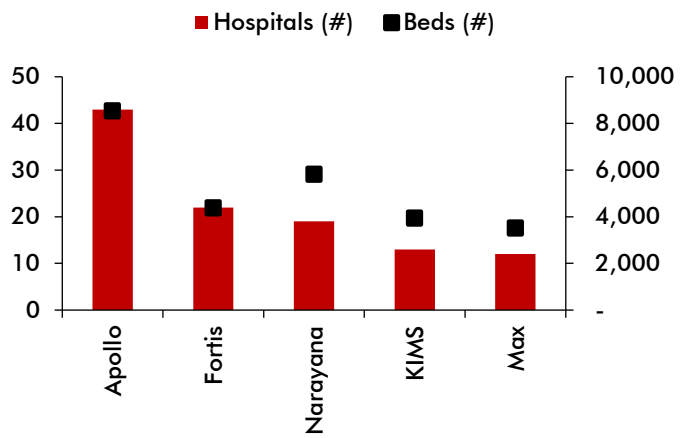
Exhibit 64: KIMS lags peers on scale and non-hospitals businesses but ranks high on competitive positioning and financial strength. Scale and nature of expansion implies higher risk, partly offset by greater headroom in current network

	Apollo	Fortis	KIMS	Max	Narayana	Comments
Scale and network	●	◕	◑	◑	◕	KIMS is a relative small player as compared to peers such as Apollo, Fortis and NH, who have presence across multiple states
Competitive Positioning	●	◕	●	●	◕	KIMS is one of the go-to hospitals in the AP/Telangana region – one of the largest hospital chains in the state
Brand equity	●	◕	◕	●	◕	
Dominance in key markets	◕	◑	●	●	◕	Concentrated position in these markets make it dominant in a larger share of its bed-capacity relative to the pan-India chains
Expansion	◕	◕	◑	◕	◕	
Relative to current capacity	●	◕	◑	◑	◕	KIMS has one of the most aggressive bed-expansion targets in the sector, behind only Max Healthcare
Greenfield vs. brownfield	◑	◕	◔	●	◕	It also has higher share of beds planned in new markets via greenfield projects/acquisitions: hence higher risk
Location	◕	◕	◑	●	●	However, it also has more headroom to grow in current network – should help partially offset early pain on new beds/hospitals
Headroom in current network	◑	◔	◑	◔	◕	Net-cash balance sheet and cash generation from mature beds to limit dependence on external funding, as with most peers
Funding ability	●	◑	◕	●	◕	
Non-hospitals businesses	◕	◑	○	◑	○	KIMS does not have exposure to any other healthcare segment unlike Apollo (pharmacy, diagnostics, clinics, 24/7 etc.), Fortis (diagnostics) or Max (diagnostics, home-health)
Financial strength	◕	◑	◕	●	◑	KIMS's margins and RoCE are at industry-high levels and should remain in the 26-28% and ~22% range respectively despite some compression on addition of new beds
Growth	◕	◑	●	◕	◑	Relatively low base and scale of expansion implies higher growth rate over the medium-to-long term vis-à-vis most peers
Profitability	◕	◑	◕	●	◑	
Return on capital	◑	◑	◕	●	◕	
Overall	◕	◑	◑	◕	◕	

Source: Company, Ambit Capital research Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak ○ - Weak

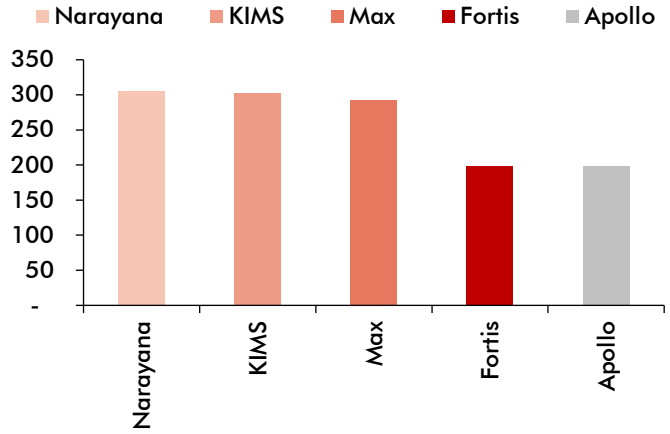
KIMS's business model is closest to that of Max Healthcare – another company with concentrated position in a few markets, viz. Delhi/NCR, Mumbai and a few cities in North India. The two companies are at similar stage in the cycle too. Current bed-capacity is largely mature and meaningful bed-addition lies ahead. Despite establishing itself as an affordable-care provider as compared to Max' premium positioning, KIMS's margins and RoCE are comparable with the latter. Despite this, the stock trades at 29% discount to Max on FY25E EV/EBITDA. Limited headroom to grow in its dominant markets and higher risk in expansion projects appear to be the key reasons. Bed density in AP/Telangana is much higher than in Delhi/NCR (Max's key market) and upcountry/international patient flow is also relatively lower. KIMS's expansion over the next three to four years is dominated by greenfield projects/potential acquisitions in new markets such as Maharashtra, Karnataka and Tamil Nadu. On the other hand, Max's bed expansion is largely by way of brownfield projects. This difference in risk profile reflects in current valuations. Successful execution could see this valuation gap narrow over the next few years.

Exhibit 65: KIMS lags peers on bed-capacity...



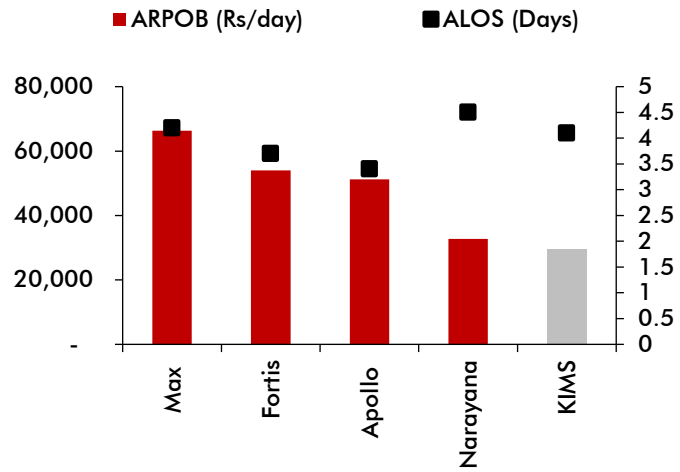
Source: Company, Ambit Capital research

Exhibit 66: ...but leads most peers on beds/hospital



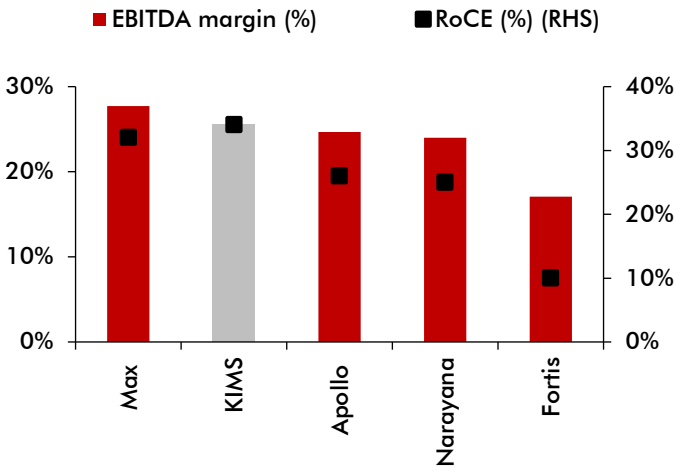
Source: Company, Ambit Capital research

Exhibit 67: Lags peers on ARPOB due to geographical spread and affordable-care positioning...



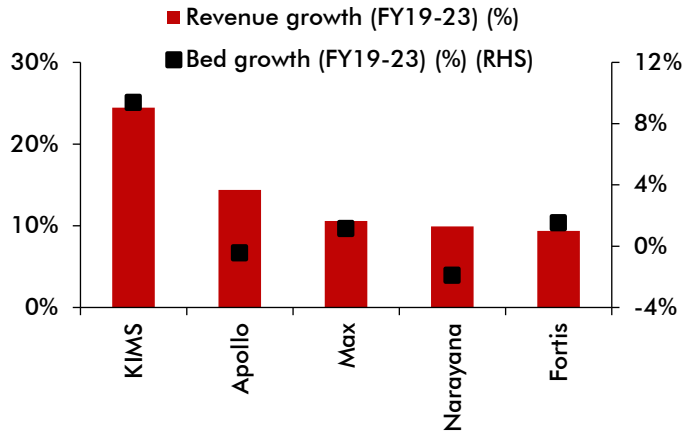
Source: Company, Ambit Capital research

Exhibit 68: ...but clocks industry-high RoCE and EBITDA margins courtesy lower capex/bed and operating costs



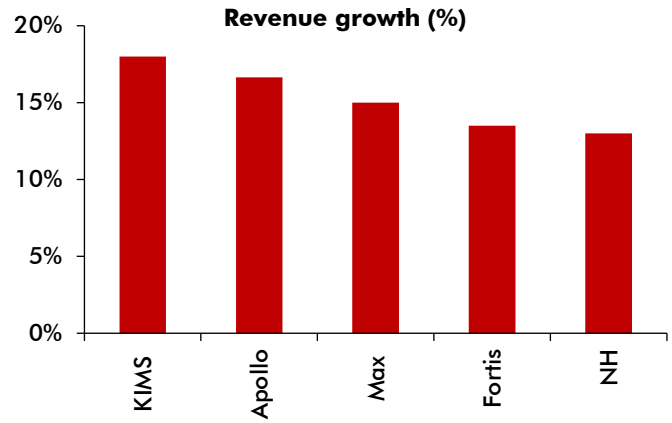
Source: Company, Ambit Capital research

Exhibit 69: Highest revenue and beds CAGR over FY19-23 – mix of organic and inorganic initiatives...



Source: Company, Ambit Capital research

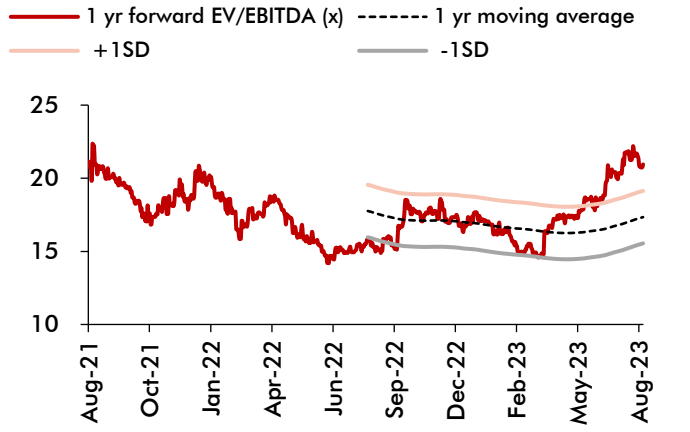
Exhibit 70: ...should remain among highest growth hospital chains over the next few years too



Source: Company, Ambit Capital research

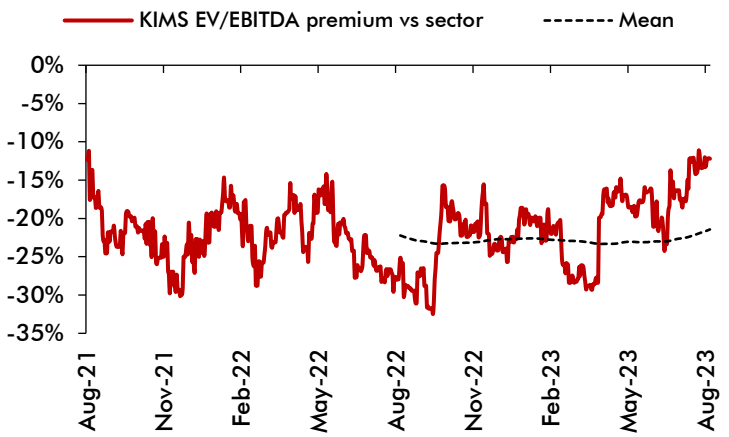
Despite higher revenue growth and margins, additional execution risk related to greenfield expansion in new markets is the key factor behind valuation discount to larger peers such as Apollo and Max. These are likely to take longer to scale up to EBITDA break-even and maturity and would cap margins and RoCE in the interim.

Exhibit 71: KIMS currently trades at 21x 1 year forward EV/EBITDA, above 1 year moving average



Source: Bloomberg, Ambit Capital research

Exhibit 72: KIMS EV/EBITDA trades at ~12% discount to sector EV/EBITDA



Source: Bloomberg, Ambit Capital research; Companies considered for the sector are Apollo Hospitals, Max Healthcare, Fortis Healthcare, Narayana Hrudayalaya and KIMS

Exhibit 73: Healthcare valuation snapshot

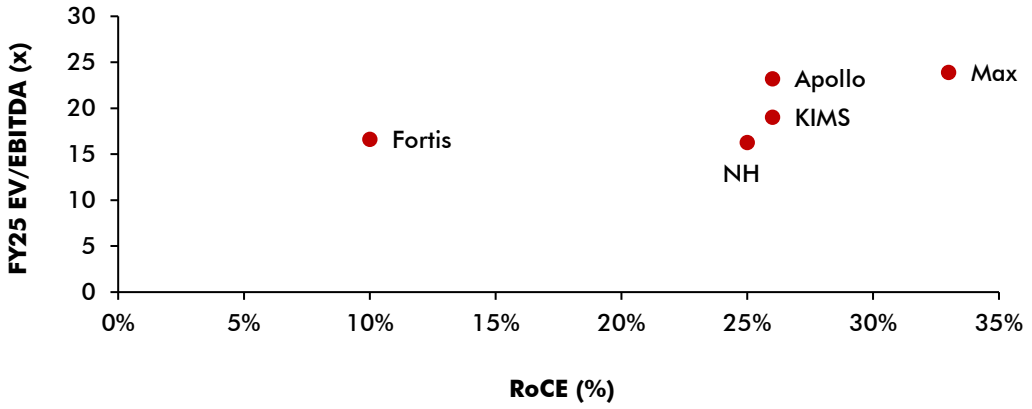
Global Healthcare	Mcap	Ambit's Stance	P/E (x)			EV/EBITDA (x)			RoE (%)			CAGR (FY23-25E) (%)		
	US$mn	BUY/SELL	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	Sales	EBITDA	EPS
India														
Apollo	8,543	BUY	87	75	50	36	31	24	13%	13%	17%	17%	19%	32%
Max	6,213	BUY	38	42	35	32	28	23	17%	13%	14%	14%	17%	4%
Fortis	2,902	BUY	47	32	25	22	18	14	8%	10%	11%	13%	21%	36%
Narayana	2,430	BUY	33	31	26	21	19	16	34%	28%	28%	14%	15%	13%
Medanta	2,226	-	57	44	37	30	24	20	16%	16%	16%	17%	21%	24%
Aster DM	1,866	-	37	28	19	14	11	10	10%	12%	14%	12%	17%	39%
KIMS	1,828	BUY	45	48	41	26	22	19	21%	17%	17%	20%	17%	5%
Rainbow	1,272	-	50	47	39	26	24	21	25%	19%	19%	20%	10%	14%
HCG	549	-	155	70	36	18	15	13	3%	7%	10%	12%	19%	108%
Shalby	244	-	30	25	20	16	13	11	8%	8%	9%	14%	22%	21%
Median			**46**	**43**	**35**	**24**	**21**	**18**	**15%**	**13%**	**15%**	**14%**	**18%**	**23%**
Thailand														
Bangkok Dusit	12,694	-	35	33	31	20	19	18	15%	15%	15%	6%	5%	7%
Bumrungrad Hospital	5,597	-	40	35	32	22	24	22	27%	27%	26%	10%	10%	12%
Bangkok Chain Hospital	1,297	-	15	31	26	17	15	14	24%	11%	12%	-17%	-19%	-24%
Chularat	927	-	12	28	28	19	17	16	37%	15%	16%	-9%	-28%	-36%
Median			**25**	**32**	**29**	**20**	**18**	**17**	**25%**	**15%**	**16%**	**-1%**	**-7%**	**-8%**
Indonesia														
Mitra Keluarga	2,554	-	37	36	30	26	24	21	19%	18%	19%	10%	7%	11%
Siloam International Hospitals	1,736	-	37	27	22	11	11	9	10%	14%	15%	11%	19%	29%
Median			**37**	**31**	**26**	**19**	**18**	**15**	**15%**	**16%**	**17%**	**11%**	**13%**	**20%**
Malaysia/Singapore														
IHH Healthcare	11,415	-	34	32	28	11	14	13	6%	6%	7%	5%	8%	9%
Raffles Medical Group	1,782	-	17	19	19	10	11	11	15%	12%	12%	3%	-4%	-5%
KPJ Healthcare	1,122	-	29	23	21	12	11	11	8%	10%	10%	7%	8%	17%
Median			**29**	**23**	**21**	**11**	**11**	**11**	**8%**	**10%**	**10%**	**5%**	**8%**	**9%**
Middle East														
Dr Sulaiman Al Habib Medical Services Group	24,638	-	56	49	41	43	41	34	29%	30%	32%	18%	17%	16%
Mouwasat Medical Services	5,632	-	35	31	27	24	22	20	22%	22%	23%	14%	14%	15%
Dallah Healthcare Co	3,897	-	49	44	35	30	27	24	14%	14%	15%	12%	14%	18%
Al Hammadi	2,257	-	33	28	25	20	19	17	15%	17%	18%	11%	12%	14%
Middle East Healthcare Co	1,477	-	74	33	23	19	18	15	6%	12%	15%	15%	34%	79%
Median			**49**	**33**	**27**	**24**	**22**	**20**	**15%**	**17%**	**18%**	**14%**	**14%**	**16%**
US														
HCA Healthcare	73,102	-	14	15	13	9	9	9	NA	NA	NA	6%	3%	2%
Universal Health Services	9,094	-	14	13	13	8	8	7	11%	12%	12%	5%	5%	4%
Tenet Healthcare	7,404	-	19	13	11	7	7	7	38%	33%	32%	5%	5%	31%
Community Health Systems	480	-	10	N/A	12	8	8	8	34%	6%	-3%	2%	2%	-10%
Median			**14**	**13**	**13**	**8**	**8**	**8**	**36%**	**9%**	**4%**	**5%**	**4%**	**3%**
China														
Aier Eye Hospital	23,099	-	60	46	35	NA	27	22	18%	18%	20%	22%	23%	30%

Source: Bloomberg, Ambit Capital research

RoCE resilience likely to be rewarded

Hospital stock valuations correlate more closely to return on capital metrics than growth rates or profitability. Given structural growth drivers in India, achieving revenue and earnings growth is not difficult for leading players. Ability to invest in capacity and execution (in terms of drawing in patients, improving utilization, length of stay etc.) are the key challenges. Valuations should reward companies that do these better.

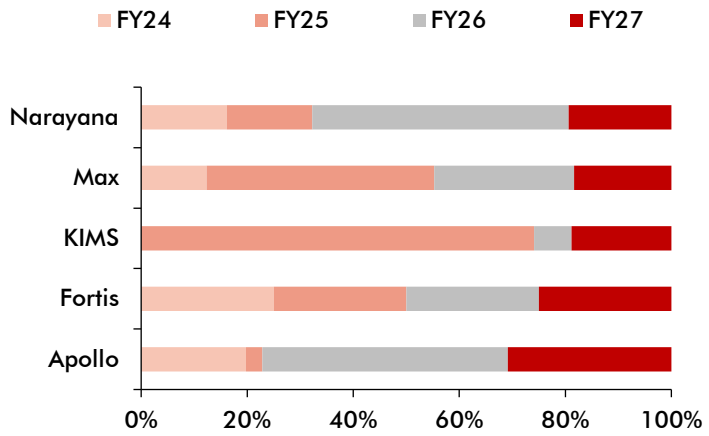
Exhibit 74: Hospital stocks correlate well with RoCE



Source: Company, Ambit Capital research

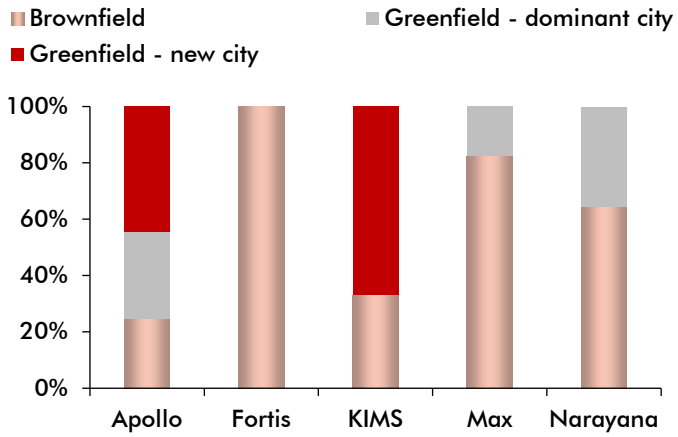
KIMS's execution on its ambitious expansion plan would determine the stock's valuation trajectory over the next three to four years. The company intends to add ~2,125 beds (~54% of FY23 end bed-capacity) over FY24-27. This makes it the second-most ambitious bed expansion plan among peers, behind Max's plan to add ~83% of bed capacity over the same period. However, unlike Max, a large part of KIMS's planned addition is front-ended (over FY24-25) and in the form of greenfield projects in new markets. These add to risk and could weigh on valuations in the short-to-medium term.

Exhibit 75: 74% of KIMS's planned addition is over FY24-25



Source: Company, Ambit Capital research

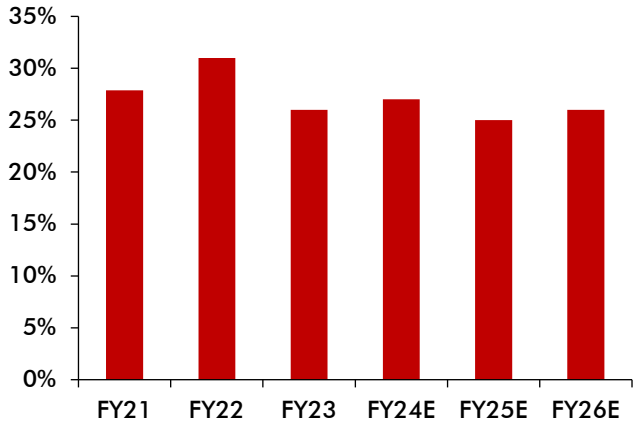
Exhibit 76: ~67% of planned beds are in new cities



Source: Company, Ambit Capital research

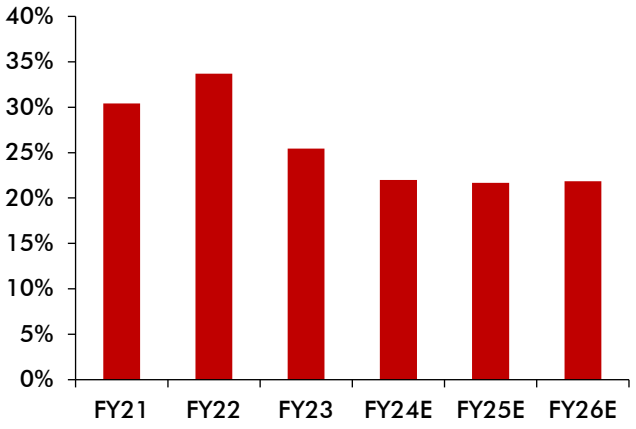
A few mitigating factors exist and should help contain impact on margins and RoCE. There is headroom to grow and improve margins in a few of its hospitals. We estimate that ~59% of its current bed capacity is in hospitals that are still in ramp-up phase. Margin and RoCE expansion in these hospitals would partially offset the impact of upfront losses on new beds added over the next few years. Funding should not be a constraint either. Cumulative OCF over FY24-26 should be in the ₹21bn range. The company should therefore be able to fund its ~₹14bn capex over the same period without much dependence on external capital. The hit to EBITDA margin would not be meaningful and RoCE would be contained at 300bps respectively vis-à-vis FY23 levels. FY26E EBITDA margin and RoCE would be in the range of ~24% and ~23% after absorbing most of the capex plans. Leverage on the balance sheet also appears unlikely to expand meaningfully given ability to fund expansion plans internally. This resilience should support valuations.

Exhibit 77: Margin compression to be restricted as current non-mature beds improve



Source: Company, Ambit Capital research

Exhibit 78: RoCE to dip but still remain in the 20% range



Source: Company, Ambit Capital research

Exhibit 79: Our DCF model builds in the long growth runway that hospital chains enjoy in India. Asset turnover should improve with scale as mature hospitals continue to grow while not needing similar levels of reinvestment

Parameter	FY19-23	FY23-25E Near term	FY25-35 Medium term	FY35-45E Long term	Remarks
Sales CAGR	24%	20%	17%	13%	Growth over FY22-25E to be led by the Sunshine acquisition, new hospitals in Nagpur, Nashik and Bengaluru and few brownfield projects
EBITDA margin	25%	27%	28%	29%	Margins unlikely to improve much over current levels: alternate phases of contraction and expansion in line with bed-addition
Capex as % of sales	11%	22%	9%	7%	Capex intensity is likely to gradually reduce over time with scale and reflect in rising asset T/O as well. Cash conversion has been consistently high for hospitals in India. We do not see this changing meaningfully in future either.
Pre-tax OCF/EBITDA	97%	96%	99%	99%	
Gross block turn (x)	1.2	1.2	1.4	1.7	
WACC		14%			
Cost of equity		14%			
Cost of debt (post-tax)		10%			
Target D/(D+E)		0%			
Terminal growth (%)		5%			
Implied Valuation	**FY23**	**FY24E**	**FY25E**	**FY26E**	
EV/Sales	8.3	7.3	5.8	5.1	
EV/EBITDA	30	26	22	19	
P/E	54	54	46	39	
P/B	10.9	9.1	7.7	6.5	

Source: Company, Ambit Capital research

Exhibit 80: Our TP of ₹2,165/share implies 22x FY25E EBITDA, ~25% discount to larger peers such as Max Healthcare and Apollo Hospitals

Particulars	₹ mn
Total EV	181,752
- Explicit period	128,800
- Terminal period	52,952
Net debt	5,608
Adjustment	(3,089)
WACC	14%
Equity value	173,055
No. of shares (mn)	80
Fair value/share (₹)	2,165

Source: Company, Ambit Capital research

Risks and catalysts

Risks

- **Expansion into new markets**: Expanding into newer geographies, viz. Karnataka (Bangalore) and Maharashtra (Nagpur, Nashik, Mumbai) among others could pose a risk to KIMS's margins and return ratios. Since KIMS is not an established player in these states/cities, these projects may need significant investment in infrastructure and marketing, and recruitment. This could lead to longer time to break even and attain maturity. Around 67% of KIMS's planned bed expansion over FY24-27 is likely to be through such projects. KIMS's affordable pricing model could however be a redeeming factor. This could give it a unique positioning in these markets and help carve a niche.
- **Concentration risk**: 12 out of KIMS's 13 hospitals are in the AP/Telangana region. They contribute over 95% of the company's revenues and EBITDA. Going deep in these states has helped establish a strong brand and doctor connect, translating into industry-high margins and RoCE. This approach works well most of the time in healthcare. However, it leaves the company more exposed to state-level regulatory changes relative to peers who are present across various markets.
- **Inability to improve operations at Sunshine Hospitals**: Ramping up occupancy and profitability at the recently acquired Sunshine Hospitals (~15% of FY23E bed-capacity) is a key driver of medium-term growth and profitability. Any delay or hiccups on this front is thus a key risk factor to monitor. We currently estimate 19%/30% revenue/EBITDA CAGR over FY23-26 for Sunshine Hospitals. Inability to achieve this turnaround could pose risks to our forecasts and valuations.
- **High dependence on promoter family**: KIMS's senior management still appears dominated by promoter-family members. Dr. Bhaskar Rao Bollineni (founder shareholder) is the Chairman and Managing Director. His son, Mr. Abhinay Bollineni, is the CEO. This is not uncommon among smaller companies and the team has done well so far. However, as the company grows over the next few years, it would be necessary to have more bandwidth at the senior management level.

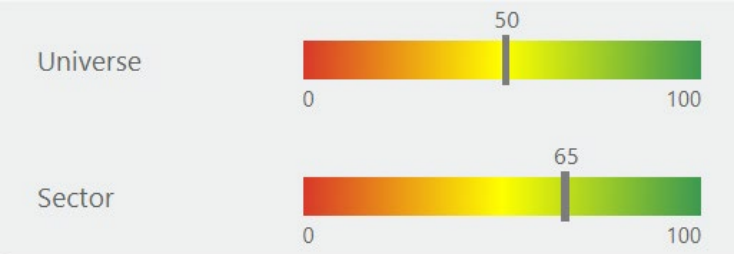
Catalysts

- **Integrating the acquired Sunshine Hospitals**: We forecast 23% and 39% revenue and EBITDA CAGR for the acquired hospitals. KIMS's brand equity in Telangana and efforts to diversify Sunshine's case mix should drive growth and margin expansion. We forecast 16% and 11% revenue and EBITDA CAGR over FY23-26E for the company, aided by this ramp-up. This should be a key catalyst for the stock.
- **Ramp-up in Nagpur, Nashik and other new hospitals**: We forecast 22% revenue CAGR in the Nagpur hospital that was commissioned last year. We also expect new hospitals to be commissioned in Nashik, Bengaluru and Mumbai to add ~9% to FY26 revenues with upfront EBITDA losses declining from ₹332m in FY25 to ₹207m in FY26.

Hawk charts

KIMS performs well on most of the ratios and features in the "Zone of Safety" on our accounting quality framework. KIMS ranks in the fifth decile (D5) of our forensic accounting 'HAWK' framework.

Exhibit 81: Forensic accounting score

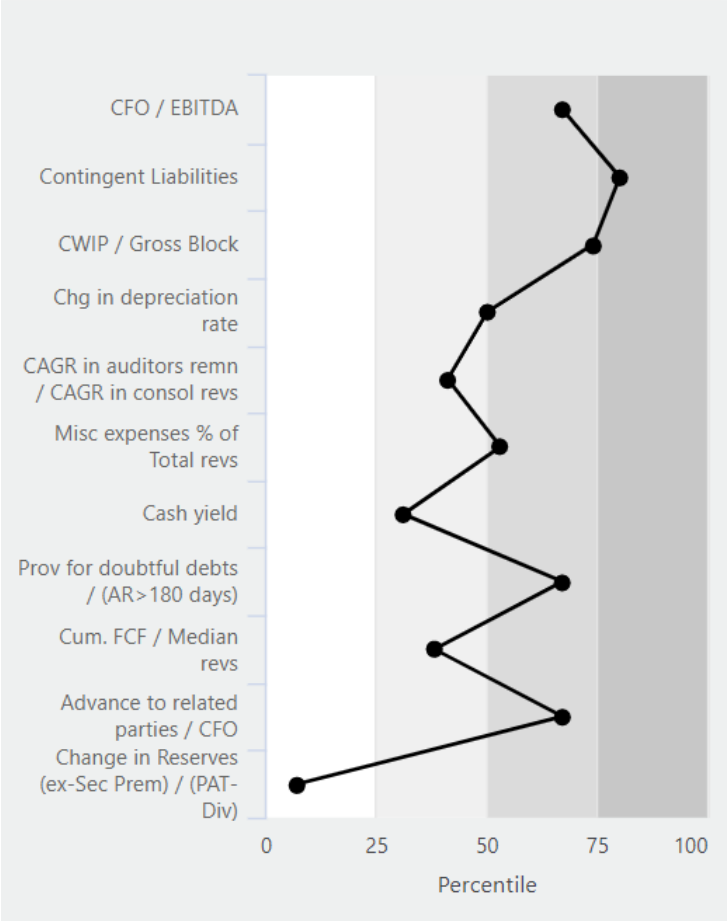


Source: Company, Ambit Capital research

Exhibit 82: Greatness score

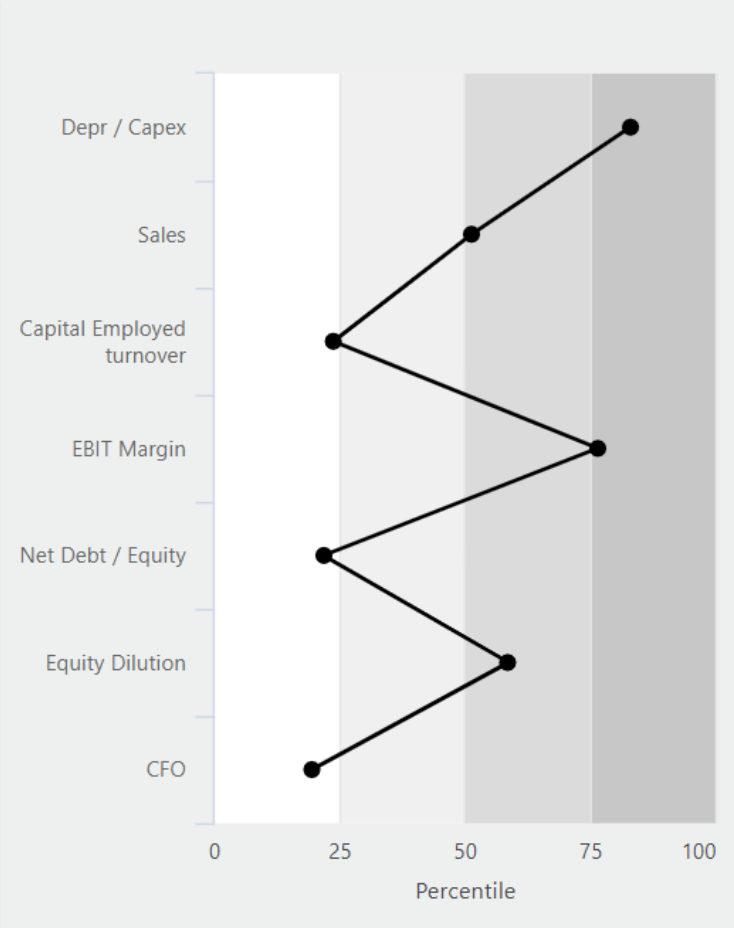
Source: Company, Ambit Capital research

Exhibit 83: Accounting score contributors



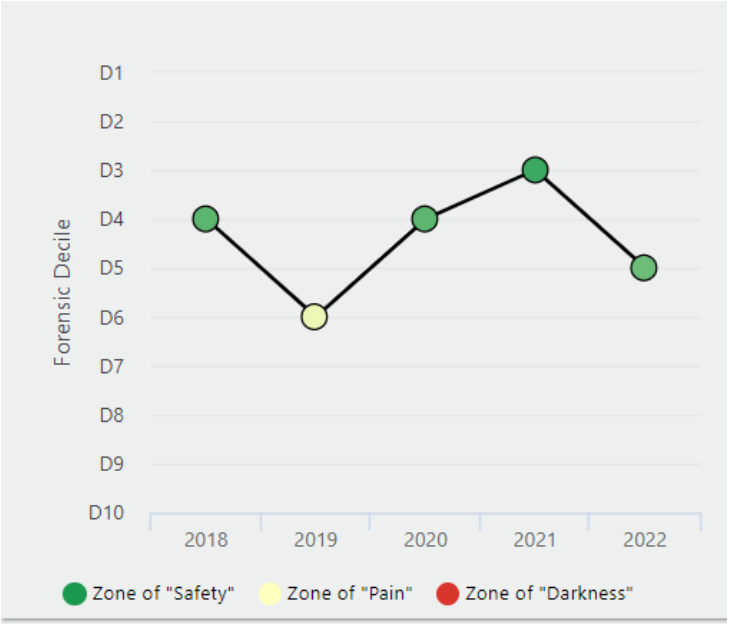
Source: Company, Ambit Capital research

Exhibit 84: Greatness score contributors



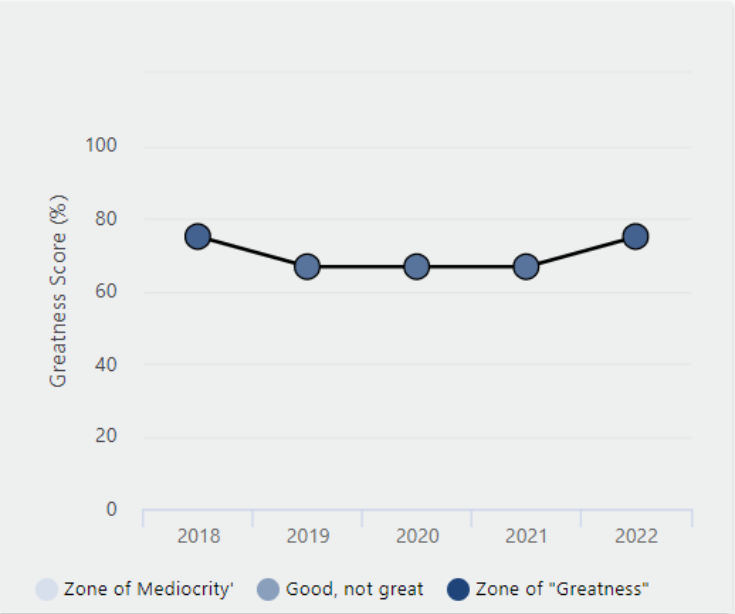
Source: Company, Ambit Capital research

Exhibit 85: Accounting score evolution



Source: Company, Ambit Capital research

Exhibit 86: Greatness score evolution



Source: Company, Ambit Capital research

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**13,299**	**16,508**	**21,977**	**25,030**	**31,392**	**35,779**
Gross profit	10,410	12,957	17,170	19,524	24,706	27,908
Employee cost	2,202	2,619	3,464	4,005	5,337	6,082
Other expenses	4,499	5,180	7,666	8,481	11,129	12,345
EBITDA (underlying)	**3,709**	**5,158**	**6,040**	**7,038**	**8,240**	**9,480**
Depreciation	695	727	1,293	1,735	2,152	2,452
Interest expense	325	160	305	875	950	950
Other income	102	203	259	257	295	339
PBT (reported)	**2,790**	**4,473**	**4,849**	**4,685**	**5,433**	**6,417**
Tax provision	735	1,131	1,191	1,171	1,358	1,604
PAT pre-minority (reported)	2,055	3,343	3,658	3,514	4,075	4,813
PAT (reported)	**2,012**	**3,327**	**3,363**	**3,195**	**3,731**	**4,441**
PAT (adjusted)	**2,012**	**3,327**	**3,215**	**3,195**	**3,731**	**4,441**

Source: Company, Ambit Capital research

Balance sheet

Year to March (₹ mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	776	800	800	800	800	800
Reserves & surplus	7,861	13,073	15,895	19,090	22,821	27,262
Shareholders' fund	**8,637**	**13,873**	**16,695**	**19,891**	**23,622**	**28,063**
Long term borrowings	1,846	1,377	4,974	5,974	5,974	5,974
Others	941	1,408	2,094	2,094	2,094	2,094
Non-current liabilities	**2,787**	**2,785**	**7,069**	**8,069**	**8,069**	**8,069**
Short term borrowings	553	18	358	358	358	358
Trade payables	1,319	1,295	1,743	1,985	2,489	2,837
Others	912	837	864	864	864	864
Current liabilities	**2,783**	**2,150**	**2,965**	**3,207**	**3,711**	**4,059**
Total equity & liabilities	**14,332**	**19,041**	**29,413**	**34,169**	**38,748**	**43,909**
Fixed assets	9,311	10,052	9,036	13,809	15,581	16,706
Capital work-in-progress	92	208	4,769	4,769	4,769	4,769
Intangible assets	-	1	2	3	4	5
Loans & advances and investments	348	1,487	567	567	567	567
Others	69	3,360	10,264	10,264	10,264	10,264
Non-current assets	**9,820**	**15,107**	**24,637**	**29,410**	**31,181**	**32,307**
Inventories	241	364	429	488	612	698
Trade receivables	1,098	1,286	2,527	2,878	3,609	4,113
Cash and cash equivalents	2,844	1,901	664	236	2,188	5,633
Loans & advances and others	328	383	1,158	1,158	1,158	1,158
Current assets	**4,512**	**3,934**	**4,776**	**4,759**	**7,567**	**11,602**
Total assets	**14,332**	**19,041**	**29,413**	**34,169**	**38,748**	**43,909**

Source: Company, Ambit Capital research

Per share data

Year to March (₹)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
No. of shares o/s (mn)	78	80	80	80	80	80
EPS (adjusted) basic	25.9	41.6	41.4	46.6	53.7	57.7
EPS (adjusted) diluted	25.9	41.6	41.4	46.6	53.7	57.7
DPS	-	-	-	-	-	-
Dividend payout (%)	0%	0%	0%	0%	0%	0%

Source: Company, Ambit Capital research

Cash flow statement

Year to March (₹ mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	2,790	4,569	4,849	4,685	5,433	6,417
Depreciation	695	727	1,293	1,735	2,152	2,452
Others	310	(41)	(174)	875	950	950
WC (build)/release	141	(745)	(693)	(168)	(351)	(242)
Tax	(377)	(1,269)	(954)	(1,171)	(1,358)	(1,604)
Cash flow from operations	**3,560**	**3,240**	**4,321**	**5,955**	**6,826**	**7,973**
Capex (net)	(944)	(1,703)	(5,745)	(6,508)	(3,924)	(3,578)
Others income/(expenditure)	(2,598)	(2,412)	(410)	-	-	-
Cash flow from investments	**(3,542)**	**(4,115)**	**(6,155)**	**(6,508)**	**(3,924)**	**(3,578)**
Proceeds from borrowings	(507)	(1,094)	1,483	1,000	-	-
Issuance/buyback of equity	950	1,917	-	-	-	-
Interest paid	(272)	(117)	(187)	(875)	(950)	(950)
Dividend paid	-	-	-	-	-	-
Cash flow from financing	**98**	**610**	**883**	**125**	**(950)**	**(950)**
Net change in cash	116	(265)	(951)	(428)	1,952	3,445
FCF	**2,615**	**1,537**	**(1,424)**	**(553)**	**2,902**	**4,395**

Source: Company, Ambit Capital research

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue growth (%)	18%	24%	33%	14%	25%	14%
EBITDA margin (%)	27.9%	31.2%	27.5%	28.1%	26.2%	26.5%
EBIT margin (%)	23%	27%	22%	21%	19%	20%
Net margin (%)	15%	20%	15%	13%	12%	12%
Gross block turnover (x)	1.2	1.3	1.4	1.2	1.2	1.2
RoCE pre-tax (%)	30%	34%	25%	22%	22%	22%
RoCE post-tax (%)	22%	25%	19%	16%	16%	16%
RoIC pre-tax (%)	37%	41%	27%	22%	23%	25%
RoE (%)	28%	30%	21%	17%	17%	17%
Receivable days	30	28	42	42	42	42
Inventory days	7	8	7	7	7	7
Payable days	36	29	29	29	29	29
Cash conversion cycle	1	8	20	20	20	20
Pre-tax CFO/EBITDA (%)	106%	87%	87%	101%	99%	101%
Net debt / Equity (x)	(0.1)	(0.0)	0.3	0.3	0.2	0.0

Source: Company, Ambit Capital research

Valuation ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	63	46	47	48	41	34
P/B (x)	16	12	10	8	7	6
EV/EBITDA(x)	37	31	27	23	20	17
EV/EBIT(x)	45	36	34	30	26	23

Source: Company, Ambit Capital research

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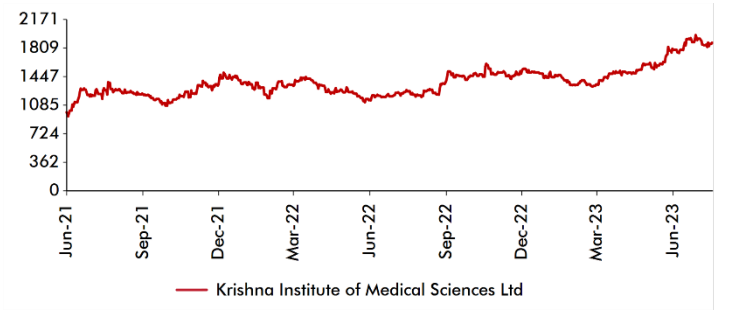
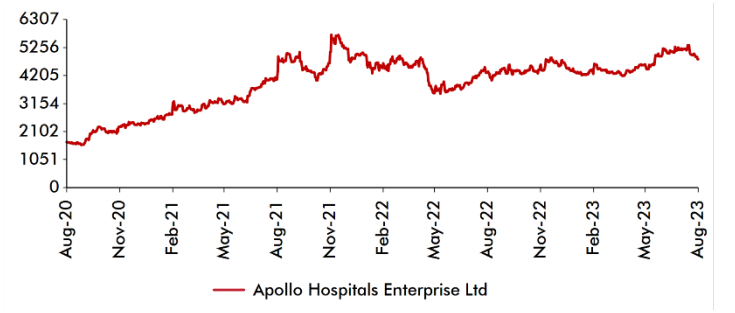


Source: ICE, Ambit Capital research

Apollo Hospitals Enterprise Ltd (APHS IN, BUY)



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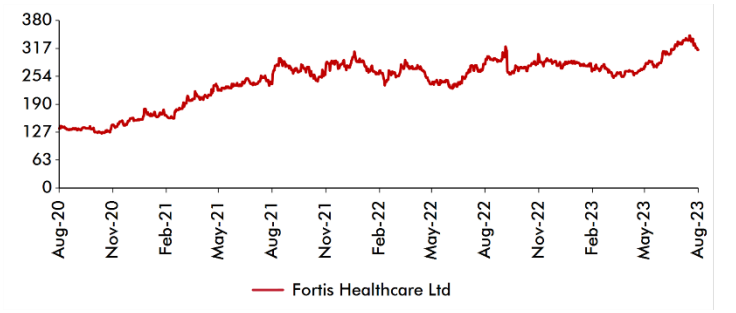

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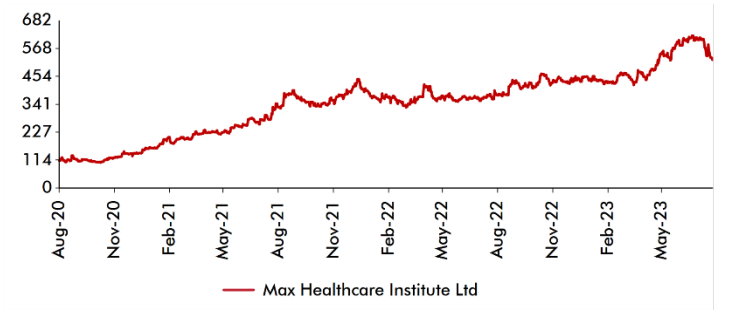

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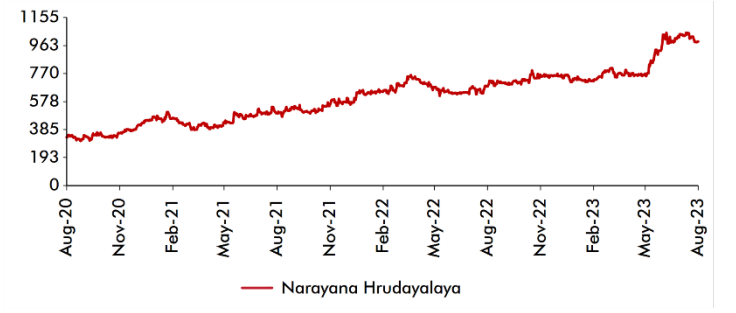

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