



Company Name	: KOVAI MEDICAL CENTER & HOSPITAL LTD
BSE Code	: 523323
Time Duration	: 2 year
CMP	: ₹1,065.85 (as on 10 March, 2021)
Target Price	: ₹1,386

Our Value Pick for the month of March 2021 is Kovai Medical Center & Hospital (KMCH), a Coimbatore-based public limited company providing advanced healthcare services. It operates a multispeciality hospital with 868 operating beds at Coimbatore, equipped with the latest tertiary health care facilities. The company also has its satellite centres in various parts of Tamil Nadu i.e. Ramnagar, Coimbatore (75 beds), Erode (142 beds), Sullur (105 beds), and Kovilpalayam (121 beds) including beds for ICUs, dialysis wards, etc. The company inaugurated a new medical college in Coimbatore with the name-KMCH Institute of Health Sciences & Research, which is the fifth medical college in this region. The college started with an intake of 150 MBBS students with an affiliation to Tamil Nadu Dr MGR Medical University.

Well-established track record of the main hospital and new smaller hospitals: Having established its main hospital in Coimbatore in 1985 as a tertiary care multi-speciality hospital catering to patients in Coimbatore and surrounding regions, KMCH is today, one of the largest hospitals in the region. The hospital has developed a solid reputation in the region and both its cardiology & oncology departments are one of the best options in Coimbatore.

The company follows a hub-and-spoke model whereby, the smaller satellite centres treat patients from surrounding regions. The company derives 87 per cent of its revenue from the main hospital and as a result, the revenue profile of the company is heavily dependent on the main hospital. Though KMCH, over the past few years has been starting peripheral centres in the nearby areas, the flagship hospital is expected to be the key revenue and profitability driver for KMCH in the medium-term. The successful completion of the medical college project on time with 100 per cent intake in and more than 70 per cent occupancy in the academic hospital will bring to the table another profit centre with strong growth prospects. KMCH is likely to increase MBBS seats after 2-3 years to 250 from 150 along with adding PG seats after a few years to boost revenue.

Diversified revenue stream across specialisations: Despite being constrained geographically; the total in-

come of the company is spread across various specialities. Neurology and cardiology were the major contributors of revenue in FY20 and together contributed 23 per cent of the revenue. None of the specialities contributed more than 15 per cent of the total revenue while the top five departments contributed less than 50 per cent to the total sales during FY20. Neurology was the major contributor to the growth of income of KMCH in FY20, followed by cardiology and nephrology.

Nearing completion of medical college and hospital project: KMCH is in the process of completing a 750-bed medical college & hospital adjacent to the existing hospital at the total cost of Rs 600 crore. This is funded by a debt of Rs 480 crore and equity capital of Rs 120 crore. In addition, the company plans to set up additional buildings such as a library block and laboratory at a cost of around Rs 20 crore, funded through internal accruals. This will take the total cost to around Rs 620 crore. As of November 30, 2020, KMCH had incurred Rs 596 crore (inclusive of the library) towards the project funded by a term loan of Rs 420 crore, a loan against deposits of Rs 35.8 crore and the rest by accruals. The entire project is expected to be completed by FY21, after which, meaningful revenue contribution from the project can be expected.

Budget to provide a much-needed impetus to the healthcare sector: After being crippled by the Coronavirus pandemic, the healthcare sector is ready to receive a much-needed boost with the country more than doubling its spending on healthcare in the next fiscal year. In the Union Budget 2021-22, Finance Minister Nirmala Sitharaman proposed an outlay of Rs 2.23 lakh crore towards health & well-being, which is a 137 per cent increase over the Rs 94,452 crore budgeted expenditure on healthcare in the ongoing fiscal. The spending will include a new centrally sponsored scheme i.e. PM Atmanirbhar Swasth Bharat Yojana (PMANSY), to strengthen the health infrastructure of the country. The government plans to spend Rs 64,180 crore on the scheme spanning over six years. This is a welcome start for a country like India, which has one of the lowest public healthcare budgets in the world. The pandemic has

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drawn the government's attention towards the fragile healthcare infrastructure as well as the gaps in the sector. The renewed focus on the sector will make healthcare more accessible and affordable, which would ultimately benefit companies such as KMCH in the years to come.

Financials

In Q3, the company posted revenue of Rs 178.60 crore, down by 6.61 per cent on a YoY basis. Revenue from the healthcare business was down as most of the hospitals had very low occupancy due to COVID-19 fear and patients got delayed timely diagnosis & treatment for other chronic diseases. The education segment saw a decline in revenue as well with a delay in NEET exams due to COVID-19 thereby, affecting the admission process. PBIDT (excluding OI) was reported at Rs 52.06 crore, up by 2.55 per cent with the corresponding margins expanding to 29.10 per cent in Q3FY21 from 26.46 per cent in Q3FY20. PAT was down by 16.62 per cent to Rs 20.75 crore from Rs 24.89 crore in the year-ago period. Meanwhile, PAT margin stood at 20.75 per cent in Q3FY21.

In the last 10 years, the company has shown consistent perfor-

mance in terms of growth. While total revenue has grown from Rs 176 crore in FY11 to Rs 722 crore at a CAGR of 17 per cent, the company's operating profits have grown by 19 per cent CAGR during the same time period. On the other hand, PAT has shown a growth rate of 26 per cent CAGR during the same time span.

Valuation & outlook:

At CMP, the valuations of the company appear attractive with the TTM PE at 13.81x against the 5-year median of 18.75x. The price-to-book value stands low at 2.41x while EV/TTM EBITDA is recorded at 8.42x. As of December 2020, the promoters have a 50.80 per cent holding in the company, which remains unpledged. The 5-year average ROCE of the company stands healthy at 22.67 per cent and the 5-year average ROE stands at 24.09 per cent. Besides having a strong profit centre in the main hospital, KMCH is on the path of establishing itself as a quality education provider in the region. Its revenue is likely to grow much faster and as the margins from the education business are expected to be higher, it will add to the bottom line as well. Considering these factors, we recommend a BUY on the stock with a target of Rs 1,386, representing a 30 per cent potential upside.

Inc/Exp Statement (Standalone) (in Rs Crore)

Description	202003	201903	201803	201703	201603
Net Sales	711.73	628.39	592.37	531.07	465.30
Total Income	722.32	636.63	600.00	537.25	473.04
Total Expenditure	540.66	493.52	463.56	406.38	373.59
PBIDT	181.66	143.11	136.44	130.87	99.46
PAT	94.59	60.14	57.98	59.97	40.43
Dividend %	30.00	30.00	30.00	25.00	25.00
Adj. EPS(Rs)	86.44	54.96	52.98	54.81	36.95

Quarter On Quarter (Standalone) (in Rs Crore)

Particulars	202012	202009	Q on Q Var %	201912	Y on Y Var %
Net Sales	178.60	183.20	-2.52	191.23	-6.61
Total Expenditure	126.86	122.73	3.37	141.12	-10.10
PBIDT (Excl OI)	52.06	60.84	-14.43	50.76	2.55
PAT	20.75	28.53	-27.27	24.89	-16.62
PBIDTM% (Excl OI)	29.10	33.14	-12.19	26.46	9.98
PBIDTM%	30.22	34.32	-11.95	27.82	8.63
PATM%	11.60	15.54	-25.35	12.97	-10.56
Adj. EPS(Rs)	18.97	26.08	-27.26	22.75	-16.62

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Stock vs. Index



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