

Q2FY22 result review
and reco change

Pharmaceuticals

Target price: Rs226

Earnings revision

| (%) | FY22E | FY23E |
|-------|-------|-------|
| Sales | - | 1.0 |
| EPS | - | 1.0 |

Target price revision

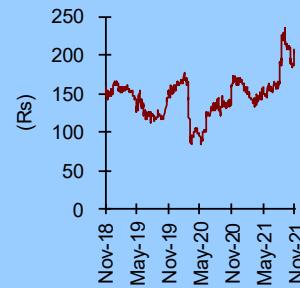
Rs226 from Rs193

Shareholding pattern

| | Mar '21 | Jun '21 | Sep '21 |
|-------------------------|------------|------------|------------|
| Promoters | 37.9 | 37.9 | 37.9 |
| Institutional investors | 19.3 | 18.3 | 19.3 |
| MFs and others | 6.7 | 7.6 | 7.8 |
| FIs / Banks | 1.1 | 1.1 | 1.1 |
| FII | 8.9 | 10.7 | 7.8 |
| Foreign VC | 2.6 | 2.6 | 2.6 |
| Others | 42.8 | 43.8 | 42.8 |

Source: BSE

Price chart



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INDIA



Aster DM Healthcare

ADD

Downgrade from Buy

Rs208

Aster DM Healthcare's (Aster) Q2FY22 performance was above our estimates mainly at the profitability front driven by strong occupancy in India hospitals. Consolidated revenue grew 10.4% YoY to Rs25.0bn (I-Sec: Rs24.3bn), 2-year CAGR of 9.5%. EBITDA margin improved 170bps YoY to 13.7% (I-Sec:12.0%) with occupancy recovery. We expect overall business to continue to recover and margins to improve with reducing contribution of COVID-19 patients. We believe the company's approach of asset-light expansion and an improving margin trajectory (300bps over FY21-FY23E) would aid positive FCF generation. The company is aggressively focusing on capacity addition in India. While we remain positive on the stock, recent run up has factored in near term upside, hence we downrange to ADD from Buy with a revised target price of Rs226/share.

► **Business review:** Revenue grew at 2-year CAGR of 9.5% led by 11% growth in GCC hospitals and 18.9% in India hospitals. Indian growth was driven by rise in occupancy to 70% vs 58% YoY. Occupancy at GCC hospitals was up to 51% vs 49% QoQ and is expected to improve gradually with increasing footfalls. GCC Clinics business grew 13.6%, 2-year CAGR amid continuous gaining traction from COVID-19 testing, but Pharmacy business declined 2.2% due to lower footfalls which expected to improve in coming quarters. EBITDA margin improved 170bps YoY to 13.7% against our estimate of 12.0%. This was primarily on account of occupancy improvement in India which lifted India margin by 840bps/300bps YoY/QoQ. We estimate EBITDA margin to rise to 15.3% by FY23E.

► **Key Concall Highlights:** 1) Strategic decision in next 3 months for a) unlock domestic business b) Pursue Cayman expansion or not and c) probably exit from Saudi 2) Guided for Rs5.8bn of annual capex for next 2-3 years,~Rs2bn of maintenance capex and Rs2.5-3bn capex for India 5) adding 300-350 beds in existing hospitals of Kerala in next 2 year, however Chennai greenfield expansion has put on hold 6) looking to foray in e-pharmacy in UAE in Q4 and in FY23 in India 7) the company is aggressively looking diagnostic expansion in India

► **Outlook:** We expect Aster to report 15.9/28.8/129% revenue/EBITDA/PAT CAGRs, respectively, over FY21-FY23E largely driven by the hospital business. RoE/RoCE expected to gradually improve to 18.1%/10.8% by FY23E. It is looking to aggressively expand its bed capacity in India. The management highlighted that they may consider separating GCC and India businesses in near term to create shareholders value.

► **Valuations:** We marginally tweak our estimates and expect growth recovery to continue. We raise target multiple of GCC clinics to 8x and of India hospital business to 14x to factor in the improved growth visibility in the segments. However, recent run up has factored near term triggers, hence we downgrade to ADD from Buy with a revised SoTP-based target price of Rs226/share (earlier: Rs193/share). Key downside risks: Regulatory hurdles, additional waves of covid-19 in India and delay in turnaround of new hospitals.

| Market Cap | Rs104bn/US\$1.4bn | Year to March | FY20 | FY21 | FY22E | FY23E |
|-------------------------|-------------------|---------------------|--------|--------|---------|---------|
| Bloomberg | ASTERDM IN | Net Revenue (Rs mn) | 86,519 | 86,084 | 100,350 | 115,648 |
| Shares Outstanding (mn) | 499.5 | Net Profit (Rs mn) | 2,953 | 1,477 | 5,064 | 7,732 |
| 52-week Range (Rs) | 234/133 | Dil. EPS (Rs) | 5.9 | 3.0 | 10.2 | 15.6 |
| Free Float (%) | 62.1 | % Chg YoY | (11.7) | (50.0) | 242.7 | 52.7 |
| FII (%) | 7.8 | P/E (x) | 38.0 | 76.0 | 22.2 | 14.5 |
| Daily Volume (US\$'000) | 5,005 | CEPS (Rs) | 17.4 | 15.4 | 22.8 | 28.6 |
| Absolute Return 3m (%) | 26.5 | EV/EBITDA (x) | 13.2 | 14.9 | 10.6 | 8.4 |
| Absolute Return 12m (%) | 33.7 | Dividend Yield (%) | - | - | - | - |
| Sensex Return 3m (%) | 10.9 | RoCE (%) | 7.9 | 4.5 | 8.4 | 10.8 |
| Sensex Return 12m (%) | 41.4 | RoE (%) | 9.1 | 4.4 | 14.0 | 18.1 |

Please refer to important disclosures at the end of this report

Table 1: Q2FY22 result review

(Rs mn, year ending March 31)

| | Q2FY22 | Q2FY21 | YoY % Chg | Q1FY22 | QoQ % Chg |
|-------------------------------|---------------|---------------|------------------|---------------|------------------|
| Net Sales | 25,043 | 22,677 | 10.4 | 23,716 | 5.6 |
| EBITDA | 3,428 | 2,711 | 26.5 | 2,809 | 22.1 |
| Other income | 91 | 79 | 14.7 | 80 | 13.3 |
| PBIT | 3,519 | 2,790 | 26.1 | 2,889 | 21.8 |
| Depreciation | 1,564 | 1,529 | 2.3 | 1,530 | 2.2 |
| Interest | 614 | 746 | (17.7) | 665 | (7.6) |
| Exceptional items | - | - | - | - | - |
| PBT | 1,342 | 515 | 160.3 | 695 | 93.2 |
| Tax | 76 | 103 | (26.6) | 109 | (30.4) |
| Minority Interest | - | 94 | (100.0) | 151 | (100.0) |
| Share of profit in associates | 10 | 10 | (1.0) | 10 | (1.9) |
| Reported PAT | 1,276 | 329 | 288.4 | 445 | 187.0 |
| Adjusted PAT | 1,276 | 329 | 288.4 | 445 | 187.0 |
| EBITDA margins (%) | 13.7 | 12.0 | 170bps | 2.9 | 1080bps |

Source: Company data, I-Sec research

Table 2: Revenue breakup

(Rs mn, year ending March 31)

| | Q2FY22 | Q2FY21 | YoY % Chg | Q1FY22 | QoQ % Chg |
|---------------------------|---------------|---------------|------------------|---------------|------------------|
| GCC Hospitals | 8,780 | 8,570 | 2.5 | 8,420 | 4.3 |
| GCC Clinics | 5,920 | 5,380 | 10.0 | 5,500 | 7.6 |
| GCC Pharmacies | 5,200 | 5,370 | (3.2) | 5,080 | 2.4 |
| India Hospitals & Clinics | 6,090 | 4,150 | 46.7 | 5,500 | 10.7 |
| Gross Sales | 25,990 | 23,470 | 10.7 | 24,500 | 6.1 |

Source: Company data, I-Sec research

Valuations

We expect Aster DM to register earnings CAGR of 129% over FY21-FY23E driven by revenue CAGR of 15.9% and EBITDA margin expansion of 300bps. We believe revenue growth would be mainly led by hospitals business (18.9% CAGR). We expect return ratios to gradually improve to 18.1% for RoE and 10.8% for RoCE in FY23E with profitability improvement. Receivable days for Aster appear higher than its Indian peers but lower than or equal to its GCC peers. It is high as major revenue is being generated from GCC hospital business largely funded by the government and insurance companies.

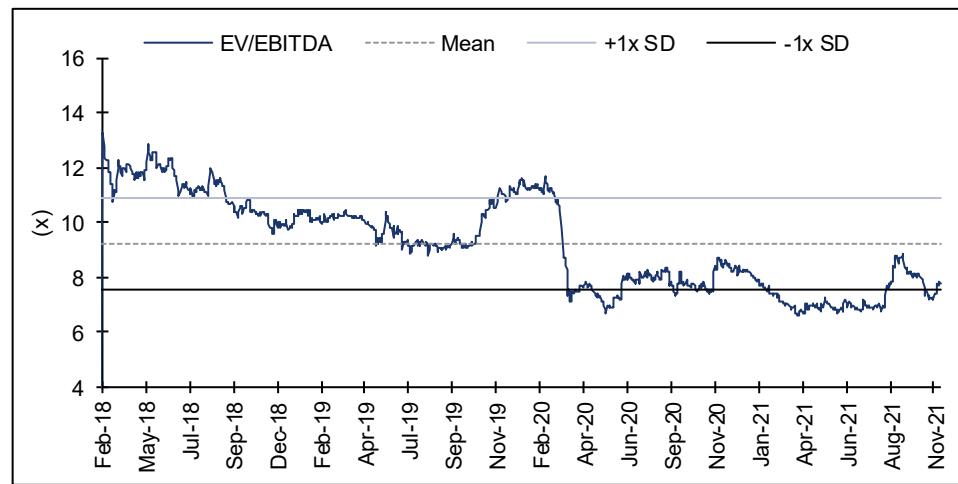
The stock currently trades at valuations of EV/EBITDA of 10.0xFY22E and 7.9xFY23E. We are positive on the stock amid consistent revenue growth and margin expansion. However, owing to recent rally in the stock price that has partially factored in the near term upside, we downgrade to **ADD** from *Buy* and value the stock at a revised target price of Rs226/share based on SoTP valuation and this would imply an EV/EBITDA of 10.6xFY22E and 8.4xFY23E (earlier: Rs193/share). We raise target multiple of GCC clinics to 8x and of India hospital business to 14x to factor in the improved growth visibility in the segments.

Table 3: Sum of the parts (SoTP) valuation

| FY23E | EBITDA | (x) | Rs mn |
|-----------------------|---------------|------------|-----------------|
| GCC Hospitals | 6,958 | 8.0 | 55,661 |
| India Hospitals | 3,519 | 14.0 | 49,265 |
| Clinics | 4,301 | 8.0 | 34,406 |
| Pharmacies | 2,698 | 7.0 | 18,885 |
| EV | 17,475 | 9.1 | 1,58,218 |
| Less: Net debt | | | (41,033) |
| Minority interest | | | (4,617) |
| Implied market cap | | | 1,12,568 |
| Value Rs/share | | | 226 |

Source: Company data, I-Sec research

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|--------------------------|---------------|---------------|----------------|----------------|
| Hospitals | 46,080 | 48,230 | 57,557 | 68,234 |
| Clinics | 20,050 | 20,160 | 22,456 | 24,932 |
| Pharmacies | 22,850 | 20,370 | 20,337 | 22,482 |
| Total Gross Sales | 86,519 | 86,084 | 100,350 | 115,648 |
| Other Op Income | - | - | - | - |
| Total Net Revenue | 86,519 | 86,084 | 100,350 | 115,648 |
| YoY Growth% | 8.7 | (0.5) | 16.6 | 15.2 |
| Total Op. Exp. | 73,943 | 75,456 | 85,799 | 98,012 |
| EBITDA | 12,576 | 10,628 | 14,551 | 17,636 |
| Margins % | 14.5 | 12.3 | 14.5 | 15.3 |
| YoY Growth% | 45.7 | (15.5) | 36.9 | 21.2 |
| Depreciation | 5,859 | 6,176 | 6,257 | 6,461 |
| EBIT | 6,717 | 4,452 | 8,294 | 11,175 |
| Other Income | 379 | 500 | 500 | 500 |
| Interest | 3,597 | 2,937 | 2,627 | 2,442 |
| Share of P/L of asso. | (2) | 35 | - | - |
| Exceptional Items (net) | (196) | - | - | - |
| PBT | 3,300 | 2,051 | 6,166 | 9,233 |
| Tax | 154 | 272 | 802 | 1,200 |
| Tax Rate (%) | 4.7 | 13.3 | 13.0 | 13.0 |
| Minority Interest | 381 | 301 | 301 | 301 |
| Reported PAT | 2,766 | 1,477 | 5,064 | 7,732 |
| Adj PAT | 2,953 | 1,477 | 5,064 | 7,732 |
| Net Margins (%) | 3.4 | 1.7 | 5.0 | 6.7 |

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|--------------------------|----------------|----------------|----------------|----------------|
| Paid-up Capital | 4,968 | 4,970 | 4,970 | 4,970 |
| Reserves & Surplus | 27,753 | 28,754 | 33,818 | 41,550 |
| Total Equity | 32,721 | 33,725 | 38,788 | 46,520 |
| Minority Interest | 4,464 | 4,617 | 4,918 | 5,218 |
| Total Debt | 51,117 | 44,088 | 41,088 | 38,088 |
| Deferred Liabilities | 1,227 | 1,292 | 1,292 | 1,292 |
| Capital Employed | 89,528 | 83,721 | 86,085 | 91,118 |
| Current Liabilities | 34,525 | 32,480 | 36,397 | 40,311 |
| Total Liabilities | 124,053 | 116,200 | 122,482 | 131,429 |
| Net Fixed Assets | 78,596 | 76,828 | 76,571 | 76,110 |
| Investments | - | - | - | - |
| Inventory | 9,610 | 8,490 | 9,654 | 11,028 |
| Debtors | 23,664 | 20,190 | 23,536 | 27,124 |
| Other Current Assets | 10,297 | 7,638 | 8,392 | 9,202 |
| Cash and Equivalents | 1,887 | 3,055 | 4,329 | 7,965 |
| Total Cur. Assets | 45,458 | 39,372 | 45,911 | 55,319 |
| Total Assets | 124,053 | 116,200 | 122,482 | 131,429 |

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|------------------------------|----------------|----------------|----------------|----------------|
| PBT (Adj. for Extraordinary) | 3,300 | 2,051 | 6,166 | 9,233 |
| Depreciation | 5,859 | 6,176 | 6,257 | 6,461 |
| Net Chg in WC | (970) | 568 | (838) | (1,312) |
| Taxes | (657) | (111) | (802) | (1,200) |
| Others | 1,103 | 4,071 | (509) | (546) |
| CFO | 8,636 | 12,755 | 10,274 | 12,636 |
| Capex | (7,415) | (3,864) | (6,000) | (6,000) |
| Net Investments made | 695 | 529 | (40) | (43) |
| Others | 47 | 33 | - | - |
| CFI | (6,673) | (3,303) | (6,040) | (6,043) |
| Change in Share capital | (1,205) | (2) | - | - |
| Change in Debts | (2,174) | (9,431) | (3,000) | (3,000) |
| Div. & Div Tax | (97) | (94) | - | - |
| Others | (128) | 1,118 | - | - |
| CFF | (3,603) | (8,409) | (3,000) | (3,000) |
| Total Cash Generated | (1,640) | 1,042 | 1,234 | 3,593 |
| Cash Opening Balance | 3,411 | 1,771 | 2,814 | 4,048 |
| Cash Closing Balance | 1,771 | 2,814 | 4,048 | 7,641 |

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

| | FY20 | FY21 | FY22E | FY23E |
|------------------------|--------|--------|-------|-------|
| Adj EPS | 5.9 | 3.0 | 10.2 | 15.6 |
| YoY Growth% | (11.7) | (50.0) | 242.7 | 52.7 |
| Cash EPS | 17.4 | 15.4 | 22.8 | 28.6 |
| EBITDA (%) | 14.5 | 12.3 | 14.5 | 15.3 |
| NPM (%) | 3.4 | 1.7 | 5.0 | 6.7 |
| Net Debt to Equity (x) | 1.5 | 1.2 | 0.9 | 0.6 |
| P/E (x) | 35.0 | 70.0 | 20.4 | 13.4 |
| EV/EBITDA (x) | 12.5 | 14.0 | 10.0 | 7.9 |
| P/BV (x) | 3.2 | 3.1 | 2.7 | 2.2 |
| EV/Sales (x) | 1.8 | 1.7 | 1.4 | 1.2 |
| RoCE (%) | 7.9 | 4.5 | 8.4 | 10.8 |
| RoE (%) | 9.1 | 4.4 | 14.0 | 18.1 |
| RoIC (%) | 8.1 | 4.6 | 8.8 | 11.6 |
| Book Value (Rs) | 65.8 | 67.9 | 78.0 | 93.6 |
| DPS (Rs) | - | - | - | - |
| Dividend Payout (%) | - | - | - | - |
| Div Yield (%) | - | - | - | - |
| Asset Turnover Ratio | 0.8 | 0.7 | 0.8 | 0.9 |
| Avg Collection days | 93 | 93 | 80 | 80 |
| Avg Inventory days | 36 | 38 | 33 | 33 |

Source: Company data, I-Sec research

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