Healthcare
Initiating coverage

India I Equities
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Hospitals: Brimming with opportunities ahead!

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Healthcare: Brimming with opportunities ahead!

AnandRathi

A cornerstone of India's healthcare system, hospitals have seen considerable advancements and deep-rooted challenges. Serving over a billion people, Indian hospitals have evolved into complex institutions with a broad range of services. From primary care at local clinics to advanced treatment through world-class facilities, the sector mirrors the country's economic and demographic diversity. Its structural demand-drivers are favorable demographic shifts coupled with a rise in non-communicable diseases (NCDs) and the greater ability of patients to pay. Further, the government's limited fiscal headroom and inadequate healthcare infrastructure would lead to private hospitals dominating the space.

Ahead, we reckon the number of larger hospital chains would increase led by a) their ability to invest and attract clinical talent, b) the rising need for complex procedures and c) a disproportionate share of insured and medical-tourism patients. More cash generated by the growing share of mature hospitals augurs well as leading companies enter the next bed-capacity expansion phase. A high proportion of brownfield expansion plans provides margin/RoCE comfort and should help valuations endure.

- **Hospitals to benefit the most from more spending on healthcare.** Given the hospital demand-supply mismatch (bed capacity half the global average), which is unlikely to be bridged in the near to medium term, we regard longer life-expectancy and heightened health-awareness to be key drivers. This, coupled with a rising share of NCDs (~70% of deaths in India) and deeper penetration of health insurance and government schemes, would result in the greater need for tertiary care. Having said that, we reckon private hospitals would benefit given the country's inadequate healthcare infrastructure and greater health awareness.
- **A climbing share of large hospital chains in the overall pie.** Private hospitals make up ~60% of the market but the proportion of large hospital chains is a low ~12%. We see the share of private hospitals in the overall revenue pool increasing, led by a) the greater ability to invest in adding beds and in attracting clinical talent, b) increased affluence and health-insurance penetration in India, c) a disproportionate share of fast-growing medical tourism. Capacity enhancement ahead for the companies we cover is likely to translate to higher market shares eventually as the new hospitals mature.
- **Poised to execute expansion plans.** Expansion via brownfield projects and in the home markets involves faster breakeven and maturity, given underlying demand and established brand recognition. Utilizing growth potential and margin flexibility within the current network can offset initial expenses, allowing for margins and RoCE to hold steady at 20-25%. Having said that, NH and Max are best-placed.
- **Return ratios to support the new-normal valuations.** The recent re-rating in the sector primarily stemmed from a substantial, ~1,100bp, RoCE expansion over FY20-23. Ahead, we expect valuations to endure given sector frontrunners maintain RoCE above 20% with capacity enhancement over the longer term. **We initiate coverage of six companies in this report, recommending Buys on Max Healthcare, Rainbow Children's Medicare, Krishna Institute of Medical Sciences (KIMS) and Jupiter Life-Line Hospitals, while Holds on Global Health (MEDANTA), and Narayana Hrudayalaya.**

Multi-decadal opportunity for the private sector

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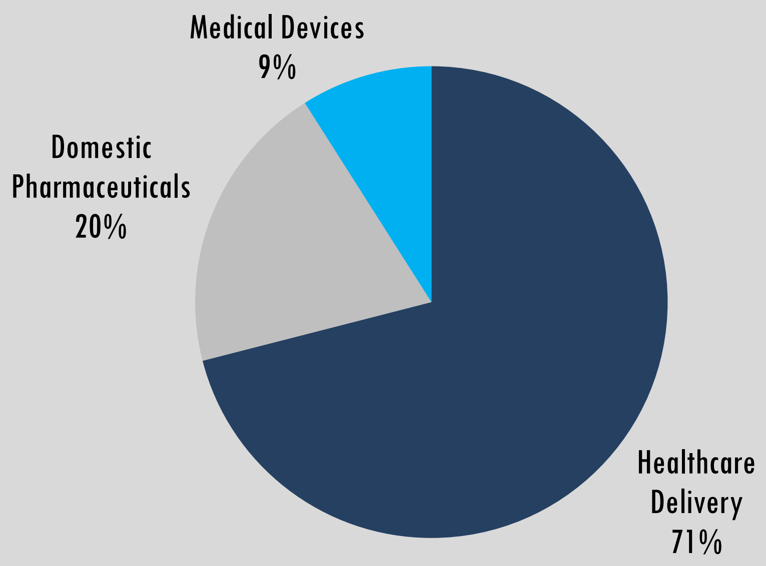
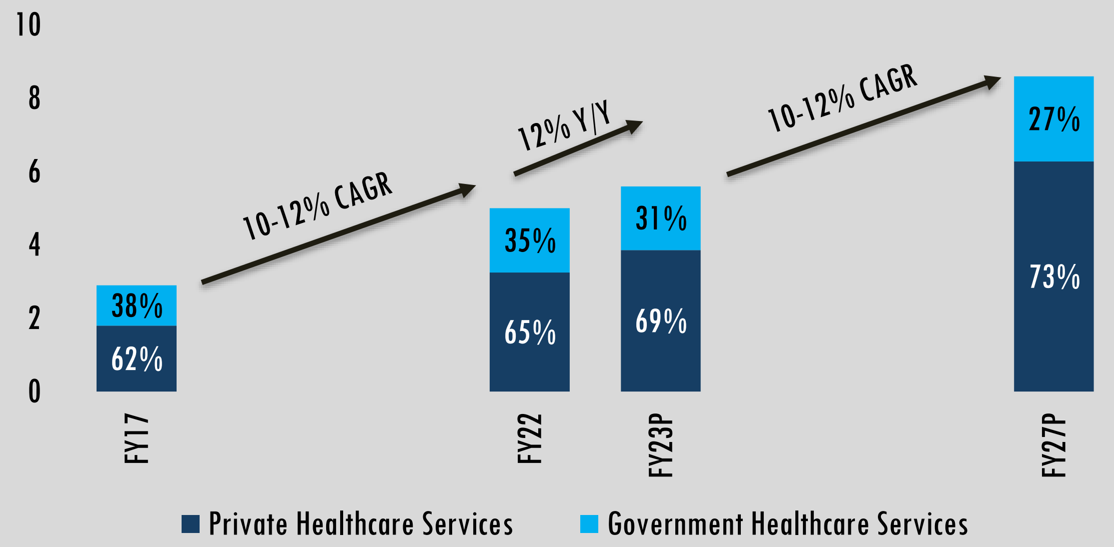
- Accounting for ~71% of India's healthcare market, healthcare delivery services constitute the largest segment
- Favourable demographic shifts, a rising proportion of non-communicable diseases and greater ability to pay are the sector's key structural drivers. These would, in turn, lead to a ~15% CAGR to ~Rs7.7trn over FY22-25
- India lags most developed and developing countries in healthcare infrastructure and spending. This demand-supply mismatch is unlikely to be bridged soon. Given limited fiscal headroom, the private sector is likely to continue to benefit from industry growth
- Demographic factors, more non-communicable ailments in the disease mix and the greater ability to pay are primary demand drivers for healthcare delivery services. Longer life expectancy has led to more people aged over 50/60 years, while urbanisation has resulted in keener health awareness. Also, rising income levels, health insurance penetration and various Central/state government schemes have raised the ability to pay for healthcare
- Besides boosting demand, the changing disease mix and greater ability to pay benefit the organized, larger hospitals disproportionately

Hospitals, the biggest segment in Indian healthcare



Indian healthcare delivery market likely to record a 10-12% CAGR over FY23-27



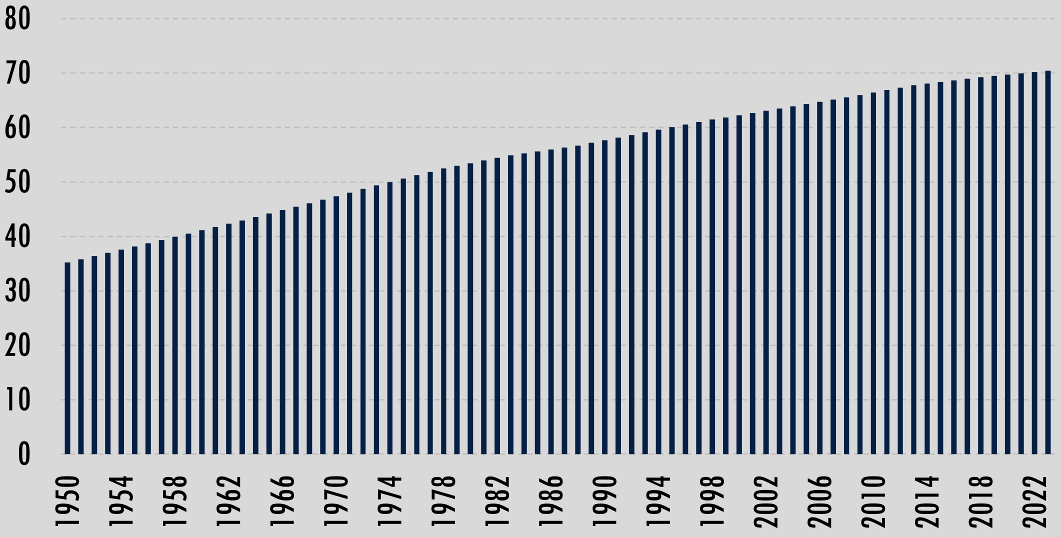
Source: GOI; Anand Rathi Research

Multi-decadal opportunity for the private sector (cont.)

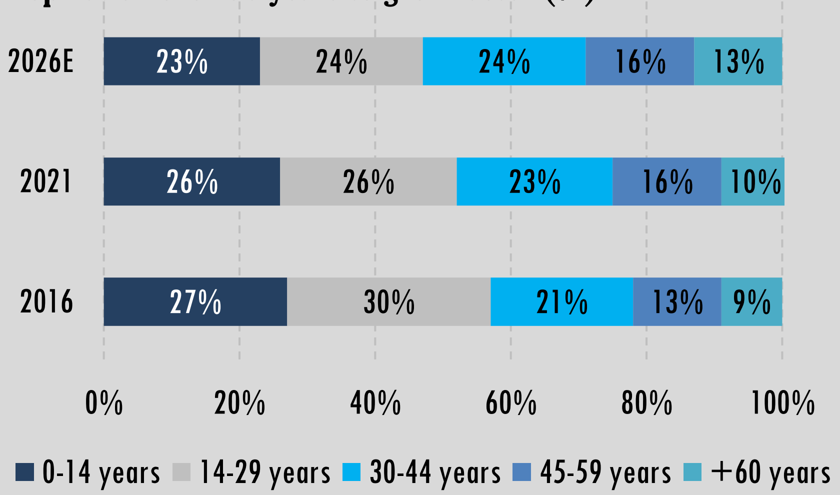
Longer life expectancy + rising income + urbanisation = More demand for health-care delivery services

- Per the UN, India's life expectancy was 70.4 years in 2023. This has doubled from ~35.2 years in 1950 and is expected to improve to 81.2 years by 2100. Healthier lifestyles and better medical care have contributed, and are likely to drive demand for healthcare delivery services ahead
- Healthcare delivery is typically concentrated in urban areas due to better income profiles, availability of doctors and other trained staff. This has led to a higher hospitalisation rate for in-patient treatment and out-patients in cities vs. rural areas. Besides Mumbai, Delhi, Chennai and Kolkata, growth in cities such as Bengaluru and Hyderabad has led to the emergence of new healthcare micro-markets
- Urbanisation is usually accompanied by better living standards and more purchasing power. This should translate to greater willingness/ ability to pay for better healthcare services, which would widen the target population for corporate hospitals operating at the higher end of the pricing curve

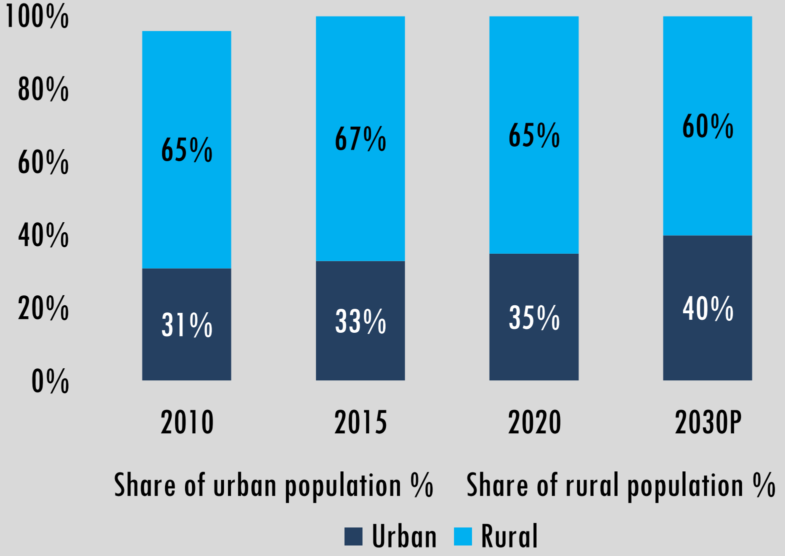
Life expectancy from birth has nearly doubled since 1950



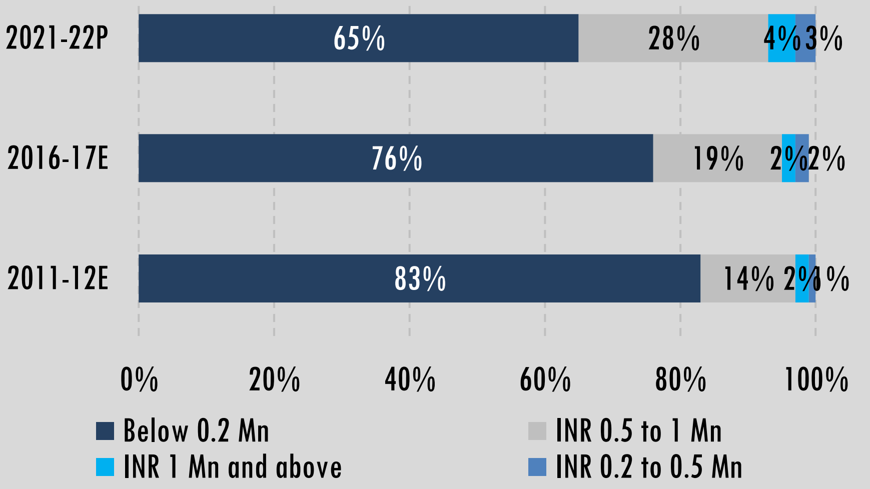
Population over 60 years to grow faster (%)



Indian urban vs. rural population (%)

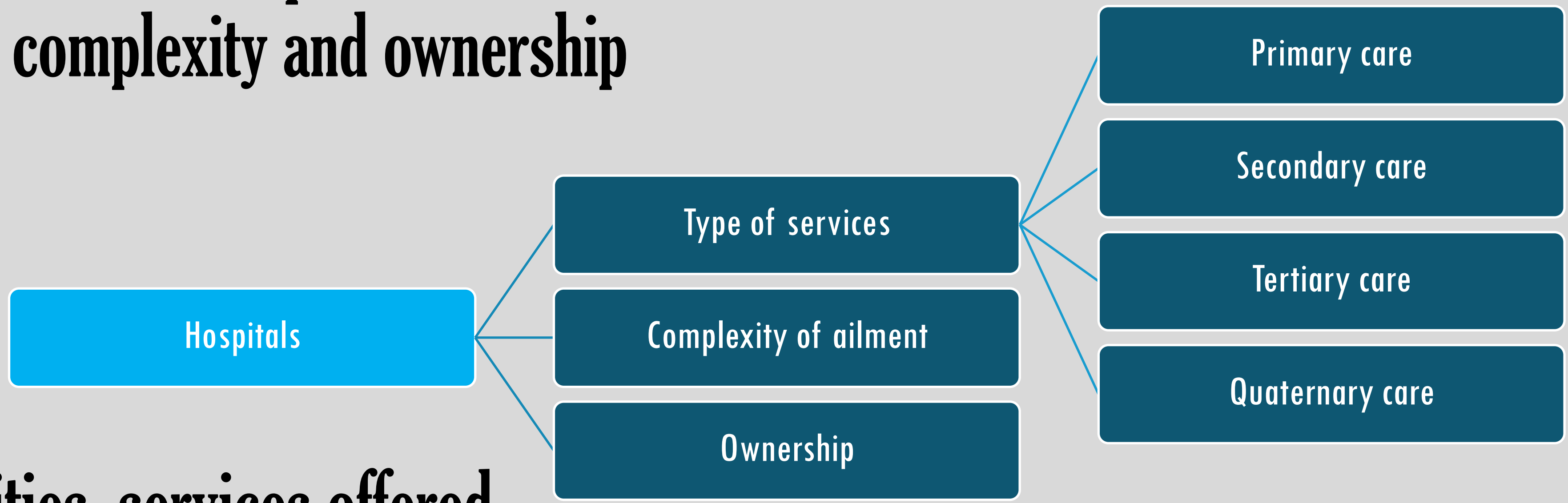


Rising income and urbanisation enhancing healthcare affordability



Source: GOI; Anand Rathi Research

Classification of hospitals
by type, complexity and ownership



by facilities, services offered

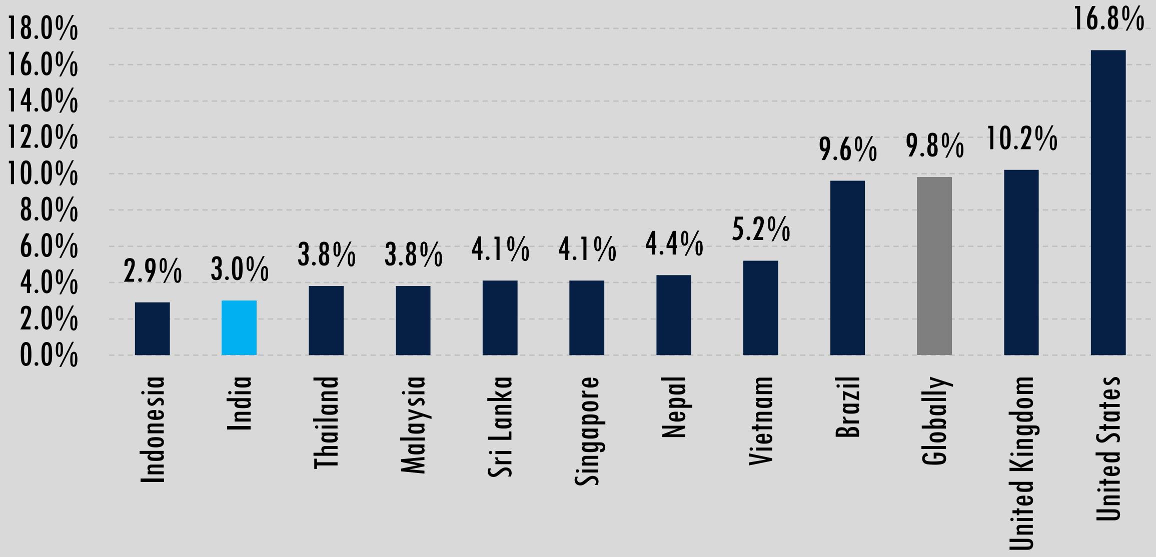
	Primary care	Secondary care	Tertiary care
Services	All required services for the first point of contact	All required services, incl. organised medical research	All required services, incl. provision of experimental therapeutic modalities and organised research in chosen specialties
Multi-disciplinary	Yes	Yes	Single or multi-speciality
Type of service	Only medical services; excludes surgical services	Overall medical and surgical services	Complex surgical services with sophisticated equipment
Type of patients	Only out-patient	In-patient and out-patient	Primarily in-patient
No. of beds	0 beds	50–200 beds	>200 beds
Dependent on	Secondary- and tertiary-care hospitals for further diagnosis and support	Tertiary-care hospital for diagnostic and therapeutic support on referral and for patient transfer	Tertiary-care/ secondary hospital for referrals
Investment	Low	Medium	High

Source: Company, Anand Rathi Research

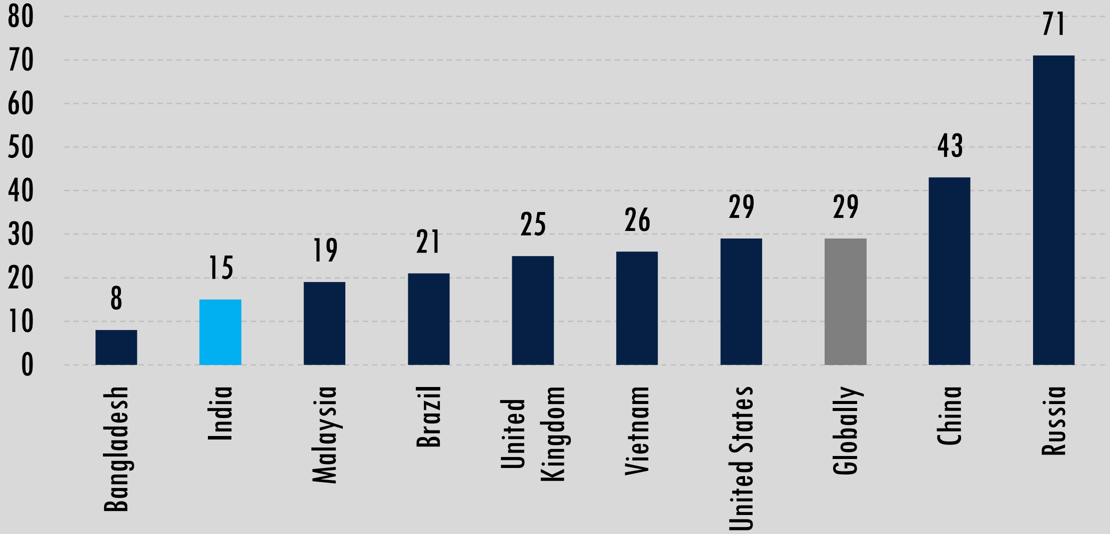
Key drivers of India's healthcare delivery services

- Over the last few decades, India's per-capita income has risen and its middle-class population has surged. Though healthcare is considered a non-discretionary expense, considering ~65% of households had <Rs0.2m annual income in 2022 (CRISIL estimate), affordability of quality-healthcare facilities continues to be a major constraint. Therefore, growth in household income and, consequently, disposable income is critical to overall demand expansion for healthcare delivery services in India
- Households with >Rs0.2m income were 35% in 2022, up from 23% in 2017, which suggests a growing propensity for affordable and superior healthcare services provided by private healthcare companies
- Over the years, India's urban population has been expanding; it is projected to grow to 40% by 2030 (from ~35% in 2020). This, the growing literacy rate and an awareness regarding the importance of preventive and curative care, is expected to increase demand for quality healthcare services

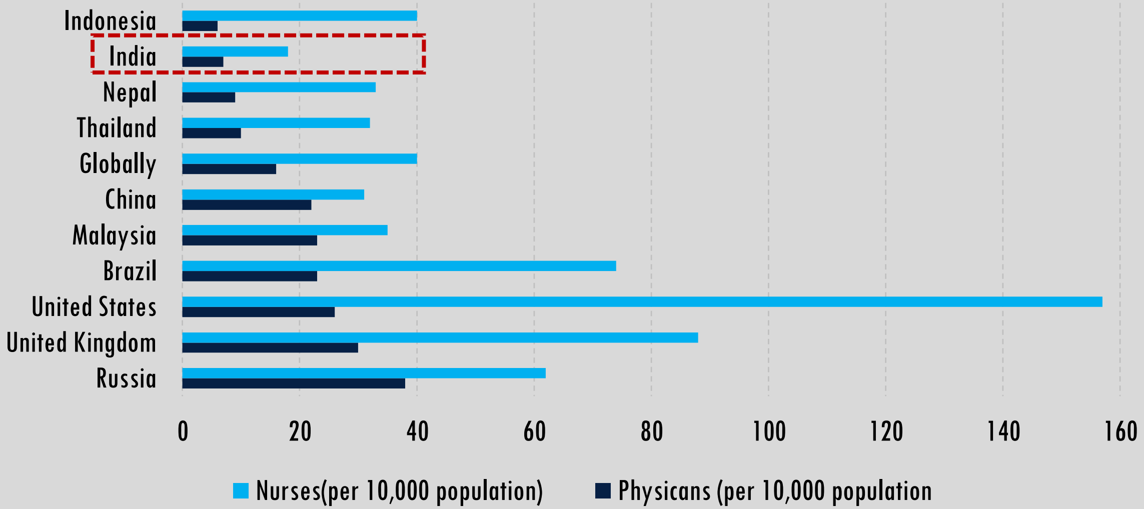
India's spending on healthcare is less than the global average



One of the lowest bed densities/10,000 people vs. the global average



Healthcare personnel in India vs. other countries



Source: GOI; Anand Rathi Research

Key drivers of India's healthcare delivery services (cont.)

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Disease mix + higher insurance penetration + rise in medical tourism = bright outlook

Lifestyle-related illnesses or NCDs have increased rapidly in India. The share of NCDs in the overall disease mix rose from 30% in 1990 to 55% in 2016

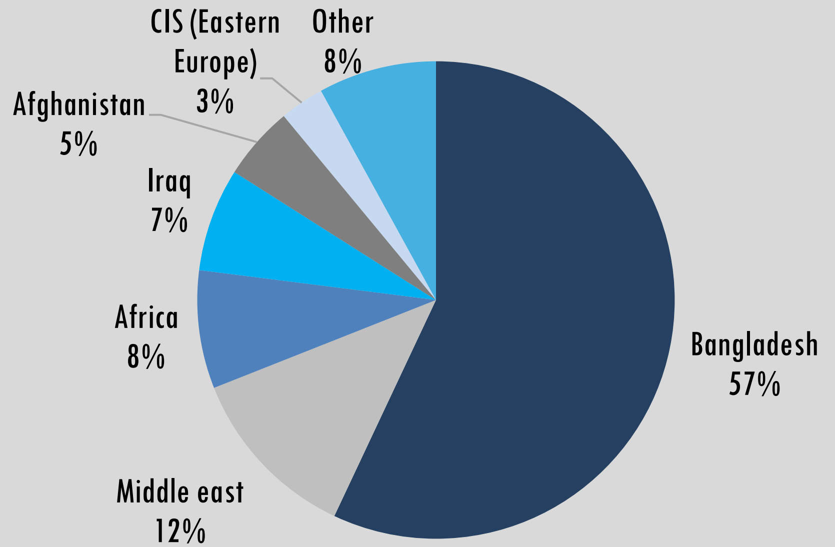
- Low health-insurance penetration mainly impeded growth of healthcare delivery, as affordable quality-healthcare facilities by lower-income groups is a concern. In CY20, out-of-pocket expenses (health) made up ~51% of health expenses. Per the IRDAI, >520m people had health insurance in India in FY22 (288m in FY15)
- According to the Ministry of Tourism, of foreign tourists arriving in India, the proportion of medical tourists grew from 2.2% (0.11m tourists) in CY09 to 6.4% (0.7m) in CY19. Covid-19 travel restrictions curtailed medical tourists sharply in 2020 to 0.18m. This figure, however, has since considerably recovered, with arrivals in 2022 (~0.65m tourists) almost back to pre-Covid levels
- The government is aiming at $12bn revenue from medical tourism by 2026 and has launched many initiatives under the 'Heal in India' programme to position India as a medical-tourism hub. These measures include 1) constituting a National Medical and Wellness Tourism Board, 2) introducing a category of medical visa (made available to 165 countries) and 3) providing Rs0.6m financial help to medical-tourism service providers under market development assistance (MDA)

India: One of the lowest-cost treatment destinations vs. global peers

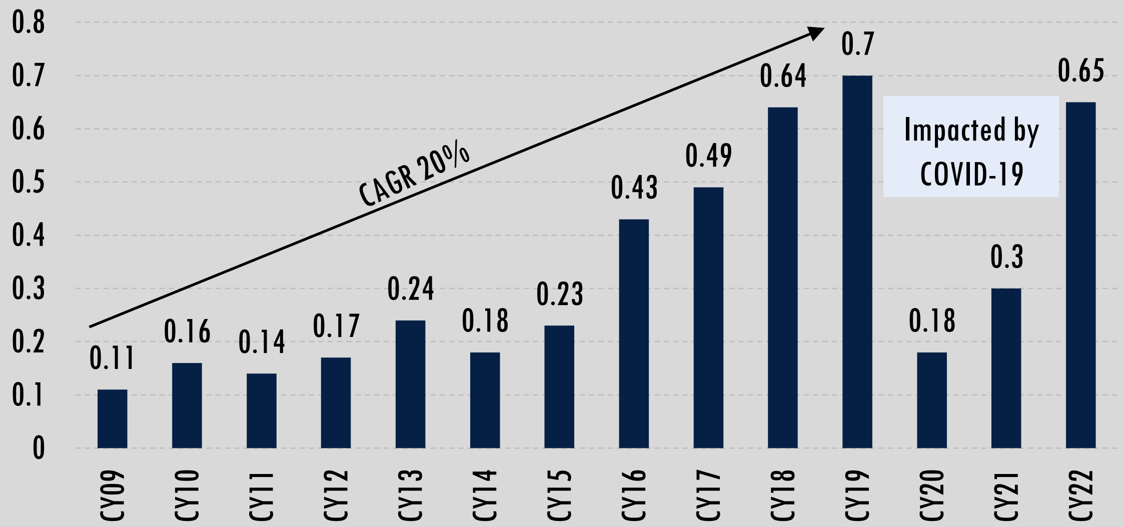
Ailments ($)	US	Korea	Singapore	Thailand	India
Hip replacement	50,000	14,120	12,000	7,879	7,000
Knee replacement	50,000	19,800	13,000	12,297	6,200
Heart bypass	144,000	28,900	18,500	15,121	5,200
Angioplasty	57,000	15,200	13,000	3,788	3,300
Heart valve replacement	170,000	43,500	12,500	21,212	5,500
Dental implants	2,800	4,200	1,500	3,636	1,000

Source: GOI; Anand Rathi Research

Medical tourism in India. Bangladesh leads with more than 50%



Medical tourism presents a big opportunity



Key drivers of India's healthcare delivery services (cont.)

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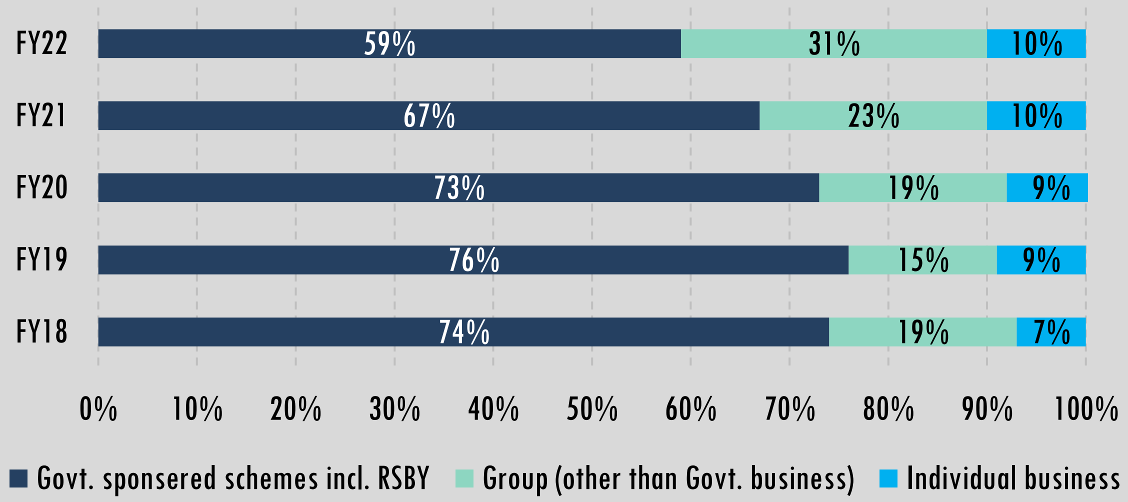
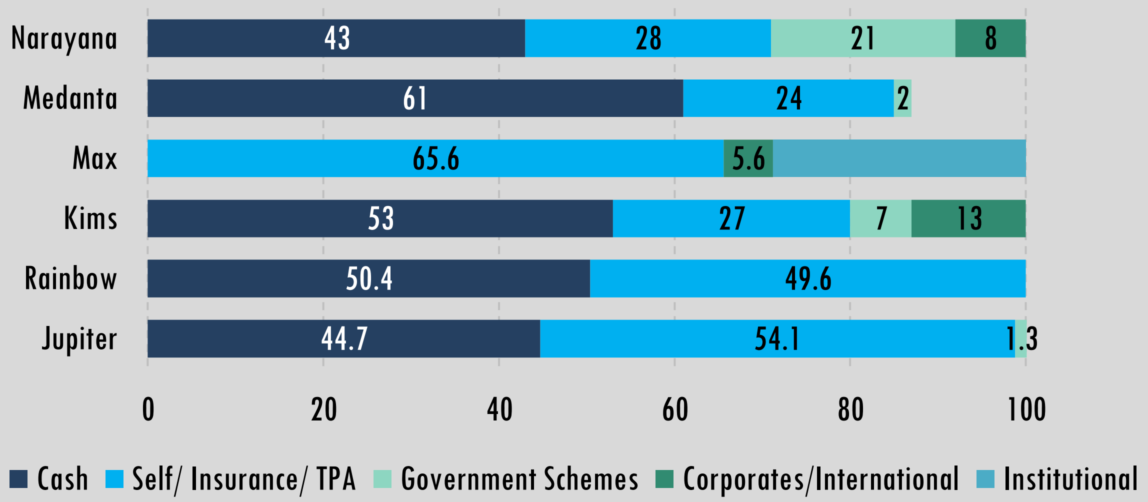
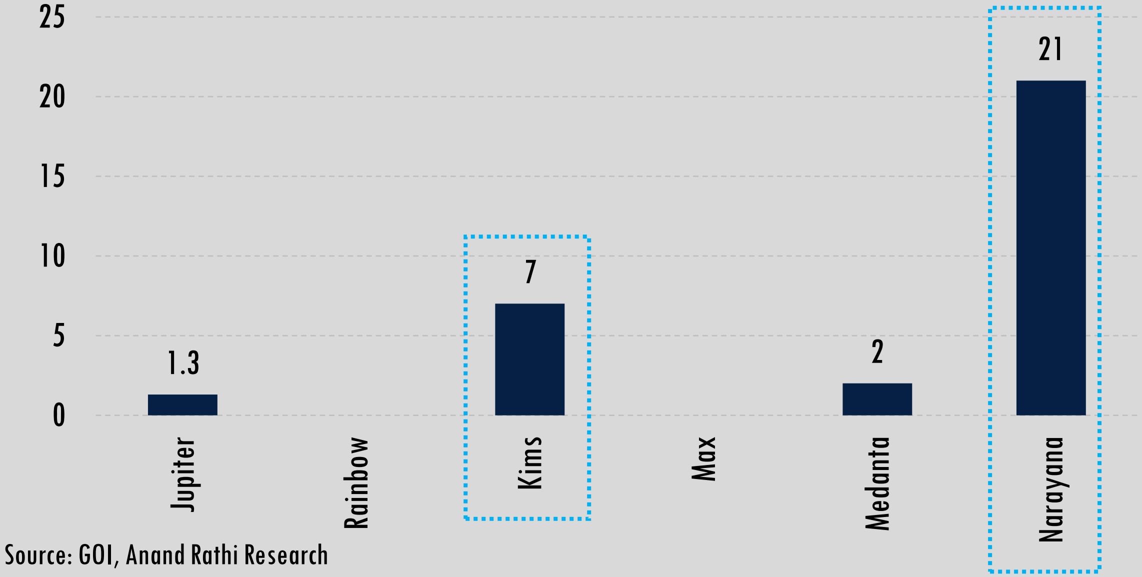
Deepening health insurance penetration in India



Share of private health insurance in revenue of leading hospitals



NH, KIMS have the highest proportion of government schemes, as % of overall revenue



Source: GOI, Anand Rathi Research

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Share of private sector in hospitals segment overall likely to be robust

Private sector to dominate

- The private sector largely dominates India's healthcare services. In the recent past, Central/state governments focused on becoming payers rather than service providers
- Hence, capacity/ beds added are likely to be dominated by the private sector. Private hospitals account for about two-thirds of the healthcare delivery market by value. This is likely to increase to ~73% ahead
- Within private hospitals, large hospital chains with facilities across multiple states/cities account for only ~12% of the market. The rest comprises standalone, small and medium-sized hospitals – many chiefly offering secondary/higher-secondary care

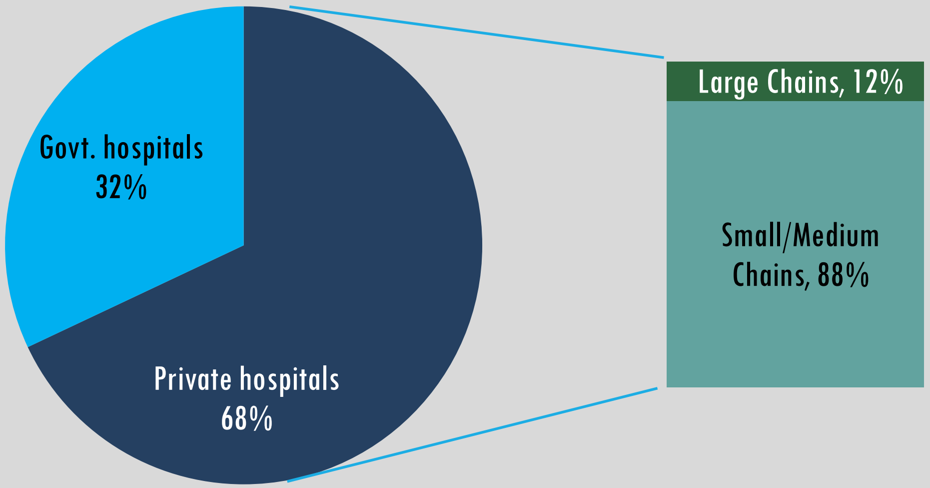
Share of larger hospitals likely to grow

✓ A rising share of NCDs in the disease mix would result in a pressing need for more complex procedures, which larger hospitals are better equipped to offer

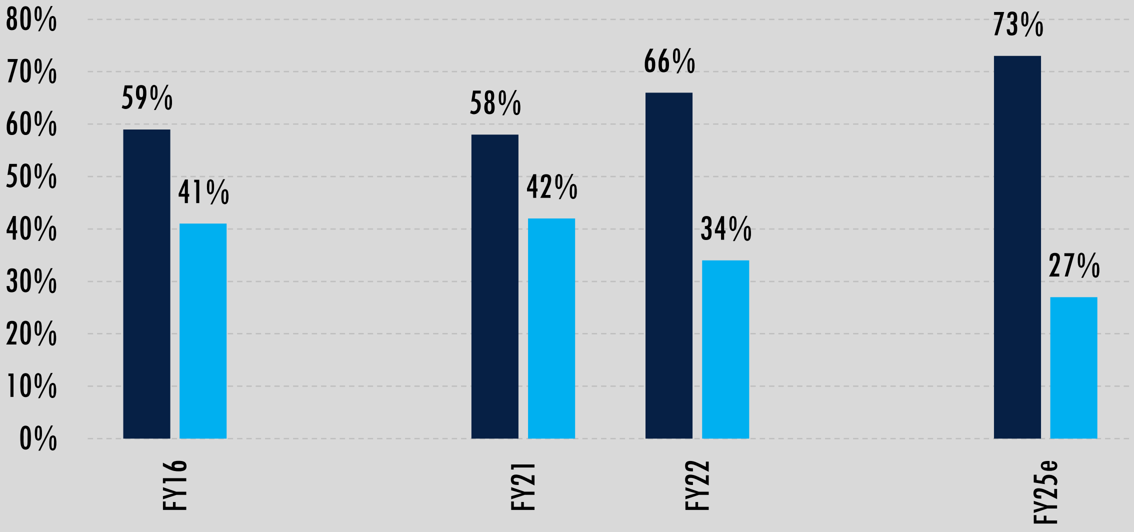
✓ Increasing affluence and deeper penetration of health insurance could see more patients opting for larger hospitals as affordability rises

✓ Larger hospitals are likely to obtain a disproportionate share of the fast-growing medical value-travel revenue pool

Government, private hospitals in overall healthcare delivery, %



High proportion of private hospitals in India; likely to grow further by FY25



Source: CRISIL Report, Anand Rathi Research

Poised to execute expansion plans

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Brownfield capacity to fuel growth

- Capacity added can be brownfield or greenfield. The former adds beds in a hospital, the latter is building a hospital from scratch
- Brownfield expansion is easier than large greenfield projects. The former usually allows a faster scale-up and takes less time to break even and reach maturity
- Setting up a greenfield hospital in a new city or where the brand is not well known, compared to peers, may require significant marketing and branding. Engaging with doctors is also likely to be more difficult or expensive
- Leading hospital chains are set to enter the next expansion phase over 4-5 years. A step-up in capex is already visible and commissioning of new beds is likely to gain momentum beyond FY25

Hospital expansion - brownfield projects break even and mature faster than greenfield projects

Expansion	Break-even	Maturity	Comment
Brownfield	6-12 months	2-3 years	Existing 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 marketing and promotion costs
Greenfield - other markets	24-36 months	7-10 years	Additional effort and time to seed the brand and get patients; break-even in 3rd year; achieves ~10-15% EBITDA margins by 3rd/4th year; ~25-30% EBITDA margins after 5-6 years

Source: Industry, Anand Rathi Research

Emerging trends in India's healthcare delivery

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Emerging business model

- **Lease contracts.** In hospitals, the ownership model has become costly because of the steep rise in prices of land, especially in metros/tier-2 cities. This has compelled private companies to look at alternative models where the land-owner develops the building per a private company's specifications resulting in the latter entering a long-term lease with the former. This also ensures curbing upfront capital deployment, allowing faster expansion
- **O&M contracts.** A hospital chain contracts to manage a standalone hospital and oversee functions such as marketing, operation, finance and administration. In return, the chain receives a fixed annual management fee and a share in revenue and profit from the standalone hospital's owners. Capital committed by the operator is typically very low, but the brand is diluted if the hospital is not managed efficiently by the operator (the chain)
- **Medicity (a one-stop centre).** This is an integrated township of super-specialty hospitals, diagnostic centres, medical colleges, research and development, ancillary and supporting facilities. The concept is based on models operating in Scotland, the US, France and Algeria. Similarly, in India, we have Medanta (Gurgaon), Narayana Hrudayalaya (Bengaluru) and Chettinad Health City (Chennai). The success of a medicity, however, depends on its location and ability to attract patients. Due to large land requirements, health cities are often located on the outskirts of cities, which make attracting patients a challenge unless transportation is available
- **Franchisees.** In this model, franchisees obtain premises (owned or leased) and infuse capital (fixed and working), while the franchisor lends its brand name to the healthcare facility for a fee. The franchisor ensures that service quality is maintained across all healthcare centres that use its brand name. It may also help the franchisee in training/ recruiting staff, procuring equipment, designing the facility, etc. In India, Apollo Hospitals has expanded its network of primary clinics through this model
- **Expansion into tier-3/-4 town through primary and secondary hospitals.** Private companies are now making a foray into tier-3/-4 towns as income levels are catching up with those in metros/ tier-2 cities. These regions hold a large share of un-met healthcare demand. Some of the major hospital chains are also expanding into these regions at various price formats, keeping the provision of higher super-specialty services in metros/ tier-2 locations

Emerging trends in India's healthcare delivery sector


Electronic Health Records


Artificial Intelligence, Blockchain


Radiology information system


Clinical decision support system


Telemedicine


Robotic surgery

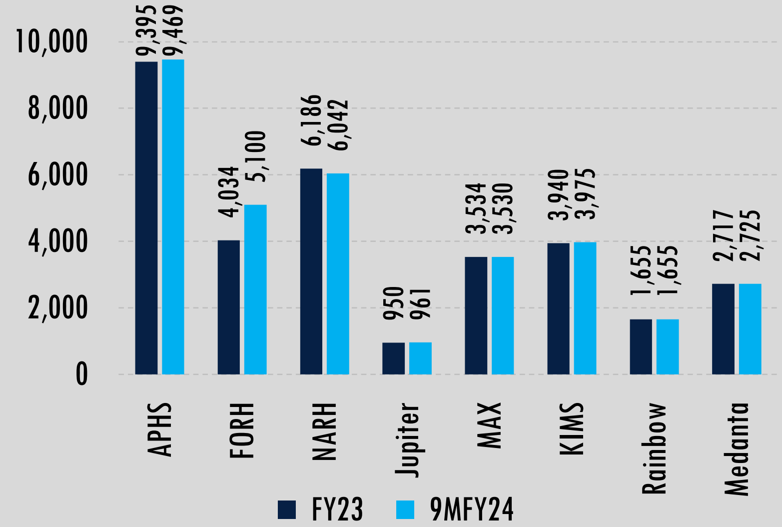

Wearables and sensors


Mobile-based applications

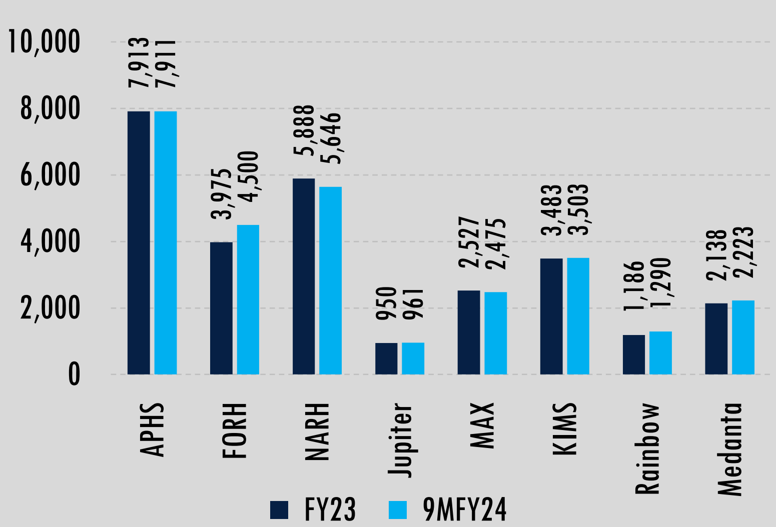
- **Constantly evolving technology.** Developments in information technology have created systems that provide faster and reliable service. These systems help broaden the reach and quality of healthcare delivery systems across the country, enabling healthcare-delivery providers to improve efficiency by helping in resource planning, maintaining patient records, etc.
- **Hospitals looking at opportunities to deploy AI** and/or blockchain to improve operating efficiency – scheduling appointments depending on the gravity of the issue, healthcare monitoring and minimising human error through technological intervention
- **Radiology information system (RIS)** is a tool that allows managing digital copies of medical imagery such as X-rays, MRIs, ultrasounds and associated data on a network. RIS is used by doctors to access medical imagery data from many locations. It is related to medical equipment such as X-ray, MRI and ultrasound machines, which generate diagnosis results in images and graphs
- **Robotic surgery or robot-assisted surgery (RAS)** is conducted using a robotic arm, controlled electronically via a control pad. The pad may be at a local/remote place and is equipped with high-definition cameras. These cameras allow surgeons to take a closer look at the areas being operated. Since RAS can be performed from remote locations, it allows patients to avail of treatment from desired specialist surgeons across the globe without having to travel. RAS has been used to conduct general surgery, bypasses, colorectal surgery, gastrointestinal surgery, neurosurgery, orthopaedic surgery, etc.
- **Telemedicine** is designed to improve access to healthcare services from remote locations. Telemedicine, through its extensive use of information technology, creates a connection between doctors at the main hospital and remote patients or telemedicine centres. The doctor analyses the patient through a telephonic conversation or video conference. This model is useful when there is a dearth of healthcare professionals in the country

Peer comparison

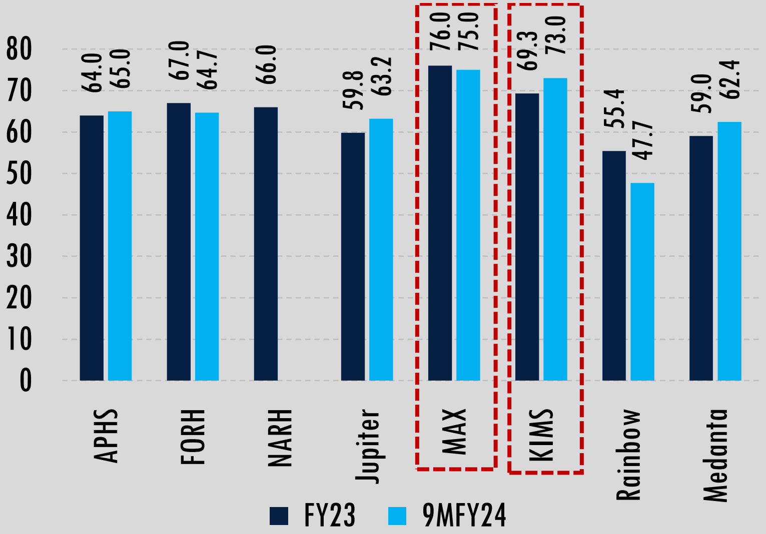
Bed capacity- APHS has the highest followed by NARH



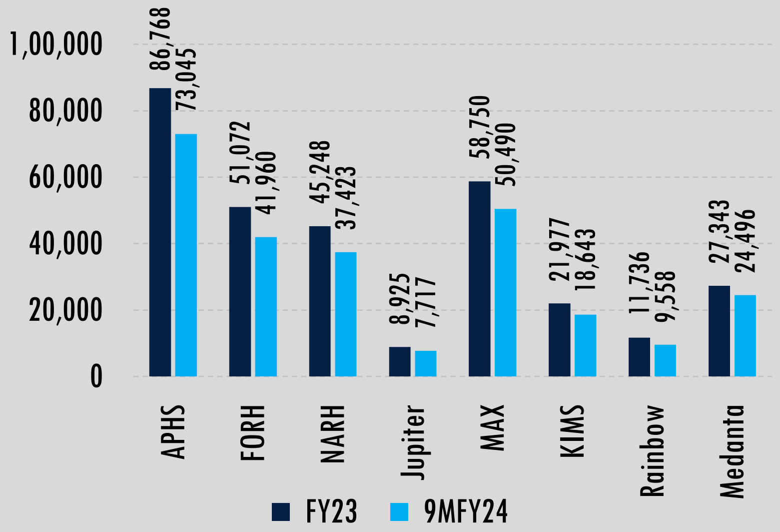
Operational beds



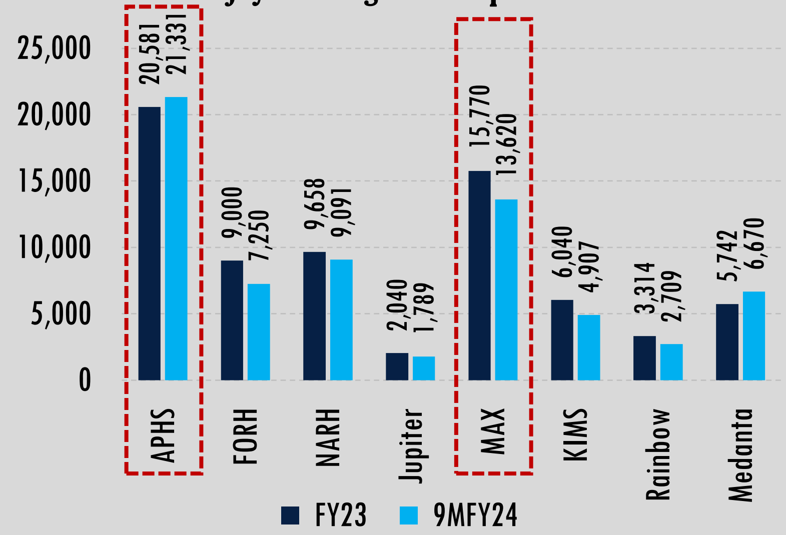
Max, KIMS have the highest occupancy (%)



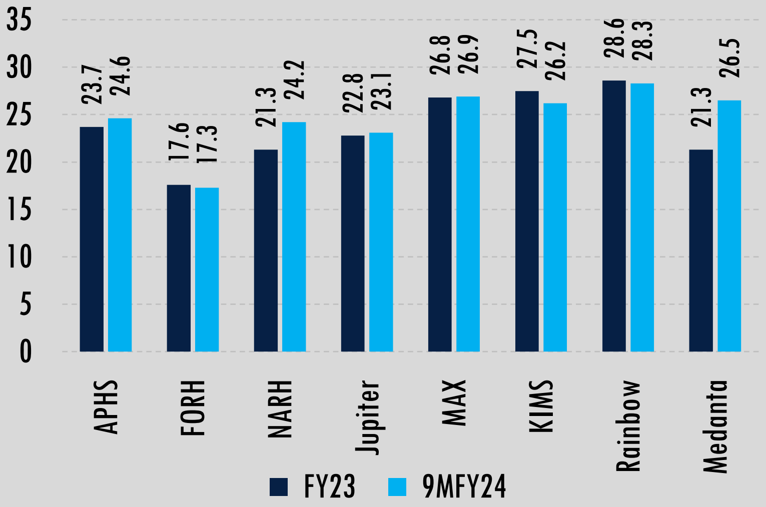
Hospital revenue



APHS and Max enjoys the highest hospital EBITDA



Hospital EBITDA margins (%)



Source: Company, Anand Rathi Research

Peer comparison (cont.)

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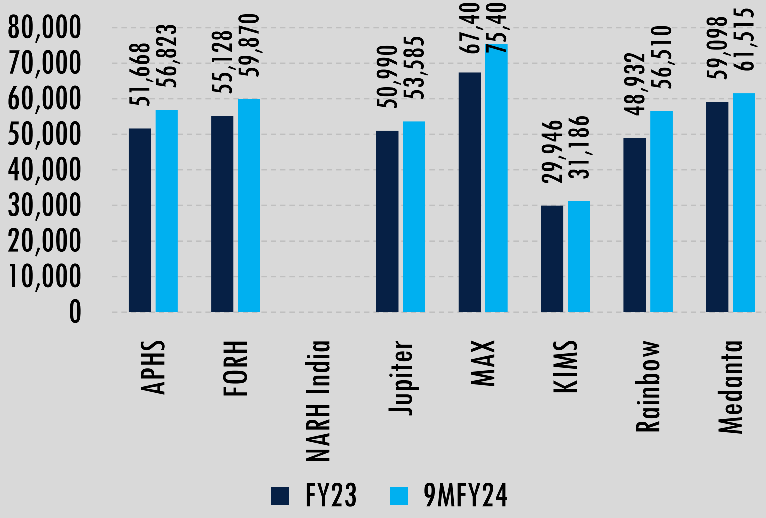
Average revenue per occupied bed (ARPOB)



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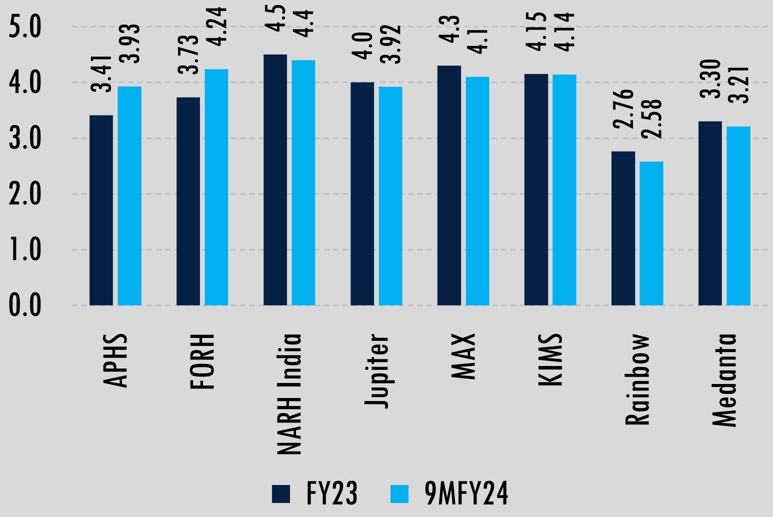
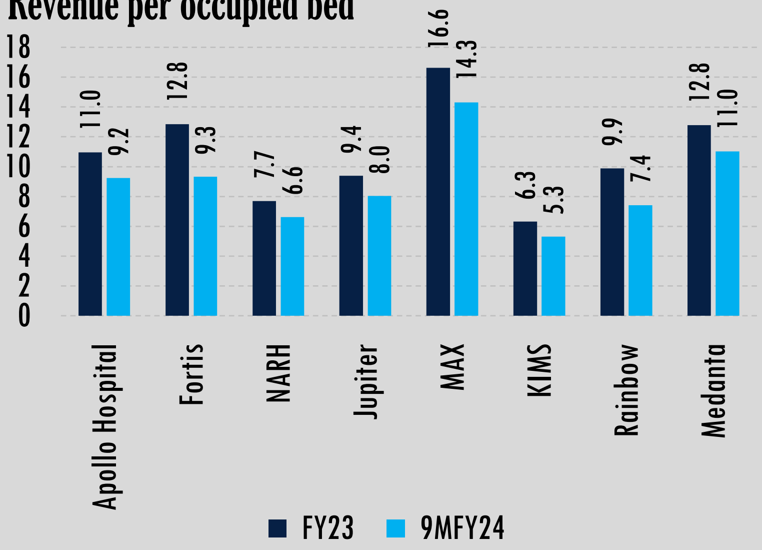
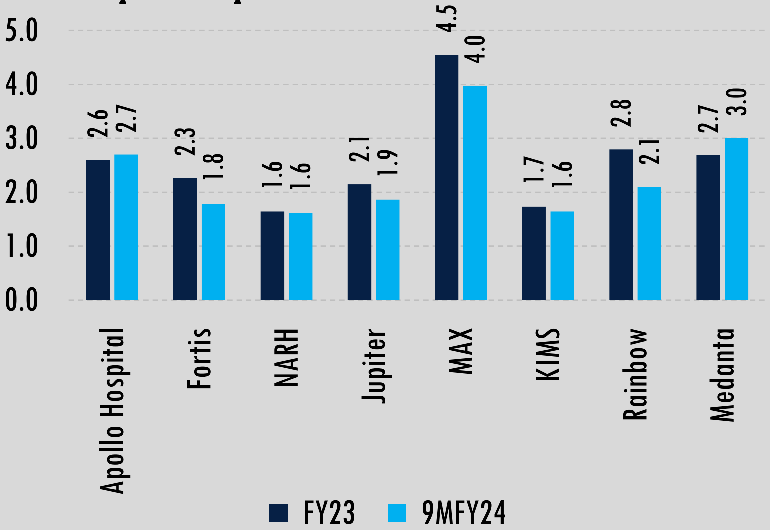


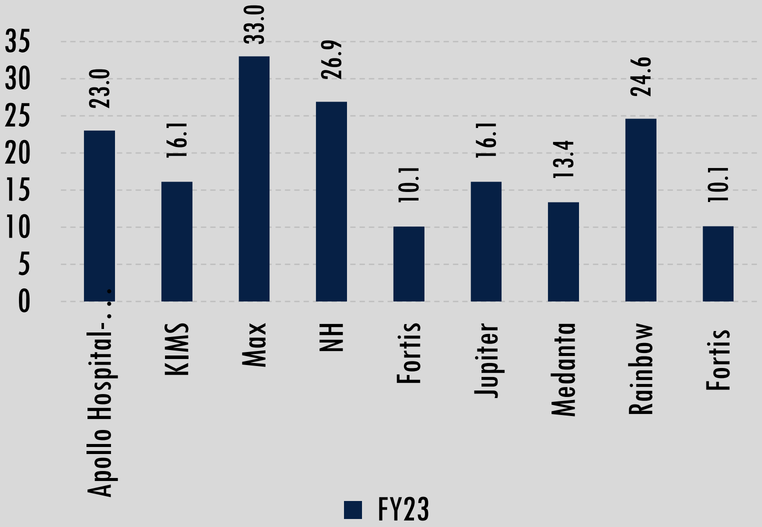
Revenue per occupied bed



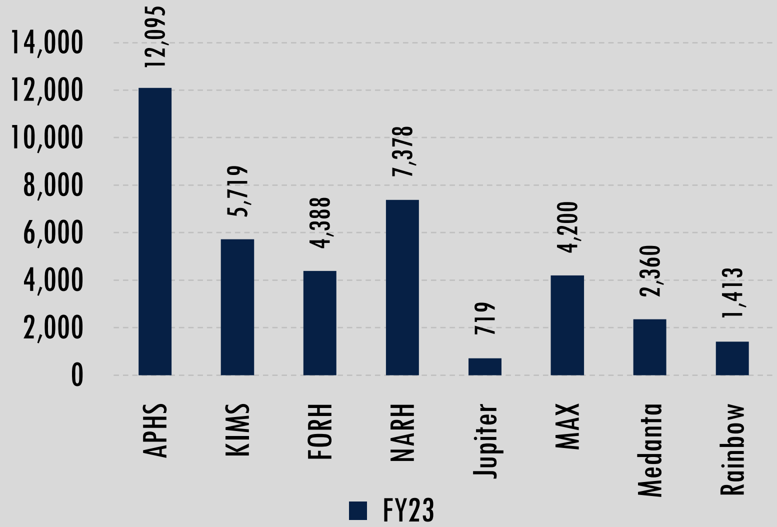
EBITDA per occupied bed



RoCE (%)



Capex in FY23



Source: Company, Anand Rathi Research

Peer comparison (cont.)

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	FY20	FY21	FY22	FY23	9M FY24
No. of beds (bed capacity)					
APHS	8,822	8,816	9,911	9,395	9,469
FORH	3,700	5,000	5,000	4,034	5,100
NARH	6,597	6,725	6,584	6,186	6,042
Jupiter	NA	NA	NA	950	961
MAX	3,371	3,371	3,400	3,534	3,530
KIMS	3,004	3,064	3,064	3,940	3,975
Rainbow	1,296	1,475	1,500	1,655	1,655
Medanta	2,141	2,176	2,404	2,717	2,725
No. of operational beds					
APHS	7,491	7,409	7,875	7,913	7,911
FORH	3,652	3,743	3,931	3,975	4,500
NARH	5,859	5,992	6,011	5,888	5,646
Jupiter	574	744	869	950	961
MAX	3,242	3,271	3,271	2,527	2,475
KIMS	2,080	2,246	2,246	3,483	3,503
Rainbow	1,001	1,132	1,147	1,186	1,290
Medanta	1,517	1,579	1,779	2,138	2,223
Occupancy, %					
APHS	68.0	55.0	63.0	64.0	65.0
FORH	68.0	55.0	63.0	67.0	64.7
NARH	58.0	45.0	55.0	66.0	67.0
Jupiter	59.7	45.3	54.0	59.8	63.2
MAX	73.4	65.0	75.0	76.0	75.0
KIMS	80.5	78.6	79.8	69.3	73.0
Rainbow	56.3	34.2	44.6	55.4	47.7
Medanta	54.9	51.6	60.5	59.0	62.4

	FY20	FY21	FY22	FY23	9M FY24
Revenue - hospitals (Rs m)					
APHS	57,298	50,022	79,892	86,768	73,045
FORH	37,521	31,236	42,642	51,072	41,960
NARH	31,278	25,823	37,013	45,248	37,423
Jupiter	4,629	4,862	7,331	8,925	7,717
MAX	40,230	36,010	51,710	58,750	50,490
KIMS	11,037	13,122	16,508	21,977	18,643
Rainbow	7,195	6,500	9,738	11,736	9,558
Medanta	14,806	14,178	21,004	27,343	24,496
EBITDA - hospitals (pre-IND AS)					
APHS	9,970	6,088	17,283	20,581	21,331
FORH	4,500	2,054	5,866	9,000	7,250
NARH	3,829	1,321	5,995	9,658	9,091
Jupiter	NA	6,750	1,540	2,040	1,789
MAX	5,480	5,780	13,140	15,770	13,620
KIMS	2,450	3,709	5,158	6,040	4,907
Rainbow	1,504	1,103	2,473	3,314	2,709
Medanta	1,486	1,534	4,125	5,742	6,670
Margins – hospitals, %					
APHS	17.4	12.2	21.6	23.7	24.6
FORH	12.0	6.6	13.8	17.6	17.3
NARH	12.2	5.1	16.2	21.3	24.2
Jupiter	na	13.9	21.0	22.8	23.1
MAX	13.6	16.1	25.4	26.8	26.9
KIMS	22.2	28.3	31.2	27.5	26.2
Rainbow	20.9	17.0	25.4	28.6	28.3
Medanta	10.0	10.8	19.6	21.3	26.5

Source: Company, Anand Rathi Research

Peer comparison (cont.)

	FY20	FY21	FY22	FY23	9MFY24
ARPOB (Rs)					
APHS	37,397	43,239	45,327	51,668	56,823
FORH	43,562	43,288	49,315	55,128	59,870
NARH India	26,575	28,493	32,329	34,268	35,297
Jupiter	NA	43,946	48,711	50,990	53,585
MAX	50,545	50,800	59,000	67,400	75,400
KIMS	18,307	20,609	25,323	29,946	31,186
Rainbow	29,277	40,893	52,159	48,932	56,510
Medanta	50,166	41,730	54,547	59,098	61,515
ALoS (days)					
APHS	3.99	4.19	3.96	3.41	3.93
FORH	3.24	3.61	3.73	3.73	4.24
NARH India	3.50	4.60	4.80	4.5	4.4
Jupiter	NA	4.50	4.30	4.0	3.92
MAX	4.30	5.20	4.6	4.3	4.1
KIMS	4.30	5.50	4.79	4.15	4.14
Rainbow	3.05	2.57	2.83	2.76	2.58
Medanta	3.52	3.89	3.76	3.30	3.21
Revenue per bed (Rs m)					
Apollo Hospital	8	7	10	11.0	9.2
Fortis	10	8	11	12.8	9.3
NARH	5	4	6	7.7	6.6
Jupiter				9.4	8.0
MAX	12	11	16	23.2	20.4
KIMS	5	6	7	6.3	5.3
Rainbow	7	6	8	9.9	7.4
Medanta	10	9	12	12.8	11.0

Source: Company, Anand Rathi Research

	FY20	FY21	FY22	FY23	9MFY24
EBITDA per occupied bed (Rs m)					
Apollo Hospital	2.0	1.5	3.5	2.6	2.7
Fortis	1.8	1.0	2.4	2.3	1.8
NARH	1.1	0.5	1.8	1.6	1.6
Jupiter	1.2	0.8	1.7	2.1	1.9
MAX	2.3	2.7	5.4	6.2	4.0
KIMS	1.5	2.1	2.9	1.7	1.6
Rainbow	2.7	3.1	4.8	2.8	2.1
Medanta	1.8	1.9	3.8	2.7	3.0

	FY20	FY21	FY22	FY23
RoCE (%)				
Apollo Hospital – hospitals	12.2	4.8	20.4	23.0
KIMS	18.3	28.1	31.9	16.1
Max	5.9	7.9	25.5	33.0
NH	11.6	-0.1	22.8	26.9
Fortis	4.4	-0.4	14	10.1
Jupiter	NA	11.1	12.3	16.1
Medanta	3.5	4.5	11	13.4
Rainbow	9.4	7.6	16.5	24.6
Fortis	4.2	2.0	10.1	10.1
Capex (Rs m)				
APHS	5,130	2,804	6,518	12,095
KIMS	520	944	1,700	5,719
FORH	1,559	2,185	5,151	4,388
NARH	1,656	979	2,808	7,378
SHALBY	198	266		
Jupiter	286	2,416	910	719
MAX	520	944	7,250	4,200
Medanta	1,883	1,457	2,731	2,360
Rainbow	745	761	622	1,413

Top picks

This report analyses six companies. We have **Buys** on Max Healthcare, Rainbow Children's Medicare, Krishna Institute of Medical Sciences (KIMS), Jupiter Life-Line Hospitals and have **Hold** rating on Global Health (MEDANTA) and Narayana Hrudayalaya. Given the recent re-rating in the sector and run-up of stock price, upside potential from the current CMP seems to be restricted. While, capacity enhancement (either through brownfield or greenfield) in most of the leading hospital chains is likely to get commenced beyond FY26e. Hence, incremental benefits aren't captured in FY26 financials. That said, we have kept our target multiples higher due to our expectations of growth beyond FY26e.

Top picks

Max Healthcare. The concentrated cluster-based approach turned Max Hospitals into one of north India's (Delhi/NCR) leading hospital chains, with industry-high margins and RoCE led by a) a maturing network and b) operational efficiency brought in after the Radiant Lifecare amalgamation in 2018. Fewer beds in its home markets (Delhi, Mumbai), coupled with a high brownfield share (>80% of beds added) allow growth with little impact on margins and return ratios. The premium valuations would be supported by ~Rs16bn cash on its books in FY23 and ~Rs54bn cumulative OCF over FY24-26, which suggest low dependence on external funds. We forecast revenue/ EBITDA CAGRs of 25% each over FY24-26. We ascribe a 31x EV/EBITDA multiple to the hospital segment and 24x EV/EBITDA to the lab business to arrive at a TP of Rs950

Rainbow Children. We believe Rainbow Children's calibrated focus on paediatric and perinatal services is its business moat. This model is still in nascent stages in India and has only thrived in some developed economies. Given the company's strong pedigree in this field and hold on unit economics, it is poised to replicate this in other Indian cities. We believe the paediatric/perinatal hospital ecosystem is still evolving in India with very few all-India chains/ standalone facilities belonging to some adult-care hospital chains. We expect the company to clock 19%/20% revenue/EBITDA CAGRs over FY24-FY26, boosted by capacity added and better operating leverage. We initiate coverage with a Buy at a TP of Rs1,470, 24x FY26e EV/EBITDA

Krishna Institute of Medical Sciences (KIMS). A leading hospital chain in AP/Telangana with 3,975 beds at 12 hospitals, KIMS is headed by a well-known cardio-thoracic surgeon Dr Bhaskara Rao Bollineni. The cluster-based approach, affordable-care and doctor-equity participation are differentiators that yield industry-high margins/RoCEs. The 54% planned bed expansion over FY24-27 would boost growth. The company plans to expand beds ~1,700 over FY24-27, ~67% in new markets such as Maharashtra, Bengaluru, etc. Its affordable-care positioning should help it carve a niche while equity participation for doctors renders it attractive for M&As. The capex step-up (~80% of FY23 GB) poses risks, but growth headroom in ~59% of beds and limited need for external funding are mitigating factors. We forecast strong a financial performance with 17%/16% revenue/EBITDA CAGRs and Rs1.9bn FCF generation over FY24-26. We initiate coverage with a Buy rating and TP of Rs2,370.

Source: Industry, Anand Rathi Research

Recommendation synopsis

ANANDRATHI

Max Healthcare: Premium valuations to persist; Buy

- **~2x brownfield expansion over the next five years.** The company is planning to add more than 2,600 beds (over75% of its current capacity) over the next 3-4 years at its Saket complex, Shalimar Bagh (Delhi) and Nanavati (Mumbai). Further, it recently acquired 300 beds in the NCR (Dwarka) on an O&M model, which would be commissioned by end-FY24
- **Best operating parameters of peers.** Better operating metrics such as a) rising occupancy, b) reduced ALOS (Average length of stay), c) a better case-payor mix, coupled with operations in tier -1 cities (>80% bed capacity in the NCR and Mumbai) has helped the company to a strong and steady ARPOB in the last few years
- **Scaling up third-party diagnostics and home lab business.** Max Labs operates in 41 cities, in the north Indian states (Delhi NCR, Uttarakhand, Punjab), which offer over 1,900 tests. In Dec'23, it had 23 owned and more than 525 partner-run collection centers with over 275 pick-up points. MaxHome is a non-captive vertical of Max Healthcare, offering more than 14 services with over 1,250 team members and ~3,000 transactions daily
- **Outlook, valuation.** Its expansion plan, improving payor mix and lab scale-up would boost its growth momentum in the medium term. We ascribe a 31x EV/EBITDA multiple to the hospital segment and 24x EV/EBITDA to the lab business to arrive at a TP of Rs950

Rainbow Children's Medicare: A niche play in hospitals; Buy

- **Leading India's paediatrics segment.** Rainbow A leading multi-specialty paediatric, obstetrics and gynecology hospital chain in India with 1,655 beds (Dec'23) at 15 hospitals and three clinics in six cities, Children's Medicare's core specialties are a) paediatrics (newborn and paediatric intensive care, paediatric multi-specialty services, paediatric quaternary care, incl. multi-organ transplants, and b) obstetrics and gynecology (normal and complex obstetric care, multi-disciplinary foetal care, perinatal genetic and fertility care
- **Organic and disciplined growth strategy.** Its hub-and-spoke model offers synergies, cost-effective growth and faster breakeven. Typically, the hub hospital (150-250 beds) provides comprehensive out- and in-patient care, focusing on tertiary and quaternary care, with spokes (50-100 beds) providing secondary care in psediatric, obstetrics and gynecology, and emergency services
- **Outlook, valuation.** We believe Rainbow's moat is its calibrated focus on paediatric and perinatal services, a model still in a nascent stage in India and only thriving in some developed economies. Given its strong pedigree in this field and hold on unit economics, the company is poised to replicate the model in other Indian cities. We expect it to clock 19%/20% revenue/EBITDA CAGRs over FY24-26, boosted by capacity added and better operating leverage. We initiate coverage with a Buy, at a Rs1,470 TP, 24x FY26e EV/EBITDA

Recommendation synopsis

ANANDRATHI

Krishna Institute of Medical Sciences: Expanding horizons, steadily venturing into new markets; Buy

- **Dominant in its home market.** A leading hospital chain in AP/Telangana with 3,975 beds at 12 hospitals, KIMS is headed by a well-known cardio-thoracic surgeon Dr Bhaskara Rao Bollineni. The cluster-based approach, affordable-care and doctor-equity participation are differentiators that yield industry-high margins/RoCEs. The 54% planned bed expansion over FY24-27 would boost growth, but the ~67% of greenfield projects/acquisitions (new markets of Maharashtra, Bengaluru, Chennai) adds to risk
- **Greenfield-heavy expansion presents opportunities.** The company plans to expand beds ~1,700% over FY24-27, ~67% in new markets such as Maharashtra, Bengaluru, etc. Its affordable-care positioning should help it carve a niche while equity participation for doctors renders it attractive for M&As. The capex step-up (~80% of FY23 GB) poses risks, but growth headroom in ~59% of beds and limited need for external funding are mitigating factors
- **Outlook, valuation.** We initiate coverage with a Buy rating and TP of Rs2,370/sh, valuing it at 24x FY26e EV/EBITDA for KIMS and Sunshine . The company is a leader in south India's healthcare market with 12 multi-specialty hospitals and a unique business model of affordable pricing through cost rationalisation. We forecast strong a financial performance with 17%/16% revenue/EBITDA CAGRs and Rs1.9bn FCF generation over FY24-26.

Jupiter Life-Line Hospitals: Charting new territories to capture under-served markets; Buy

- **Expanding footprint in west India to support growth.** Jupiter has three operational units (Thane, Pune, Indore) and a 500-bed Dombivili unit being built in a phased manner. These are in densely populated, western micro markets with 1,194-bed capacity. Moreover, these regions enjoy higher insurance, deeper penetration and less reliability on government schemes. The company's current payor mix is 53% insurance, 45% cash. Also, Jupiter is aiming for two more greenfield hospitals in the west, aspiring to double installed-bed capacity
- **Asset-heavy business model, with improving efficiency.** The company operates an 'all hub, no spoke' model, preferring to own assets, and offers a spectrum of services with advanced infrastructure. The asset-heavy, pure hub model ensures better control of operations and financial efficiency. All three operational assets and the coming Dombivli unit are in prime locations, on freehold land.
- **Outlook, valuation.** We expect a 19% revenue CAGR over FY23-26, aided by the scale-up in occupancy at its Pune and Indore units. The Dombivli unit is likely to be commercialised by H2 FY26 and has factored in a Rs120m loss (EBITDA) for FY26. Further, the recent rate of revision in insurance contracts for the company's Pune unit and insurance tie-ups for its Indore unit should boost ARPOB and occupancy. Overall, we expect 22%/52% EBITDA/PAT CAGRs over FY23-26, with healthy, ~20%, return ratios. We value the stock at 24x FY26e EV/EBITDA and recommend a Buy with a TP of Rs1,380/sh

Recommendation synopsis

ANANDRATHI

Global Health (MEDANTA): Well-placed to deliver sustainable growth; Hold

- **Capacity enhancement to propel growth.** The continued success of developing hospitals in Lucknow and Patna is likely to aid Mednata's future growth. Ahead, it plans to grow capacity 25% by FY25 to ~3,400 beds. Of this, ~52% would be in tier-2 cities (Lucknow, Patna). Further, ~60% of the planned beds added would be at existing hospitals, resulting in lower capex per bed. The announcement of a ~400-bed super-specialty hospital in south Delhi with DLF would solidify its presence in Delhi-NCR, taking the count to ~4,000 over next 3-4 years
- **Clinical expertise driving robust growth.** Aided by the strong 13%/15% CAGRs in IPD/OPD flows and 7% ARPOB CAGR, the company delivered a 17% revenue CAGR over FY19-23. Notably, its revenue/EBITDA CAGRs from matured hospitals was 12%/23% over FY20-23 to Rs20bn/Rs5bn. Moreover, strong goodwill created over the years has helped it break even in the first year of its operations in Lucknow and Patna
- **Outlook, valuation.** We believe growth would continue to be led by a) higher capacity utilisation at new hospitals; b) a rising share of international patients in the overall revenue pie; and c) better ARPOB backed by a superior payor-case mix. The company is on track to scale up capacities at Lucknow and Patna. Considering its strong business prospects, we expect it to post 14%/16%/15% revenue/EBITDA/PAT CAGRs over FY24-26. We value it at 32x EV/EBITDA to arrive at our TP of Rs1,430

Narayana Hrudayalaya: Growth, with brownfield initiatives at the forefront; Hold

- **Dominance in Karnataka and east India,** Narayana has dominance in Karnataka and East India (~78% of beds) and is in a catch-up mode in Delhi/NCR and Mumbai. It is a rare Indian chain with notable international operations (Cayman Islands ~19% of sales). Its ability to diversify its case mix beyond cardiac-care, especially oncology, has driven the ramp-up in mature hospitals. This, in turn, has improved OCF (FY24-26: Rs31.8bn) and reduced net D/E to 0.3x, apt for its next expansion phase
- **Brownfield-led expansion to propel growth.** FY24-27 bed expansion is likely to be modest, given headroom for hospitals to grow. Two-thirds of this is likely to be brownfield in core markets of Kolkata and Raipur. Growth and margin betterment for these beds would offset upfront losses on new beds. We expect a 10% revenue CAGR over FY24-26 driven by rising occupancy. The occupancy gain would offset upfront cost on new beds, leading to flat EBITDA margins
- **Outlook, valuation.** A higher maturity-mix in hospitals, steady performance of flagship hospitals in India and better profitability of new hospitals (SRCC, Gurugram, Dharamshila) solidify the company's position in India. Ahead, we believe prioritising de-bottlenecking and brownfield expansion along with the Cayman expansion would aid growth. Account for a chunk of the growth would be operationalising the new hospitals, which could pose margin risk. We expect 10%/10%/7% revenue/EBITDA/PAT CAGRs over FY24-26. We initiate coverage with a Hold and a Rs1,380 TP, valuing the Cayman Islands business at 13x FY26e EBITDA and domestic operations at 25x FY26e EBITDA

Valuation snapshot

Company	CMP (Rs)	TP (Rs)	M Cap (Rs m)	Rating	Target Multiple (x)	Revenue (Rs m)					EBITDA (Rs m)					Adj. PAT (Rs m)				
						FY23	FY24e	FY25e	FY26e	CAGR FY24-26 (%)	FY23	FY24e	FY25e	FY26e	CAGR FY24-26(%)	FY23	FY24e	FY25e	FY26e	CAGR FY24-26 (%)
Max Healthcare Institute	760	950	7,94,213	Buy	24	58,750	68,076	84,057	1,06,130	24.9	16,070	18,938	22,980	29,399	24.6	13,670	13,947	16,862	22,076	25.8
Global Health	1,416	1,430	3,79,764	Hold	32	26,942	33,994	38,395	44,308	14.2	6,122	8,641	10,021	11,631	16.0	3,261	4,970	5,680	6,619	15.4
Krishna Institute of Medical Sciences	1,975	2,370	1,58,055	Buy	24	21,977	24,839	29,910	34,233	17.4	6,040	6,930	7,806	8,627	11.6	3,215	3,595	4,034	4,415	10.8
RainbowChildrens Medicare	1,299	1,470	1,31,851	Buy	22	11,736	12,807	15,627	18,233	19.3	3,964	4,150	4,868	5,908	19.3	2,108	2,093	2,360	3,001	19.8
Jupiter Life-Line Hospitals	1,225	1,380	80,318	Buy	23	8,925	10,897	12,852	15,082	17.6	2,013	2,506	2,956	3,469	17.6	751	1,451	1,946	2,328	26.7
Narayana Hrudalaya	1,250	1,380	2,55,451	Hold	25	45,248	50,903	56,689	61,273	9.7	9,658	11,199	12,755	14,093	12.2	6,062	7,964	8,026	8,941	6.0

Company	Adj EPS (Rs)				Net debt (Rs m)				Net debt to equity (x)				RoE (%)				RoCE (%)			
	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e
Max Healthcare Institute	14.1	14.4	17.4	22.7	(8,850)	(12,460)	(6,692)	(18,996)	(0.1)	(0.1)	(0.1)	(0.1)	20.7	17.5	18.6	20.5	15.3	16.7	18.6	21.5
Global Health	12.2	18.5	21.2	24.7	(4,358)	(8,801)	(12,394)	(16,982)	(0.2)	(0.3)	(0.4)	(0.4)	16.1	18.6	17.7	17.3	13.4	15.2	14.5	14.3
Krishna Institute of Medical Sciences	38.3	44.9	50.4	55.2	4,668	4,582	3,739	2,248	0.3	0.2	0.2	0.1	21.0	19.4	17.9	16.1	24.5	21.5	21.5	20.3
RainbowChildrens Medicare	20.8	20.6	23.3	29.6	-	(1,498)	(3,329)	(2,490)	(0.3)	(0.2)	(0.2)	(0.2)	25.4	18.0	17.0	18.1	40.5	28.9	26.4	27.1
Jupiter Life-Line Hospitals	13.7	22.1	29.7	35.5	3,341	(2,793)	(3,770)	(5,128)	0.9	(0.3)	(0.3)	(0.3)	22.8	20.4	16.9	17.0	20.5	21.4	20.3	21.3
Narayana Hrudalaya	29.7	39.0	39.3	43.8	3,823	5,794	5,124	7,127	0.2	0.2	0.1	0.0	33.5	31.9	24.8	22.2	32.5	27.5	24.7	23.6

Company	PE (x)				Price/Book Value (x)				EV/EBITDA (x)			
	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e
Max Healthcare Institute	54.0	52.9	43.8	33.4	9.1	7.9	6.9	5.8	45.4	38.3	31.8	24.5
Global Health	116.5	76.4	66.9	57.4	11.3	9.4	7.8	6.6	44.0	30.7	26.1	22.1
Krishna Institute of Medical Sciences	51.5	44.0	39.2	35.8	9.5	7.8	6.4	5.3	26.9	23.5	20.7	18.6
RainbowChildrens Medicare	62.5	63.0	55.9	43.9	12.4	10.4	8.8	7.3	32.4	31.2	26.5	21.6
Jupiter Life-Line Hospitals	89.6	55.4	41.3	34.5	18.9	7.6	6.4	5.4	41.6	30.9	25.9	21.7
Narayana Hrudalaya	42.1	32.1	31.8	28.6	12.0	8.9	7.1	5.8	26.8	23.3	20.4	18.3

Source: Industry, Anand Rathi Research

Companies

ANANDRATHI

Rating: Buy
Target Price: Rs.2,370
Current market price: Rs.1,975

Krishna Institute of Medical Sciences (KIMS)

Expanding horizons, steadily venturing into new markets; Buy

Key data	KIMS IN
52-week high / low	Rs2357 / 1453
Sensex / Nifty	73649 / 22336
3-m average volume	$3m
Market cap	Rs158bn / $1895.7m
Shares outstanding	80m

Shareholding (%)	Dec'23	Sept'23	Jun'23
Promoters	38.8	38.9	38.9
- of which, Pledged	0.0	0.0	0.0
Free float	61.2	61.2	61.2
- Foreign institutions	15.3	14.2	13.2
- Domestic institution	34.2	34.8	35.8
- Public	11.7	12.1	12.2

KIMS - Investment summary

ANANDRATHI

Summary

A leading hospital-chain in AP/Telangana with 3,975 beds at 12 hospitals, headed by a well-known cardio-thoracic surgeon Dr Bhaskara Rao Bollineni. KIMS cluster-based approach, positioning in affordable care and doctor equity participation are differentiators that yield industry-high margins/RoCE. Its planned 54% addition of beds over FY24-27 would boost growth, but its ~67% share of greenfield projects/acquisitions in Maharashtra, Bengaluru, Chennai adds to risk .

Dominant in its home market, Telangana, AP

The company has leadership in south India's healthcare market with 12 multispecialty hospitals (organic and inorganic routes) and a unique model of affordable pricing through cost rationalization. To sustain its affordable pricing model, the company rationalizes its doctor expenses, procurement and other administrative costs including capex. Through its doctor equity model, it has been able to generate higher occupancies of more than 70%. It has lower capex/ bed vs. the industry average, which results in cost control and financial leverage.

Greenfield-heavy expansion throws up opportunities

The company plans to expand beds by ~1,700 over FY24-27; ~67% in new markets Maharashtra, Bengaluru, etc. Its affordable-care positioning should help it carve a niche; also, equity participation for doctors makes it an attractive suitor for M&A. The capex step-up (~80% of FY23 gross block) 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

We expect the company to post a 17% revenue CAGR over FY24-26 to be led by a) mid-to high single-digit growth in mature hospitals, b) ~15%/18% CAGRs for Nagpur/Sunshine Hospitals and c) ~10% contribution from new hospitals in Nashik and Bengaluru. Margin gains in Sunshine and Nagpur should partly offset upfront losses from new beds, driving 16%/19% CAGRs in EBITDA/EPS and a 20% RoCE in FY26.

KIMS - Investment summary

ANANDRATHI

Sunshine acquisition positive

In Oct'21 KIMS acquired a 51.07% stake in Sunshine Hospitals (600 beds), a leader in orthopaedics, securing access to three hospitals, two in Hyderabad (Secunderabad, Gachibowli) and one in Karimnagar. It intends to move Sunshine (Secunderabad) to a new campus. Besides, it plans to add doctors across specialties to position Sunshine as a multi-specialty chain rather than an orthopaedic one primarily. Proximity to its own hospitals should also allow it to lever its strong brand-equity and drive higher occupancies. This in turn should increase its growth and profitability

Ability to attract and retain talent

The company lays greater emphasis on investing in human capital and appropriate training of medical professionals. Because of this, its ability to attract, train and retain talent thanks to its strong brand name has been a fundamental driver of its past performance and integral to clinical outcomes and future growth

Wide range of specialties and better payor-mix to boost growth

The company offers a wide range of healthcare services across more than 25 specialties and super-specialties. Cardiac care is the highest contributor to revenue (~18% in FY23/9M FY24), then ortho (13%/14% in FY23/9M FY24), neuro (11% each) and mother-and-child care (9% each) and many other therapies. The Sunshine acquisition raised the share of ortho in overall revenue. Also, the share of patients with cash and insurance rose from 69% in FY19 to 80% in FY23

Favorable risk-reward

We initiate coverage on KIMS with a Buy rating and TP of Rs2,370. The company is dominant in south India with 12 multi-specialty hospitals and a unique model of affordable pricing through cost-rationalisation. We forecast strong financial performance with 17%/16% revenue/EBITDA CAGRs and Rs1.9bn FCF generated over FY24-26

KIMS - Investment summary

ANANDRATHI

Valuation

KIMS' robust cost control, low capital-intensive set-up and value-accretive acquisitions have ensured sound profitability with a 56% EBITDA CAGR over FY18-23. This, and the brownfield/greenfield expansions of ~1,700 beds over the next 3-4 years would aid growth. We expect 17%/16% revenue/EBIDTA CAGRs over FY24-26 with decent return ratios (19%/20% RoE/RoCE). At the CMP, the stock trades at 20x FY26e EV/EBITDA and 35x P/E. We recommend a Buy with a TP of Rs2,370/sh, 24x FY26e EV/EBITDA for KIMS and Sunshine

Key risks

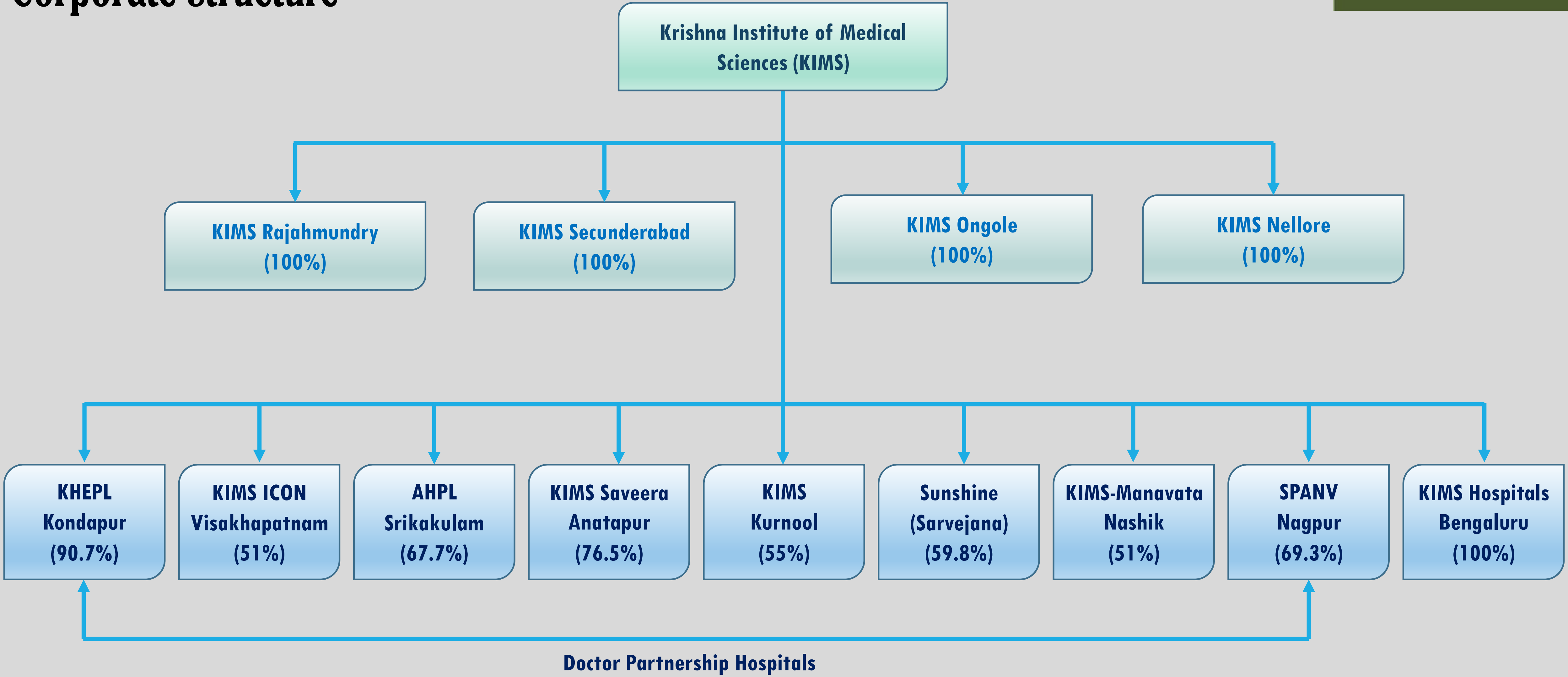
1) Greater dependence on one facility (~50% of revenue from Secunderabad)
2) Increased dependency on top doctors and consultants
3) Change in government policies

Financial summary Y/E Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	16,508	21,977	24,839	29,910	34,233
Net profit (Rs m)	3,327	3,067	3,595	4,049	4,475
EPS (Rs)	41.6	40.2	44.9	50.6	55.9
PE (x)	49.5	51.2	45.8	40.7	36.8
EVEBITDA (x)	31.2	27.9	24.3	21.4	19.2
PBV (x)	11.9	9.9	8.1	6.6	5.5
RoE (%)	29.6	21.0	19.4	17.9	16.3
RoCE (%)	24.4	16.1	14.0	14.4	14.1
Dividend yield (%)	-	-	-	-	-
Net debt/equity (x)	-0.3	0.2	0.2	0.1	0.0

Valuation	FY26e
KIMS' EBITDA (Rs m)	7,025
KIMS' stake-96%	6,744
Target multiple (x)	**24**
EV (Rs m) (A)	**1,61,854**
Sunshine+Nagpur+Nashik EBITDA (Rs m)	**2,358**
KIMS' stake- 55.5%	1,238
Target multiple (x)	**24**
EV (Rs m) (B)	**29,706**
Total EV (Rs m) (A+B)	1,91,560
Less net debt	**2,248**
Derived market cap (Rs m)	1,89,312
No. of shares (m)	80
Target price (Rs)	2,370
CMP (Rs)	1,975
Upside (%)	**20%**

Source: Company, Anand Rathi Research

Corporate structure



KIMS focus on rationalizing doctor, procurement and other administrative costs has helped sustain affordable pricing while still generating strong returns. Doctor costs are managed by using a mix of fixed and variable compensation arrangements, based on patient volumes, costs and other factors at each of hospitals. KIMS brand and reputation, the quality of facilities and equipment and the comprehensive expertise engage doctors to join and stay with hospitals at reasonable costs.

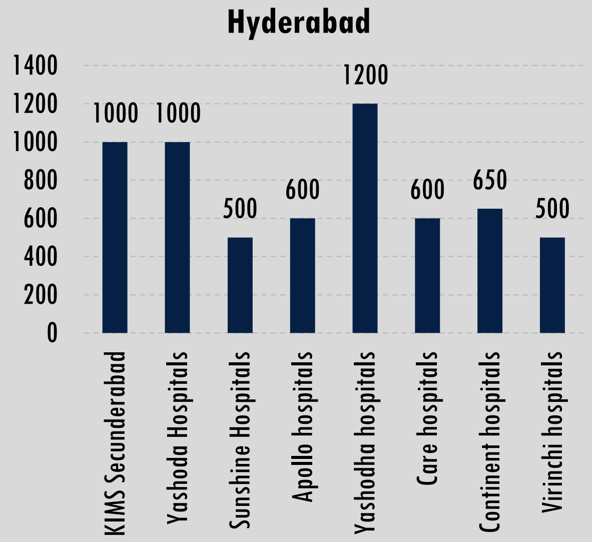
Source: Company, Anand Rathi Research

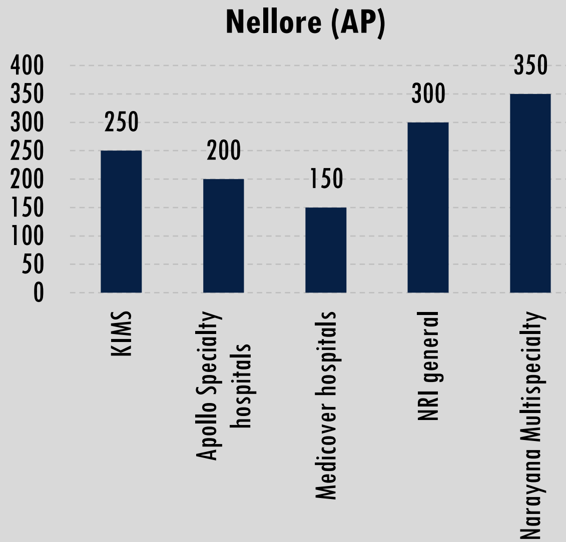
KIMS - Story in charts

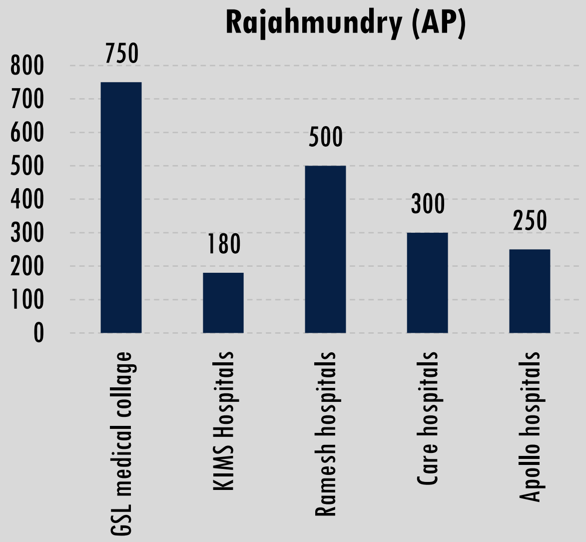
Overview of hospital network: Dominant in AP/Telangana; recent entry to Maharashtra

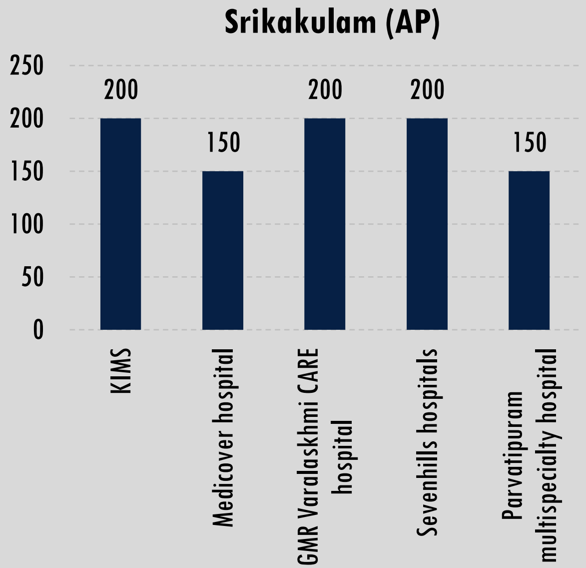
FY23	Telangana	Andhra Pradesh	Maharashtra
No. of hospitals	5	7	1
Key hospitals	Secunderabad, Kondapur, Sunshine*	Nellore, Rajahmundry, Srikakulam, Ongole, Vishakhapatnam, Anantapur, Kurnool	Nagpur
Operational beds (# beds)	1,687	1,606	250
% of operational beds	*49*	*46*	*7*
Revenue share (%)	*70*	*27*	*2*
EBITDA share (%)	*74*	*26*	*1*
Occupancy (%)	*70*	*93*	*44*
ARPOB (Rs/day)	50,890	14,829	17,312

75% of its beds are in AP/Telangana with facilities being among the largest









Source: Company, Anand Rathi Research

KIMS - Story in charts

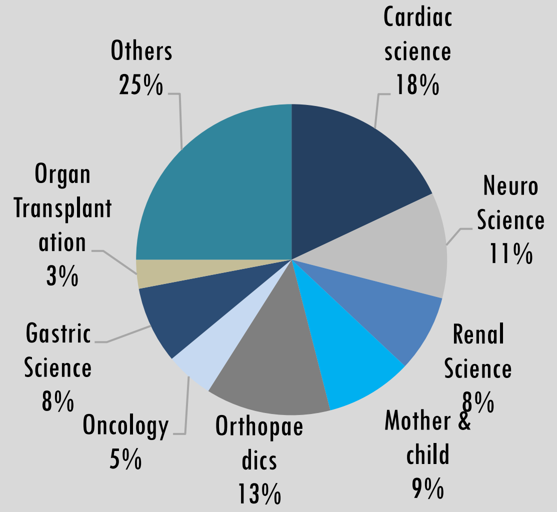
ANANDRATHI

Key drivers of revenue and profitability

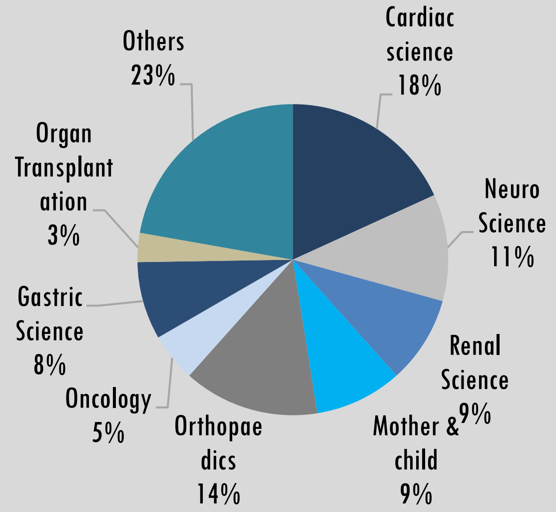
	Secunderabad				Kondapur				Mature AP (Nellore, Rajahmundry, Srikakulam)				Acquired AP (Ongole, Vizag, Ananthpur, Kurnool)				Sunshine Hospitals			
Particulars	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e	FY23	FY24e	FY25e	FY26e
Bed capacity	1,000	1,000	1,000	1,000	200	200	350	700	645	645	700	830	1,234	1,234	1,284	1,434	527	527	527	527
Operating beds	915	930	930	950	185	200	250	500	595	610	675	750	1,011	1,050	1,150	1,250	527	527	527	527
Occupancy, %	71.0	72.0	73.0	75.0	72.0	73.0	70.0	65.0	73.0	74.0	75.0	73.0	78.1	78.0	78.0	78.0	44.7	47	65	67
ARPOB	38,863	40,029	41,230	42,054	41,817	41,817	41,817	42,236	15,194	15,650	15,963	16,282	12,300	12,669	13,176	13,439	28,738	30,749	32,902	34,218
Revenue	9,215	9,783	10,217	10,937	2,033	2,228	2,671	5,010	2,409	2,578	2,950	3,254	3,545	3,787	4,314	4,783	4,304	4,705	6,231	6,591
EBITDA	2,921	3,131	3,320	3,554	610	691	828	1,303	753	825	944	1,041	674	799	1,035	1,172	818	1,176	1,682	1,812
Margins (%)	*31.7*	*32*	*32.5*	*32.5*	*30.0*	*31.0*	*31.0*	*26.0*	*31.3*	*32.0*	*32.0*	*32.0*	*19.0*	*21.1*	*24.0*	*24.5*	*19.0*	*25.0*	*27.0*	*27.5*

Change in specialty mix and rising share of international patients in overall revenue to drive growth and margins

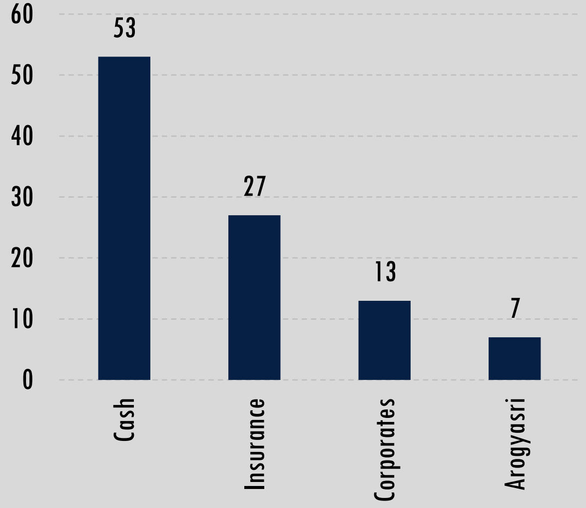
Specialty mix, FY23



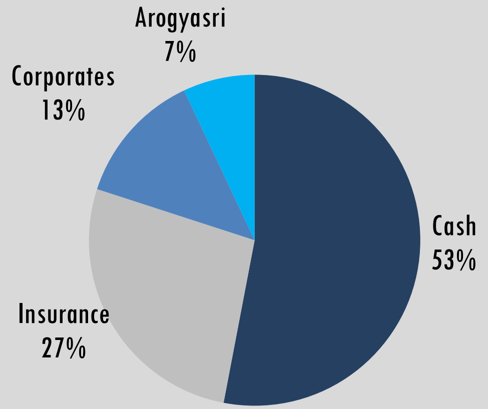
Specialty mix, 9M FY24



Cash + TPA brings >80% to revenue



Cash + TPA: >80% of revenue



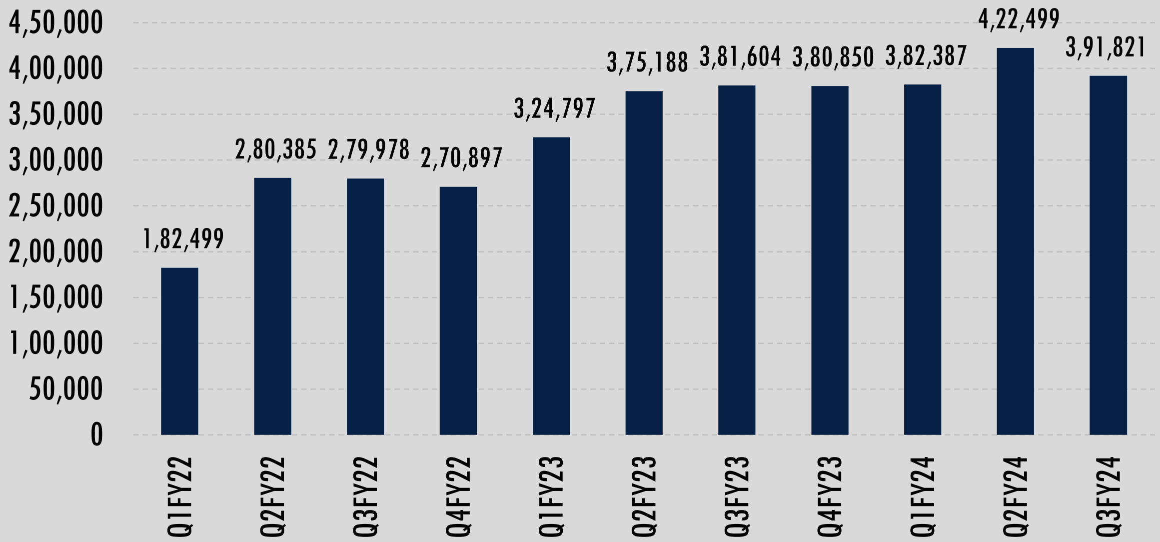
Source: Company, Anand Rathi Research

KIMS - Story in charts

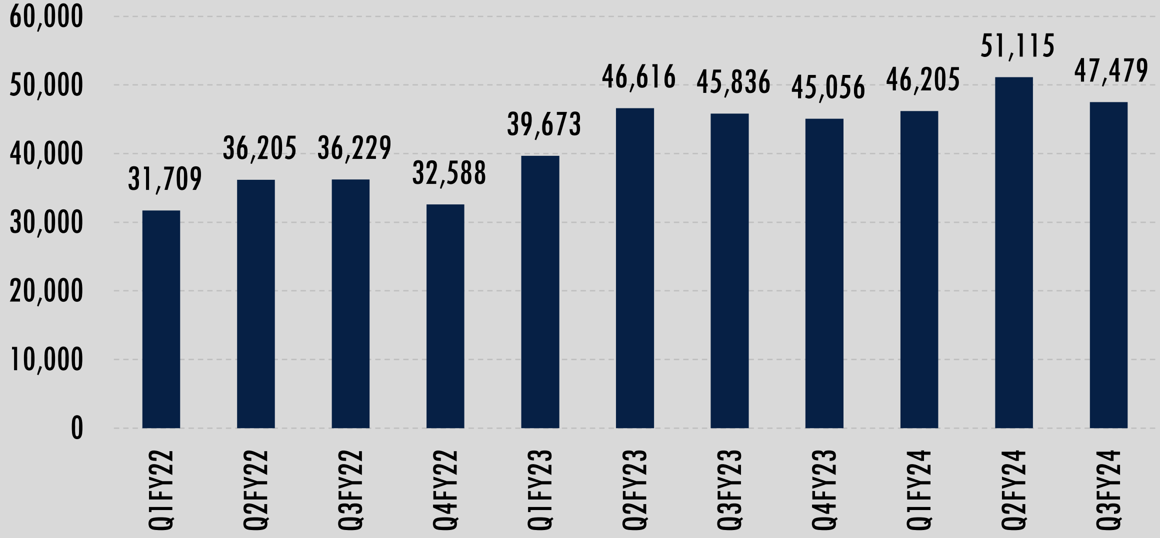
Capacity added, from 1,722 beds in FY19 to 2,725 in FY24 ytd

Units	Beds Now	Added Beds	New Departments	Capex (Rs m)	Expected time of operation
Nashik	-	300	All specialties	2000-2500	Q1 FY25
Mumbai (Thane)	-	300	All specialties	2250-2500	Q4 FY25
Bengaluru	-	415	All specialties	3500-4000	Q4 FY25
Anantapur	250	200	Cancer Centre, Mother & Child	900-1100	Q4 FY26
Kondapur	200	500	All specialties	3000-3500	Q1 FY27

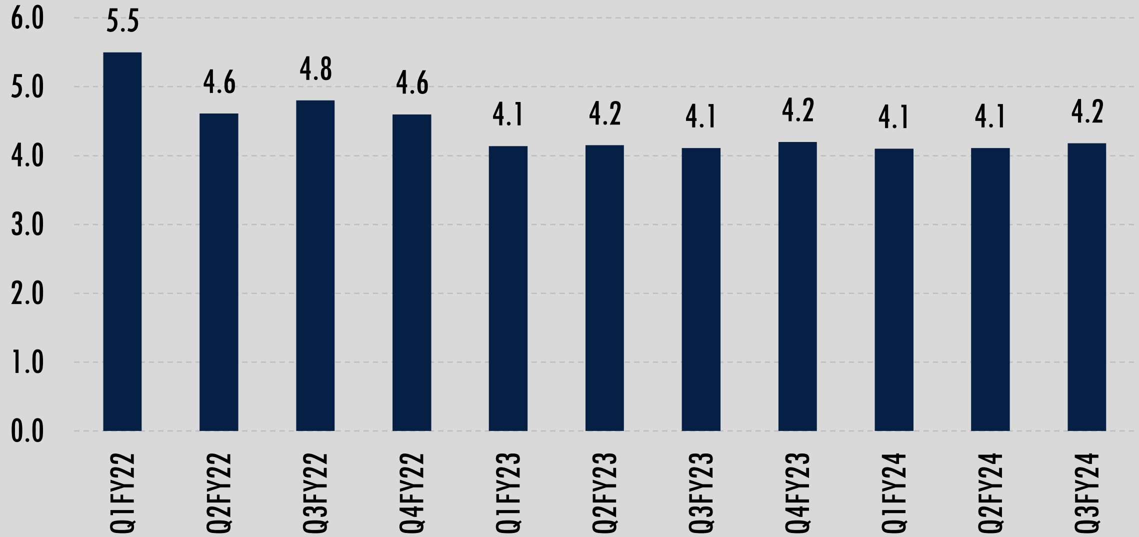
OPD volumes grew 33% over FY21-23…



…IP volumes registered a 23% CAGR over FY21-23



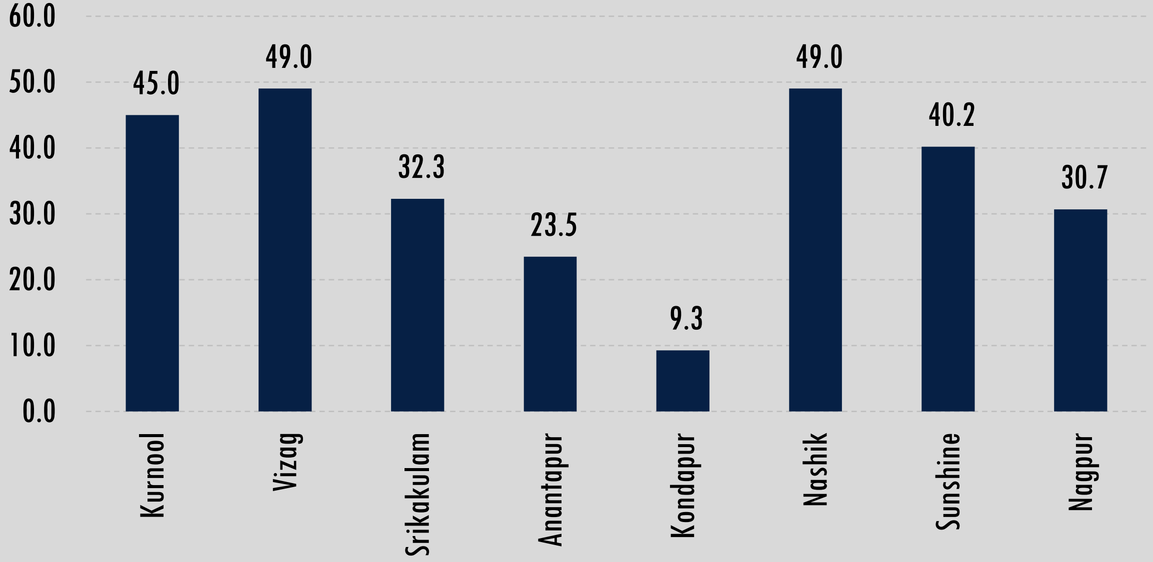
Stabilizing ALOS due to better case-mix



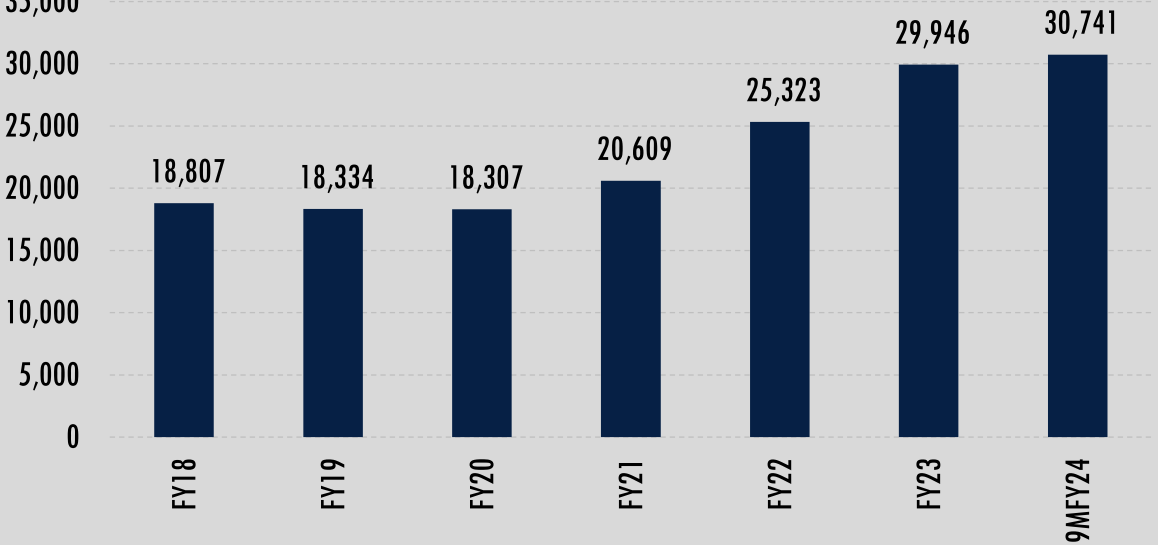
Source: Company, Anand Rathi Research

KIMS - Story in charts

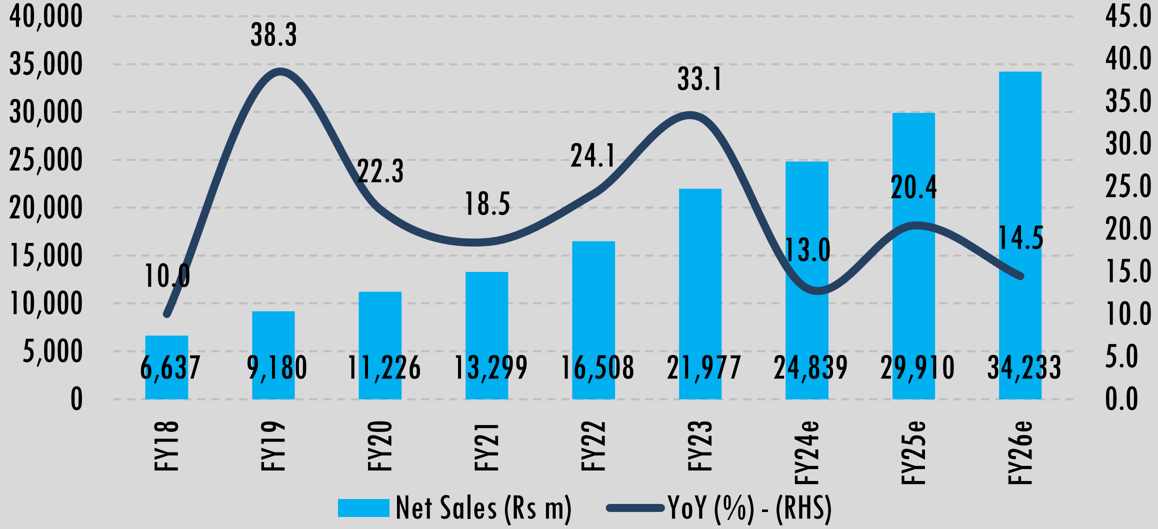
Doctors' equity participation boosts retention…



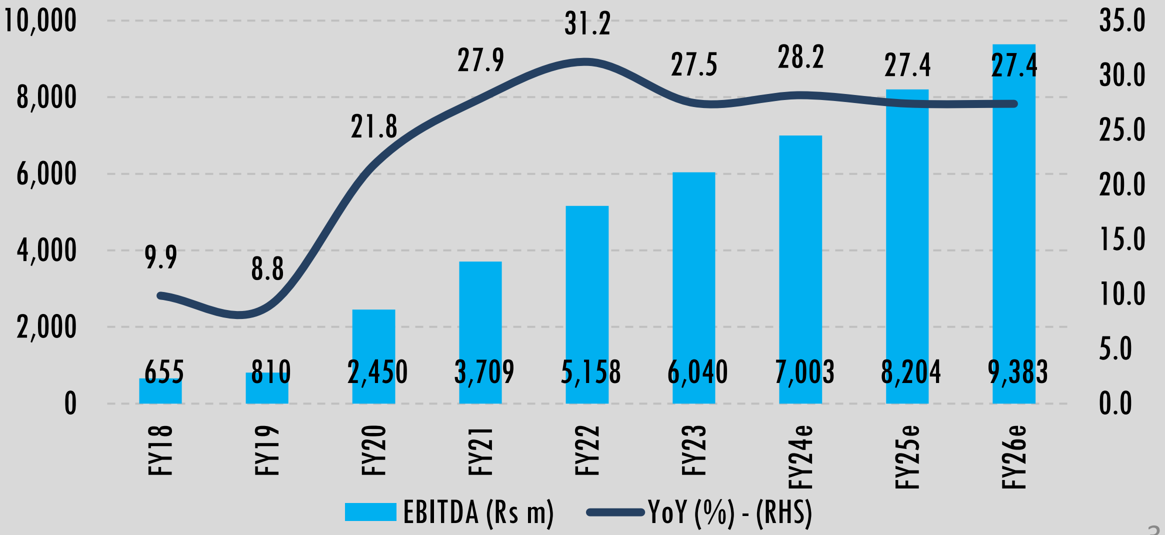
…resulting in 10% ARPOB growth over FY19-23…



…reflected in revenue growth…



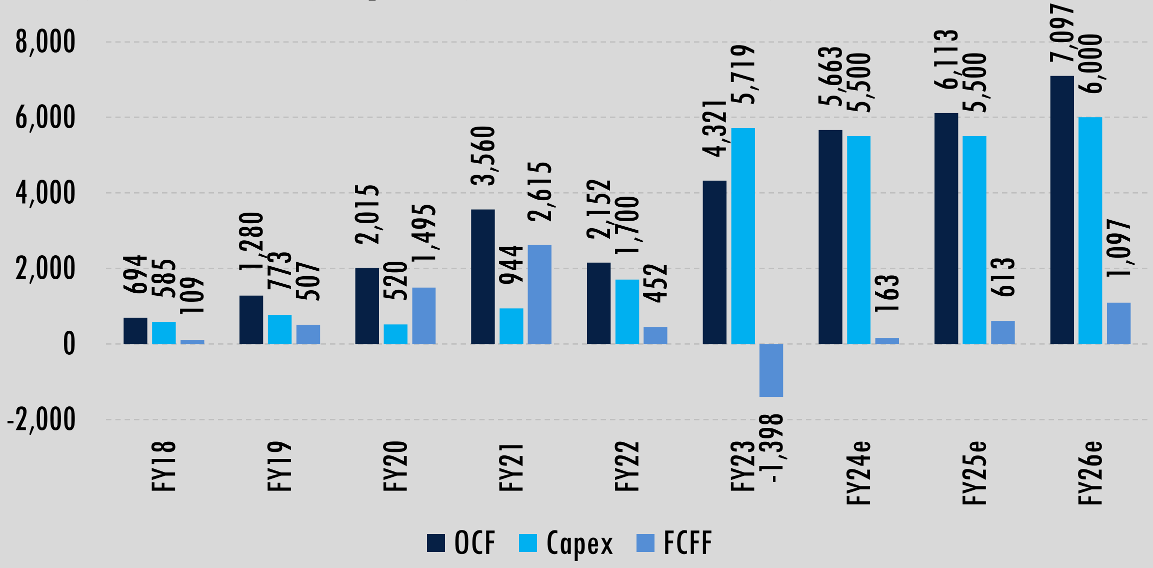
…and in EBITDA and EBITDA margins



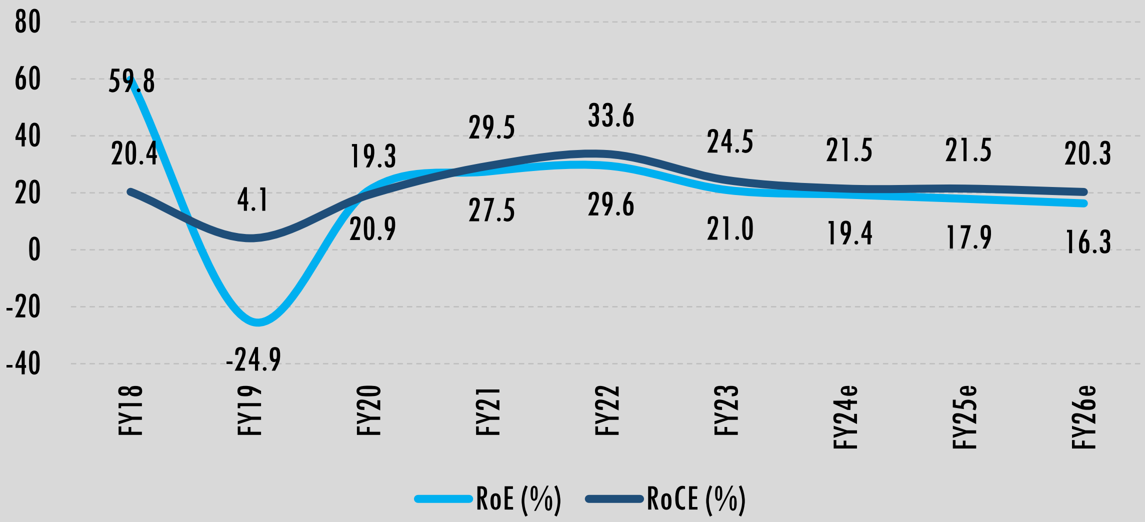
Source: Company, Anand Rathi Research

KIMS - Story in charts

FCFF generation strong; capex largely to be funded through internal accruals



Return ratios to improve to 16% and 20% by FY26



Peer comparison

Companies	Mcap	EPS			EV/EBITDA			P/E			RoE			RoCE			P/B		
	(Rs mn)	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e
Max Healthcare Institute	7,94,213	14.4	17.4	22.7	40.6	33.7	25.9	56.0	46.4	35.4	17.5	18.6	20.5	16.7	18.6	21.5	8.4	7.3	6.2
Jupiter Life Line Hospitals	78,220	22.1	29.7	35.5	30.1	25.2	21.1	53.9	40.2	33.6	20.4	16.9	17.0	21.4	20.3	21.3	7.4	6.3	5.3
Global Health	3,43,290	18.5	21.2	24.7	38.6	33.0	28.0	69.1	60.4	51.9	18.6	17.7	17.3	22.5	22.4	21.9	11.7	9.8	8.3
Krishna Institute of Medical Sciences	1,64,698	44.9	50.6	55.9	24.4	21.5	19.3	45.8	40.7	36.8	19.4	17.9	16.3	21.5	21.5	20.3	8.1	6.6	5.5
RainbowChildrens Medicare	1,25,862	20.6	23.3	29.6	29.7	25.3	20.6	60.1	53.3	41.9	18.0	17.0	18.1	28.9	26.4	27.1	9.9	8.4	7.0
Narayana Hrudalaya	2,61,582	39.0	39.7	43.4	24.0	21.0	18.8	32.8	32.3	29.5	31.9	25.0	22.0	27.5	24.7	23.6	9.1	7.2	5.9

Source: Company, Anand Rathi Research

KIMS - Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	16,508	21,977	24,839	29,910	34,233
Growth (%)	*24.1*	*33.1*	*13.0*	*20.4*	*14.5*
Raw material	3,552	4,806	5,465	6,580	7,531
Employee & other expenses	7,799	11,130	12,444	15,523	18,075
EBITDA	**5,158**	**6,040**	**6,930**	**7,806**	**8,627**
EBITDA margins (%)	31.2	27.5	27.9	26.1	25.2
- Depreciation	727	1,293	1,366	1,452	1,689
Other income	203	259	150	250	350
Interest expense	160	305	360	320	280
PBT	4,473	4,552	5,354	6,285	7,008
Effective tax rates (%)	25	25	25	25	25
+ Associates / (Minorities)	206	295	391	567	637
Adjusted income	3,327	3,215	3,595	4,034	4,415
Extraordinary item (Loss) / Profit	-	-148	-	-	-
Reported PAT	3,327	3,067	3,595	4,034	4,415
WANS	80	80	80	80	80
FDEPS (Rs)	41.6	40.2	44.9	50.4	55.2

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	800	800	800	800	800
Net worth	13,873	16,695	20,364	24,796	29,966
Debt (incl. Pref.)	1,610	5,332	4,832	4,532	4,232
Minority interest	233	2,684	3,075	3,642	4,278
Deferred tax Liability/(Asset)	347	90	90	90	90
Capital employed	**16,064**	**24,802**	**28,361**	**33,060**	**38,567**
Net tangible assets	8,023	12,878	17,011	21,060	25,371
CWIP (tangible and intangible)	2,237	9,555	9,555	9,555	9,555
Investments (strategic)	3,325	679	747	821	904
Investments (financial)	-	-	-	-	-
Current Assets (excl. cash) incl. LT	3,556	5,236	5,487	6,195	6,760
Cash	1,901	664	250	793	1,984
Current liabilities	2,977	4,209	4,689	5,364	6,006
Working capital	579	1,027	798	831	753
Capital deployed	**16,064**	**24,802**	**28,361**	**33,060**	**38,567**
Contingent liabilities	-	-	-	-	-

Source: Company, Anand Rathi Research

KIMS - Financials

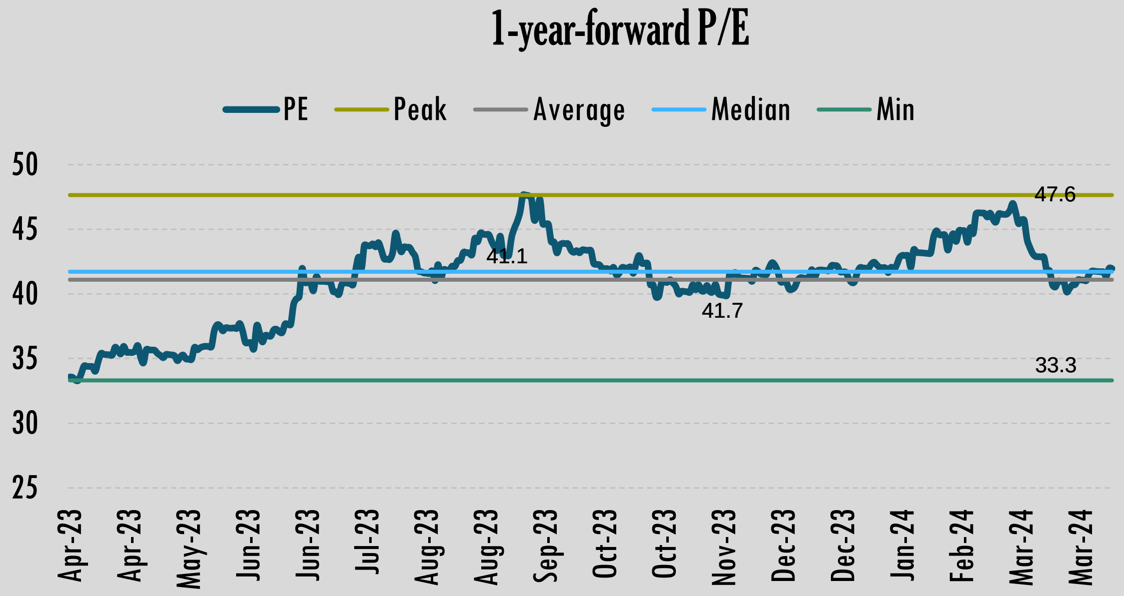
ANANDRATHI

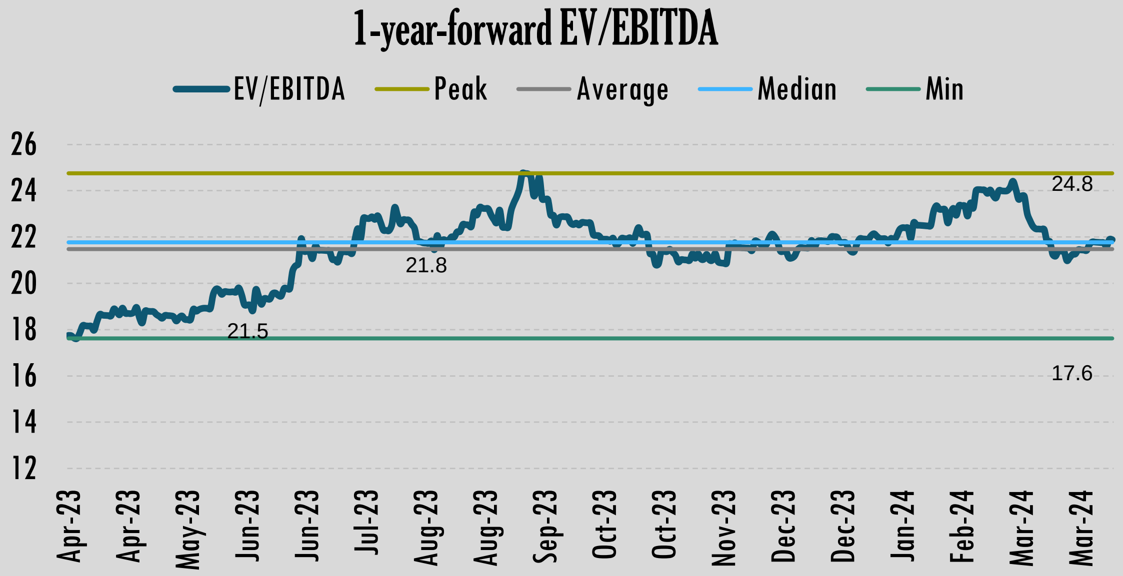
Cash Flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	4,473	4,701	5,427	6,703	7,844
+ Non-cash items	887	1,598	1,726	1,752	1,889
Operating profit before WC changes	5,360	6,299	7,153	8,454	9,733
- Incr. / (decr.) in WC	1,833	943	-419	-165	-327
Others incl. taxes	1,376	1,035	1,367	1,689	1,977
Operating cash-flow	2,152	4,321	6,204	6,930	8,083
- Capex (tangible + intangible)	1,700	5,719	5,500	5,500	6,000
Free cashflow	452	-1,398	704	1,430	2,083
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	160	305	360	300	200
+ Equity raised	1,917	-	-	-	-
+ Debt raised	-1,094	1,483	-500	-300	-300
- Fin. investments	-814	-2,929	-82	-175	-268
- Misc. items (CFI + CFF)	52	185	-	-	-
Net cashflow	1,877	2,524	-74	1,005	1,851

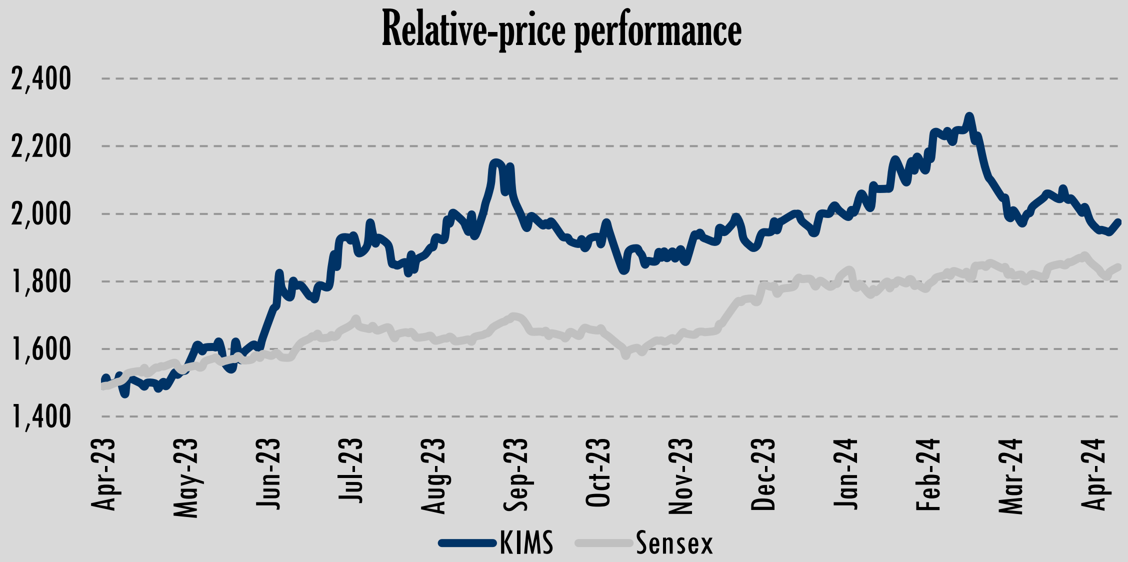
Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	49.5	51.2	45.8	40.7	36.8
EV/EBITDA (x)	31.2	27.9	24.3	21.4	19.2
EV/sales (x)	9.8	7.7	6.8	5.6	4.8
P/B (x)	11.9	9.9	8.1	6.6	5.5
RoE (%)	29.6	21.0	19.4	17.9	16.3
RoCE (%) - after tax	24.4	16.1	14.0	14.4	14.1
RoIC (%) - after tax	30.1	21.0	18.6	17.8	16.3
DPS (Rs)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-
Net debt/equity (x)	-0.3	0.2	0.2	0.1	0.0
Receivables (days)	26	32	39	37	38
Inventory (days)	31	30	30	31	33
Payables (days)	134	115	126	124	126
CFO: PAT (%)	65	134	173	171	181

Source: Company, Anand Rathi Research

KIMS - Valuation charts







Source: Bloomberg, Anand Rathi Research

Rating: Buy
Target Price: Rs.1,470
Current market price: Rs.1,299

Rainbow Children's Medicare

A niche play in hospitals; initiating, with a Buy

Key data	RAINBOW IN
52-week high / low	Rs1488 / 754
Sensex / Nifty	73649 / 22336
3-m average volume	$4.2m
Market cap	Rs132bn / $1581.5m
Shares outstanding	102m

Shareholding (%)	Dec'23	Sept'23
Promoters	49.8	49.8
- of which, Pledged	0.0	0.0
Free float	50.2	50.2
- Foreign institutions	22.3	21.6
- Domestic institution	15.6	15.4
- Public	12.2	13.1

RAINBOW - Investment summary

ANANDRATHI

Summary

A leading multi-specialty paediatric, obstetrics and gynecology hospital-chain in India with 1,655 beds (Dec'23) at 15 hospitals and three clinics in six cities, Rainbow Children's Medicare core specialties are a) paediatrics incl. newborn and intensive care, multi-specialty services, quaternary care (incl. multi-organ transplants) and b) obstetrics and gynecology, incl. normal and complex obstetric care, multi-disciplinary foetal care, perinatal genetic and fertility care

Leader in India's paediatrics market

The company leads in paediatrics, especially in complex diseases. One of its primary competitive advantages is its ability to provide comprehensive and highly specialised services versus peers. It places great emphasis on hiring appropriate pediatricians to provide quality and specialised services. While there is an overlap in the specialty mix of most peers, we believe the company's specialty mix focuses more on paediatric care across niche areas such as neurology, nephrology, gastroenterology, oncology and cardiology, which differentiates it from others

Organic and disciplined growth strategy

The hub-and-spoke model offers synergies, cost-effective growth and faster breakeven. Typically, the hub hospital (150-250 beds) provides comprehensive outpatient and inpatient care, focusing on tertiary and quaternary care, with spokes (50-100 beds) providing secondary care in paediatrics, obstetrics and gynecology, and emergency services. The super-specialty doctors based at the hub hospital can thus reach out to the larger community and cover a wider area

Cost-effective growth, leading to faster breakeven

We believe the company's hub-and-spoke model is financially optimal and cost-effective for growth due to its ability to set up lower cost spokes and concentrated super-specialty consultant skills at hub hospitals. Given that these spokes focus on secondary-care paediatrics, maternity and emergency services, they tend to break even faster, at ~30-35% occupancy, against typical hospitals for adults, which take ~3-4 years at ~50% occupancy to break even

RAINBOW - Investment Summary

ANANDRATHI

Focus on capacity added offers growth assurance	Ahead, the company plans to replicate its Hyderabad hub-and-spoke model across key cities and regions in the country. Its expansion over the next three years is expected to be largely brownfield, incl. spokes added in AP, Hyderabad, Bengaluru and Chennai; Delhi-NCR would involve a greenfield project of ~400 beds. Overall, the company plans to add ~660 beds in the next three years. This implies ~2,595 bed capacity by FY27, a ~51% increase from 1,715 in FY23. Moreover, 55% of this planned 880-bed expansion would be in south India, further bolstering its dominance there
Ability to attract and retain talent	The company lays great emphasis on investing in human capital and appropriate training of medical professionals. Due to this, its ability to attract, train and retain talent thanks to its strong brand name has been a fundamental driver of its performance and is integral to its clinical outcomes and future growth
Strong balance sheet and healthy OCF generation to support growth	With a net cash balance sheet of Rs 3.3bn and OCF generation of Rs 3.5-5.0bn over FY24-26e, we believe Rainbow would be able to fund its cumulative capex of ~Rs10bn over FY24-26e entirely through internal accruals and will continue to remain a strong net cash company (~Rs4.2bn in FY26e)
Favorable risk-reward	We initiate coverage on Rainbow Children's Hospitals with a Buy rating and Rs1,470 TP. The company is one of the leading paediatric and women's-care hospital chains in India, focusing on tertiary and quaternary care. It plans to expand (~660 beds in three years) at strategic locations. This offers good growth assurance. We forecast a strong financial performance with 19%/20% revenue/EBITDA CAGRs, and Rs2.7bn FCF generated over FY24-26

RAINBOW - Investment summary

ANANDRATHI

Valuation

We believe the moat for Rainbow is its calibrated focus on pediatric and perinatal services, a model which is still in nascent stages in India; this model has thrived only in some developed economies till now. Given the company's strong pedigree in this field and a hold on unit economics, it is poised to replicate this model in other Indian cities. We believe the paediatric/perinatal hospital ecosystem is still evolving in India, with very few all-India chains and limited standalone facilities belonging to some adult-care hospital chains. We expect the company to clock 19%/20% revenue/EBITDA CAGRs over FY24-FY26, supported by capacity added and better operating leverage. We initiate coverage on Rainbow Children Medicare with a Buy and a TP of Rs.1,470, 24x FY26e EV/EBITDA.

Key risks

- Failure to replicate success in newer regions
- Inability to retain talent
- Regulatory risks: price controls, margin caps, mandatory bed allocations, etc.

Financial Summary Y/E Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	9,738	11,736	12,807	15,627	18,233
Net profit (Rs m)	1,383	2,108	2,093	2,360	3,001
EPS (Rs)	13.2	20.8	20.6	23.3	29.6
PE (x)	94.2	59.7	60.1	53.3	41.9
EV / EBITDA (x)	40.7	30.8	29.6	25.1	20.5
P/BV (x)	20.9	11.9	9.9	8.4	7.0
RoE (%)	26.4	25.4	18.0	17.0	18.1
RoCE (%)	16.5	17.9	14.4	14.0	15.4
Dividend yield (%)	0.2	0.2	-	-	-
Net debt/equity (x)	-0.3	-0.4	-0.2	-0.2	-0.3

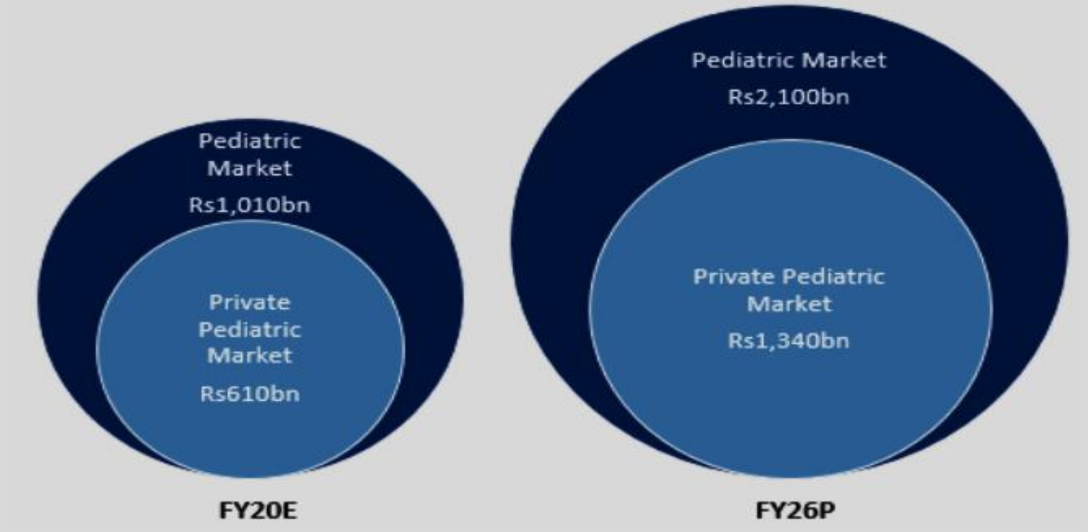
Source: Company, Anand Rathi Research

Valuation	FY26e
EBITDA (Rs mn)	6,029
Target multiple (x)	24
EV (Rs Mn)	1,44,687
Less net Debt (Rs Mn)	-4,279
Derived Market cap (Rs mn)	1,48,966
No. Of shares (mn)	102
Target price (Rs)	1,470
CMP (Rs)	1,299
Upside (%)	13%

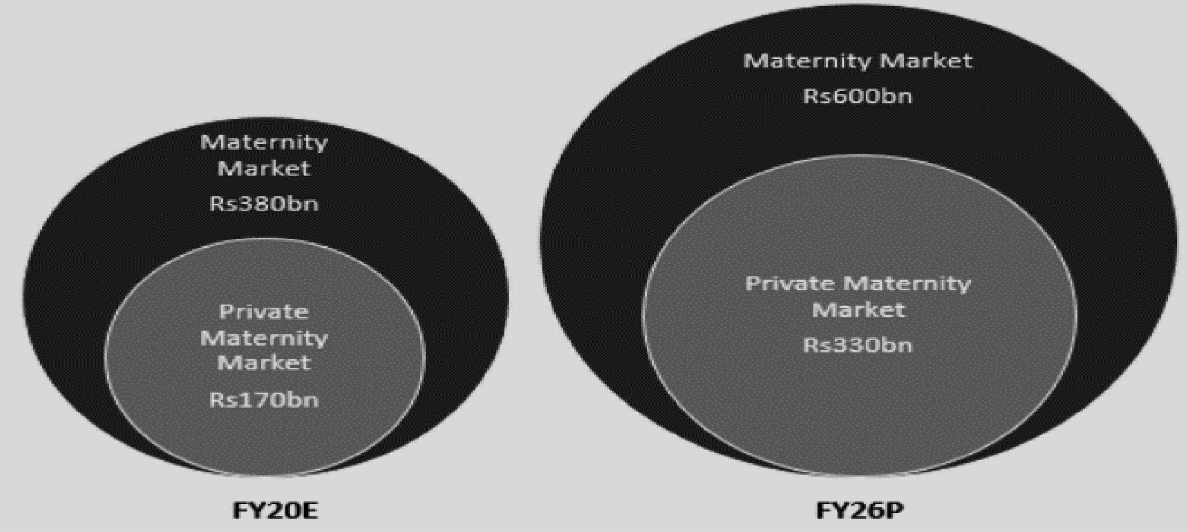
RAINBOW - Story in charts

ANANDRATHI

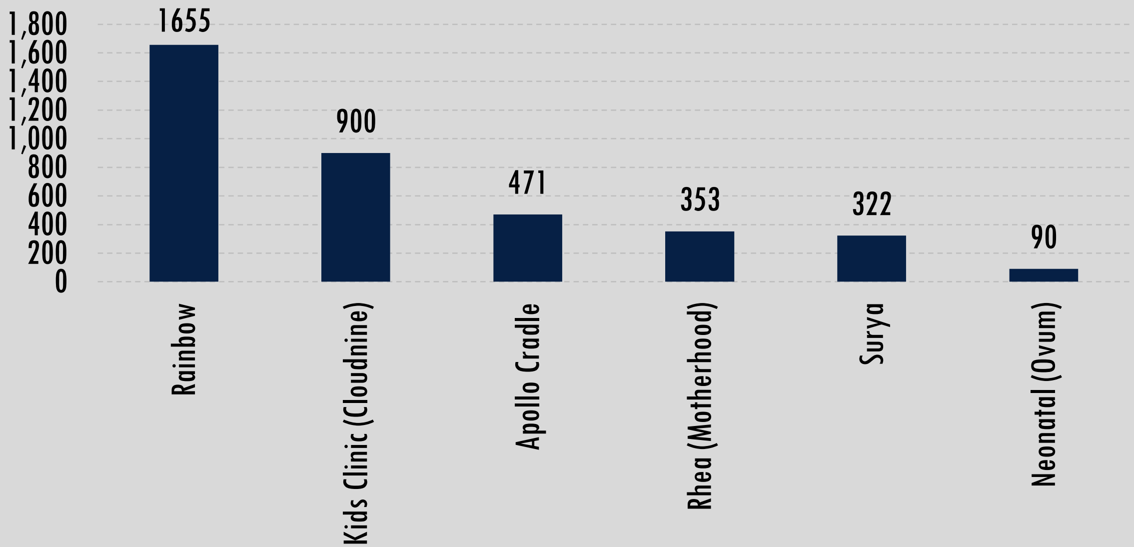
Private paediatric market to clock a ~14% CAGR over FY20-26…



…while the private maternity market is likely to record a ~12% CAGR



Rainbow Hospitals has the most beds among peers…



… as well as the most NICUs and PICUs

Hospitals	NICUs	PICUs	as % of total beds
Rainbow	311	162	*32*
Kids Clinic (Cloudnine)	76	8	*9*
Apollo Cradle	81	11	*20*
Rhea (Motherhood)	78	27	*30*
Surya	141	41	*57*
Neonatal (Ovum)	20		*22*

Source: Company, Anand Rathi Research

RAINBOW - Story in charts

Pioneering comprehensive paediatric healthcare with robust infrastructure

Source: Company, Anand Rathi Research

RAINBOW - Story in charts

ANANDRATHI

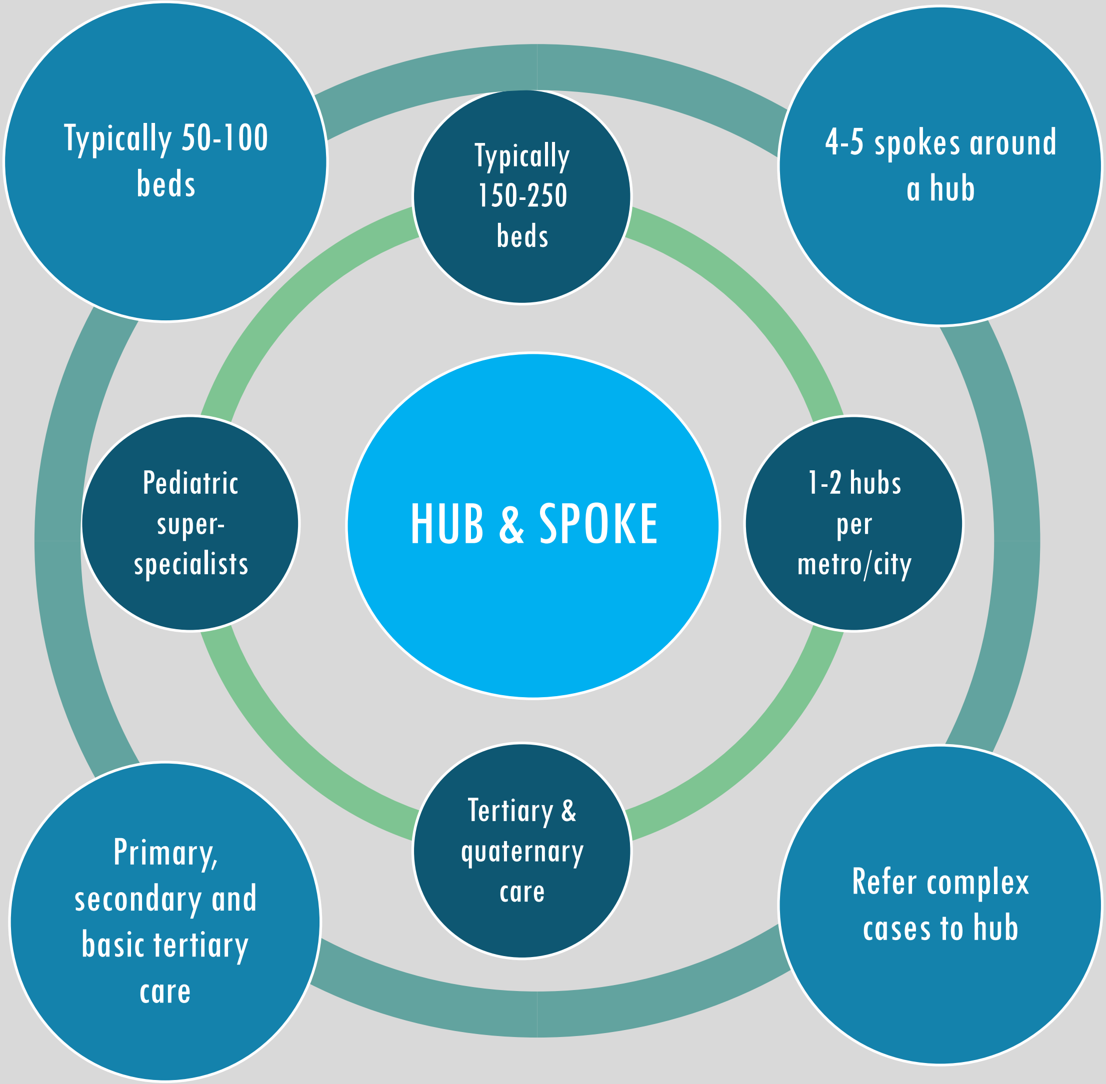
Overview of hospital network

	No. of beds	Commencement	Services	Key highlights	Hub/spoke hospital	Matured/ new hospital
HYDERABAD						
Banjara Hills	250	1999	Quaternary paediatrics (super-specialties)	Advanced level 4 NICU and a multi-disciplinary PICU; Air transportation medical services	Hub Hospital	Matured Hospital
Children's Heart Institute, Banjara Hills (RCHI1)	110	2019	Exclusive heart centre	Specialised echocardiography, fetal cardiac procedures	Spoke hospital	New Hospital
Vikrampuri	110	2007	Tertiary paediatrics, perinatal	38-bed Level 3 NICU, 14-bed advanced PICU	Spoke hospital	Matured Hospital
Kondapur	50	2013	Exclusive maternity care	Level 2 NICU; Exclusive maternity care unit	Spoke hospital	Matured Hospital
Hydernagar	110	2014	Tertiary paediatrics, gynecology, laproscopy	24-bed advanced Level 3 NICU, 6-bed PICU	Spoke hospital	Matured Hospital
LB Nagar	100	2016	Primary / Secondary / Tertiary paediatrics	15-bed advanced Level 3 NICU, 8-bed PICU	Spoke hospital	Matured Hospital
BENGALURU						
Marathahalli	200	2015	Tertiary paediatrics	24 PICU beds, 45 NICU beds; Major referral center	Hub Hospital	Matured Hospital
Bannerghatta Road	102	2016	Tertiary paediatrics, Women's care	21-bed advanced Level 3 NICU, 10-bed PICU; Exclusive maternity care unit	Spoke hospital	Matured Hospital
Hebbal	50	2020	Paediatric multi-specialty, Perinatal	16-bed advanced Level 3 NICU, 4-bed PICU	Spoke hospital	New Hospital
ANDHRA PRADESH						
Currency Nagar, Vijayawada	130	2007	Pediatric neurology, Perinatal	18 PICU beds, 36 NICU beds	Spoke hospital	Matured Hospital
Visakhapatnam	129	2020	Tertiary pediatrics, Perinatal	16-bed advanced Level 3 NICU, 15-bed PICU	Spoke hospital	New Hospital
NEW DELHI						
Rosewalk Luxury Hospital for Women	24	2019	Women's care, Gynecology	Level 2 neonatal facilities; Premium birthing center; *Acquired in June 2019	Spoke hospital	New Hospital
Madhukar, New Delhi (Malviya Nagar2)	130	2017	Manages clinical services for inpatient operations and runs an outpatient department	29-bed Level 4 NICU, 15 pediatric mutli-disciplinary intensive care beds; *Owned by Madhukar Trust	Hub Hospital	Matured Hospital
CHENNAI						
Chennai (Guindy)	135	2018	Neurocritical, Neonatal	37 Level 4 NICU beds, 15-bed PICU	Hub Hospital	New Hospital
Sholinganallur (OMR),	55	2022			Spoke hospital	New Hospital

Source: Company, Anand Rathi Research

RAINBOW - Story in charts

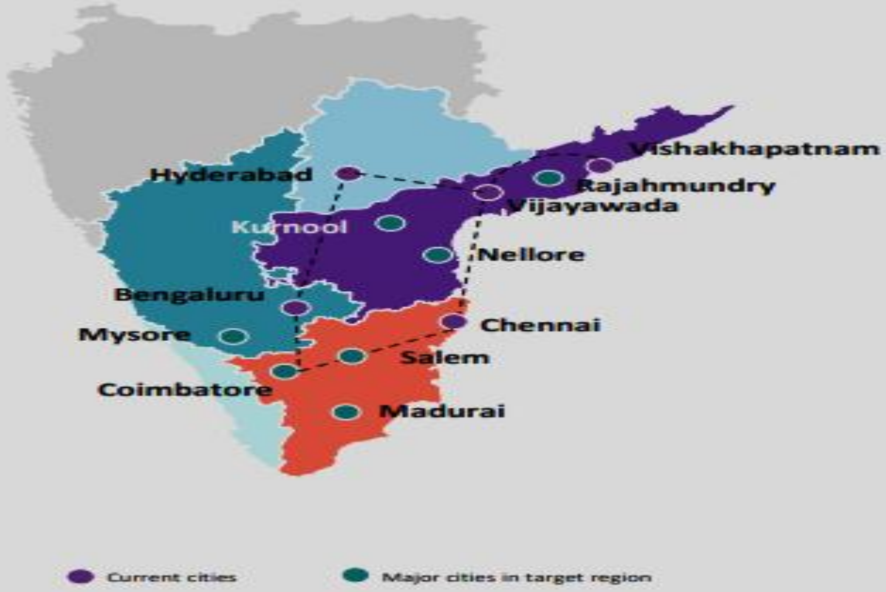
City level structure of the hub-and-spoke model



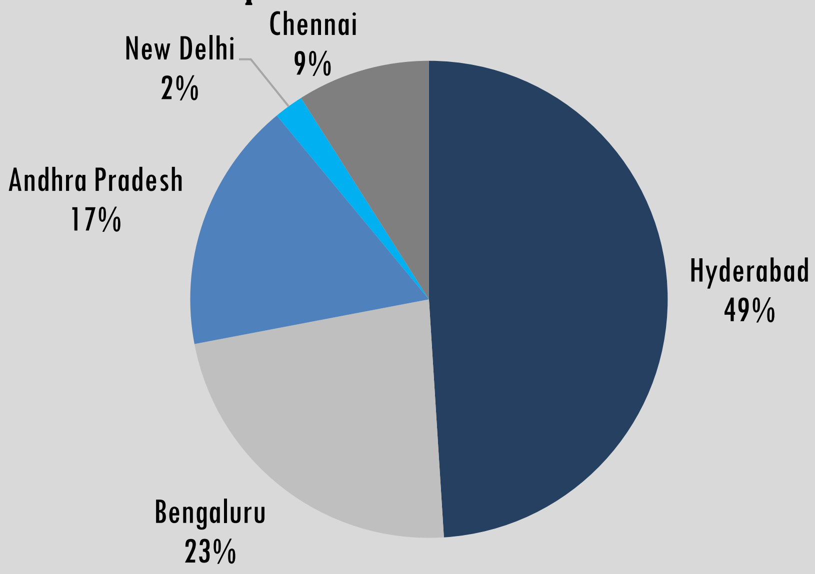
Accessibility of super-speciality at hubs, general pediatrics at spokes

Source: Company, Anand Rathi Research

Regional level 'south connect' model



>90% of hospitals in south India



RAINBOW - Story in charts

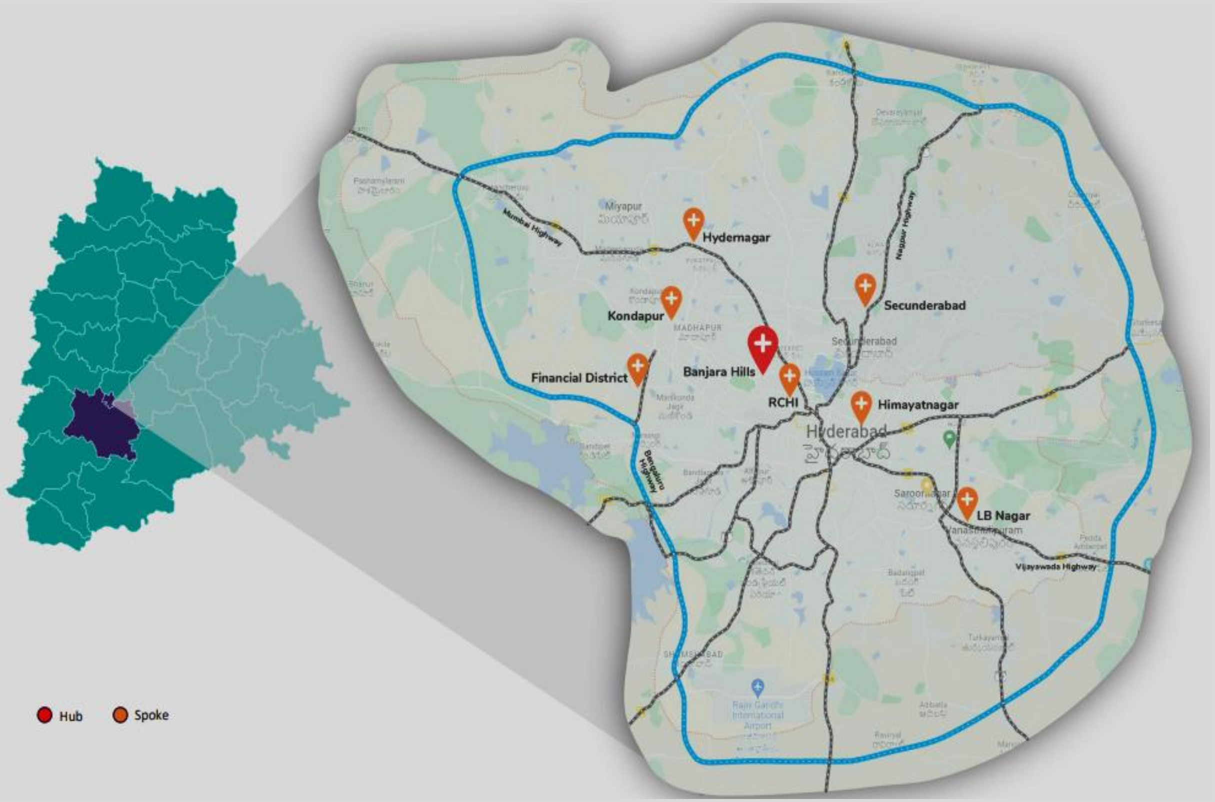
Pioneering comprehensive pediatric healthcare with robust infrastructure

Hyderabad: Hub and spoke model

- The hub hospital (Banjara) is centrally situated, easily accessed from all parts of the city
- Spoke hospitals are situated at areas of rapid growth and development
- Strategically located to ensure convenient access for nearby towns and cities

Bengaluru: Hub and spoke model

- The hub hospital (Marathahalli) is situated on the Outer Ring Road, in the heart of Bengaluru, ensuring convenient access from every part of the city
- Spoke hospitals are situated at areas of rapid growth and development
- Strategically located to ensure convenient access for nearby towns and cities

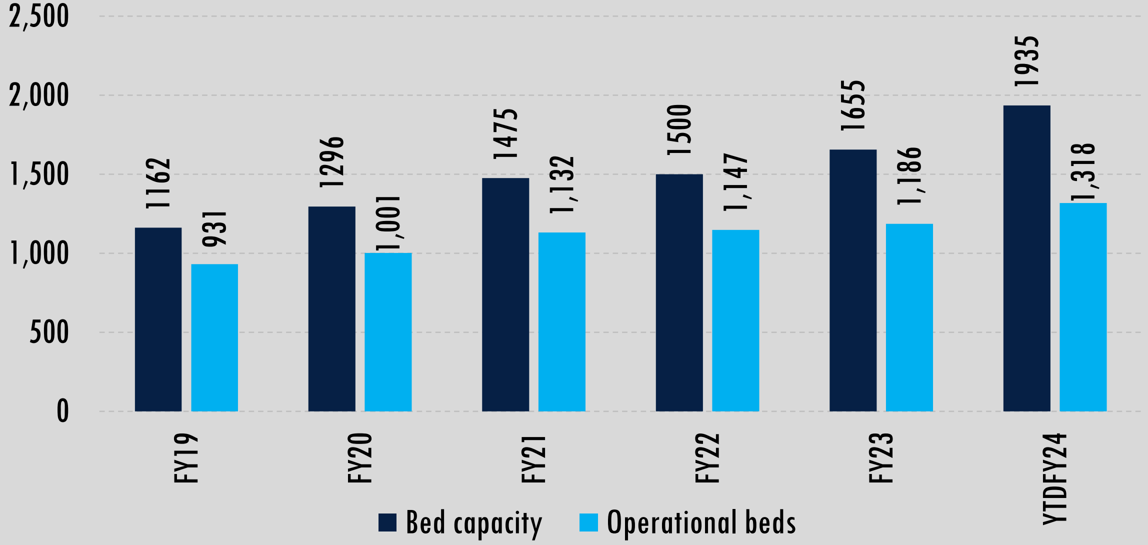


Source: Company, Anand Rathi Research

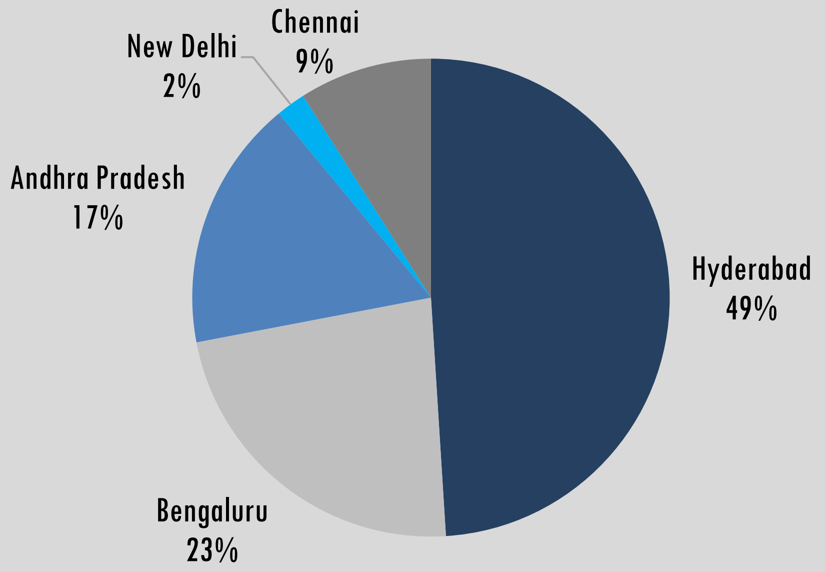
RAINBOW - Story in charts

ANANDRATHI

Increase in bed capacity over the years



...with >90% of the hospitals in south India



Capacity to be added over the next few years

City/ Cluster	Current Capacity	FY24	FY25	FY26	FY27	Total
Hyderabad	890	Hyderabad (new block ~50)				940
Bengaluru	352	Sarjapur (~90)	Hennur (~60)			502
Tamil Nadu	190	Anna Nagar (~80)		Coimbatore (~100)		370
The National Capital Region (NCR)	24				Gurugram Sector 44 (~300), Sector 56 (~100)	424
Andhra Pradesh	259		Rajahmundry (~100)			359
Total beds	1,715	220	160	100	400	2,595

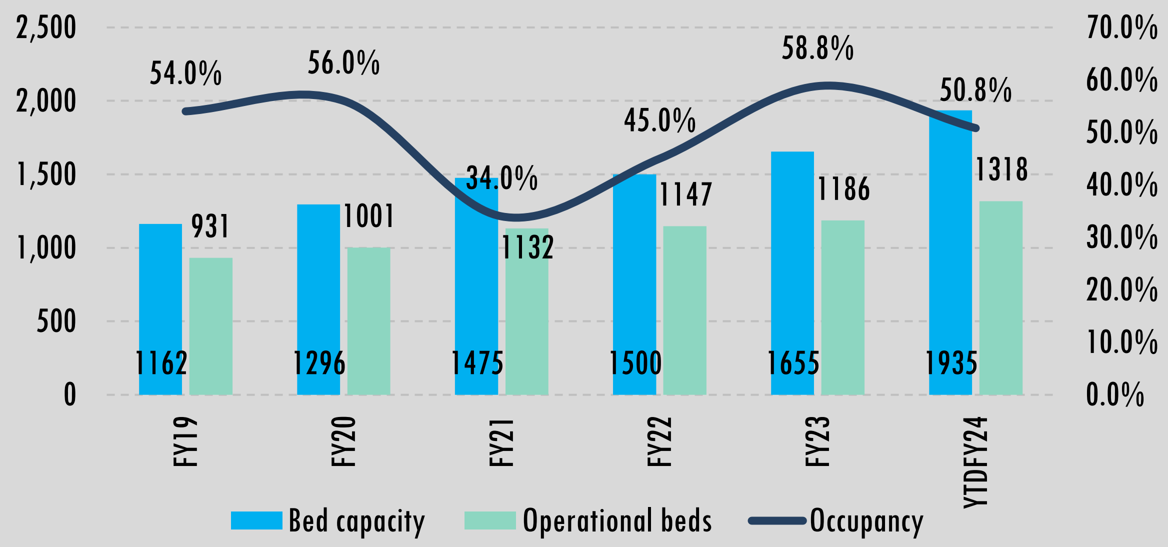
Source: Company, Anand Rathi Research

RAINBOW - Financial analysis

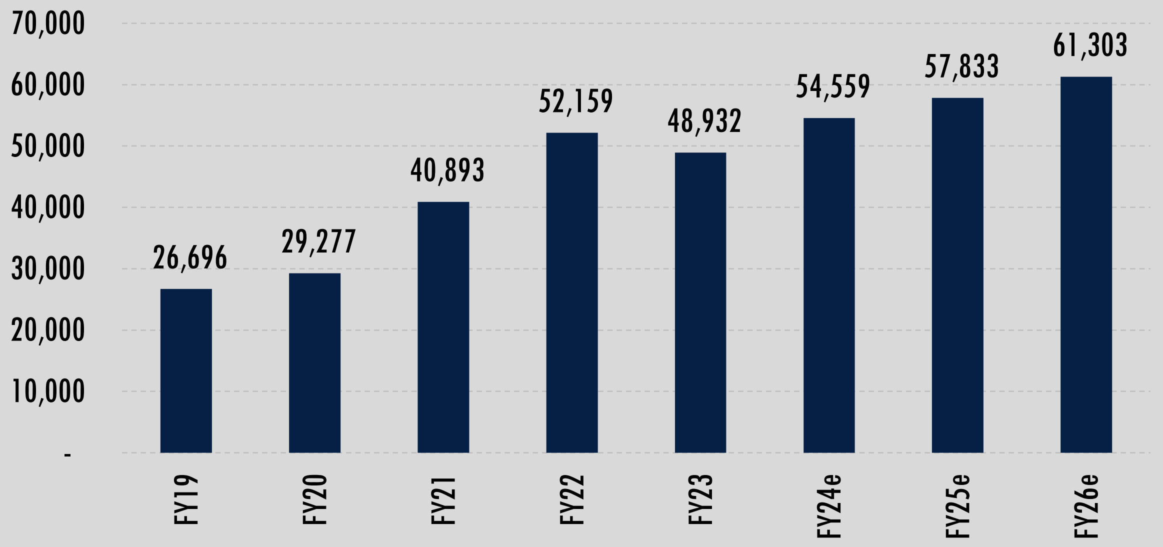
Key drivers of revenue and profitability

	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Capacity, beds	1,162	1,296	1,475	1,500	1,655	1,935	2,095	2,220
Operational beds	931	1,001	1,132	1,147	1,186	1,318	1,514	1,692
Occupancy (%)	*54.1*	*56.3*	*34.2*	*44.6*	*55.4*	*46.0*	*50.0*	*52.0*
ARPOB (Rs/day)	26,696	29,277	40,893	52,159	48,932	54,559	57,833	61,303
Total revenues (Rs m)	6,122	8,134	7,359	7,618	8,910	9,459	12,691	15,512

Rainbow has expanded capacity, from 1,162 beds in FY19 to 1,935 in FY24 ytd



ARPOB grew healthily; likely to record a 6% CAGR over FY24-26

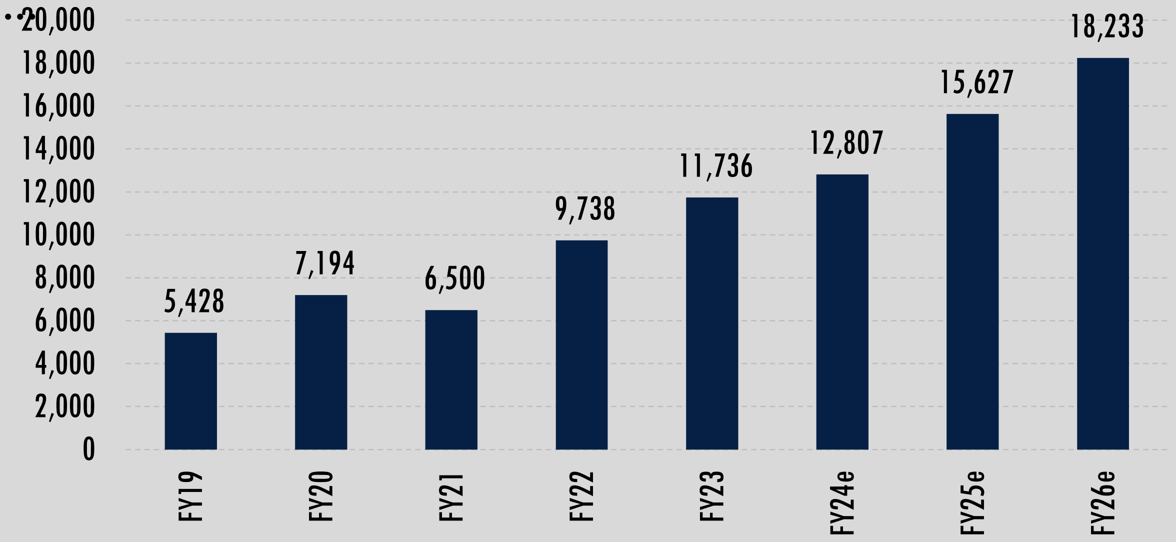


Source: Company, Anand Rathi Research

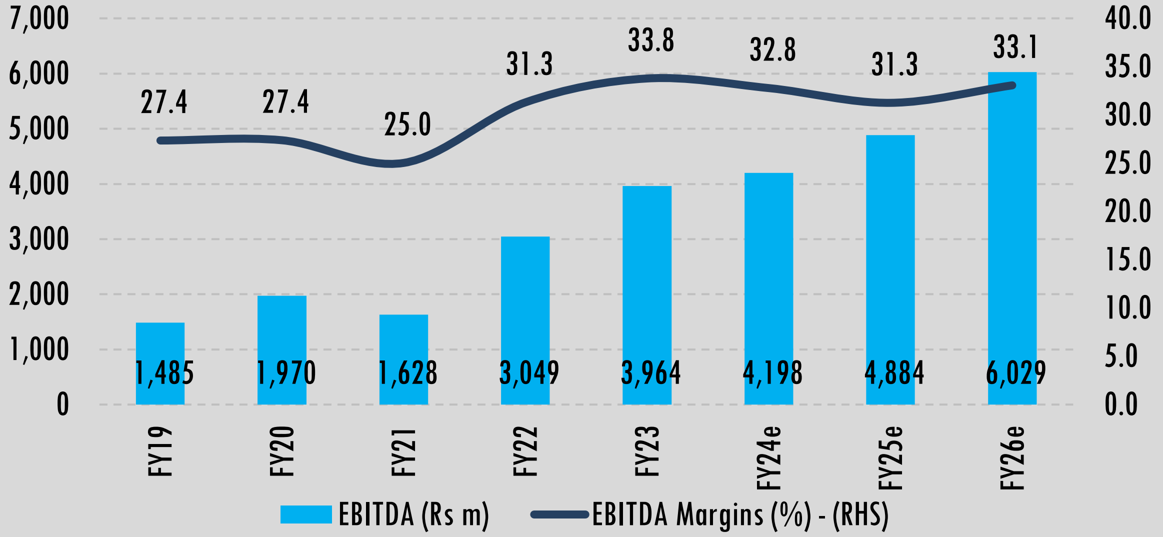
RAINBOW - Story in charts

ANANDRATHI

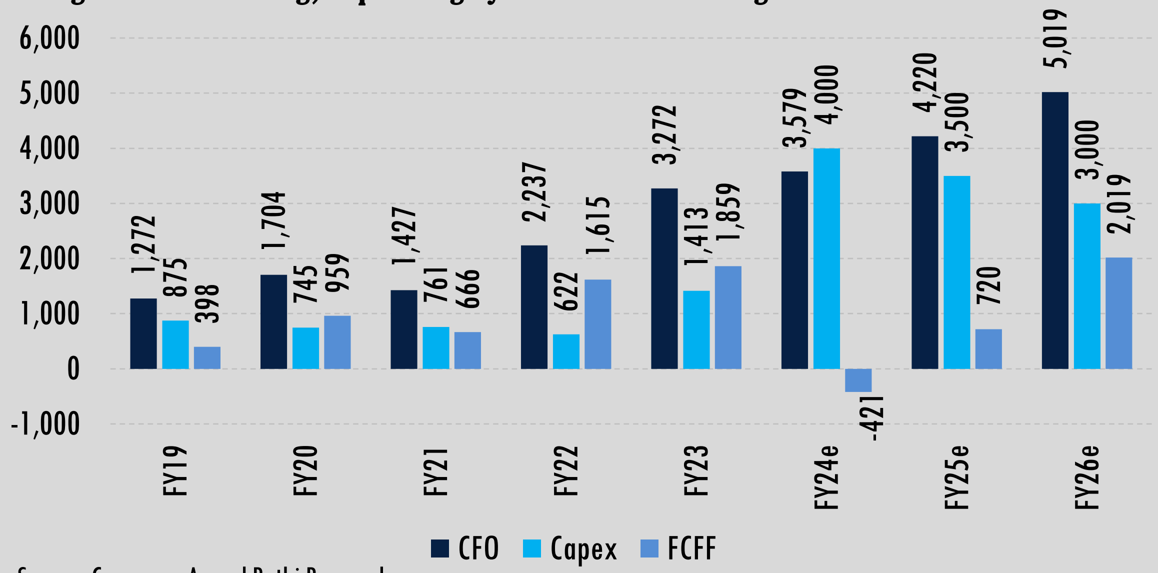
19% revenue CAGR over FY24-26, to be driven largely by ARPOB growth and beds added



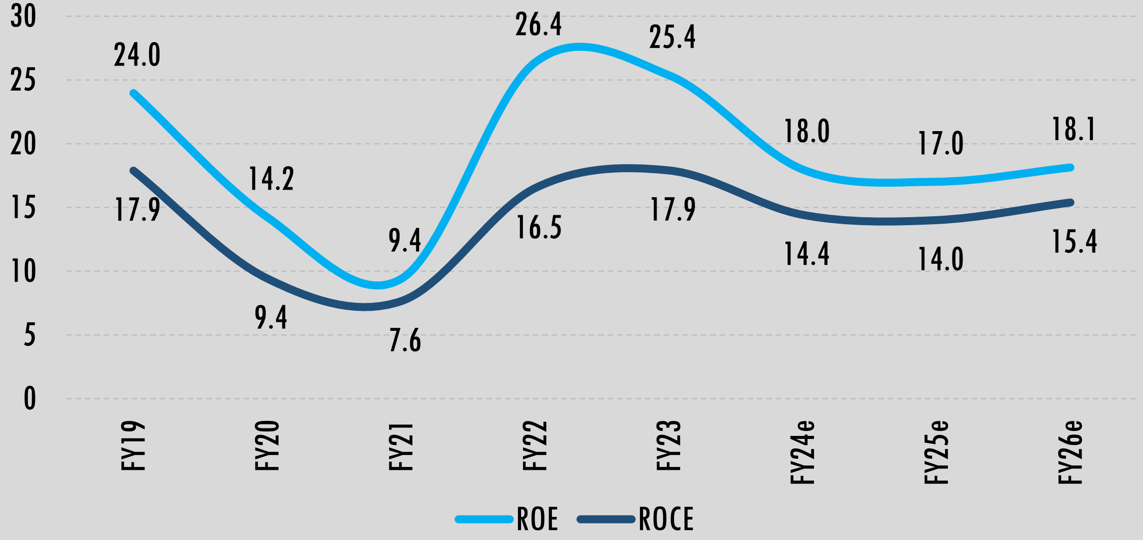
23% EBITDA CAGR over FY19-24; with stable EBITDA margins



FCFF generation strong; capex largely to be funded through internal accruals



Return ratios to improve to 18% and 15.4% by FY26



Source: Company, Anand Rathi Research

RAINBOW - Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	9,738	11,736	12,807	15,627	18,233
Growth (%)	49.8	20.5	9.1	22.0	16.7
Raw material	1,947	1,583	1,793	2,344	2,553
Employee & other expenses	4,742	6,189	6,865	8,415	9,773
EBITDA	**3,049**	**3,964**	**4,150**	**4,868**	**5,908**
EBITDA margins (%)	31.3	33.8	32.4	31.2	32.4
- Depreciation	833	903	1,064	1,326	1,551
Other income	189	309	340	373	411
Interest expense	532	552	650	750	850
PBT	1,873	2,818	2,776	3,165	3,917
Effective tax rate (%)	-	-	-	-	-
+ Associates/(Minorities)	4	15	20	20	20
Adjusted income	1,383	2,108	2,093	2,360	3,001
Extraordinary item (Loss)/Profit	-	-	-	-	-
Reported PAT	1,383	2,108	2,093	2,360	3,001
WANS	105	102	102	102	102
FDEPS (Rs)	13.2	20.8	20.6	23.3	29.6

Source: Company, Anand Rathi Research

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	1,050	1,015	1,015	1,015	1,015
Net worth	6,028	10,599	12,692	15,052	18,052
Debt (incl. Pref.)	417	-	1,000	1,500	1,200
Minority interest	35	50	50	50	50
Deferred tax Liability/(Asset)	-172	-315	-315	-315	-315
Capital employed	**6,308**	**10,335**	**13,377**	**16,237**	**18,938**
Net tangible assets	8,479	9,277	12,214	14,388	15,837
CWIP (tangible and intangible)	101	262	262	262	262
Investments (strategic)	221	581	639	703	774
Investments (financial)	-	-	-	-	-
Current assets (excl. cash) incl. LT	2,071	3,999	4,080	4,287	4,442
Cash	1,914	3,329	3,490	4,269	5,479
Current liabilities	6,478	7,114	7,308	7,672	7,855
Working capital	-4,407	-3,115	-3,228	-3,385	-3,413
Capital deployed	**6,308**	**10,335**	**13,377**	**16,237**	**18,938**
Contingent liabilities	-	-	-	-	-

RAINBOW - Financials

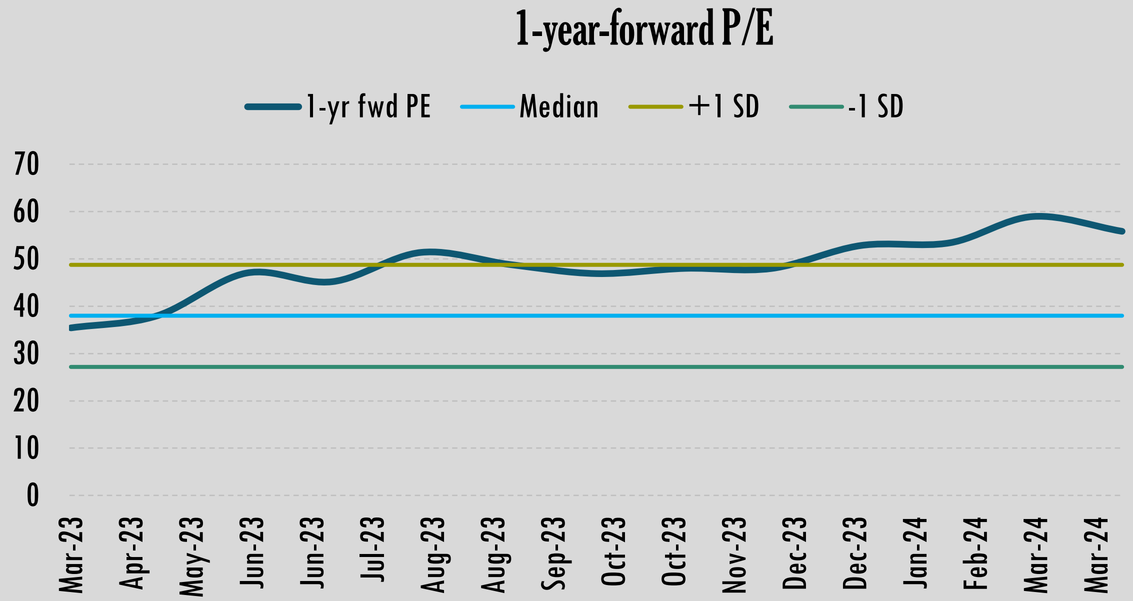
ANANDRATHI

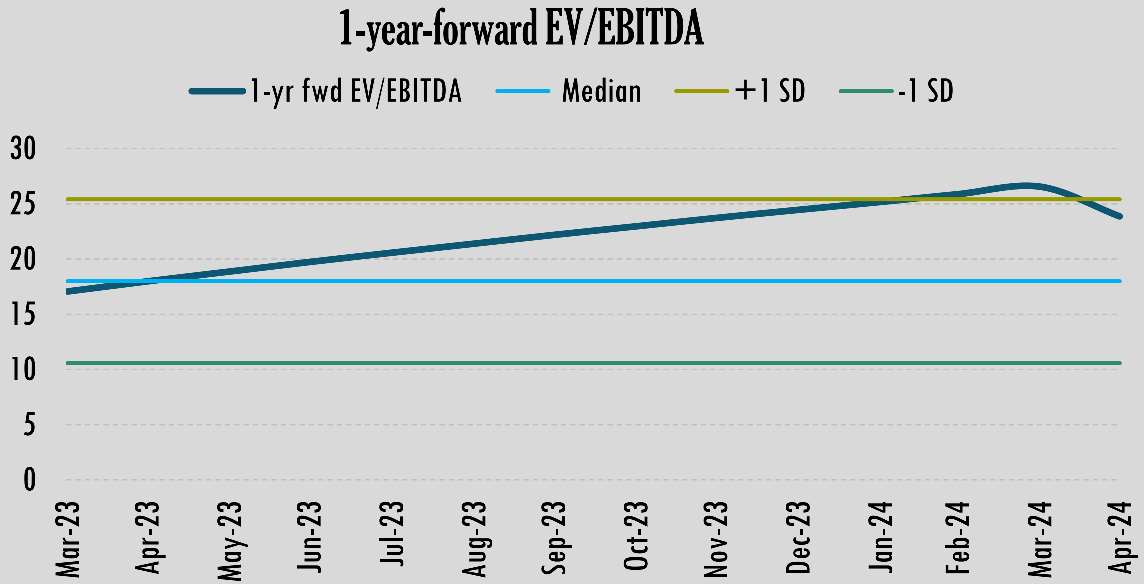
Cash-flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	1,873	2,818	2,824	3,182	4,038
+ Non-cash items	1,365	1,455	1,374	1,703	1,990
Operating profit before WC changes	3,238	4,272	4,198	4,884	6,029
- Incr./(decr.) in WC	133	-55	-113	-157	-29
Others including taxes	867	1,056	732	822	1,038
Operating cashflow	2,237	3,272	3,579	4,220	5,019
- Capex (tangible + intangible)	622	1,411	4,000	3,500	3,000
Free cashflow	1,616	1,861	-421	720	2,019
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	138	235	650	750	850
+ Equity raised	274	2,661	-	-	-
+ Debt raised	-61	-398	1,000	500	-300
- Fin. investments	1,132	3,241	-281	-310	-340
- Misc. items (CFI + CFF)	517	594	50	-	-
Net cashflow	43	54	160	779	1,210

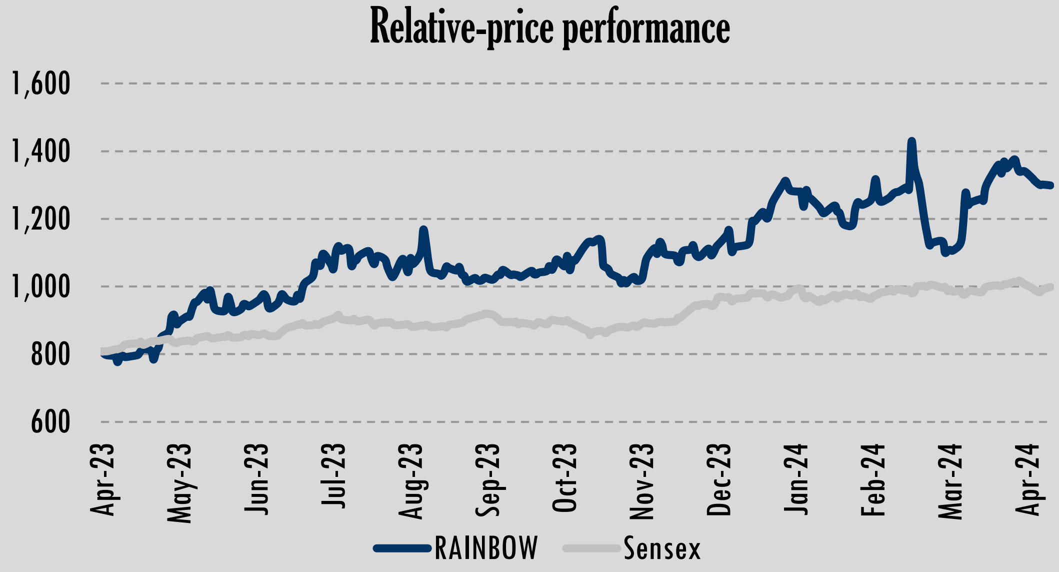
Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	94.2	59.7	60.1	53.3	41.9
EV/EBITDA (x)	40.7	30.8	29.6	25.1	20.5
EV/sales (x)	12.7	10.4	9.6	7.8	6.6
P/B (x)	20.9	11.9	9.9	8.4	7.0
RoE (%)	26.4	25.4	18.0	17.0	18.1
RoCE (%) - after tax	16.5	17.9	14.4	14.0	15.4
RoIC (%) - after tax	26.3	25.4	18.1	17.1	18.2
DPS (Rs)	2.0	3.0	-	-	-
Dividend yield (%)	0.2	0.2	-	-	-
Dividend payout (%)	210.0	304.5	-	-	-
Net debt/equity (x)	-0.3	-0.4	-0.2	-0.2	-0.3
Receivables (days)	16	15	17	16	17
Inventory (days)	23	39	42	40	43
Payables (days)	111	172	186	176	192
CFO: PAT (%)	162	155	171	179	167

Source: Company, Anand Rathi Research

RAINBOW - Valuation charts







Source: Bloomberg, Anand Rathi Research

Healthcare
Initiating coverage

Rating: Hold
Target Price: Rs.1,430
Current market price: Rs.1,416

Global Health (MEDANTA)

Well-set to deliver sustainable growth; Initiate with HOLD

Key data	MEDANTA IN
52-week high / low	Rs1514 / 485
Sensex / Nifty	73649 / 22336
3-m average volume	$9.8m
Market cap	Rs382bn / $4582m
Shares outstanding	269m

Shareholding (%)	Dec'23	Sept'23	Jun'23
Promoters	33.1	33.1	33.1
- of which, Pledged	0.0	0.0	0.0
Free float	67.0	66.9	66.9
- Foreign institutions	11.4	10.7	10.6
- Domestic institution	11.2	10.9	10.8
- Public	44.5	45.3	45.6

MEDANTA - Investment summary

ANANDRATHI

Summary	A leading tertiary-care service provider established in north and east India, Global Health (MEDANTA) aims to offer specialised care in under-served, densely populated areas. It has built its hospital network in Gurugram, Indore, Ranchi, Lucknow, Patna and Noida (coming). Within 15 years, it has scaled up capacity to ~2,725 beds (Dec'23) and intends to add >1,300 over the next three years
Capacity enhancement to propel growth	Its continued success in developing hospitals in Lucknow and Patna is likely to aid its growth ahead. It plans to raise its installed bed capacity by 25% to ~3,400 by FY25. Of this, ~52% would be in tier-2 cities (Lucknow, Patna). Further, ~60% of the planned beds added would be at existing hospitals, resulting in lower capex per bed. The announcement of a ~400-bed super-specialty hospital with DLF in south Delhi would intensify its presence in Delhi/NCR, taking the count to ~4,000 beds over the next 3-4 years
Clinical expertise driving robust growth	The company has five hospitals, of which three are mature (Gurugram, Indore and Ranchi; combined 1,766 bed capacity, ~65% of the total), with two new ones at Lucknow and Patna boasting a combined 959 beds (~35%) at end-Q3 FY24. Aided by strong, 13%/15%, CAGRs in IPD/OPD flow and a 7% ARPOB CAGR, the company delivered a 17% revenue CAGR over FY19-23. Particularly, its FY20-23 revenue/EBITDA CAGRs from mature hospitals were 12%/23% to Rs20bn/Rs5bn. Moreover, the strong goodwill created over the years has helped it break even in its first year of operations in Lucknow and Patna
Superior case / payor mix to boost growth	We expect 4%/6% ARPOB CAGRs for mature/developing hospitals over FY24-26, growth underpinned by optimisation of the case-payor mix. We believe the better case mix would be driven by a rising share of high-end tertiary treatment in Lucknow/Patna, while payors would be fueled by an increasing share of cash and insurance patients. Further, the mounting share of medical tourism in the overall payor mix is likely to boost growth

MEDANTA - Investment summary

ANANDRATHI

Valuation

MEDANTA caters to requirements across therapeutics, making it the preferred choice for an extensive patient base, leading to 26%/37%/55% revenue/EBITDA/PAT CAGRs over FY22-24. Ahead, we reckon the momentum would continue to be led by a) greater capacity utilisation at new hospitals, b) a rising share of international patients in the overall revenue pie and c) improvement in ARPOB backed by a superior payor-case mix. The company is on track to scale up its Lucknow and Patna capacities. Considering its strong business prospects, we expect it to post 14%/16%/15% revenue/EBITDA/PAT CAGRs over FY24-26. We value it at 32x EV/EBITDA to arrive at our TP of Rs1,430. Initiate with Hold rating on the stock.

Key risks

- Slower-than-expected medical tourist footfalls
- Slower rate of beds added and inability to retain talent
- Regulatory risks: price controls, margin caps, mandatory bed allocations, etc.

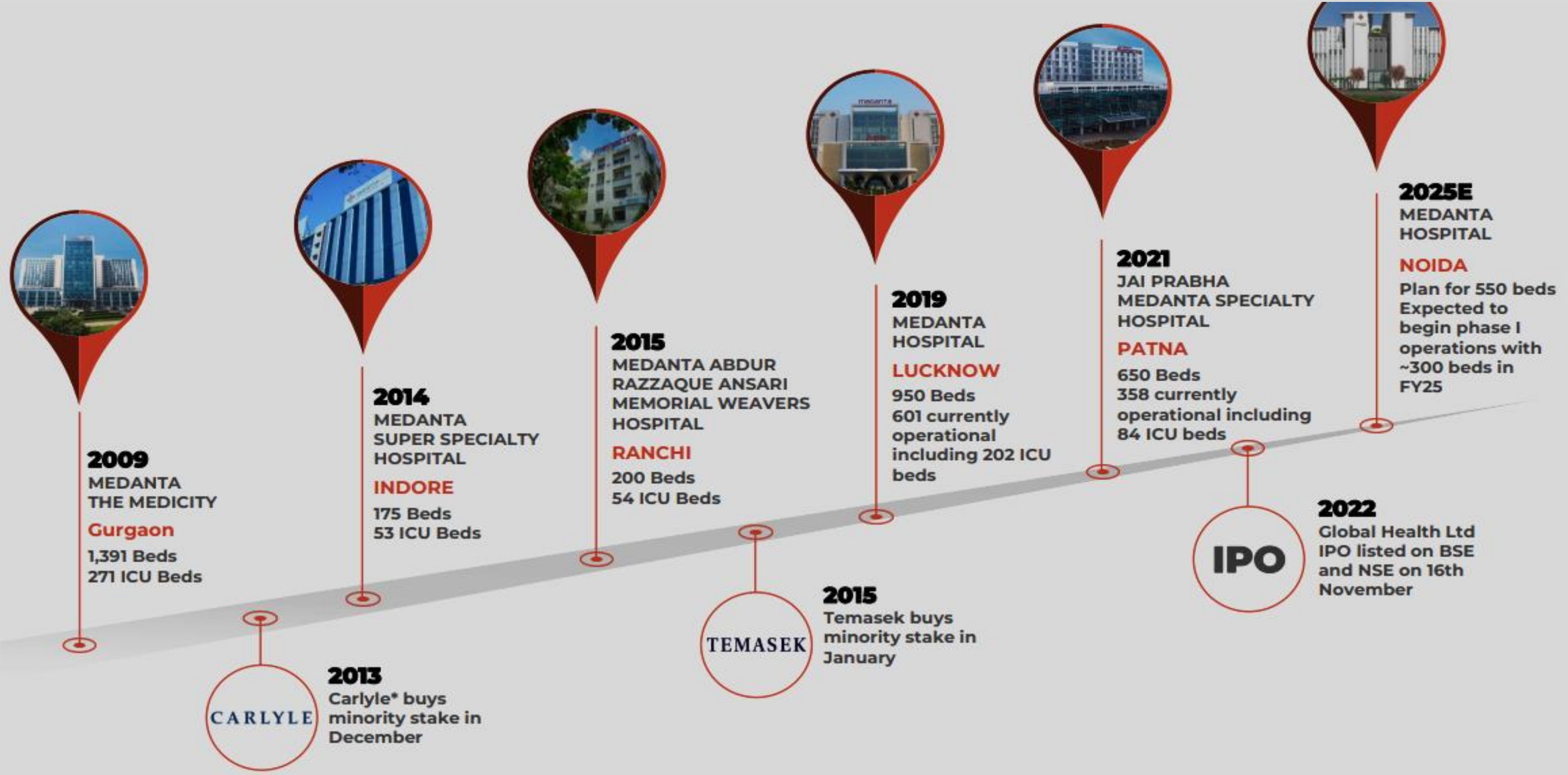
Financial summary Y/E Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	21,666	26,942	33,994	38,395	44,308
Net profit (Rs m)	1,962	3,261	4,970	5,680	6,619
EPS (Rs)	7.7	12.2	18.5	21.2	24.7
PE (x)	165.2	105.3	69.1	60.4	51.9
EV / EBITDA (x)	55.6	39.7	27.6	23.4	19.8
P/BV (x)	15.3	10.2	8.5	7.1	6.0
RoE (%)	13.1	16.1	18.6	17.7	17.3
RoCE (%)	11.4	13.4	15.2	14.5	14.3
Dividend yield (%)	-	-	-	-	-
Net debt/equity (x)	0.2	-0.2	-0.3	-0.4	-0.4

Source: Company, Anand Rathi Research

Valuation Summary	FY26e
EBITDA (Rs m)	11,416
Target multiple (x)	32
EV (Rs m)	3,65,304
Less net debt (Rs m)	-16,982
Derived market cap (Rs m)	3,82,285
No. of shares (m)	268
Target price (Rs)	1,430
CMP (Rs)	1,416
Upside (%)	1%

MEDANTA - Story in charts

Growth from a single flagship hospital in Gurgaon to a network of five high-quality hospitals across north India



MEDANTA - Story in charts

The largest private hospital beds in operation are under one roof in Delhi (NCR), Uttar Pradesh and Bihar

GURGAON

1,391 beds; 271 ICU beds

LUCKNOW

601 beds; 202 ICU beds (950 planned)

PATNA

358 beds; 84 ICU beds (650 planned)

INDORE

175 beds; 53 ICU beds

RANCHI

200 beds; 54 ICU beds

NOIDA

550 total beds (under construction)

Source: Company, Anand Rathi Research

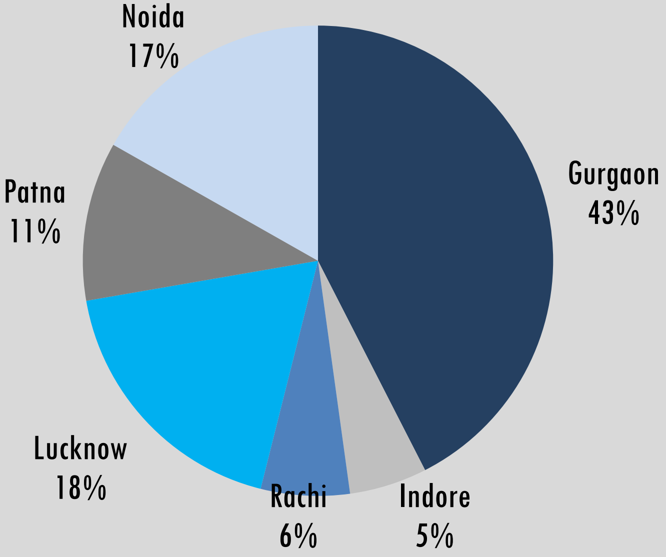
MEDANTA - Story in charts

ANANDRATHI

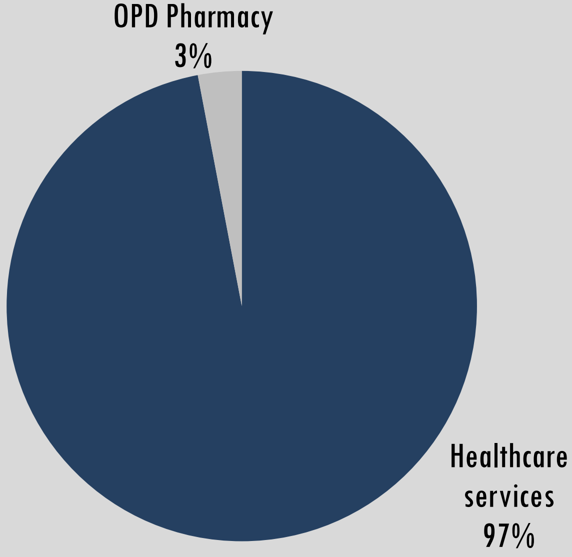
Overview of hospital network

Hospital	Status	Term	Area (sq.ft.)	Beds	ICU beds
Indore	Leased	27 years from 1st Feb'14	70,000	175	53
Ranchi	Leased	15 years from 8th Jun'15	188,275	200	54
Gurugram	Owned	Freehold	43 acres	1391	271
Lucknow	Owned	Freehold	50,890.31 sq.mtrs.	601	202
Noida (under construction)	Leased	90 years from 18th Jan'16	15,204.43 sq.mtrs.	550	NA
Patna (Bihar)	Concession agreement with the government of Bihar	33 years from 20th Jan'17	7 acres	358	84

Region-wise bed capacity breakdown; >65% in central India (FY23)



Revenue-split, FY23



Source: Company, Anand Rathi Research

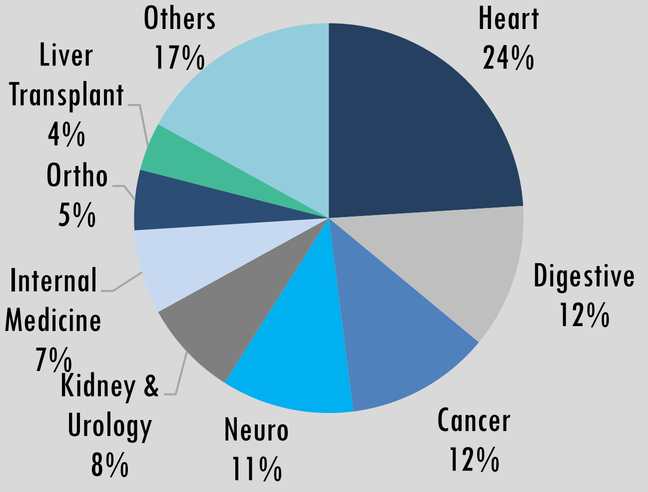
MEDANTA - Financial analysis

Key drivers of revenue and profitability

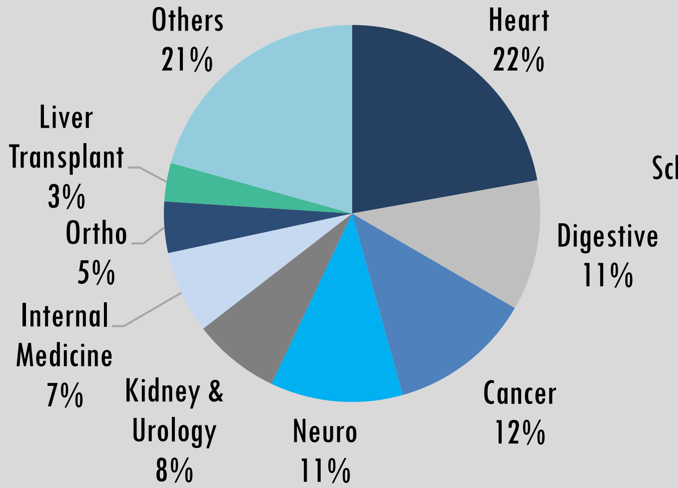
	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Capacity (beds)	1,722	2,141	2,176	2,404	2,697	2,824	3,604	3,666
Operational beds	1,348	1,517	1,579	1,779	2,049	2,332	2,752	2,912
Occupancy (%)	*65.4*	*54.9*	*51.6*	*60.0*	*59.0*	*63.0*	*64.3*	*55.5*
ARPOB (Rs/day)	44,637	50,166	41,730	54,547	59,098	57,753	55,289	57,308
Total revenues (Rs m)	14,558	15,005	14,467	21,673	26,940	35,771	40,368	46,500

Change in specialty mix and increasing share of international patients in overall revenue to drive growth and margins

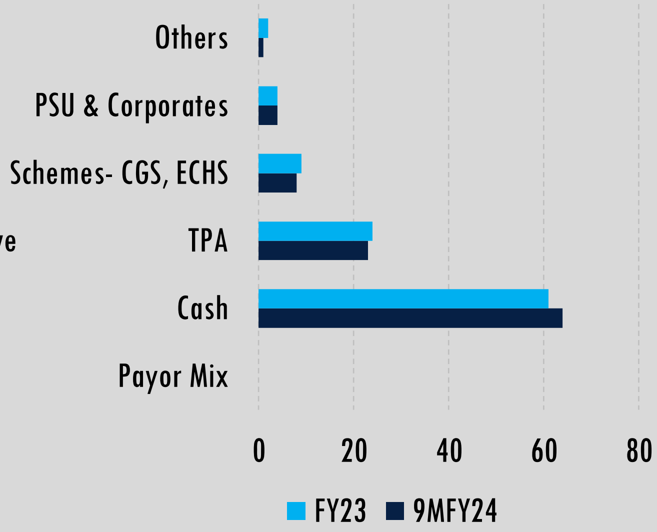
Specialty mix, FY23



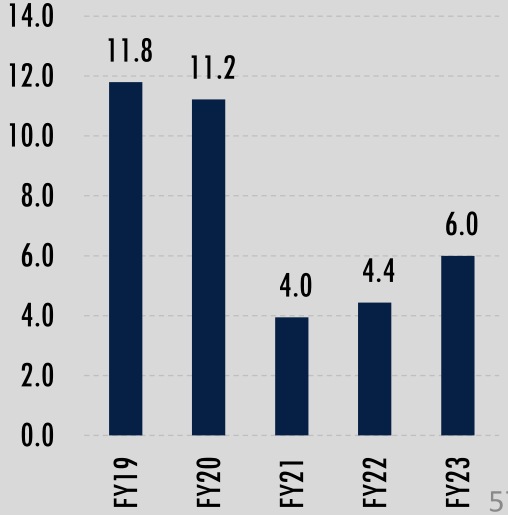
Specialty mix, 9M FY24



Cash + TPA bring >85% to revenue



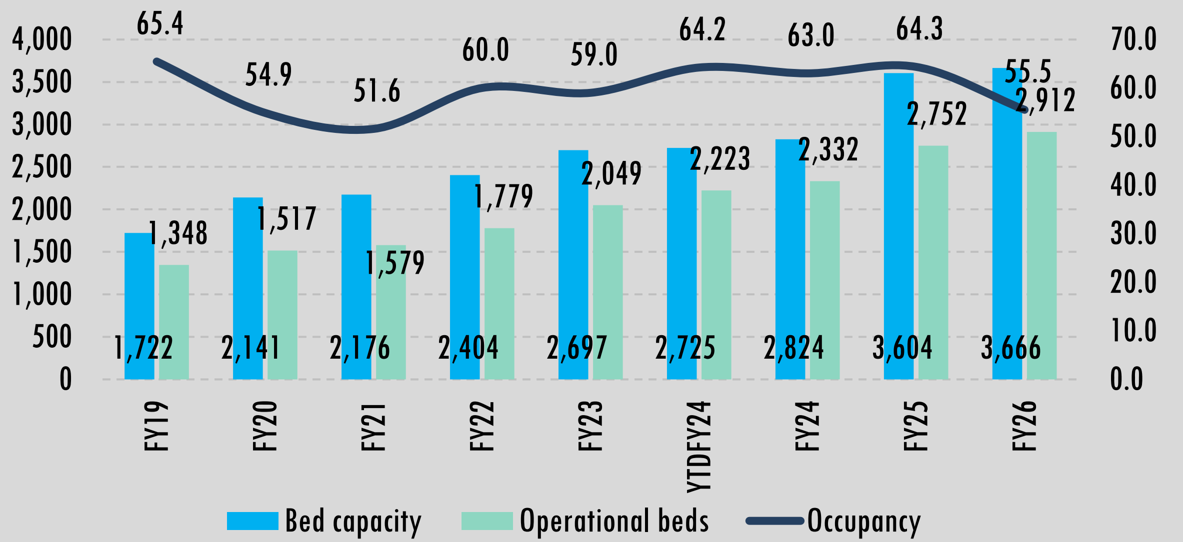
Flow of international patients, struck by Covid-19, gradually picking up



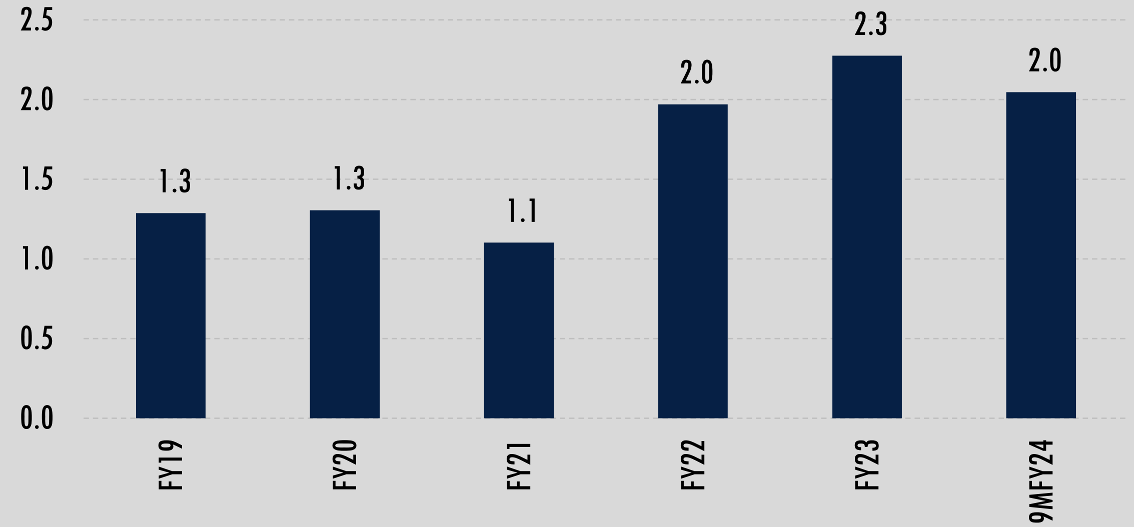
Source: Company, Anand Rathi Research

MEDANTA - Story in charts

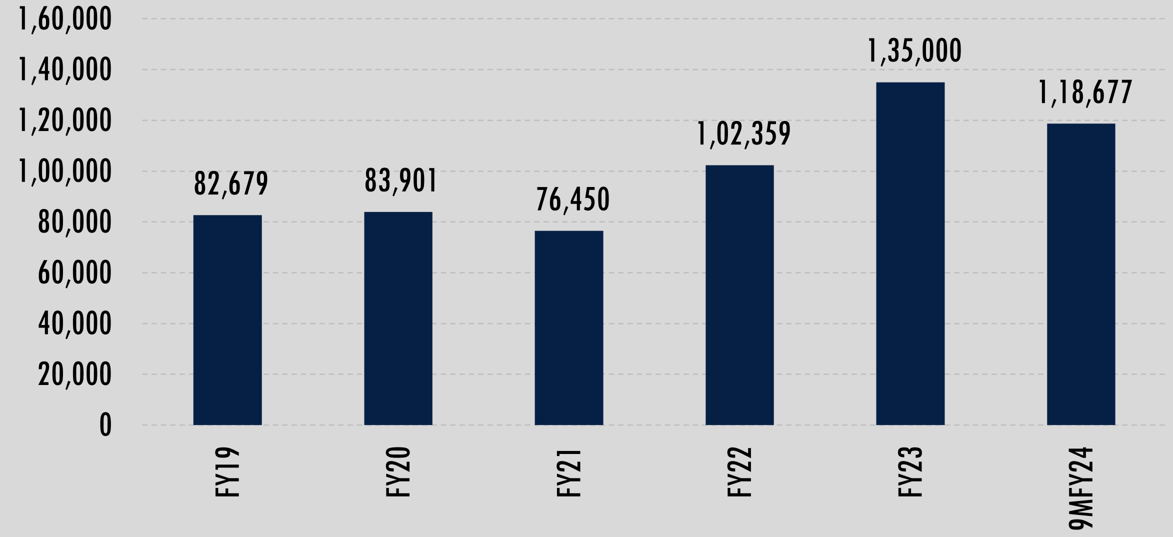
Capacity added, from 1,722 beds in FY19 to 2,725 in FY24 ytd



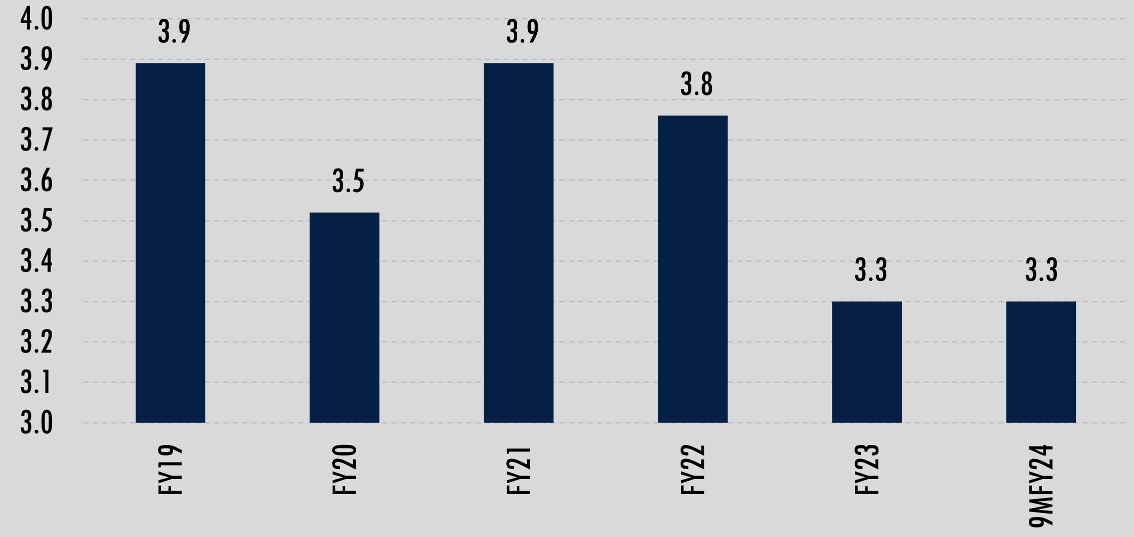
OPD volumes saw more than 15% growth over FY19-23…



…IP volumes have registered a 13% CAGR over FY19-23



ALOS declined from 3.9 days in FY19 to 3.3 days in 9M FY24

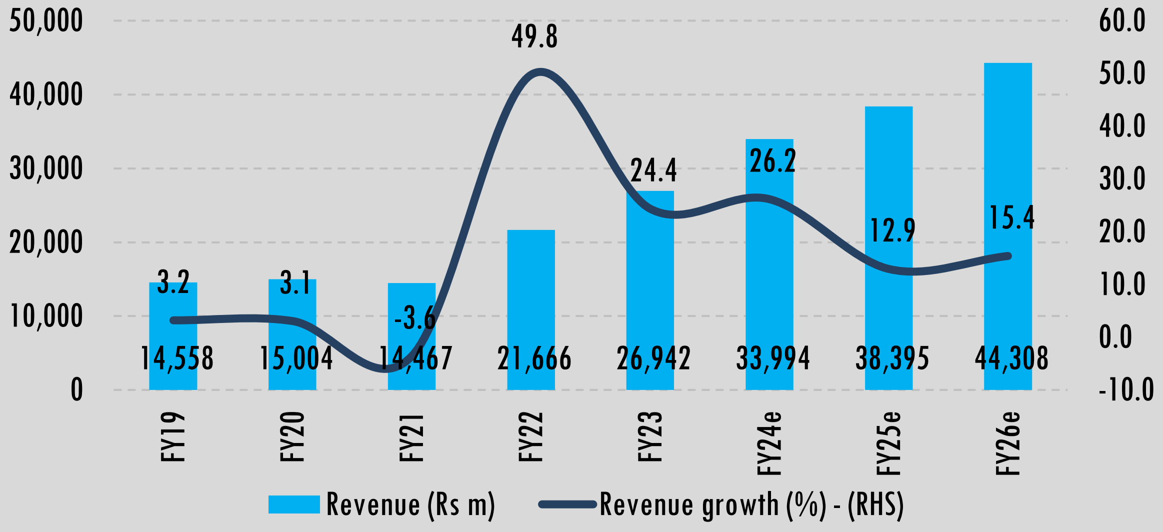


Source: Company, Anand Rathi Research

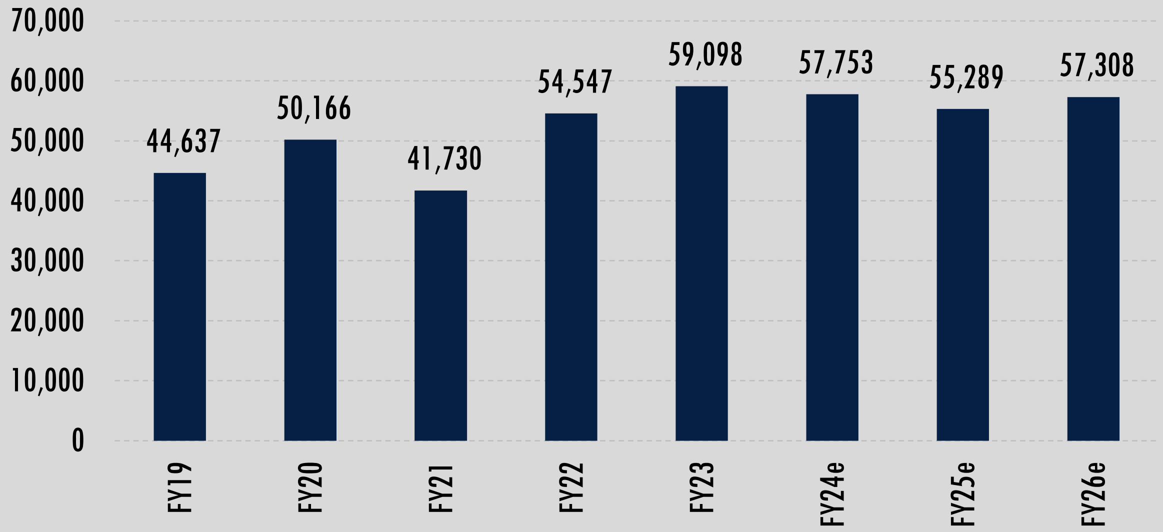
MEDANTA - Story in charts

ANANDRATHI

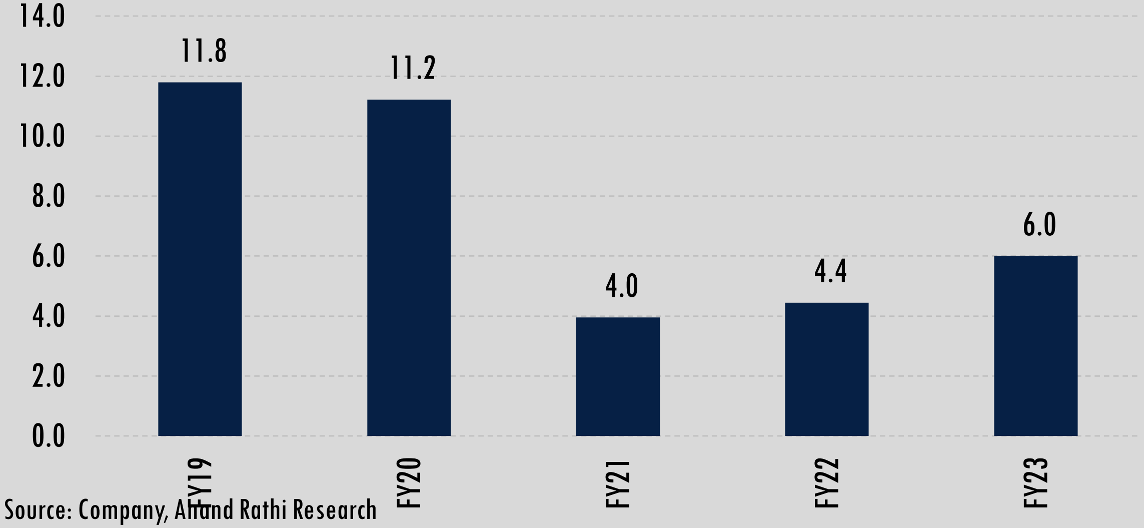
Growth to be propelled largely by volumes at new hospitals…



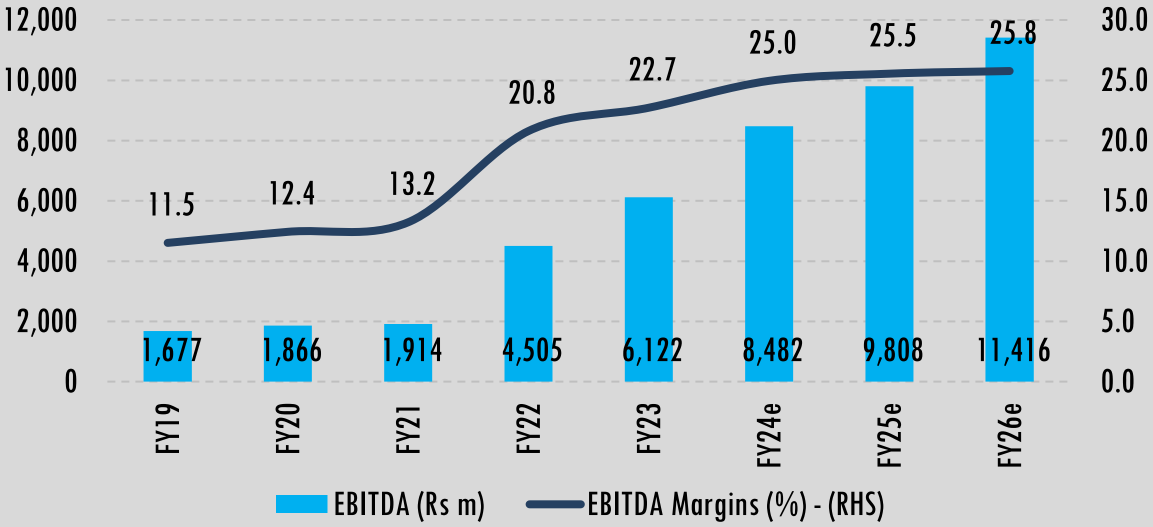
… 3% ARPOB growth over FY22-24



ARPOB to be supported by increase in international patients…



…to be reflected in EBITDA and EBITDA margin

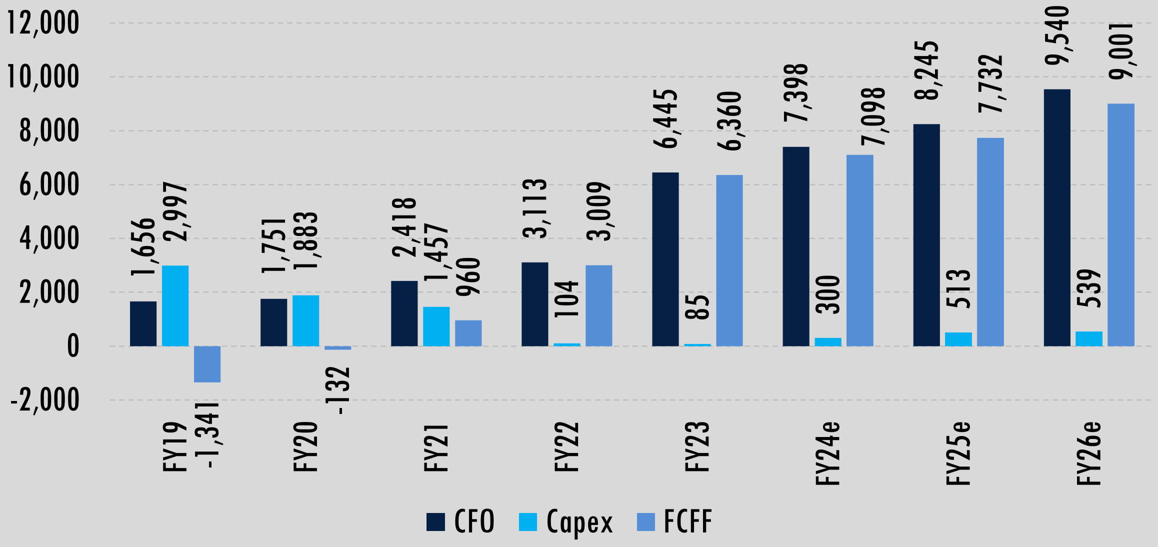


Source: Company, Anand Rathi Research

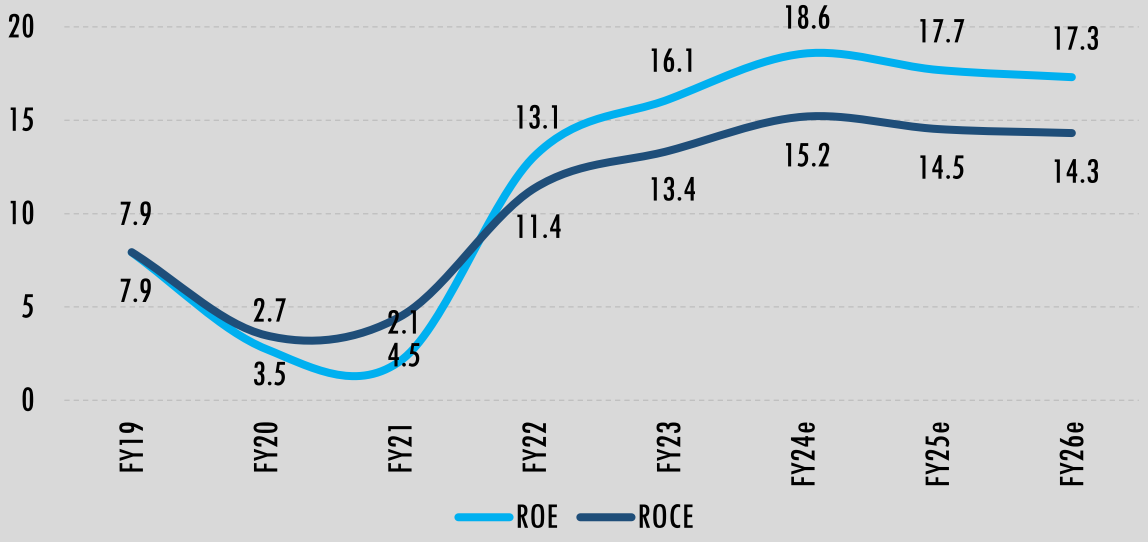
MEDANTA - Story in charts

ANANDRATHI

FCFF generation strong; capex to be funded largely through internal accruals



Return ratios to improve to 18% and 15.4% by FY26



Peer comparison

Companies	Mcap	EPS			EV/EBITDA			P/E			RoE			RoCE			P/B		
	(Rs mn)	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e
Max Healthcare Institute	7,94,213	14.4	17.4	22.7	40.6	33.7	25.9	56.0	46.4	35.4	17.5	18.6	20.5	16.7	18.6	21.5	8.4	7.3	6.2
Jupiter Life Line Hospitals	78,220	22.1	29.7	35.5	30.1	25.2	21.1	53.9	40.2	33.6	20.4	16.9	17.0	21.4	20.3	21.3	7.4	6.3	5.3
Global Health	3,43,290	18.5	21.2	24.7	38.6	33.0	28.0	69.1	60.4	51.9	18.6	17.7	17.3	22.5	22.4	21.9	11.7	9.8	8.3
Krishna Institute of Medical Sciences	1,64,698	44.9	50.6	55.9	24.4	21.5	19.3	45.8	40.7	36.8	19.4	17.9	16.3	21.5	21.5	20.3	8.1	6.6	5.5
RainbowChildrens Medicare	1,25,862	20.6	23.3	29.6	29.7	25.3	20.6	60.1	53.3	41.9	18.0	17.0	18.1	28.9	26.4	27.1	9.9	8.4	7.0
Narayana Hrudalaya	2,61,582	39.0	39.7	43.4	24.0	21.0	18.8	32.8	32.3	29.5	31.9	25.0	22.0	27.5	24.7	23.6	9.1	7.2	5.9

Source: Company, Anand Rathi Research

MEDANTA - Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	21,666	26,942	33,994	38,395	44,308
Growth (%)	**49.8**	**24.4**	**26.2**	**12.9**	**15.4**
Raw material	**5,429**	**6,253**	**7,479**	**8,447**	**9,748**
Employee & other expenses	11,731	14,568	17,874	19,927	22,929
EBITDA	**4,505**	**6,122**	**8,641**	**10,021**	**11,631**
EBITDA margins (%)	20.8	22.7	25.4	26.1	26.3
- Depreciation	1,297	1,499	1,637	1,878	2,130
Other income	392	649	800	850	900
Interest expense	795	779	742	892	992
PBT	2,806	4,493	7,062	8,101	9,408
Effective tax rates (%)	30	27	28	28	28
+ Associates / (Minorities)	-	-	-	-	-
Adjusted income	1,962	3,261	4,970	5,680	6,619
Extraordinary item (Loss) / Profit	-	-	-	-	-
Reported PAT	1,962	3,261	4,970	5,680	6,619
WANS	253	268	268	268	268
FDEPS (Rs)	7.7	12.2	18.5	21.2	24.7

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	506	536	536	536	536
Net worth	16,160	24,282	29,252	34,932	41,551
Debt (including Pref)	8,379	8,422	7,422	8,922	9,922
Minority interest	-	-	-	-	-
Deferred tax liability / (Asset)	-278	-69	-69	-69	-69
Capital employed	**24,261**	**32,635**	**36,605**	**43,785**	**51,404**
Net tangible assets	17,759	20,502	21,365	24,032	26,672
CWIP (tangible and intangible)	4,393	3,270	3,270	3,270	3,270
Investments (strategic)	1	1	1	1	1
Investments (financial)	-	-	-	-	-
Current assets (excl. cash) incl. LT	3,908	4,350	5,055	5,476	6,041
Cash	5,118	12,780	16,736	21,895	27,571
Current liabilities	6,916	8,267	9,821	10,888	12,151
Working capital	-3,009	-3,917	-4,766	-5,412	-6,110
Capital deployed	**24,261**	**32,635**	**36,605**	**43,785**	**51,404**
Contingent liabilities	-	-	-	-	-

Source: Company, Anand Rathi Research

MEDANTA - Financials

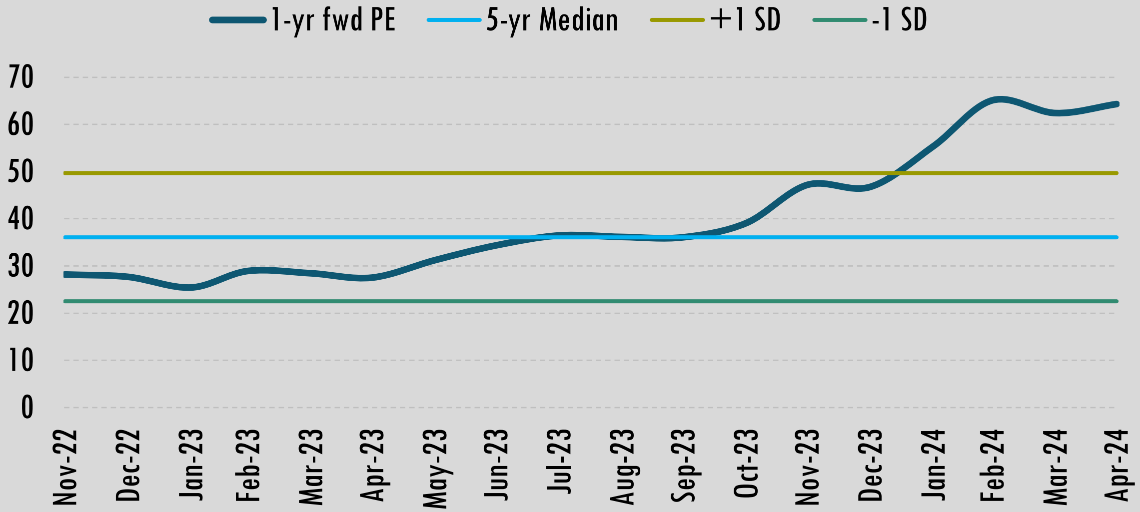
Cash flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	2,806	4,493	6,903	7,889	9,193
+ Non-cash items	2,092	2,278	2,379	2,770	3,123
Operating profit before WC changes	4,898	6,771	9,282	10,658	12,316
- Incr./(decr.) in WC	1,016	-821	-849	-646	-698
Others, including taxes	769	1,147	1,933	2,209	2,574
Operating cashflow	3,113	6,445	8,198	9,095	10,440
- Capex (tangible + intangible)	2,731	2,360	2,500	4,544	4,771
Free cashflow	382	4,085	5,698	4,551	5,669
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	795	779	742	892	992
+ Equity raised	380	4,785	-	-	-
+ Debt raised	2,152	-276	-1,000	1,500	1,000
- Fin. investments	1,478	1,064	-	-	-
- Misc. items (CFI + CFF)	(1,584)	(910)	-	-	-
Net cashflow	2,225	7,662	3,956	5,159	5,676

Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	182.8	116.5	76.4	66.9	57.4
EV/EBITDA (x)	61.5	44.0	30.7	26.1	22.1
EV/sales (x)	12.8	10.0	7.8	6.8	5.8
P/B (x)	16.9	11.3	9.4	7.8	6.6
RoE (%)	13.1	16.1	18.6	17.7	17.3
RoCE (%) - after tax	11.4	13.4	15.2	14.5	14.3
RoIC (%) - after tax	13.1	16.1	18.6	17.7	17.3
DPS (Rs)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-
Net debt/equity (x)	0.2	-0.2	-0.3	-0.4	-0.4
Receivables (days)	26	25	23	24	23
Inventory (days)	31	33	35	38	37
Payables (days)	89	96	103	104	103
CFO:PAT%	159	198	155	159	156

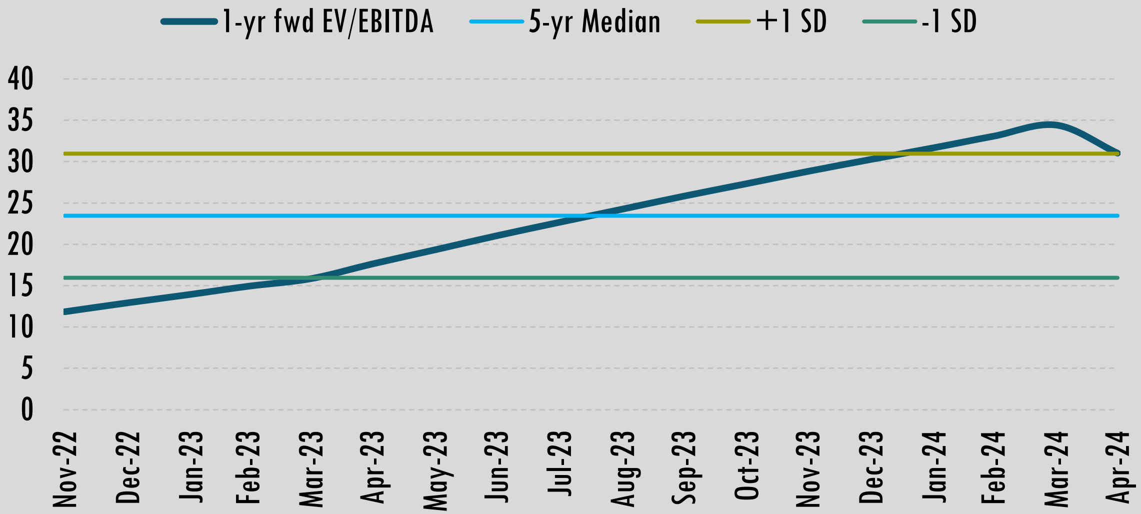
Source: Company, Anand Rathi Research

MEDANTA - Valuation charts

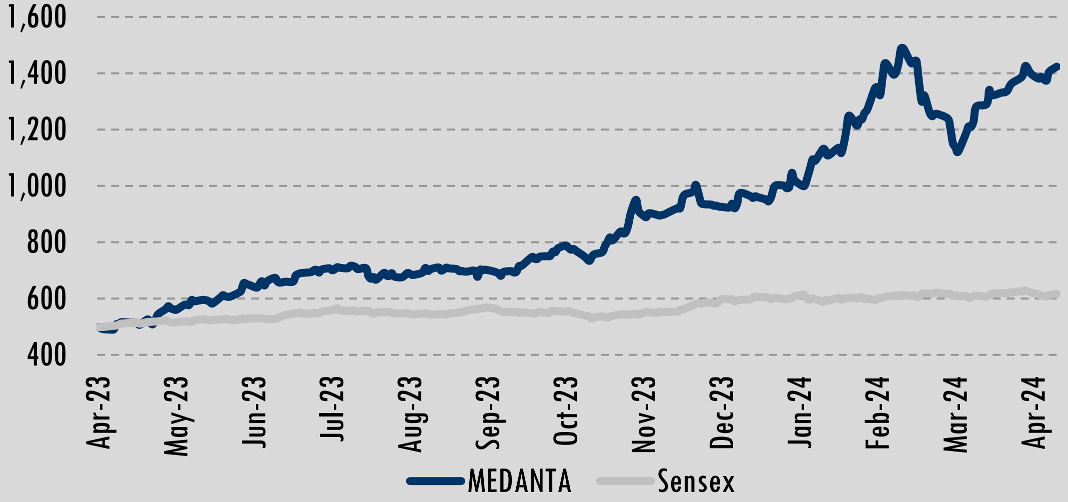
1-year-forward P/E



1-year-forward EV/EBITDA



Relative-price performance



Source: Bloomberg, Anand Rathi Research

Healthcare
Initiating coverage

ANANDRATHI

Rating: Hold
Target Price: Rs.1,380
Current market price: Rs.1,250

Narayana Hrudayalaya (Narayana)

Growth, with brownfield initiatives at the forefront; Hold

Key data	NARH IN
52-week high / low	Rs1445 / 749
Sensex / Nifty	73649 / 22336
3-m average volume	$6.5m
Market cap	Rs257bn / $3077.6m
Shares outstanding	204m

Shareholding (%)	Dec'23	Sept'23	Jun'23
Promoters	63.9	63.9	63.9
- of which, Pledged	0.0	0.0	0.0
Free float	36.2	36.2	36.2
- Foreign institutions	11.5	11.6	11.1
- Domestic institution	10.2	10.9	12.0
- Public	14.4	13.7	13.1

NARH - Investment summary

ANANDRATHI

Summary

One of the pioneers of low-cost healthcare models in India with a network of 39 facilities including 18 owned/operated hospitals, three heart centres, one facility in the Cayman Islands and 17 primary-care facilities with 6,042 beds and over 30 specialties, Narayana Hrudayalaya has established operations and strong brand recognition especially in Bengaluru and Karnataka. Besides, the strong performance of its flagship units is complemented by the steady improvement in the new hospitals

Leading hospital-chain in Karnataka, east India

The company is dominant in Karnataka and east India (~78% of beds) and is in a catch-up mode in Delhi/NCR and Mumbai. It is a rare Indian chain with meaningful international operations (the Cayman Islands ~19% of sales). Its ability to diversify its case-mix beyond cardiac care, especially in oncology, has driven the ramp-up in mature hospitals. This, in turn, has improved OCF (FY24-26: Rs31.8bn) and reduced its net debt/equity to 0.3x. It is set for the next expansion phase

Brownfield-led expansion; headroom in current network augurs well

FY24-27 bed expansion is likely to be modest (25-30%), given the limited headroom for current hospitals to grow. Two-thirds is likely to be brownfield, the rest greenfield, in its core markets (Kolkata, Raipur). Moreover, ~40% of operational beds are still not mature. Growth and margins coming from these beds would offset upfront losses from new beds. We expect a 10% revenue CAGR over FY24-26, to be driven by rising occupancy at its existing network, aided by de-bottlenecking and beds added. The occupancy gains would offset upfront costs on new beds, leading to flat EBITDA margins

Cayman operations on a strong footing

The company owns and operates Health City Cayman Islands, a 110-bed facility in the Cayman Islands, Caribbean. HCCI delivered a strong and consistent performance over the last few quarters. It posted strong, $109.2m, revenue (up 19% y/y) with an over 40% EBITDA margin in FY23. The strong pick-up in patient footfalls was on account of gaining traction from neighboring islands. Further, the company is investing in primary care and oncology, likely to support growth ahead

NARH - Investment summary

ANANDRATHI

Valuation

The company's position in India is solidified by the higher-maturity mix in hospitals, steady performance of its flagship hospitals in India and better profitability of new hospitals (SRCC, Gurugram, Dharamshila). Ahead, prioritising de-bottlenecking and brownfield expansion at its centres and expansion at the Cayman Islands would boost growth. However, operationalising new hospitals, which would account for most of its growth, could pose a risk to margins. We expect 10%/10%/7% revenue/EBITDA/PAT CAGRs over FY24-26. We initiate coverage of the company, with a Hold rating and Rs1,380 TP, valuing its Cayman Island business at 13x FY26e EBITDA and its domestic business at 25x FY26e EBITDA.

Key risks

- Delay in project executions and expansion challenges in adjacent territories
- Slower rate of beds added and inability to retain talent
- Regulatory risks: price controls, margin caps, mandatory bed allocations, etc.

Financial Summary Y/E Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	37,013	45,248	50,903	56,689	61,273
Net profit (Rs m)	3,419	6,062	7,964	8,111	8,859
EPS (Rs)	16.7	29.7	39.0	39.7	43.4
P/E (x)	76.5	43.1	32.8	32.3	29.5
EV / EBITDA (x)	40.4	27.2	23.8	20.8	18.6
P/BV (x)	17.6	12.3	9.1	7.2	5.9
RoE (%)	26.2	33.5	31.9	25.0	22.0
RoCE (%)	21.5	26.9	25.5	20.0	18.6
Dividend yield (%)	0.1	0.2	0.2	0.2	0.3
Net debt/equity (x)	0.2	0.1	0.2	0.1	0.0

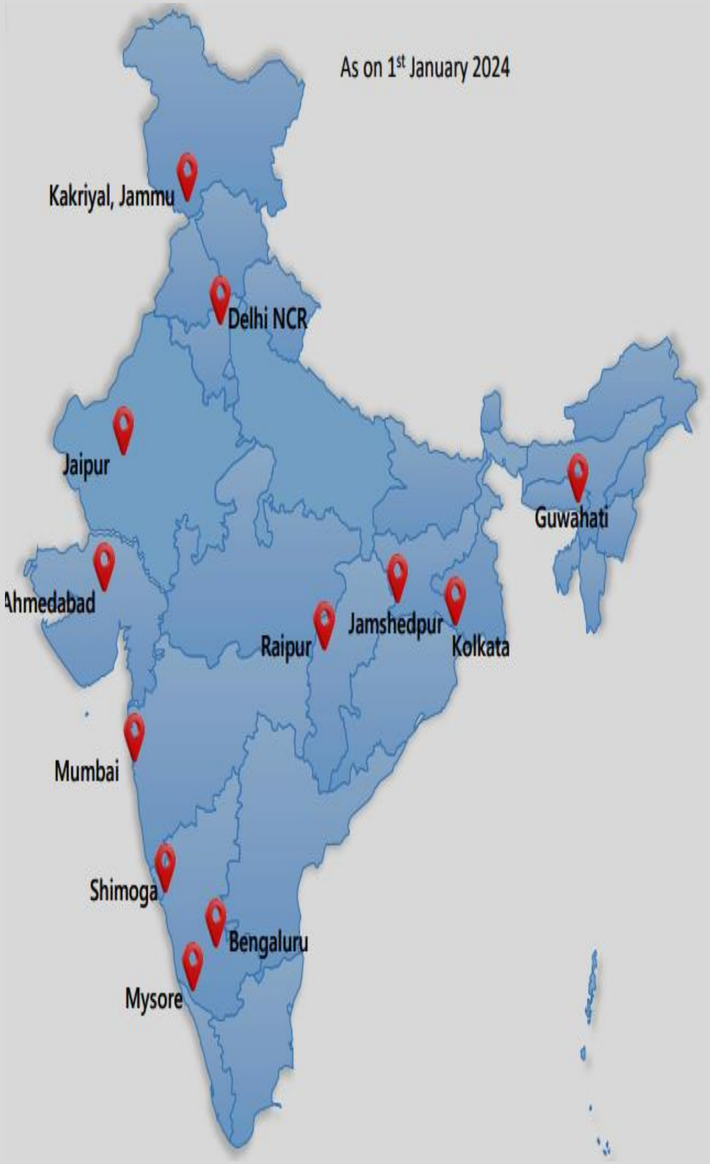
Source: Company, Anand Rathi Research

Valuation	FY26e
Cayman EBITDA (Rs m)	4,050
Target EV/EBITDA multiple (Cayman) (x)	13
Cayman EV (Rs m)	52,650
India EBITDA (Rs m)	9,279
Target EV/EBITDA multiple (excl/ Cayman) (x)	25
India EV (Rs m)	2,31,966
EBIDTA (Rs m)	**13,329**
Enterprise value (Rs m)	2,84,616
Total Enterprise value (A)	**2,84,616**
Less debt (Rs m)	2,209
Derived market cap (Rs m)	2,82,407
No. of shares (m)	204
Target price (Rs)	1,380
CMP (Rs)	1,250
Upside (%)	**10%**

NARH - Story in charts

ANANDRATHI

Network of 39 healthcare facilities in India



South
Hospitals - 5 | Heart centres - 3 | Clinics - 11
Operational beds - 1920 (Hospitals)
- 241 (Heart centres)

East
Hospitals - 7 | Clinics - 4| Dialysis centre - 1
Operational beds - 1,865

North
Hospitals – 4 | Clinics - 1
Operational beds: 1,159

West
Hospitals - 2
Operational beds - 351

Source: Company, Anand Rathi Research

Scaled up rapidly over the last decade; few hospitals still under-utilized

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

NARH - Story in charts

Key drivers of revenue and profitability

Revenue (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Flagship hospitals	13725	17176	19146	21314	22633
YoY growth %	*61.5*	*25.1*	*11.5*	*11.3*	*6.2*
New hospitals	3630	4230	4732	5580	6455
YoY growth %	*50.0*	*16.5*	*11.9*	*17.9*	*15.7*
Other mature hospitals	9422	11742	13628	15348	17039
YoY growth %	*17.5*	*24.6*	*16.1*	*12.6*	*11.0*
Cayman Islands	6965	8829	9877	10790	11340
YoY growth %	*36.1*	*26.8*	*11.9*	*9.2*	*5.1*
Others (heart centres + Jammu)	2390	2695	2819	2956	3107
YoY growth %	*35.0*	*12.8*	*4.6*	*4.9*	*5.1*
Total revenue	36,131	44,672	50,203	55,989	60,573
YoY growth %	*39.9*	*23.6*	*12.4*	*11.5*	*8.2*

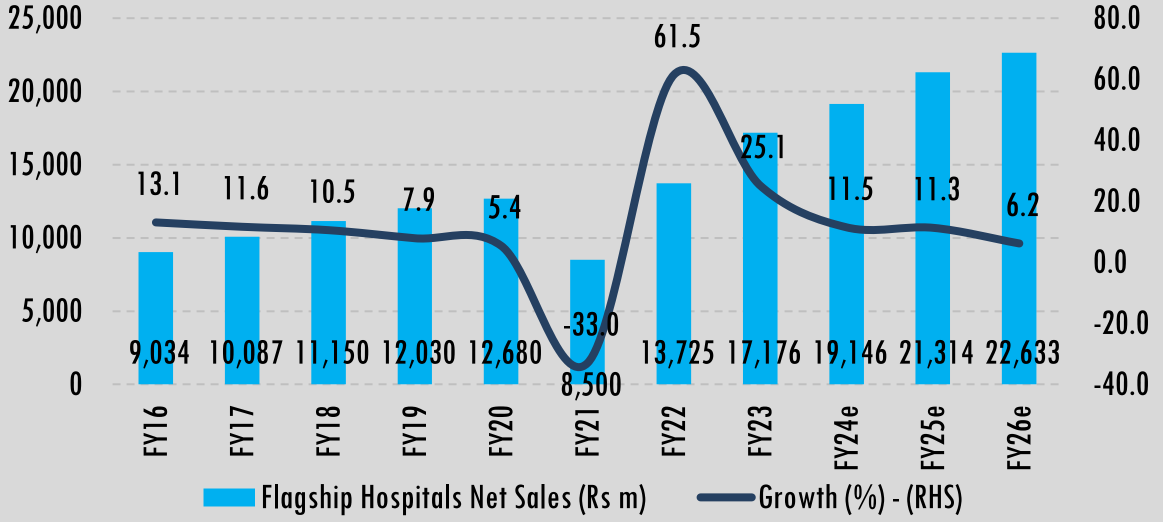
EBITDA (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Flagship hospitals	3184	5123	5990	6612	6921
Margins %	*23.2*	*29.8*	*31.3*	*31.0*	*30.6*
New hospitals	-160	248	439	637	825
Margins %	*-4.4*	*5.9*	*9.3*	*11.4*	*12.8*
Other mature hospitals	615	1174	1567	2041	2897
Margins %	*6.5*	*10.0*	*11.5*	*13.3*	*17.0*
Cayman Islands	2958	3532	4247	3855	4050
Margins %	*42.5*	*40.0*	*43.0*	*35.7*	*35.7*
Others (heart centres+Jammu)	161	186	214	244	277
Margins %	*6.8*	*6.9*	*7.6*	*8.2*	*8.9*
Total EBITDA	6,759	10,263	12,457	13,390	14,970
YoY growth %	*180.1*	*51.9*	*21.4*	*7.5*	*11.8*

Source: Company, Anand Rathi Research

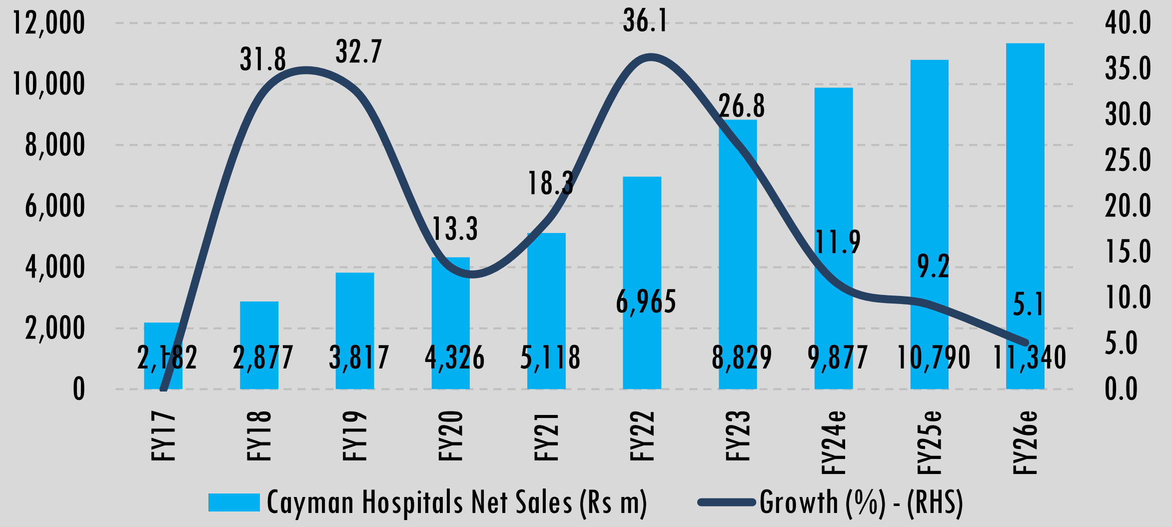
NARH - Story in charts

ANANDRATHI

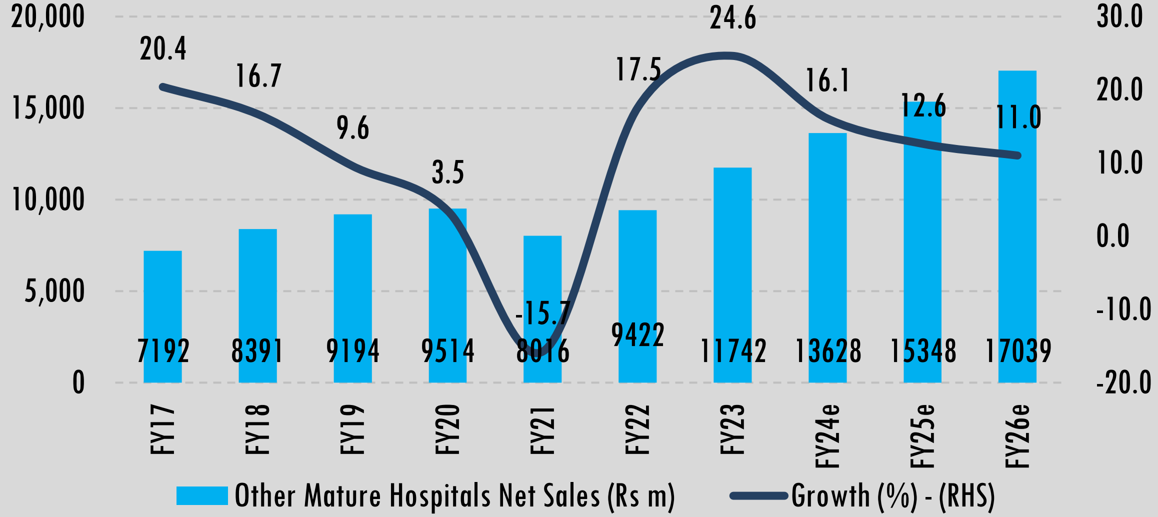
Bengaluru would be the key driver on debottlenecking, brownfield initiatives



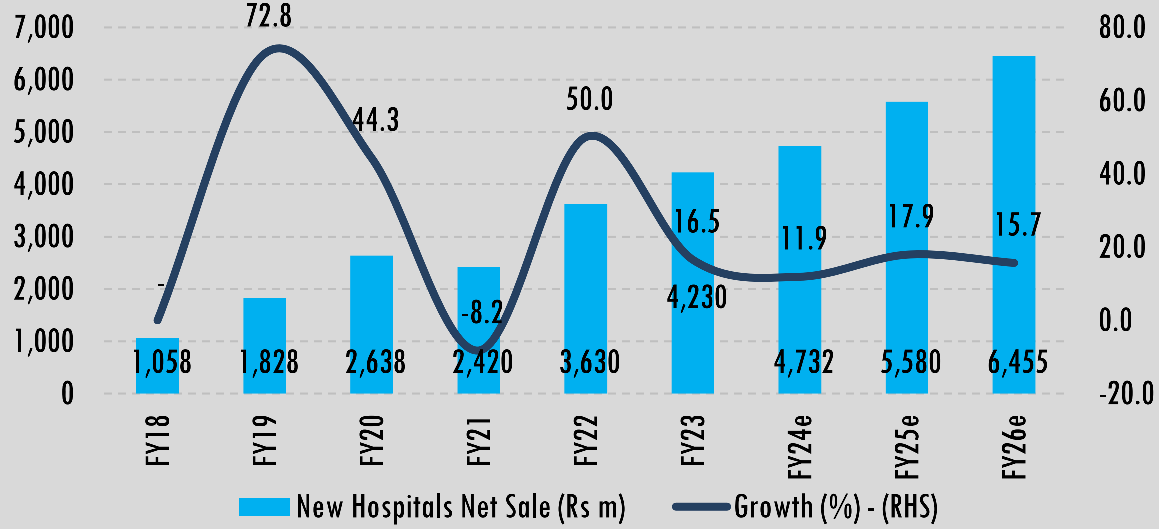
Rising occupancy coupled with increasing ARPOB to support growth in Cayman Islands



Steady state growth in the other matured hospitals



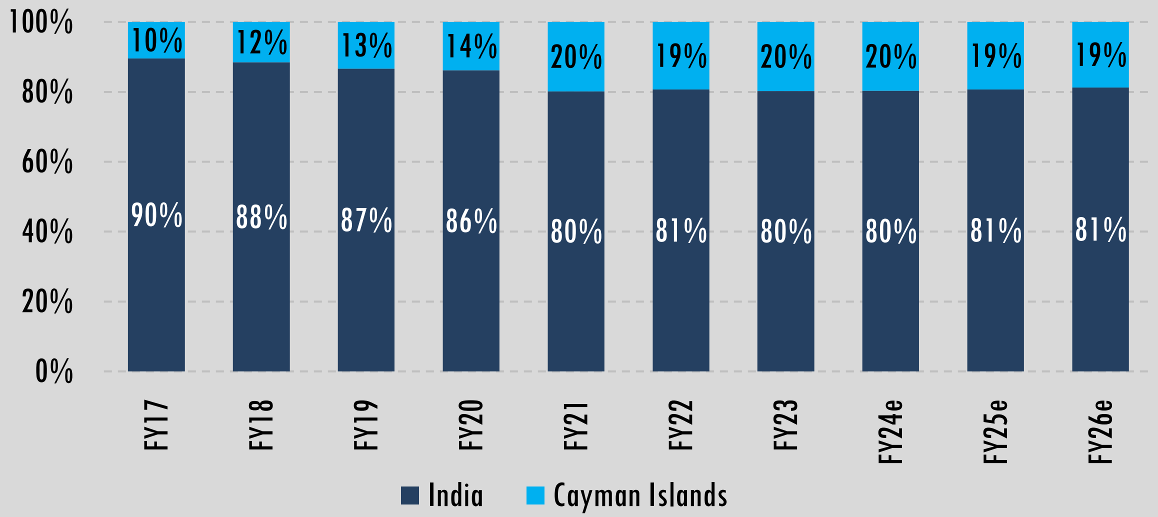
New hospitals gaining traction



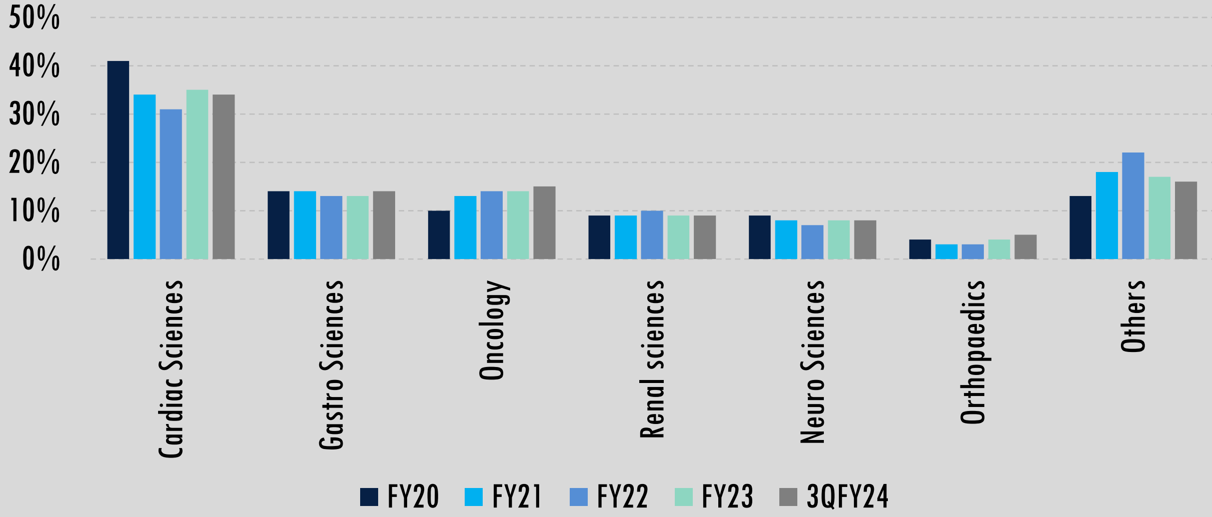
Source: Company, Anand Rathi Research

NARH – Change in specialty mix coupled with increasing share of international patients in overall revenues to drive growth and margins..

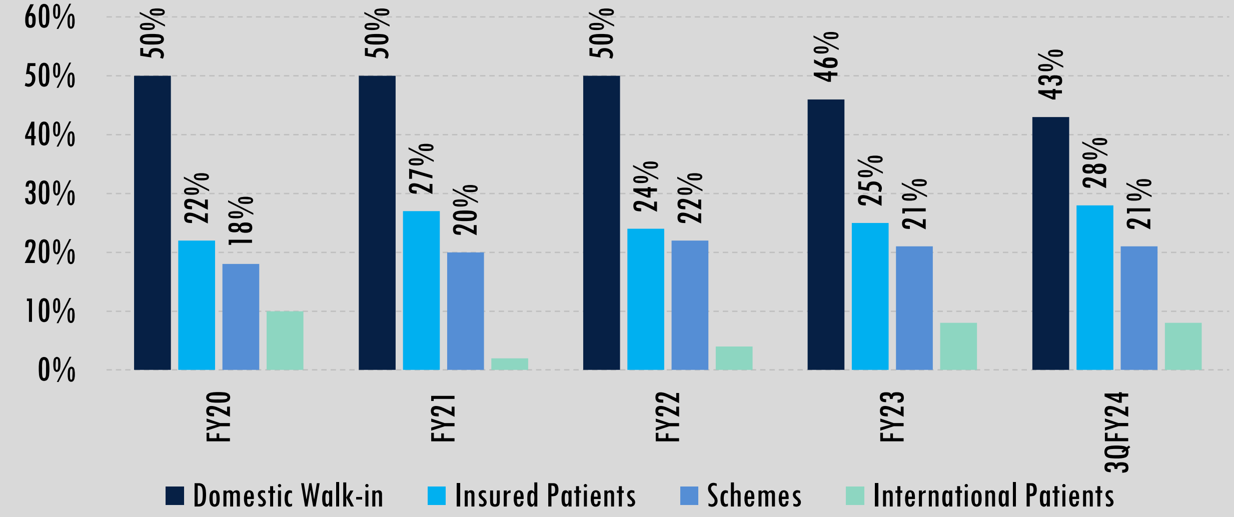
Stable contribution of Cayman Islands to the overall revenue share…



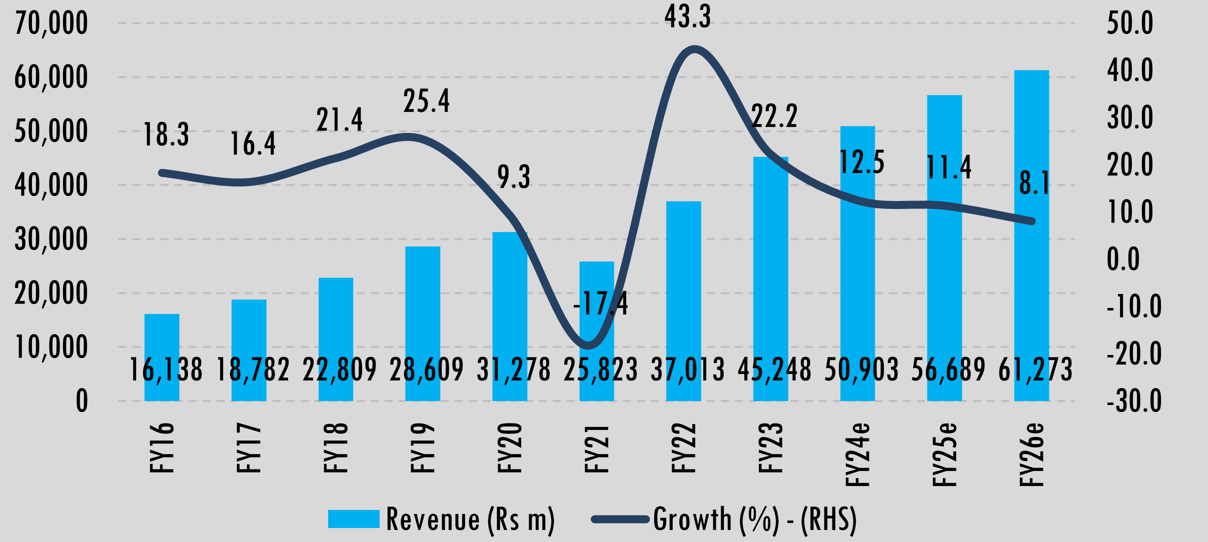
…coupled with rising share of oncology to the overall case mix…



…and improved payor mix of cash and insurance..



…resulting in better revenue growth (%)

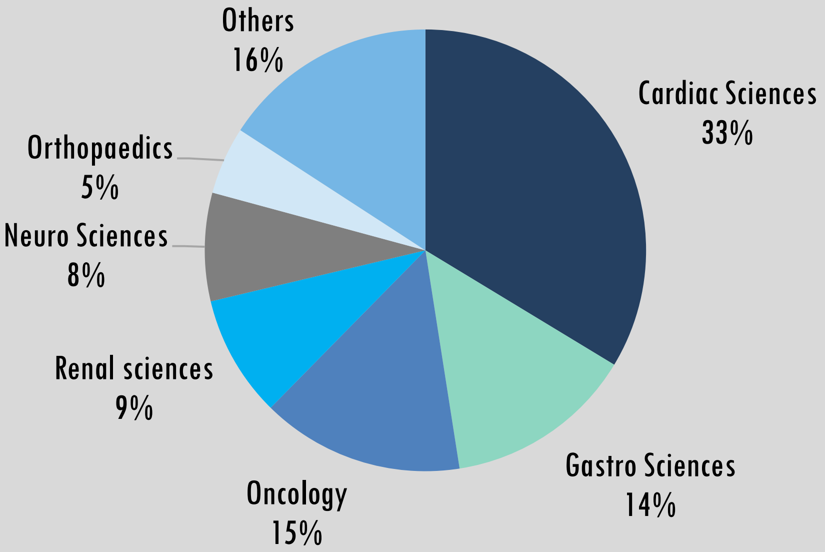


Source: Company, Anand Rathi Research

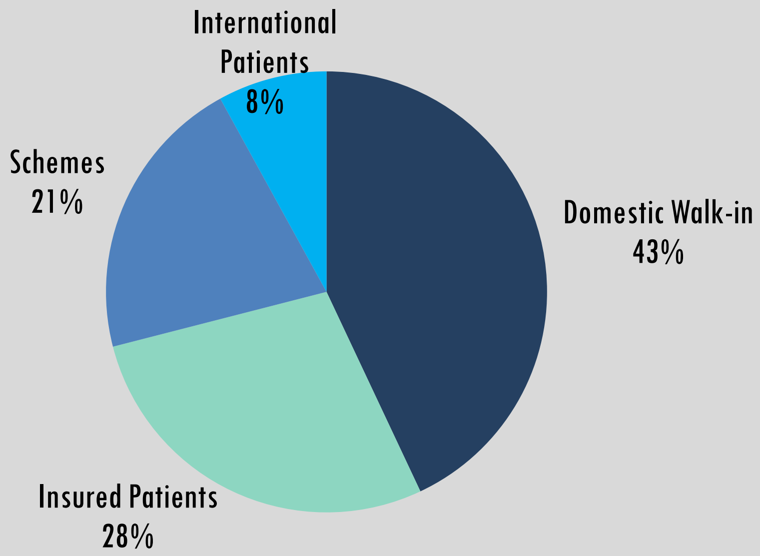
NARH - Story in charts

ANANDRATHI

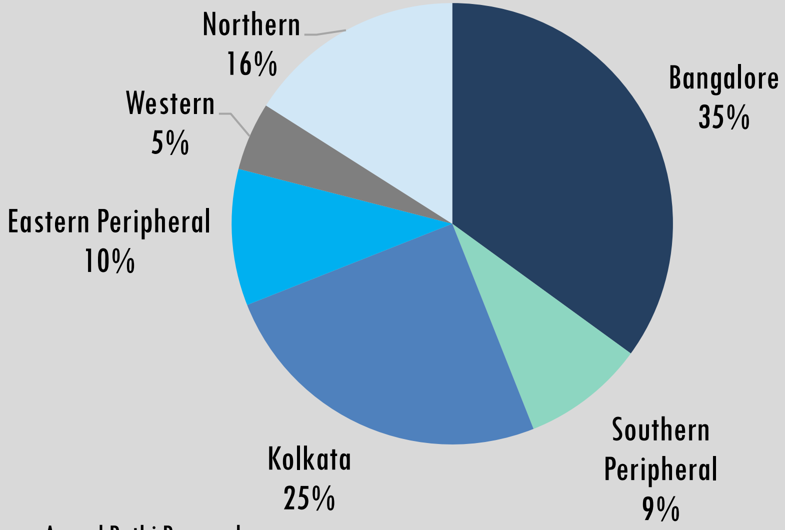
~50% share of cardiac sciences and oncology in the overall case mix…



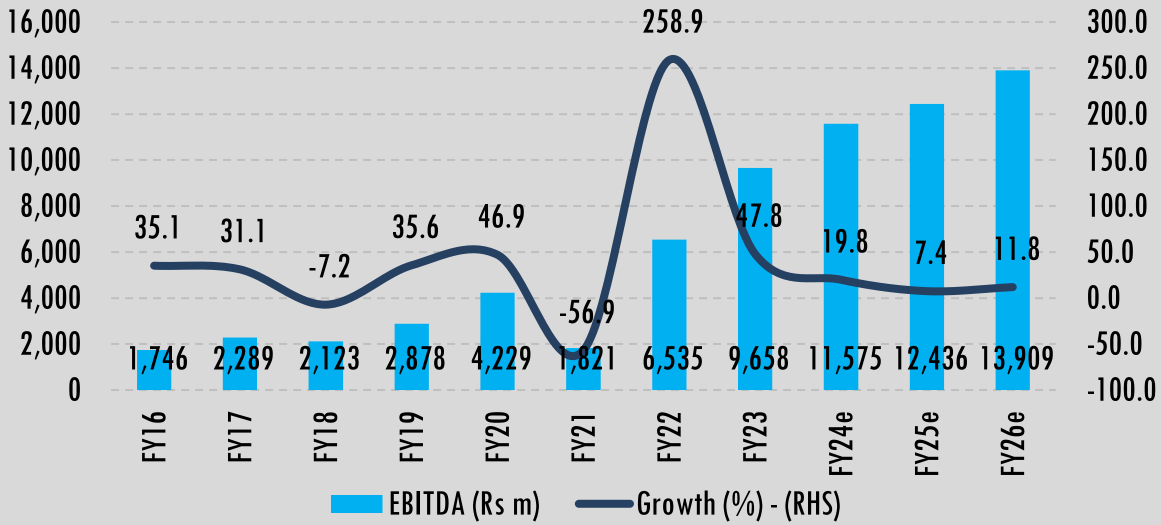
… >70% of revenue from cash and insurance..



..greater contribution from the matured hospitals..



…to be reflected in EBITDA and EBITDA margins

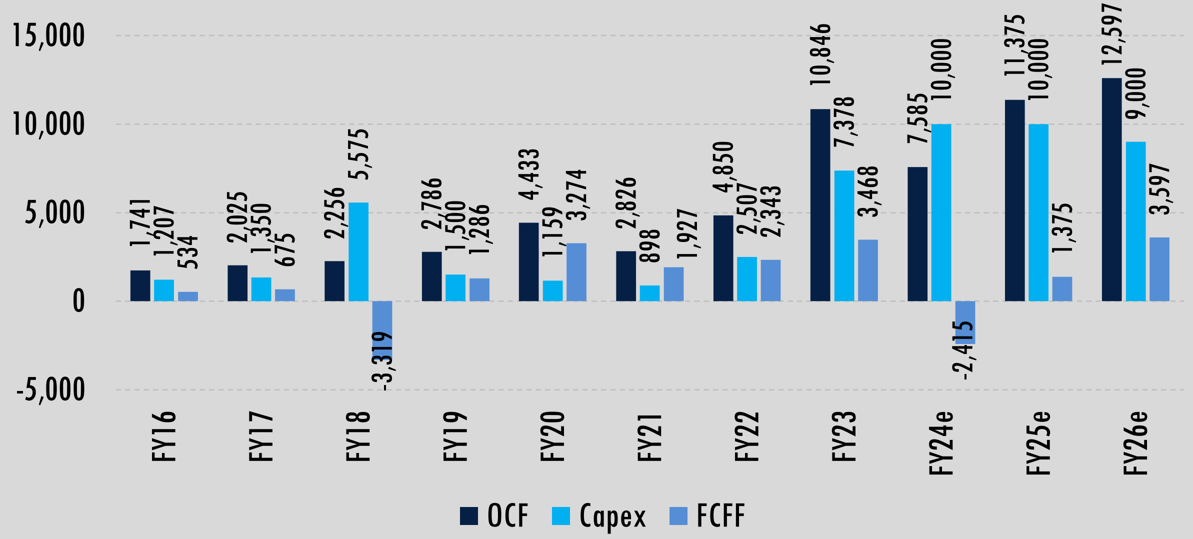


Source: Company, Anand Rathi Research

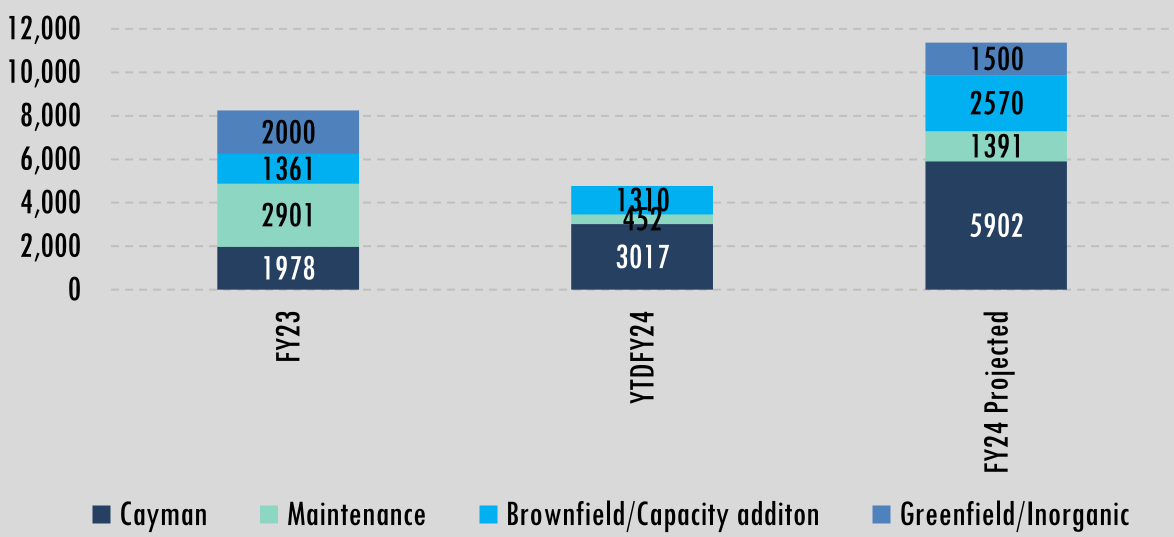
NARH - Story in charts

ANANDRATHI

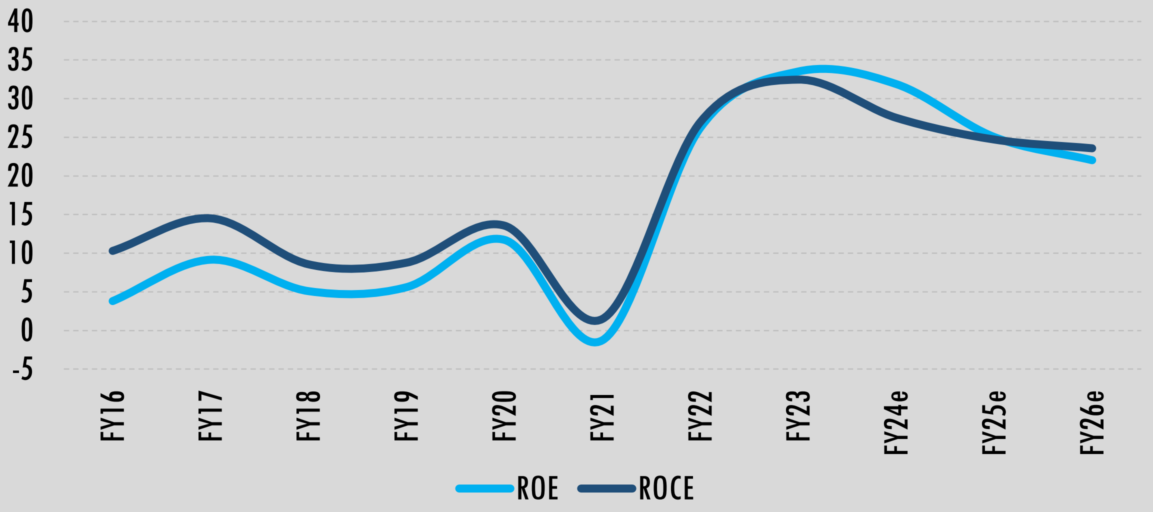
FCFF generation strong; capex largely to be funded through internal accruals



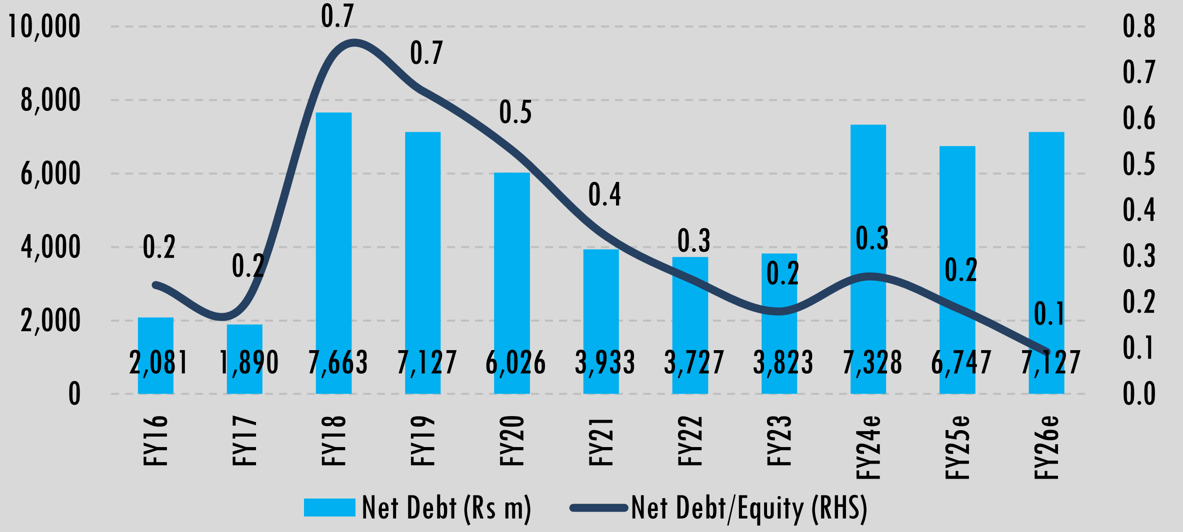
Capex largely for Cayman Islands and brownfield additions



Return ratios may dip; however, would be ~22-23% by FY26



Net debt/equity to dip to 0.1x by FY26



Source: Company, Anand Rathi Research

NARH - Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	37,013	45,248	50,903	56,689	61,273
Growth (%)	43.3	22.2	12.5	11.4	8.1
Raw material	9,092	10,012	11,199	12,472	13,480
Employee & other expenses	21,386	25,578	28,506	31,462	33,700
EBITDA	**6,535**	**9,658**	**11,199**	**12,755**	**14,093**
EBITDA margins (%)	17.7	21.3	22.0	22.5	23.0
- Depreciation	1,835	2,100	2,394	2,980	3,209
Other income	346	654	674	694	715
Interest expense	663	695	900	700	500
PBT	4,383	7,518	8,578	9,770	11,099
Effective tax rates (%)	20	19	11	15	18
+ Associates/ (Minorities)	-83	1	2	2	2
Adjusted income	3,419	6,062	7,964	8,026	8,941
Extraordinary items (Loss) / Profit	-	-	-	-	-
Reported PAT	3,419	6,062	7,964	8,026	8,941
WANS	204	204	204	204	204
FDEPS (Rs)	16.7	29.7	39.0	39.3	43.8

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	2,044	2,044	2,044	2,044	2,044
Net worth	14,886	21,314	28,665	36,162	44,306
Debt (incl. Pref)	5,449	7,622	9,622	8,622	7,622
Minority interest	7	10	14	19	24
Deferred tax Liability/(Asset)	496	814	814	814	814
Capital employed	**20,838**	**29,761**	**39,115**	**45,617**	**52,767**
Net tangible assets	17,529	20,884	28,490	35,510	41,301
CWIP (tangible and intangible)	2,939	5,072	5,072	5,072	5,072
Investments (strategic)	1,324	2,519	2,770	3,047	3,352
Investments (financial)	-	-	-	-	-
Current assets (excl. cash) incl. LT	7,770	9,292	11,432	12,360	13,022
Cash	1,722	3,799	2,295	1,875	3,569
Current liabilities	10,445	11,804	10,944	12,247	13,549
Working capital	-2,676	-2,513	489	112	-528
Capital deployed	**20,838**	**29,761**	**39,115**	**45,617**	**52,767**
Contingent liabilities	-	-	-	-	-

Source: Company, Anand Rathi Research

NARH - Financials

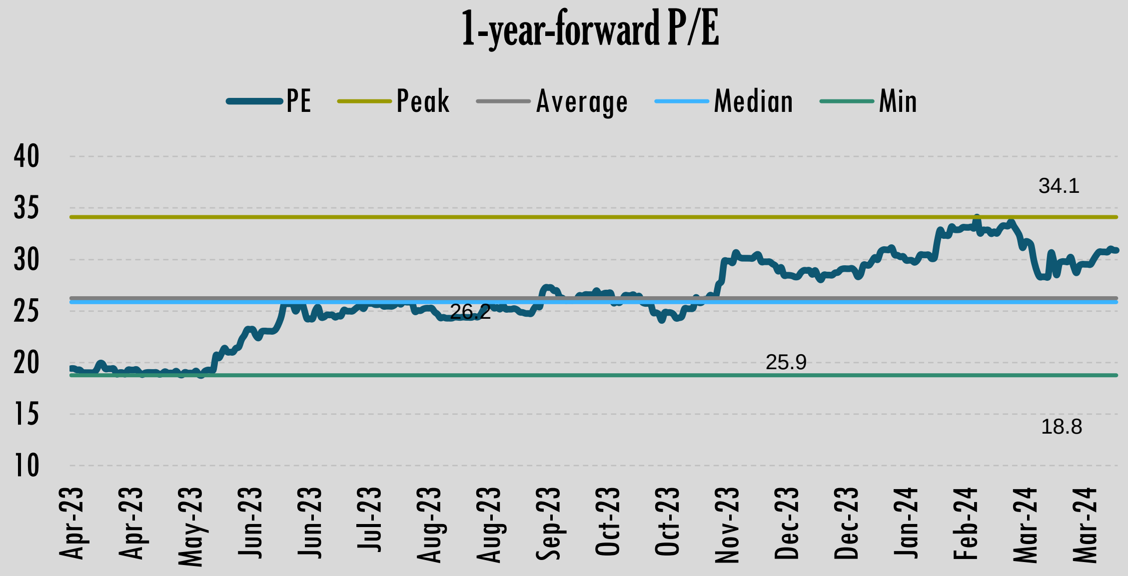
ANANDRATHI

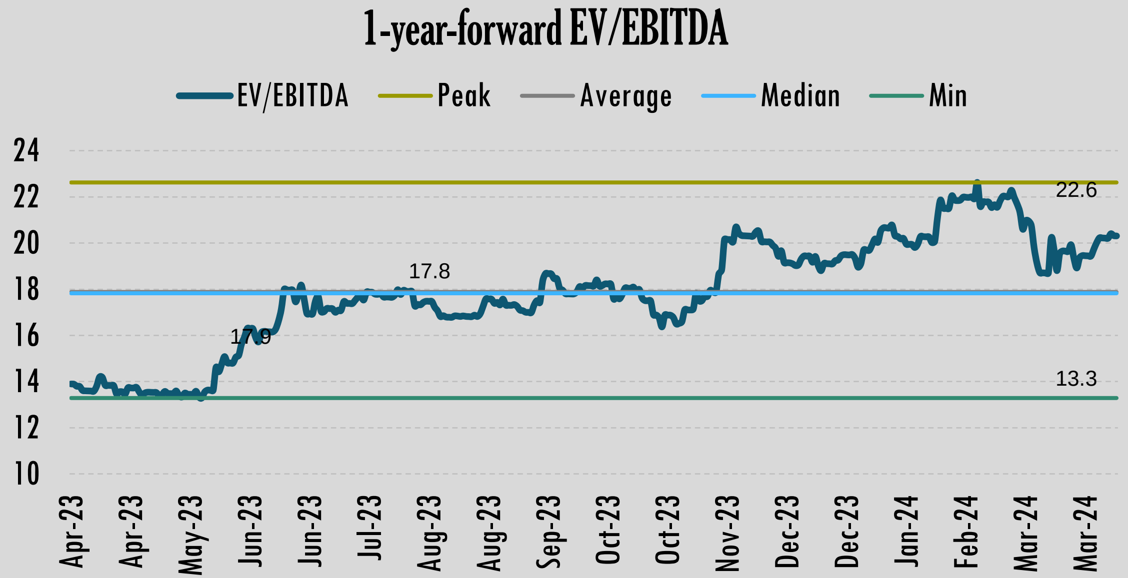
Cash flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	4,383	7,518	8,955	9,550	10,815
+ Non-cash items	2,498	2,795	3,294	3,580	3,809
Operating profit before WC changes	6,881	10,313	12,249	13,130	14,624
- Incr./(decr.) in WC	1,275	127	3,001	-376	-640
Others incl. taxes	756	-661	985	1,433	1,947
Operating cashflow	4,850	10,846	8,263	12,074	13,317
- Capex (tangible + intangible)	2,809	12,942	10,000	10,000	9,000
Free cashflow	2,041	-2,096	-1,737	2,074	4,317
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	663	932	1,513	1,213	1,315
+ Equity raised	-	-	-	-	-
+ Debt raised	195	2,174	2,000	-1,000	-1,000
- Fin investments	-140	-1,201	-422	-417	-410
- Misc. items (CFI + CFF)	1,312	(1,730)	-	-	-
Net cashflow	401	2,077	-828	278	2,413

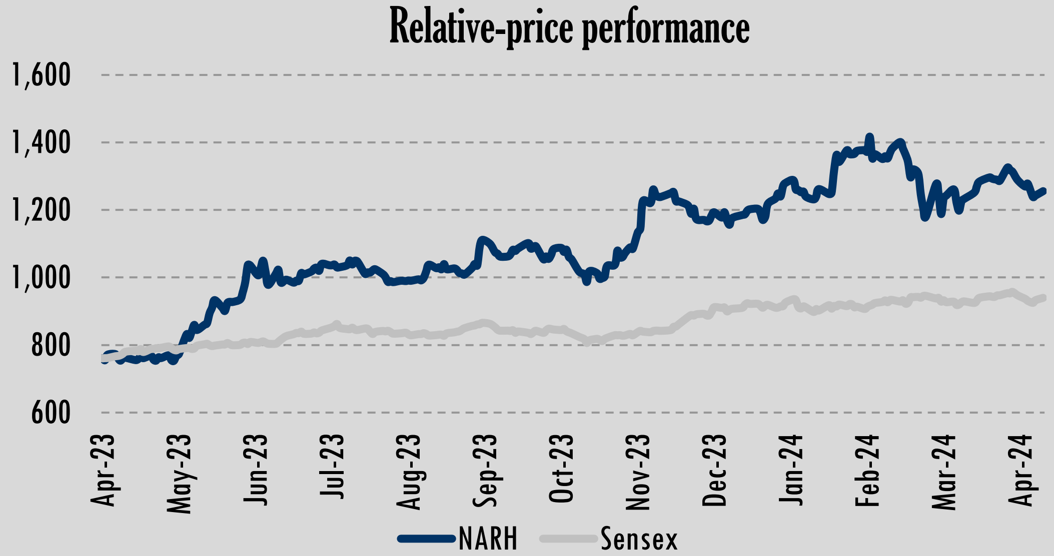
Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	74.7	42.1	32.1	31.8	28.6
EV/EBITDA (x)	39.5	26.6	23.1	20.2	18.0
EV/sales (x)	7.0	5.7	5.1	4.5	4.2
P/B (x)	17.2	12.0	8.9	7.1	5.8
RoE (%)	26.2	33.5	31.9	24.8	22.2
RoCE (%) - after tax	21.5	26.9	25.5	20.0	18.6
RoIC (%) - after tax	26.2	33.5	31.9	24.8	22.2
DPS (Rs)	1.0	2.5	3.0	3.0	3.5
Dividend yield (%)	0.1	0.2	0.2	0.2	0.3
Dividend payout (%)	6.0	8.4	7.7	7.6	8.0
Net debt/equity (x)	0.2	0.1	0.1	0.1	-0.0
Receivables (days)	35	35	38	42	43
Inventory (days)	22	24	28	32	34
Payables (days)	172	194	200	190	193
CFO : PAT (%)	142	179	123	153	150

Source: Company, Anand Rathi Research

NARH - Valuation charts







Source: Bloomberg, Anand Rathi Research

Healthcare
Initiating coverage

ANANDRATHI

Rating: Buy
Target Price: Rs.1,380
Current market price: Rs.1,225

Jupiter Life-Line Hospitals

Charting new territories to capture under-served markets; Buy

Key data	JLHL IN
52-week high / low	Rs1654 / 960
Sensex / Nifty	73649 / 22336
3-m average volume	$1m
Market cap	Rs80bn / $965.2m
Shares outstanding	66m

Shareholding (%)	Dec'23	Sep'23
Promoters	40.91	40.91
- of which, Pledged	0.0	0.0
Free float	99.6	99.6
- Foreign institutions	3.96	4.62
- Domestic institution	13.92	12.69
- Public	41.19	41.80

Jupiter - Investment summary

ANANDRATHI

Summary	Providing key multi-specialty tertiary and quaternary healthcare services in the Mumbai metropolitan region and west India with 1,194 beds, Jupiter Life-Line Hospitals' operational efficiency has been strong in the competitive MMR, resulting in 24%/35% revenue/EBITDA CAGRs over FY20-23. Its expansion plans, the scale-up in occupancy and better margins are expected to aid a growth momentum in the medium term
Widening footprint in western India to support growth	The company has three operational units, at Thane, Pune and Indore, and a 500-bed unit in Dombivli to be operational in a phased manner; these are in densely populated micro markets in the western region, with 1,194 beds. Moreover, these regions enjoy higher insurance, deeper penetration and are less reliant on government schemes. The company's payor-mix consists of 53%/45% for insurance/cash. Besides, it is looking to set up two more greenfield hospitals in the western region, aiming at doubling its installed bed capacity
Asset-heavy business model with improving efficiency	The company operates on 'an all hub and no spoke' model, preferring to own its assets. It offers a spectrum of services with advanced infrastructure. The asset-heavy and all-hub model ensures better control of operations and financial efficiency. All three operational assets and the coming unit at Dombivli are in prime locations, built on freehold land. More importantly, the company has spent less than Rs10m per bed (capex/bed) to operationalise these assets
Better operational efficiency leads to faster breakeven	An asset-heavy model generally has a longer gestation period, which would likely keep return ratios depressed. However, the company has broken even on the EBITDA front at its Pune and Indore units within three years of commencement. The Pune unit has reached >25% OPM within five years of operation, while the Indore one reached >50% occupancy with >5% OPM within three years of operation

Jupiter - Investment summary

ANANDRATHI

Valuation

We expect a 18% revenue CAGR over FY24-26, aided by the scaling-up of occupancies at its Pune and Indore facilities. The company's Dombivli unit is likely to be commercialised by H2 FY26 and has factored in a Rs150m loss (EBITDA) for FY26. Further, the recent rate revision in insurance contracts for the Pune unit and insurance tie-ups in Indore unit should boost ARPOB and occupancy. Overall, we expect 22%/27% EBITDA/PAT CAGRs over FY24-26 with healthy, ~20%, return ratios. We value the stock at 24x EV/EBITDA on FY26e and recommend a Buy with a Rs1,380TP

Key risks

- Delay in project executions and expansion challenges into adjacent territories
- Slower rate of beds added and inability to retain talent
- Regulatory risks: price controls, margin caps, mandatory bed allocations, etc.

Financial Summary Y/E Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	7,331	8,925	10,897	12,852	15,082
Net profit (Rs m)	515	773	1,451	1,946	2,328
EPS (Rs)	10.1	13.3	22.1	29.7	35.5
PE (x)	118.2	89.8	53.9	40.2	33.6
EVEBITDA (x)	53.5	40.5	30.1	25.2	21.1
PBV (x)	26.6	21.4	7.4	6.3	5.3
RoE (%)	19.3	22.8	20.4	16.9	17.0
RoCE (%)	11.1	12.3	16.1	15.9	16.5
Dividend yield (%)	-	-	-	-	-
Net debt/equity (x)	1.3	0.9	-0.3	-0.3	-0.3

Source: Company, Anand Rathi Research

Valuation	FY26e
EBITDA (Rs m)	3,496
Target multiple (x)	24
EV (Rs m)	85,304
Less net debt (Rs m)	-5,128
Derived market cap (Rs m)	90,432
No. of shares (m)	66
Target price (Rs)	1,380
CMP (Rs)	1,225
Upside (%)	13%

Jupiter - Overview of hospital network

Operating at three locations

	Thane (2007)	Pune (2017)	Indore (2020)
Operating Beds[1]	377	353	231
Avg. Occupancy[2]	71.7%	61.8%	51.4%
ARPOB [3] (in Rs)	60,440	52,563	39,829

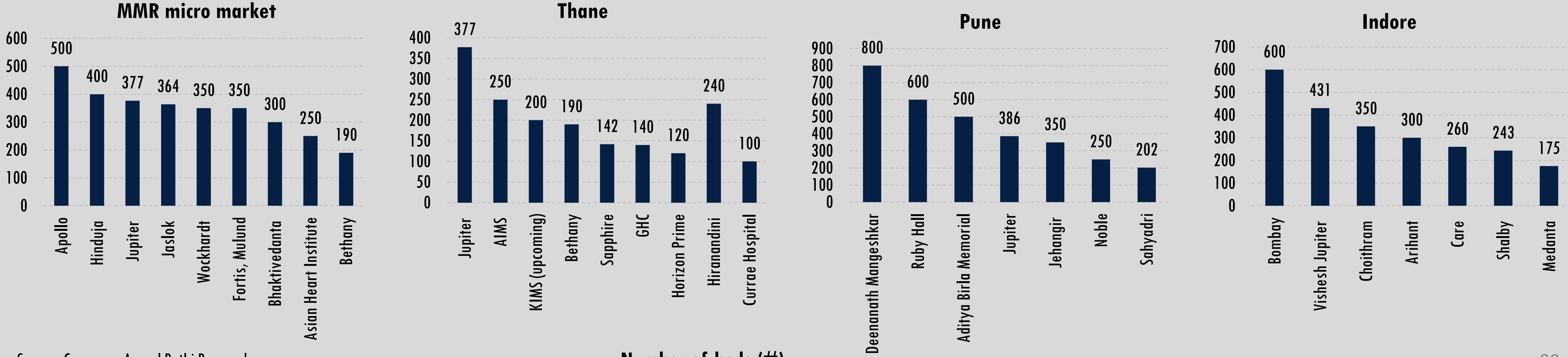
Source: Company, Anand Rathi Research

Jupiter - Financial analysis

Key drivers of revenue and profitability

Particular (Rs m)	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
No, of operating beds	574	744	869	950	961	1,033	1,283
No. of census beds	496	666	757	802	840	910	1,090
Average occupancy rates (%)	*59.7*	*45.3*	*54.0*	*59.8*	*64.3*	*67.5*	*70.8*
ARPOB (Rs)	41,999	43,946	48,711	50,990	52,047	55,288	58,437
Net sales	4,629	4,862	7,331	8,925	10,897	12,852	15,082
Growth (%)		*5.0*	*50.8*	*21.7*	*22.1*	*17.9*	*17.4*
EBITDA	838	711	1,551	2,107	2,553	3,246	3,772
Growth (%)	-	*(15.2)*	*118.1*	*35.8*	*21.2*	*27.1*	*16.2*
Margins	18.1	14.6	21.2	23.6	23.4	25.3	25.0
Less other income	19	41	40	104	208	240	276
EBITDA adj. for other income	819	670	1,511	2,002	2,345	3,006	3,496
Margins	17.7	13.8	20.6	22.4	21.5	23.4	23.2

Hospitals in key regions

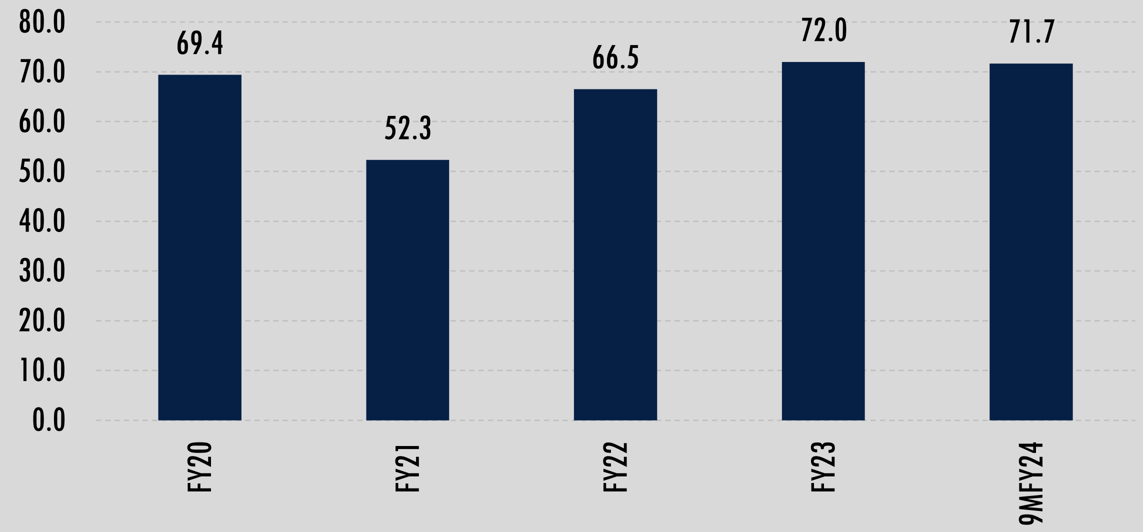


Source: Company, Anand Rathi Research

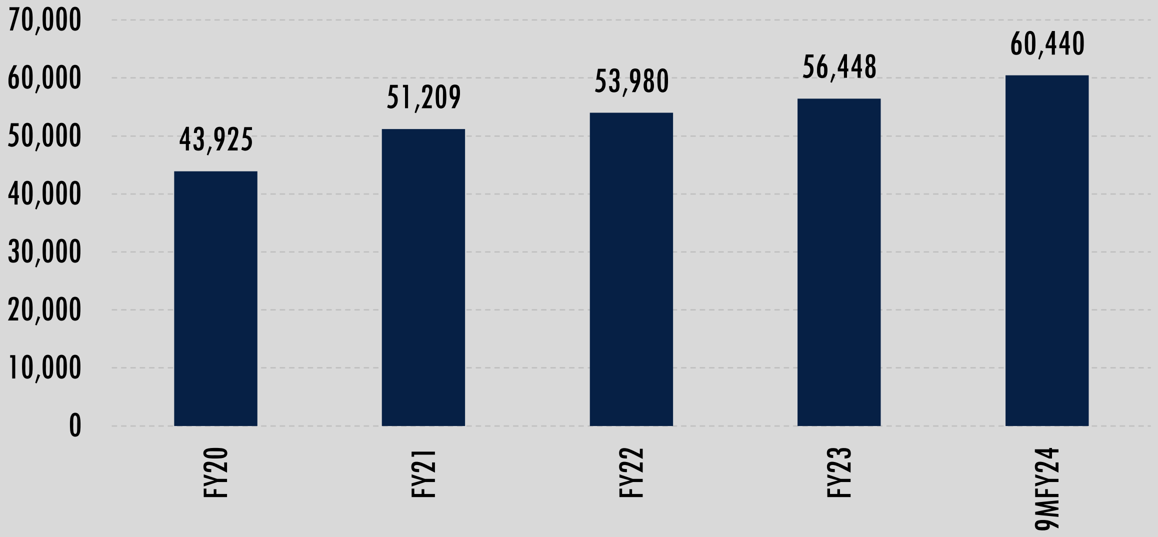
Number of beds (#)

Jupiter - Thane hospital still the cash-cow

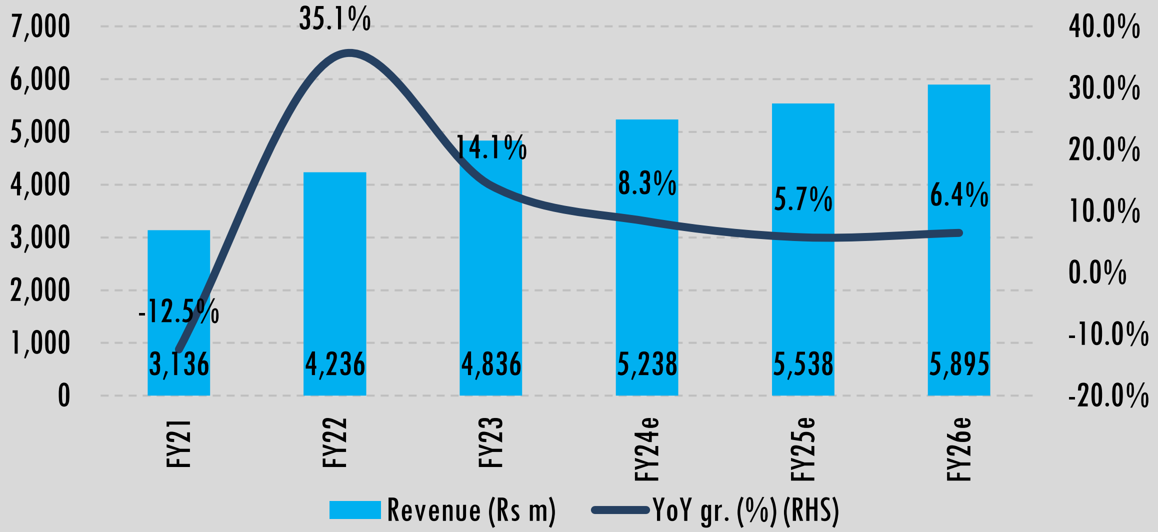
Healthy occupancy led by strong brand recognition…



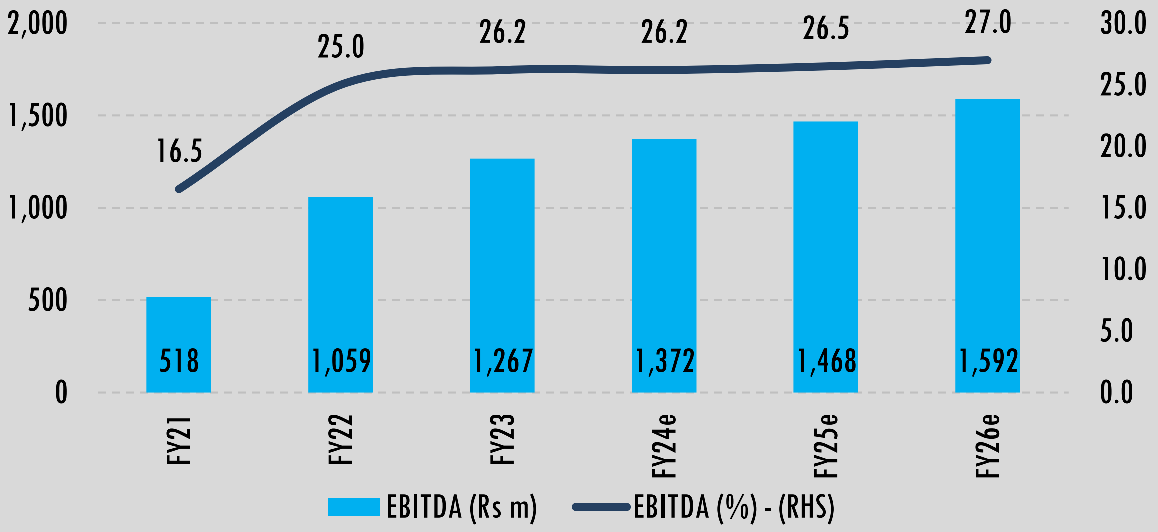
…reflected in ARPOB growing 9% over FY20-9M FY24…



… 11% revenue CAGR over FY20-23



19% EBITDA CAGR over FY20-23

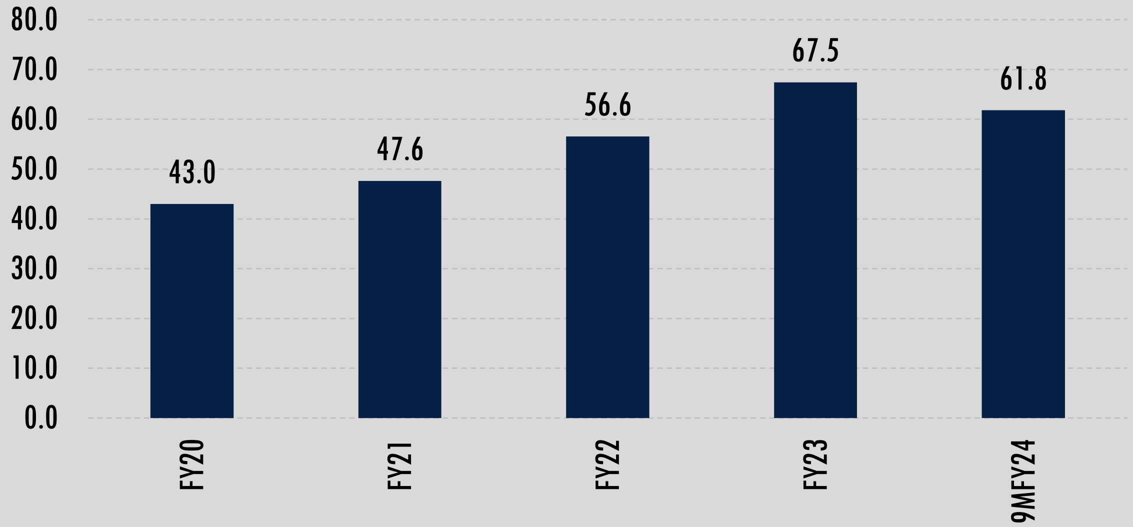


Source: Company, Anand Rathi Research

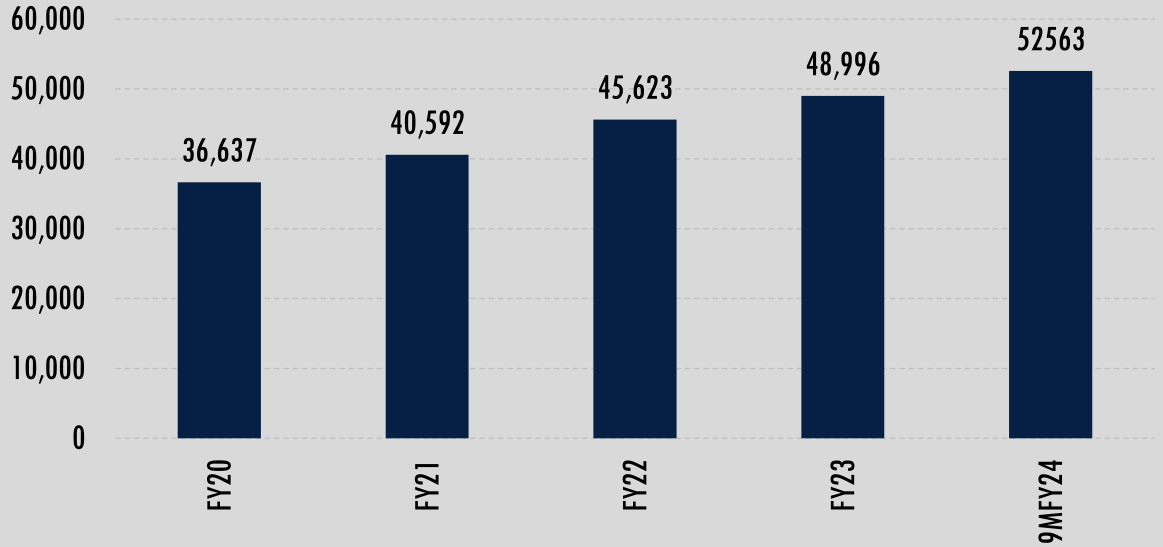
Jupiter - Strong growth potential for Pune hospital

ANANDRATHI

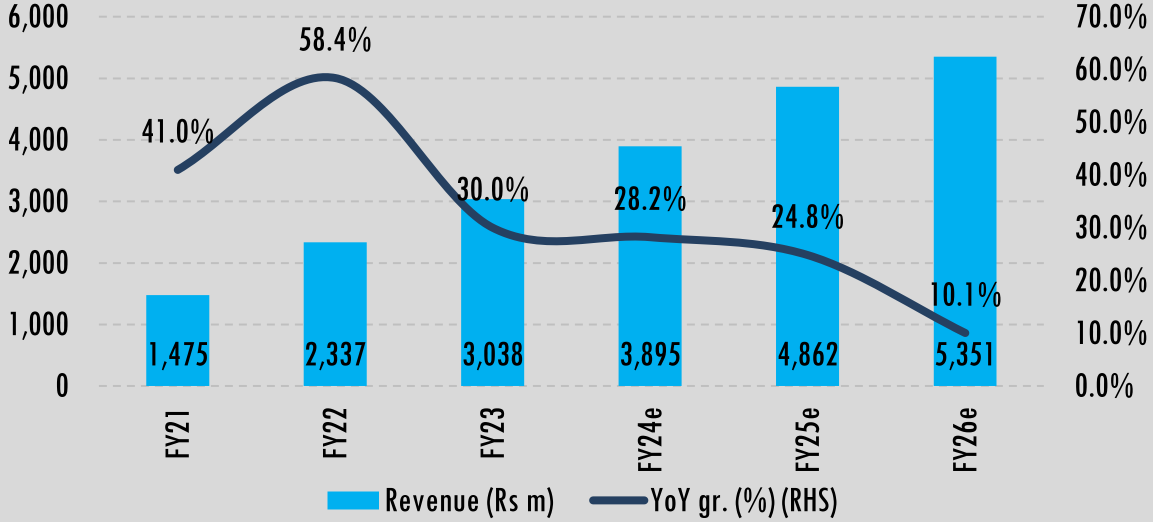
Occupancy scaling up with ramping up of new beds…



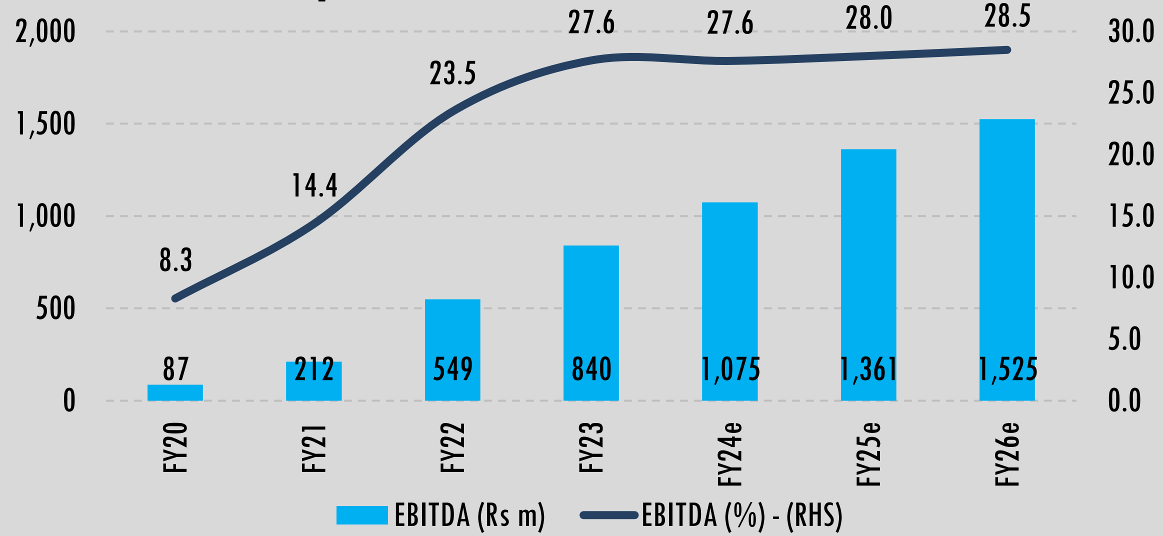
…ARPOB improvement propelled by the recent rate revision… (Rs/day)



25% revenue CAGR over FY20-FY23



19% EBITDA CAGR expected over FY24-26

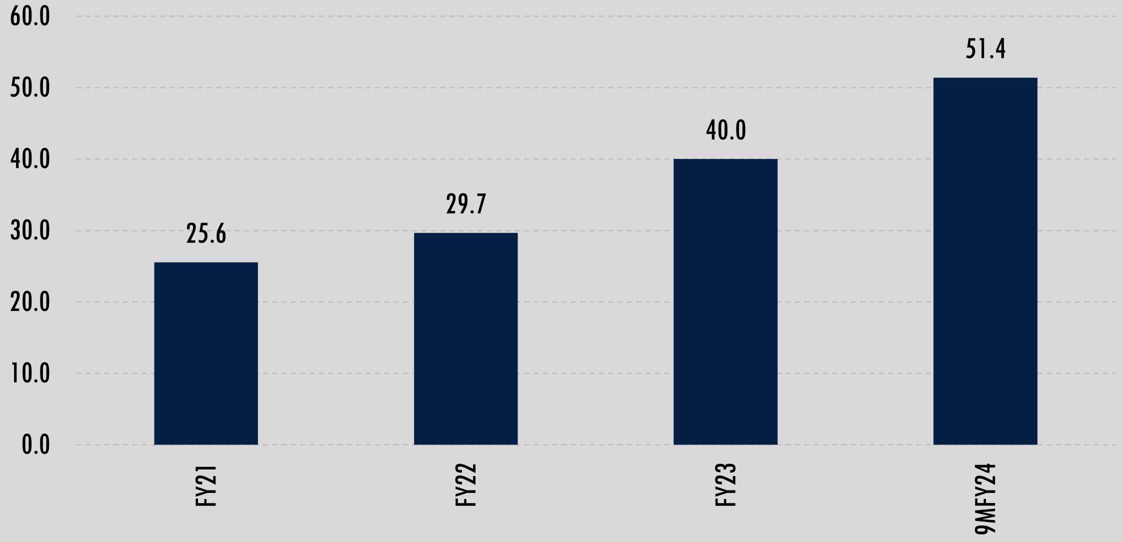


Source: Company, Anand Rathi Research

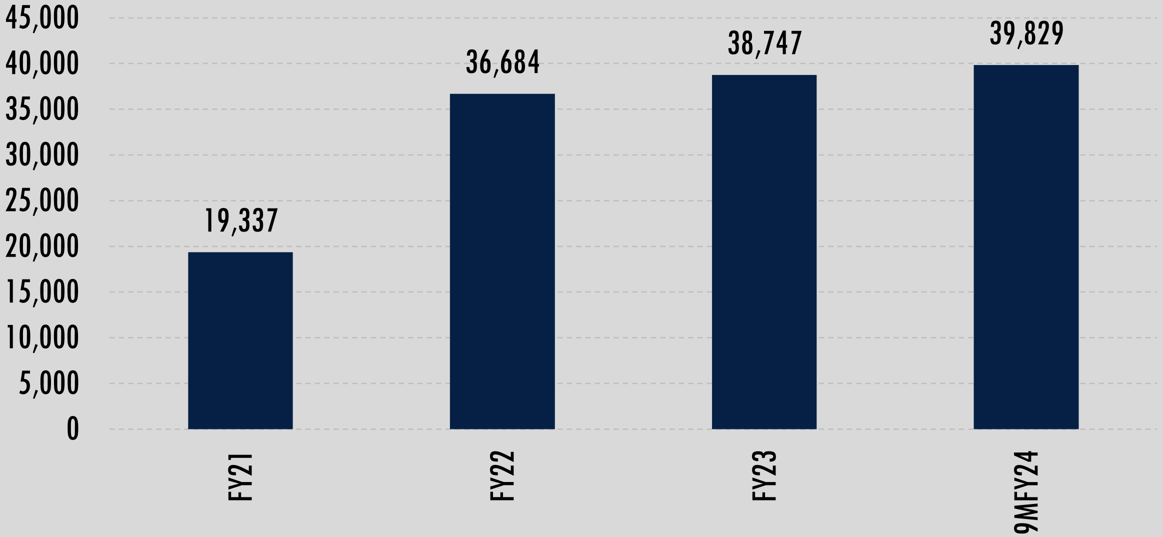
Jupiter - Indore hospital to be the next growth driver

ANANDRATHI

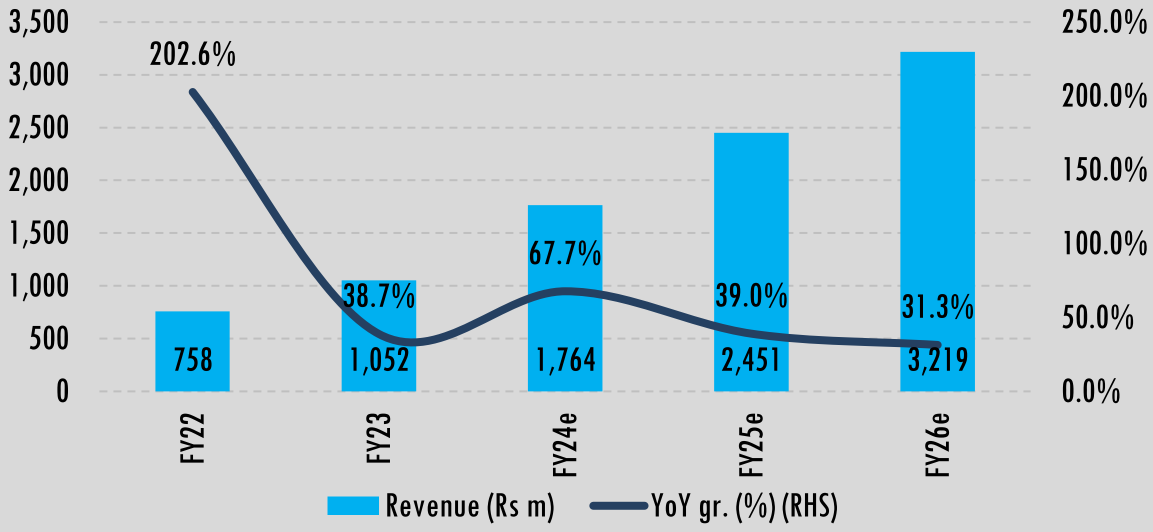
Occupancy increasing steadily



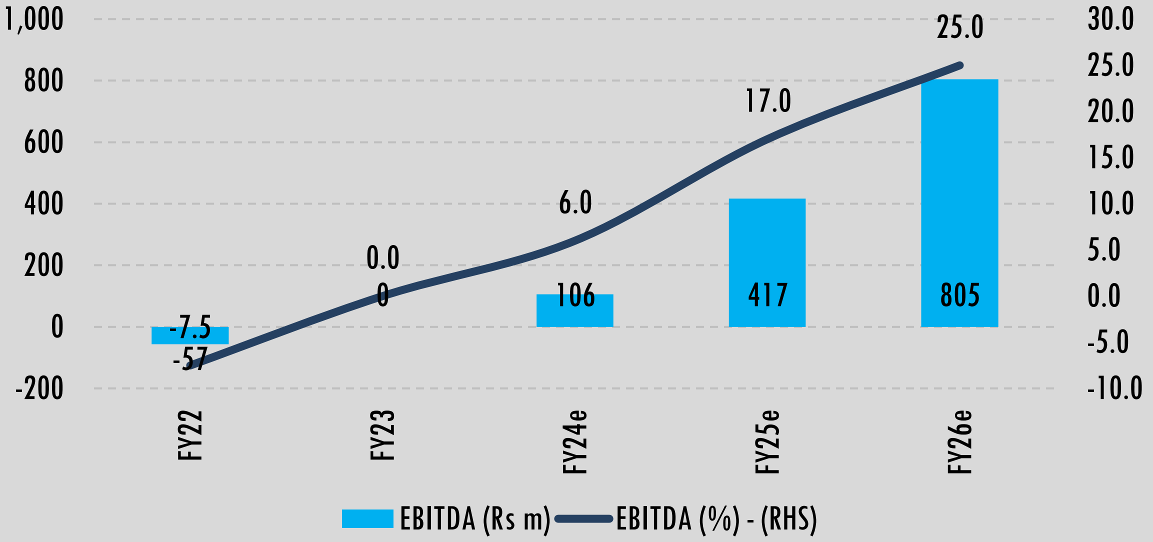
Headroom to improve ARPOB from current levels (Rs/day)



Revenue to register a 35% CAGR over FY24-26



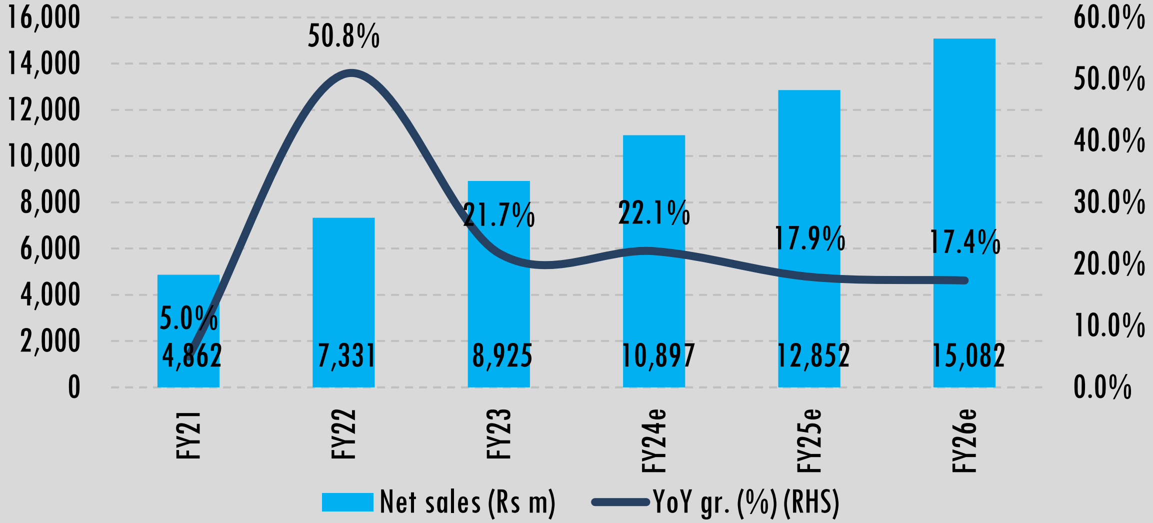
EBITDA to record a 175% CAGR over FY24-26



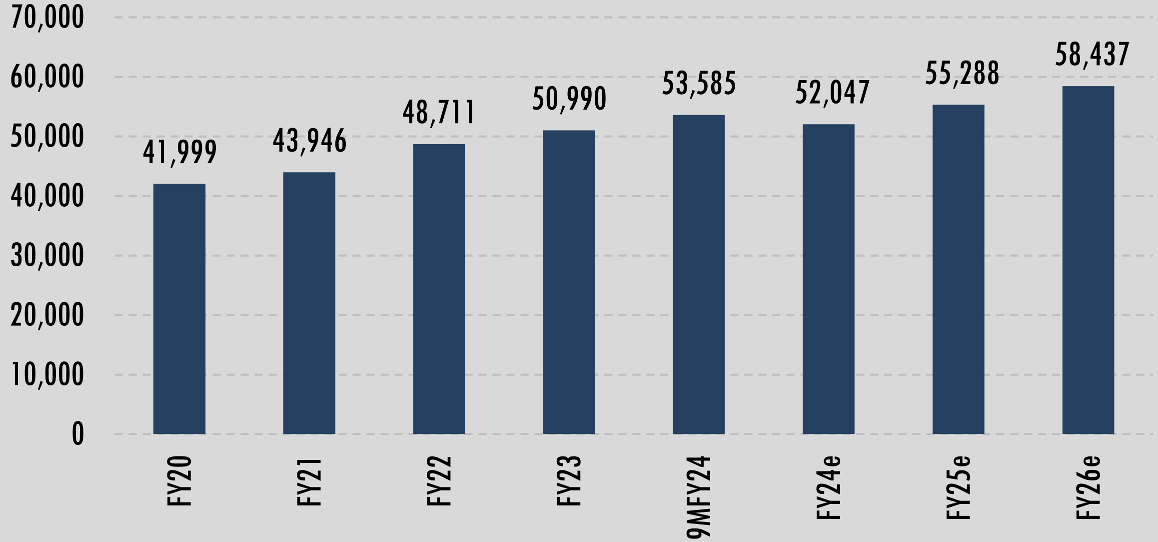
Source: Company, Anand Rathi Research

Jupiter - Story in charts

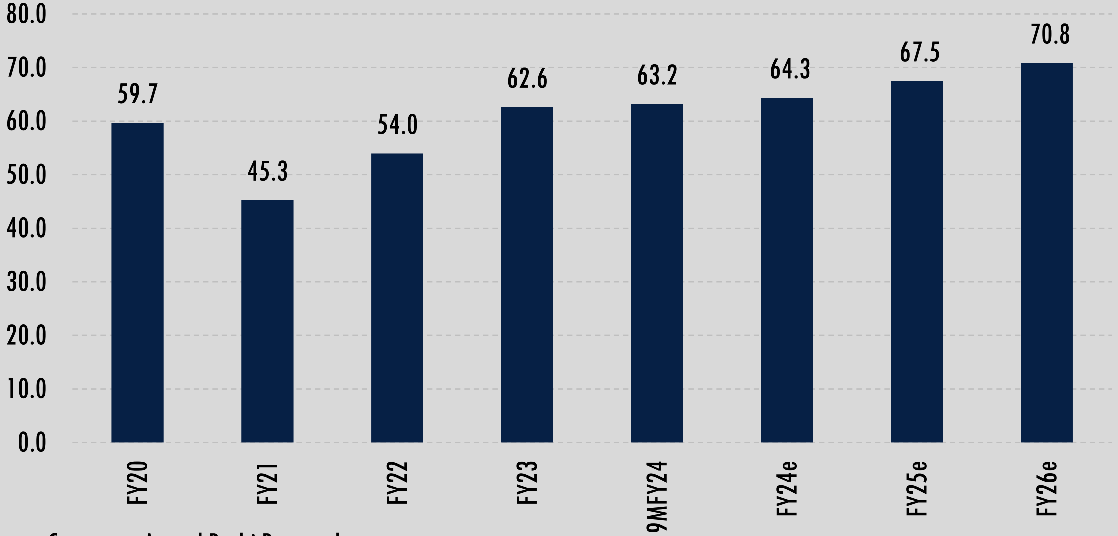
Growth largely to be led by ramp-up of beds at existing hospitals…



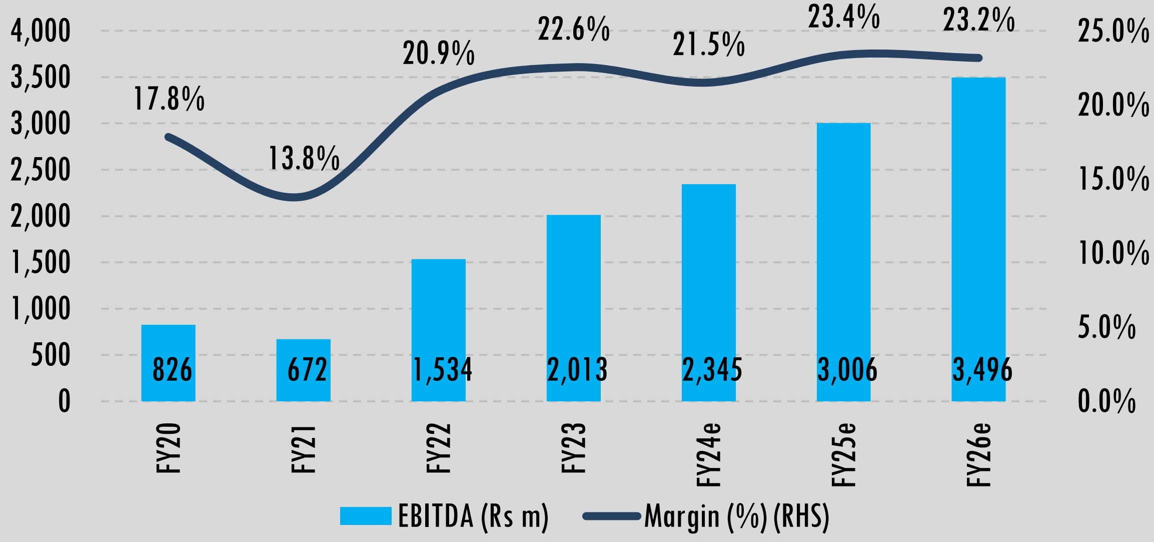
… 6% ARPOB growth expected over FY24-26 (Rs m)



Occupancy to rise, led by ramp-up of beds at existing hospitals



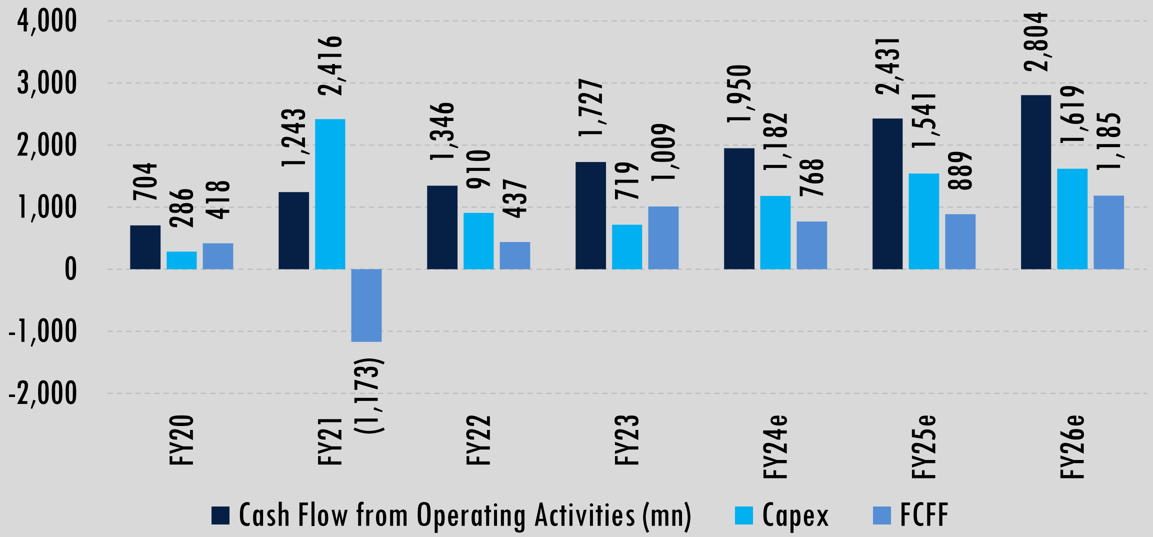
…to be reflected in EBITDA and EBITDA margins



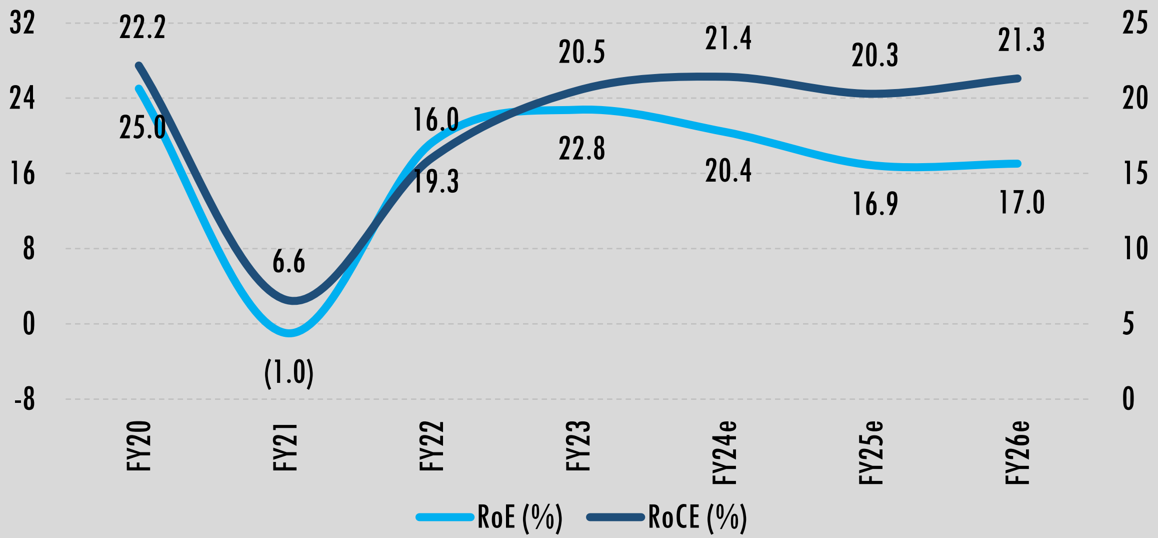
Source: Company, Anand Rathi Research

Jupiter - Story in charts

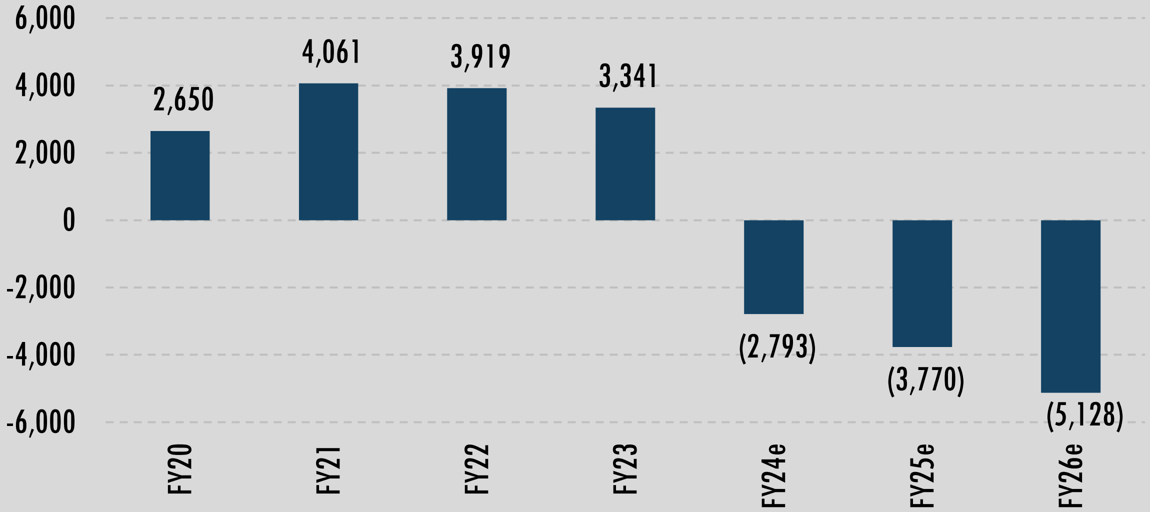
FCFF generation strong; capex to be funded largely through internal accruals



Return ratios at 18% and 15.4% by FY26



To became a net-cash company in FY24



Source: Company, Anand Rathi Research

Jupiter - Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	7,331	8,925	10,897	12,852	15,082
Growth (%)	50.8	21.7	22.1	17.9	17.4
Raw material	1,422	1,572	1,962	2,313	2,715
Employee & other expenses	4,375	5,340	6,429	7,583	8,898
EBITDA	**1,534**	**2,013**	**2,506**	**2,956**	**3,469**
EBITDA margins (%)	20.9	22.6	23.0	23.0	23.0
- Depreciation	362	386	433	495	560
Other income	40	104	208	240	276
Interest expense	439	423	260	150	100
PBT	775	1,331	2,022	2,551	3,085
Effective tax rates (%)	-	-	-	-	-
+ Associates/(Minorities)	-	-	-	-	-
Adjusted income	513	751	1,451	1,946	2,328
Extraordinary items (Loss)/Profit	2	22	-	-	-
Reported PAT	515	773	1,451	1,946	2,328
WANS	51	57	66	66	66
FDEPS (Rs)	10.1	13.3	22.1	29.7	35.5

Source: Company, Anand Rathi Research

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	509	565	656	656	656
Net worth	2,936	3,657	10,544	12,490	14,818
Debt (incl. Pref.)	4,952	4,686	1,686	1,186	686
Minority interest	-51	-	-18	-18	-18
Deferred tax liability/(Asset)	325	370	370	370	370
Capital employed	**8,162**	**8,713**	**12,582**	**14,028**	**15,856**
Net tangible assets	6,831	7,207	7,956	9,002	10,061
CWIP (tangible and intangible)	275	299	299	299	299
Investments (strategic)	29	16	17	19	21
Investments (financial)	-	-	-	-	-
Current assets (excl. cash) incl. LT	919	1,007	1,199	1,349	1,521
Cash	1,034	1,345	4,479	4,956	5,815
Current liabilities	925	1,160	1,367	1,597	1,861
Working capital	-6	-153	-168	-248	-340
Capital deployed	**8,162**	**8,713**	**12,582**	**14,028**	**15,856**
Contingent liabilities	-	-	-	-	-

Jupiter - Financials

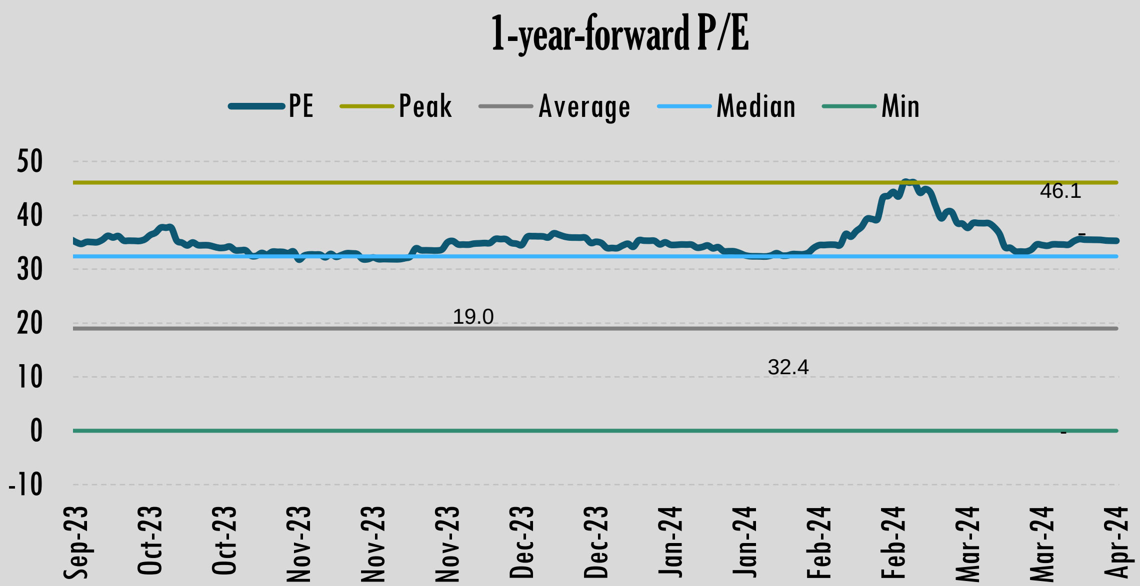
ANANDRATHI

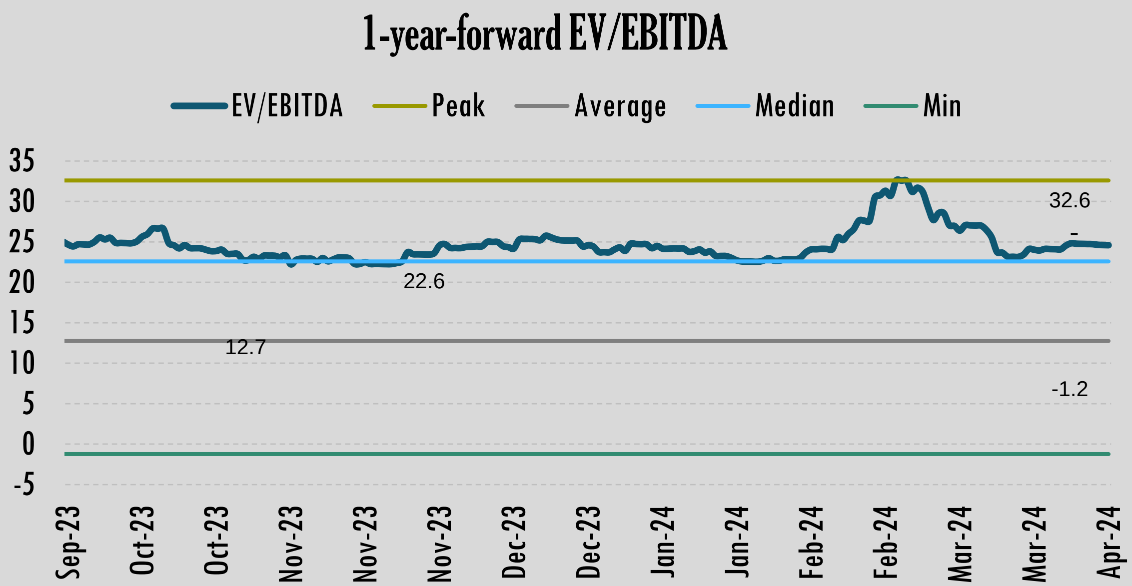
Cashflow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	750	1,272	1,860	2,601	3,112
+ Non-cash items	801	808	693	645	660
Operating profit before WC changes	1,551	2,081	2,553	3,246	3,772
- Incr./(decr.) in WC	86	-9	-15	-80	-92
Others incl. taxes	119	363	409	655	784
Operating cash-flow	1,346	1,727	2,159	2,670	3,079
- Capex (tangible + intangible)	910	719	1,182	1,541	1,619
Free cashflow	437	1,009	977	1,129	1,461
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	439	474	260	150	100
+ Equity raised	118	340	5,436	-	-
+ Debt raised	877	309	-3,000	-500	-500
- Fin investments	-57	224	-207	-238	-274
- Misc. items (CFI + CFF)	234	686	-	-	-
Net cashflow	816	274	3,360	717	1,134

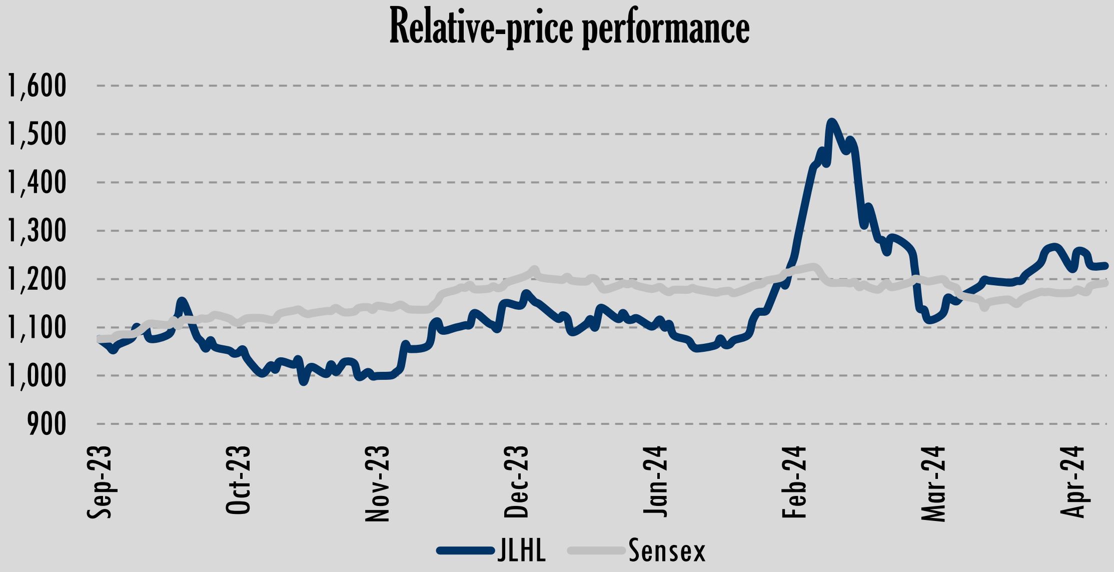
Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	121.4	92.2	55.4	41.3	34.5
EV/EBITDA (x)	54.9	41.5	30.9	25.9	21.7
EV/sales (x)	11.5	9.4	7.1	6.0	5.0
P/B (x)	27.4	22.0	7.6	6.4	5.4
RoE (%)	19.3	22.8	20.4	16.9	17.0
RoCE (%) - after tax	11.1	12.3	16.1	15.9	16.5
RoIC (%) - after tax	19.2	23.0	20.5	16.9	17.1
DPS (Rs)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-
Net debt/equity (x)	1.3	0.9	-0.3	-0.3	-0.3
Receivables (days)	12	15	18	18	19
Inventory (days)	36	40	40	42	42
Payables (days)	154	153	146	148	148
CFO : PAT (%)	262	230	149	137	132

Source: Company, Anand Rathi Research

Jupiter - Valuation charts







Source: Bloomberg, Anand Rathi Research

Healthcare
Initiating coverage

ANANDRATHI

Rating: Buy
Target Price: Rs.950
Current market price: Rs.760

Key data	MAXHEALT IN
52-week high / low	Rs910 / 435
Sensex / Nifty	73649 / 22336
3-m average volume	$33.6m
Market cap	Rs737bn / $8837.1m
Shares outstanding	972m

Max Healthcare

Premium valuations likely to persist; initiating, with a Buy

Shareholding (%)	Dec'23	Sept'23	Jun'23
Promoters	23.8	23.8	23.8
- of which, Pledged	0.0	0.0	0.0
Free float	76.3	76.2	76.2
- Foreign institutions	60.7	60.4	59.9
- Domestic institution	11.6	11.4	11.9
- Public	4.0	4.5	4.5

Max Healthcare - Investment summary

ANANDRATHI

Summary

The second largest hospital chain in India by revenue, Max Healthcare operates 16 healthcare facilities (12 hospitals, four medical centres) with ~3,600 beds. It focuses on tertiary and quaternary-care services, which bring ~70% to hospital revenue. It enjoys industry-leading ARPOBs and occupancy, considering ~85% of beds are in metros/tier-2 cities. Besides, it has home-care (Max@Home) and diagnostics businesses (Max Lab), now in nascent stages of development

~2x brownfield expansion over the next five years

The company is planning to expand >2,600 beds (>75% of current capacity) over the next 3-4 years at its Saket complex, Shalimar Bagh in Delhi and Nanavati in Mumbai. Also, it recently acquired 300 beds in the NCR (Dwarka) on an O&M model, which would be commissioned by end-FY24. In addition to brownfield capacity expansion, it seeks to move to an asset-light O&M model to provide healthcare services

Best operating metric among peers

It enjoys ~Rs0.74m operating EBITDA/bed, much higher than Apollo Hospitals'/Fortis' Rs0.44m/Rs0.36m given its more city-centric locations. Further, it enjoys >75% occupancy vs. peers' 65%. This aids in a higher operating leverage and >25% OPM, despite 20% of its payor-mix coming from the institutional segment. Its improved operating parameters like a) rising occupancy, b) reduced ALOS, c) a better case-payor mix with operations in tier-1 cities (~>80% beds in the NCR and Mumbai) led to the strong and steady ARPOB in the last few years

Strong track record of M&As and turnarounds

Led by Abhay Soi (a turnaround specialist), the management team is strong. Post merging Radiant with the erstwhile company, it has completely turned around its business, from Rs3.5bn EBITDA in FY19 to Rs18.6bn in FY24, with a ~1,800bp margin expansion. We reckon the growth momentum under Mr Soi's leadership could endure, with a combination of brownfield expansion, inorganic opportunities and the improving payor-mix

Max Healthcare - Investment summary

ANANDRATHI

Scaling up third-party diagnostics and home lab businesses

The company has operations in 41 cities, mainly in north India (Delhi NCR, Uttarakhand, Punjab) and offers over 1,900 tests. In Dec'23, it had 23 owned, >525 partner-run collection centres with over 275 pick-up points.
MaxHome is its non-captive vertical offering >14 services with over 1,250 team members and ~3,000 transactions daily. MaxHome aims to explore new service lines and extend offerings such as dental treatments, chemotherapy, dialysis, etc, all at home.

Focus on digital strides to create an integrated-service platform

Max has launched a digital platform with video consultation to connect patients and doctors remotely. Patients can book appointments, pay and upload documents using the mobile app. Doctors can review the uploaded documents, offer video consultations and prescriptions. The app also has access to emergency and ambulance services across the company's network. It and web-based appointments made up ~22% of its overall revenue in 9M FY24was launched to lever the company's strong brand, customer base, clinical expertise, network of doctors and data to provide customers with a seamless and best-in-class omni-channel health-care experience. Digital revenue through online marketing

Strong FCF generation

The net-cash balance sheet vs ~Rs4.4bn net debt in FY22 was aided by strong FCF generation and Rs12bn equity issued in FY21. Further, over FY24-26, we expect it to generate ~Rs10bn FCF, factoring in Rs44bn capex for brownfield/greenfield expansions

Outlook, valuation

The expansion plan, improving payor-mix and scale-up in labs would boost the growth momentum in the medium term. We ascribe a 31x EV/EBITDA multiple to the hospital segment and 24x EV/EBITDA to the lab business to arrive at a TP of Rs950

Max Healthcare - Investment summary

Valuation

Max's concentrated cluster-based approach turned it into one of north India's (Delhi/NCR) leading hospital chains, with industry-high margins and RoCE led by a) a maturing network and b) operational efficiency brought in post merger with Radiant Lifecare in 2018. Fewer beds in its home markets (Delhi, Mumbai) and a high brownfield share (>80% of beds added) allow growth with little impact on margins and return ratios. Its premium valuations would be supported by ~Rs16bn cash on its books in FY23 and cumulative ~Rs54bn OCF over FY24-26, which suggest less dependence on external funds. We forecast revenue/EBITDA CAGRs of 25% each over FY24-26. We ascribe a 31x EV/EBITDA multiple to the hospital segment and 24x EV/EBITDA to its lab business to arrive at a TP of Rs950

Key risks

- Delay in project execution; expansion challenges in adjacent territories
- A slower rate of beds added and inability to retain talent
- Regulatory risks: price controls, margin cap and mandatory bed allocation, etc.

Financial summary, y/e Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	51,710	58,750	68,076	84,057	1,06,130
Net profit (Rs m)	8,380	13,290	13,527	16,862	22,076
EPS (Rs)	9.2	14.1	14.4	17.4	22.7
P/E (x)	87.9	57.2	56.0	46.4	35.4
EV / EBITDA (x)	58.4	48.1	40.6	33.7	25.9
P/BV (x)	11.6	9.7	8.4	7.3	6.2
RoE (%)	15.9	20.7	17.5	18.6	20.5
RoCE (%)	14.0	15.3	16.7	18.6	21.5
Dividend yield (%)	-	0.1	0.2	0.2	0.3
Net debt / equity (x)	0.0	-0.1	-0.1	-0.1	-0.1

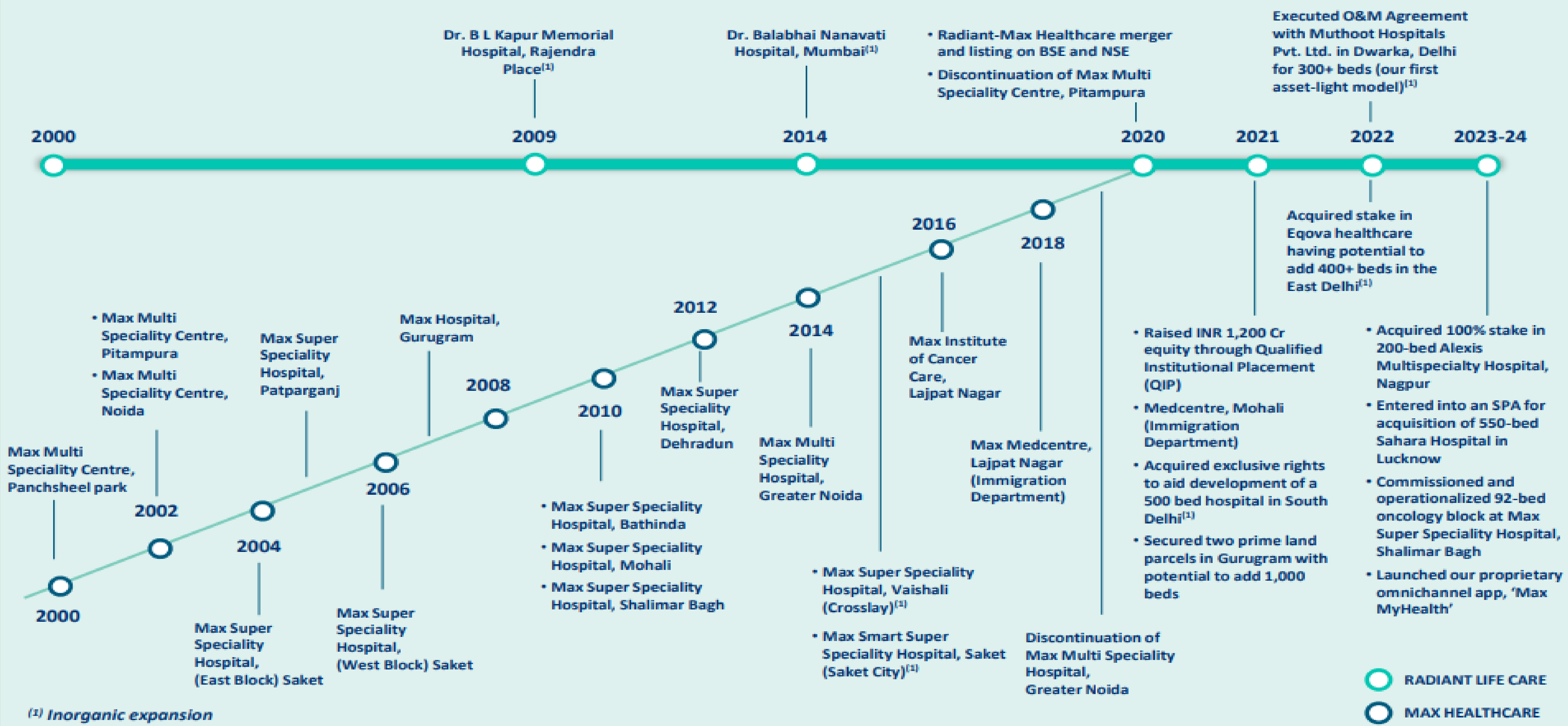
Source: Company, Anand Rathi Research

Valuation	FY26E
Hospitals EBITDA (Rs m)	28,683
Target EV/EBDITA multiple (x)	31
Hospital EV (Rs m)	8,89,167
Diagnostic EBIDTA (Rs m)	716
Target EV/EBDITA multiple (x)	24
Diagnostic EV (Rs m)	17,185
Total EV (Rs m)	9,06,352
Less: Net debt (Rs m)	-17,476
Market cap (Rs m)	9,23,828
No. of shares (m)	971
Target price (Rs/sh)	950
Current market price (Rs/sh)	760
Upside / (Downside)	25

Max Healthcare - The journey so far

ANANDRATHI

Dominant in Delhi and the NCR

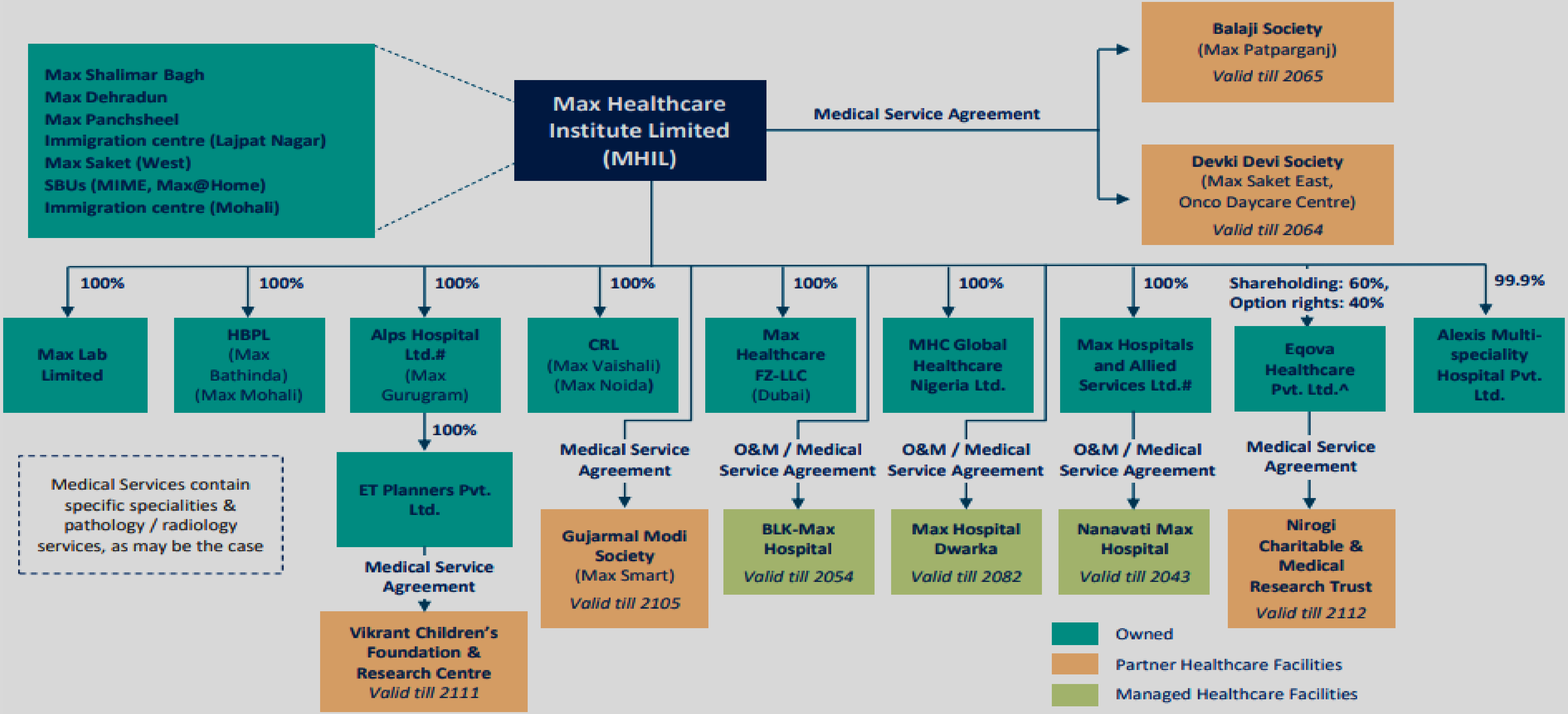


Source: Company, Anand Rathi Research

Max Healthcare - Hospital network overview

ANANDRATHI

Operating at 16 locations with dominance in Delhi/NCR



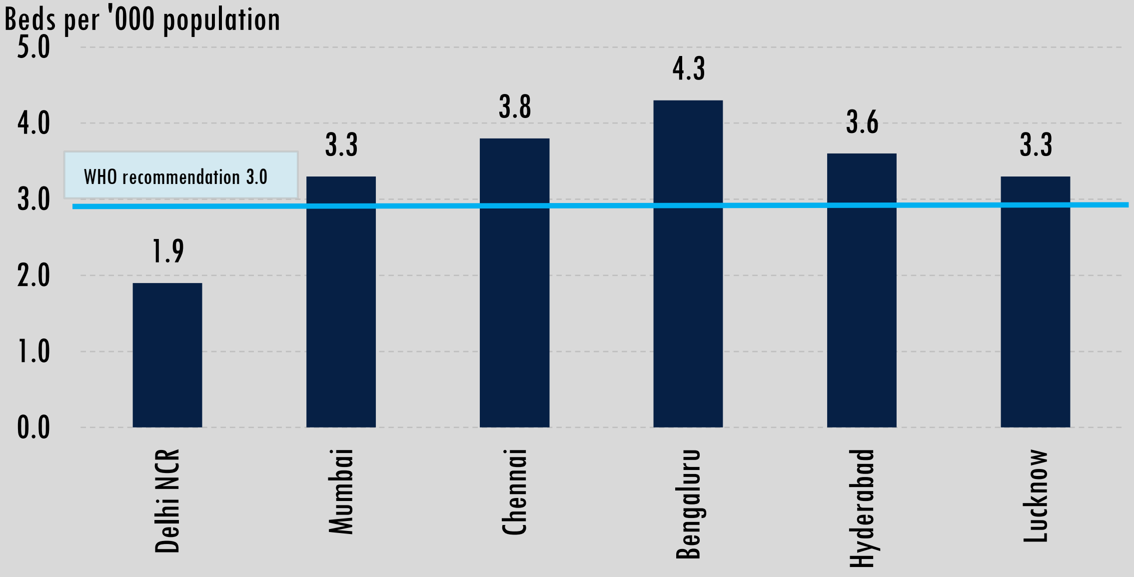
Source: Company, Anand Rathi Research

Max Healthcare - Dominant in the most attractive market

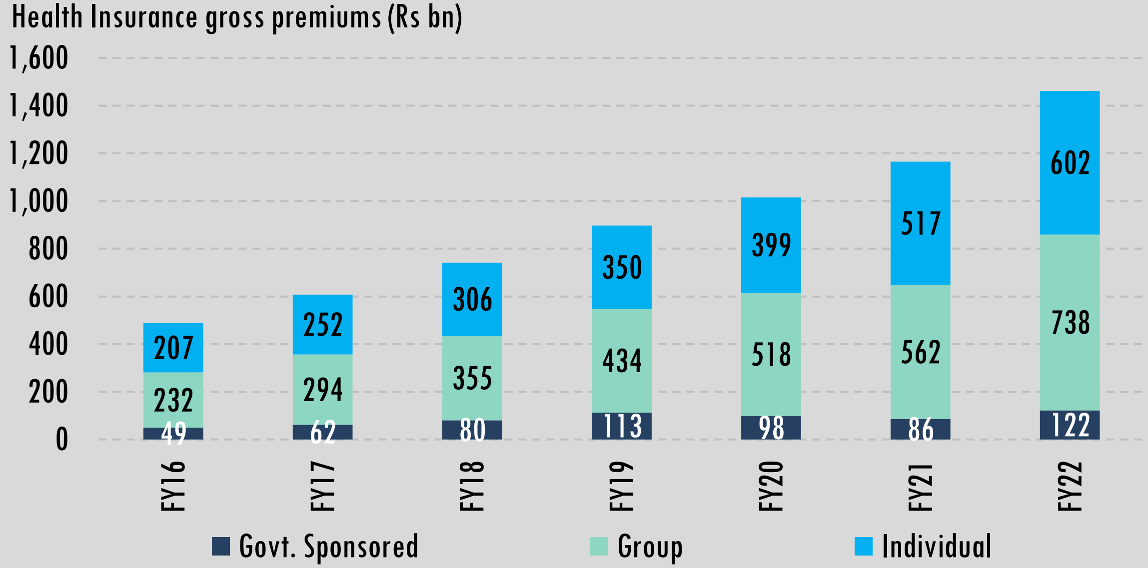
Dominant in north India, especially Delhi/NCR, which accounts for ~75% of its bed capacity

Particulars	Delhi	NCR	Mumbai	Rest of North
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

Huge demand-supply gap in Delhi NCR and Mumbai…



…coupled with deepening insurance penetration

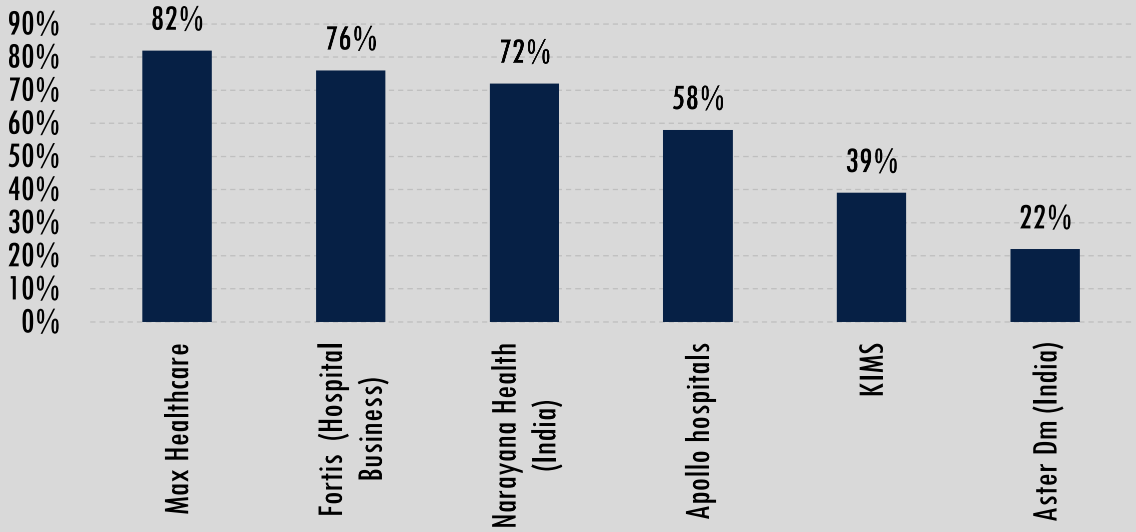


Source: Company, Anand Rathi Research

Max Healthcare - Dominant in the most attractive market

ANANDRATHI

Greater proportion of beds in these cities positions it for industry-leading aggregate ARPOB

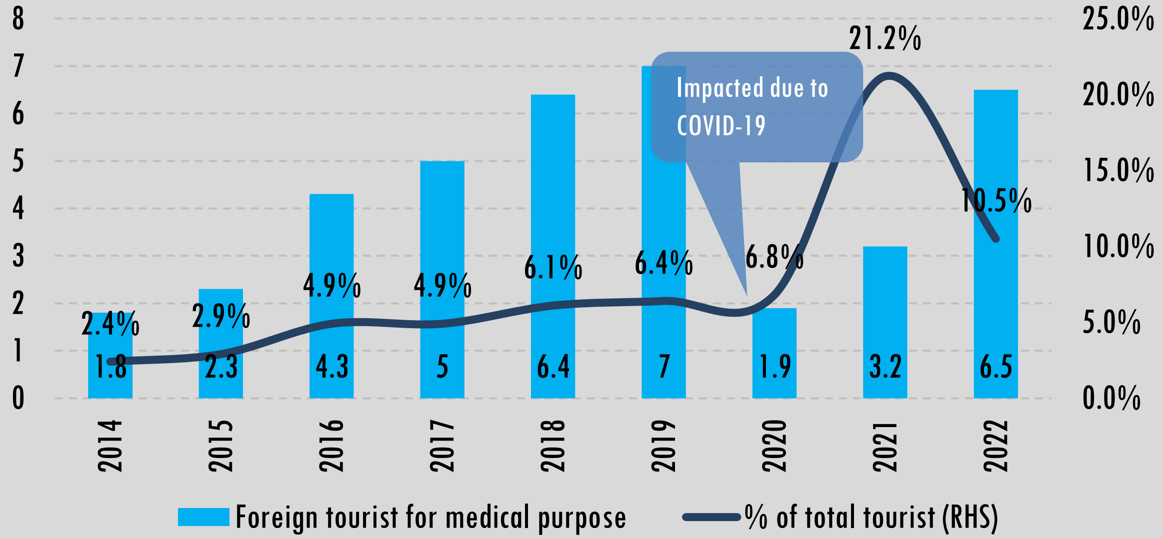


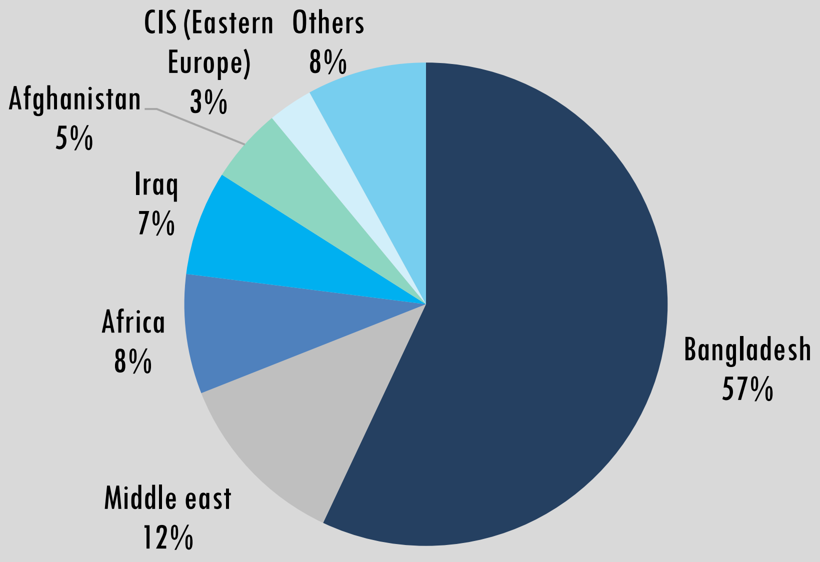
- ~2,900 beds in Delhi/NCR and Mumbai, more than peers

Metros have inherent advantages

- High per-capita income, insurance penetration and propensity to pay for high-end quaternary care facilities
- Availability of senior/ statured clinical talent, resulting in metros becoming regional hubs
- More health awareness
- Better connectivity for international tourists, resulting in more medical-tourism demand

India's foreign medical tourism has been growing



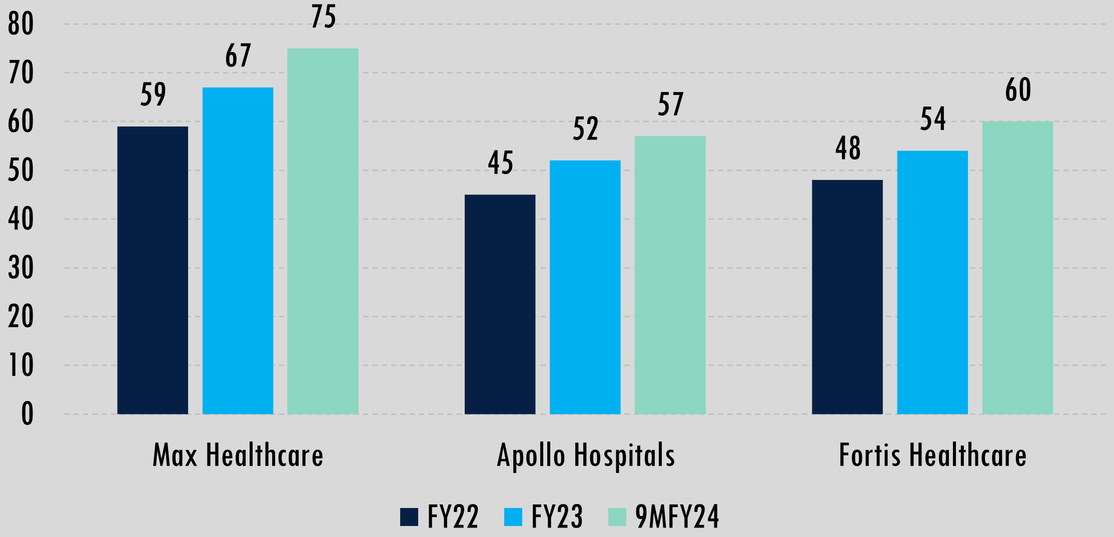


Source: Company, Anand Rathi Research

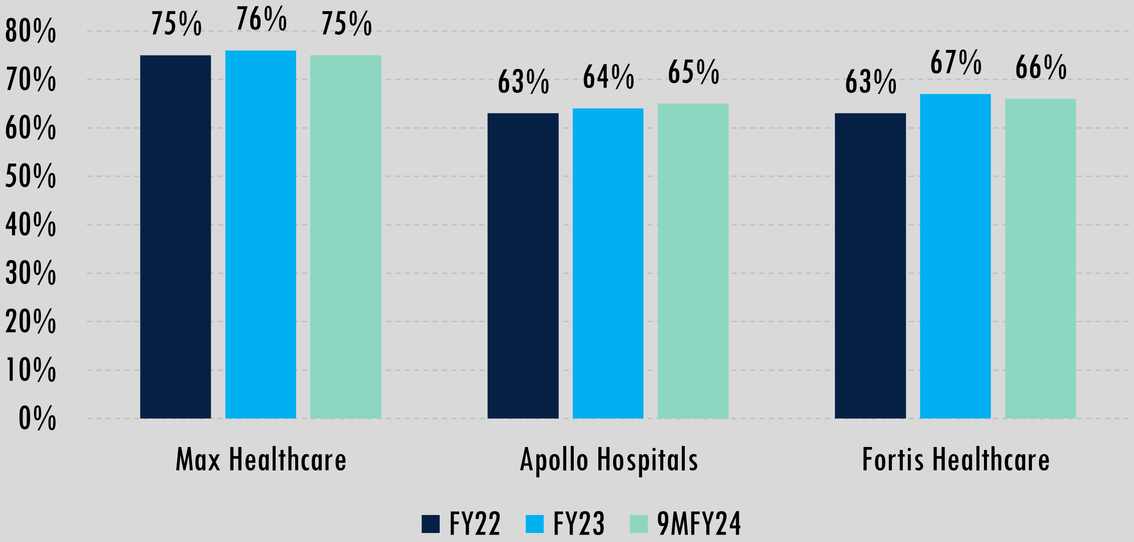
Max Healthcare - Peer comparison in Delhi/ NCR

ANANDRATHI

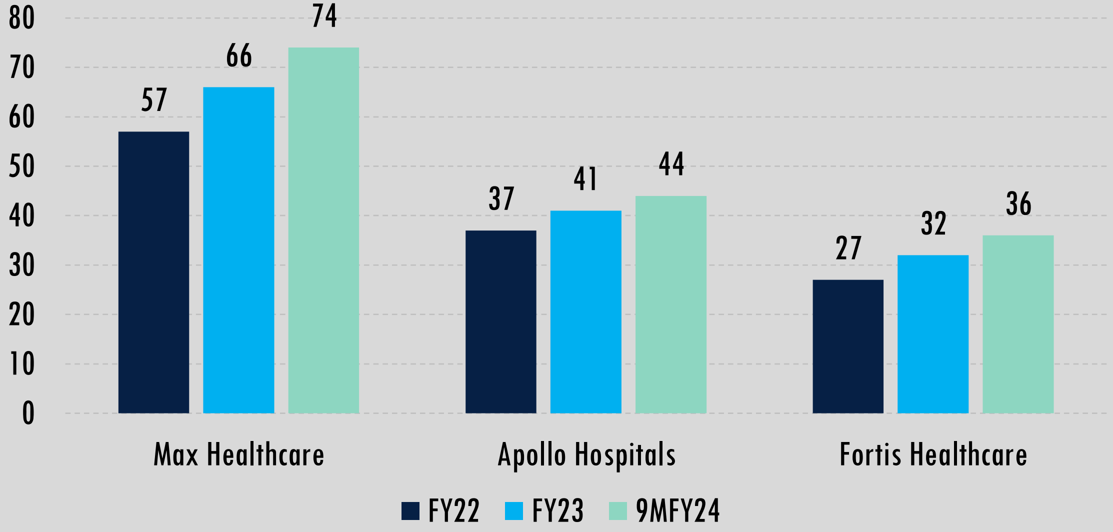
Best ARPOB among peers…



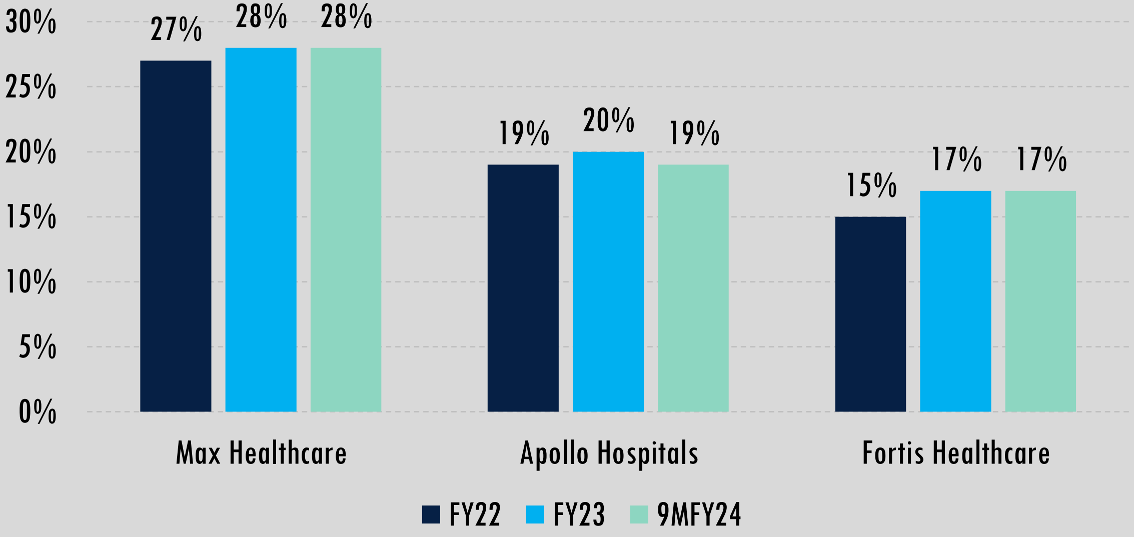
…driven by better occupancy at hospitals…



…reflected in operating EBITDA per bed (in lakh rupees)…



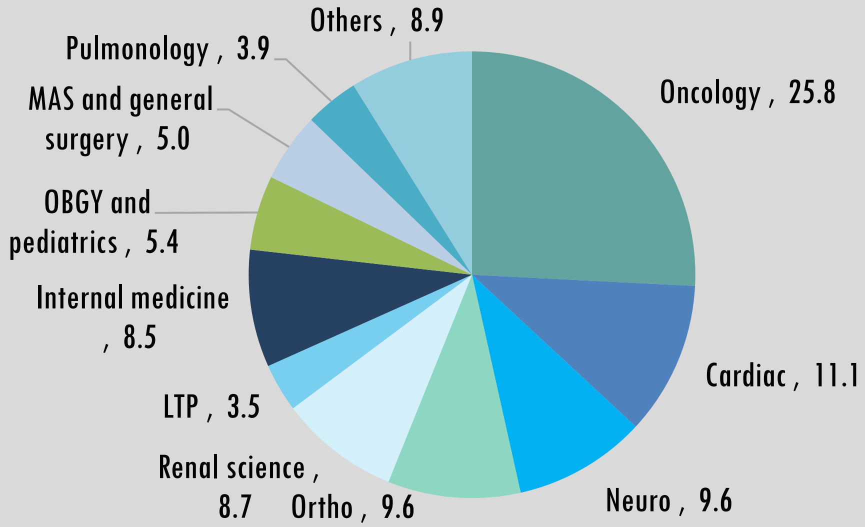
…and in EBITDA margins (%)



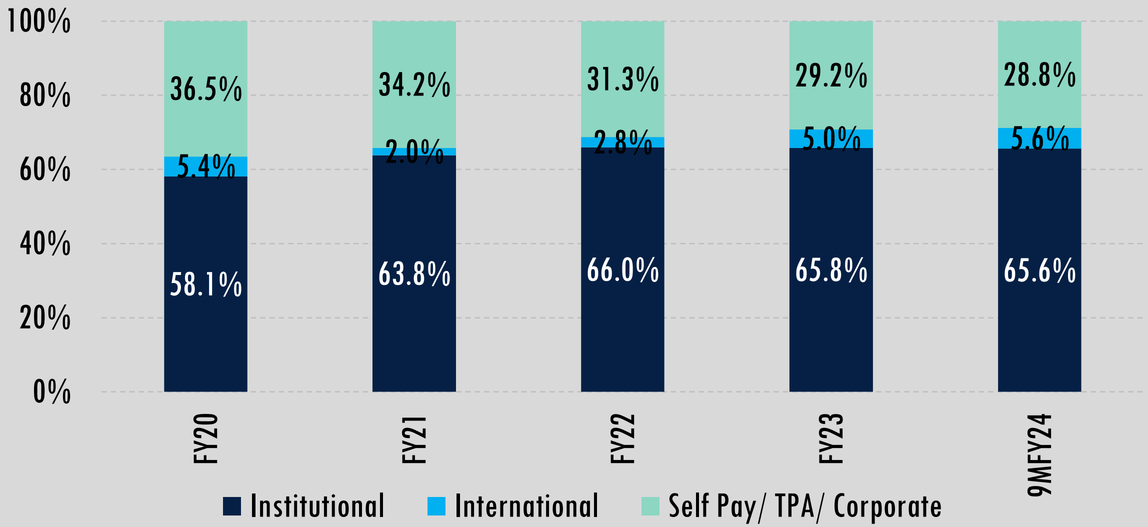
Source: Company, Anand Rathi Research

Max Healthcare - Story in charts

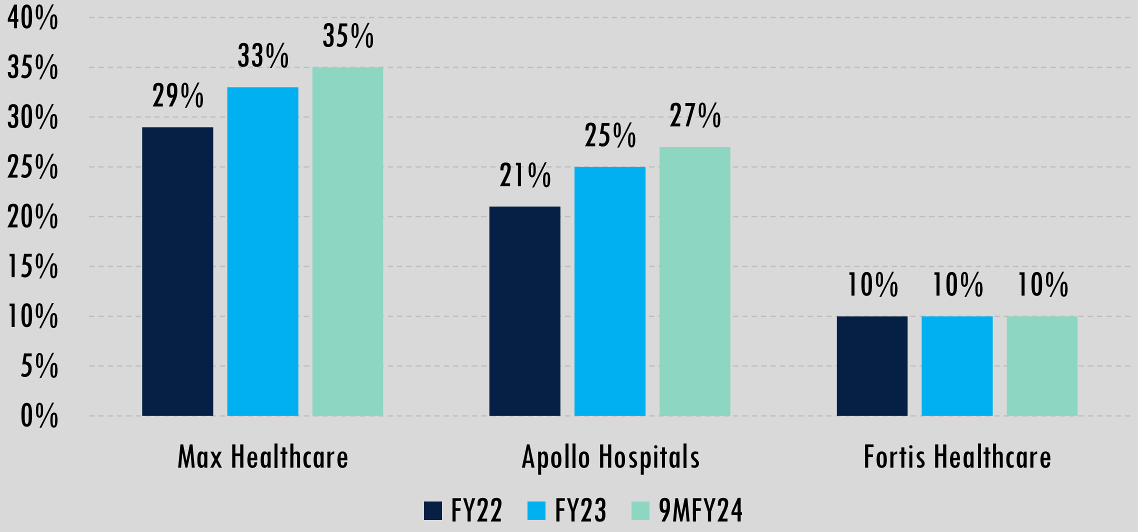
Specialty mix: ~40% of revenue from oncology and cardiac sciences



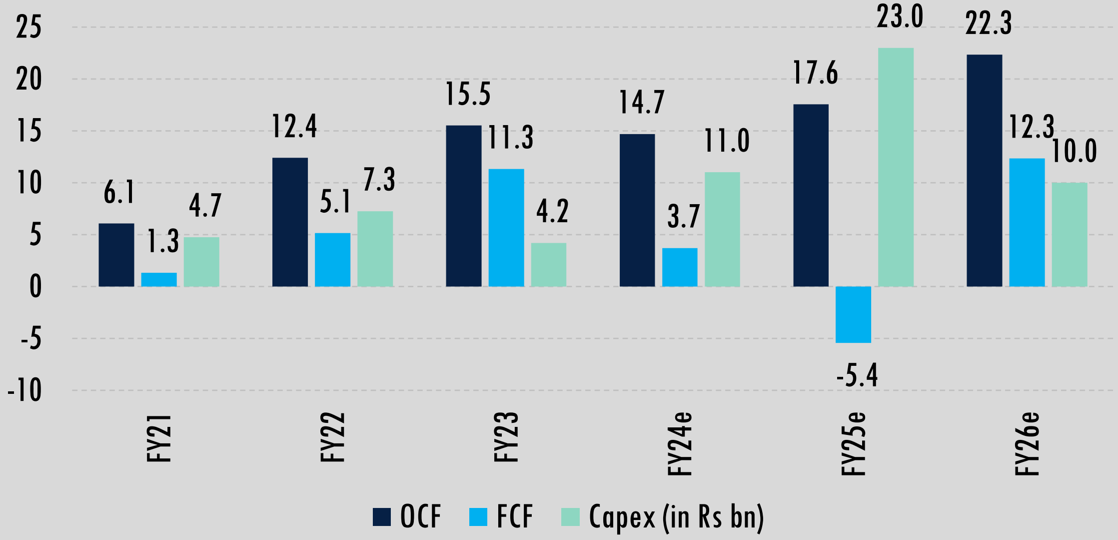
Optimising the payor mix with increasing contribution from the institutional segment



Best-in-class pre-tax RoCE (%) among peers



To generate FCFF of Rs10.6bn over FY24-26



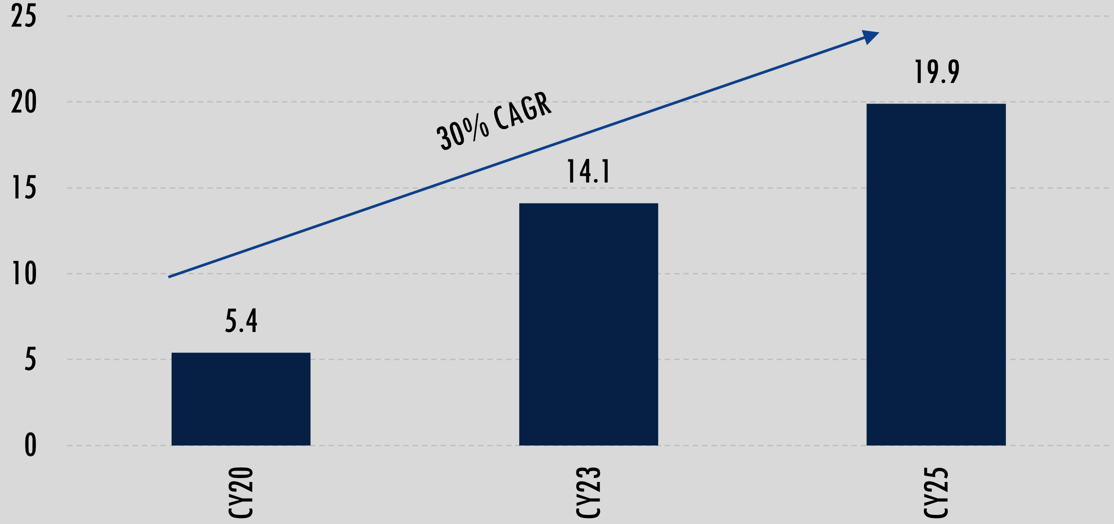
Source: Company, Anand Rathi Research

Max@HOME - Developing asset-light adjacencies

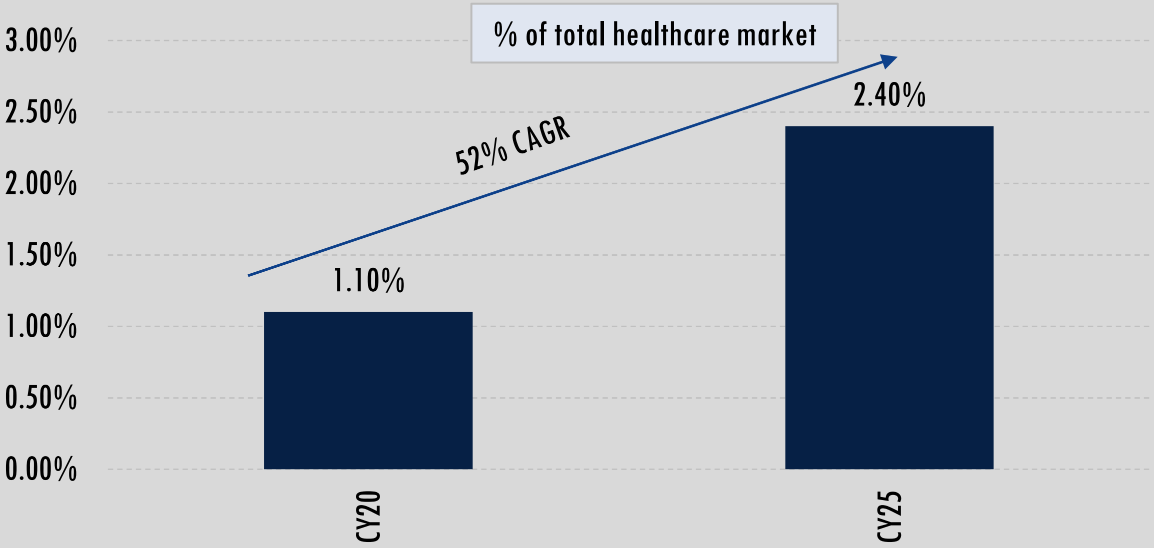
ANANDRATHI

One of the largest homecare providers in India

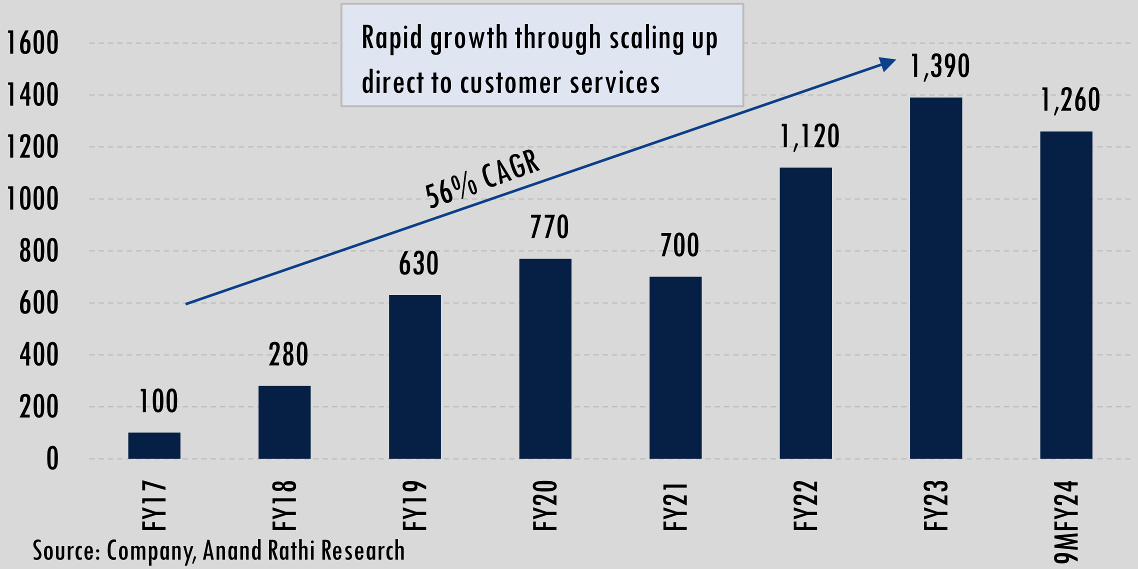
Domestic home healthcare market expected to grow ~2.5x by 2025…



…with organised healthcare contributing ~$480m by 2025



Max@Home posted a 6% revenue CAGR over FY22-24



Source: Company, Anand Rathi Research

Comprehensive, round-the-clock service offerings

Growth drivers for this segment would be led by

- Home healthcare solutions ~40% less costly than hospitals. with added convenience
- Increasing acceptance by doctors of home healthcare after the pandemic
- Increase in the size of the aging population and prevalence of chronic expenses
- Insurance policies covering home healthcare expenses
- Extension of services/scale through digital products

Max Healthcare - Snapshot of recent inorganic transactions

Sahara Hospital, Lucknow

Alexis Hospital, Nagpur

Type of expansion	Acquisition	Acquisition
Bed capacity	• ~550 beds (250 operational), 0.89m sq.ft. BUA (G+17 floors, OC for G+8)	200 beds, 0.225m sq.ft. BUA (G+6 floors)
Key Pointers	• Lucknow • Largest city of UP; high population density (~0.46m), Rs96,000 GDP/capita • Access to medical talent: 4 medical collages + public hospitals • Good Connectivity: Kanpur, Allahabad, Gorakpur, Varanasi • Potential proven by peers such as Apollo, Medanta	• Nagpur • 3rd largest city of Maharashtra; high population density (~0.47m) • High affordability, good insurance penetration • Readily available medical talent • Well connected: Amravati, Jalgaon, Bhopal • Market viability proven by chains like KIMS, Wockhardt
	• Hospital • Well planned, NABH accredited tertiary-care facility • Quality design (Hafeez Contractor), construction (L&T) • Nursing College - annual intake: ~1000 students • 27-acre prime parcel; sufficient headroom for growth	• Hospital • Only JCI accredited facility in Nagpur • Very well built & maintained tertiary-care hospital, equipped with high-end BME • Enjoying good brand equity
	• Located in high income catchment area of Gomti Nagar	• Attracts patients from MP & Chhattisgarh due to its strategic location in the affluent Mankapur (North Nagpur)
	• Potential for further ramp-up via augemtation of clinical programs	• Run rate of revenue & EBITDA is Rs1.5bn and ~Rs0.25bn
	• Since 2009, hospitals have served ~0.2m IPD, 0.2m ICU, 0.6m OPD patients and conducted over 46,000 surgeries	• Potential for further ramp-up via augmentation of clinical programs
	• Current revenue run rate of Rs2bn	• Can be expanded by ~140 beds due to FAR available and internal configuration
	• Ample expansion scope with option to set up a medical collage on unused land	

Max Healthcare - Indicative completion timelines for expansion projects

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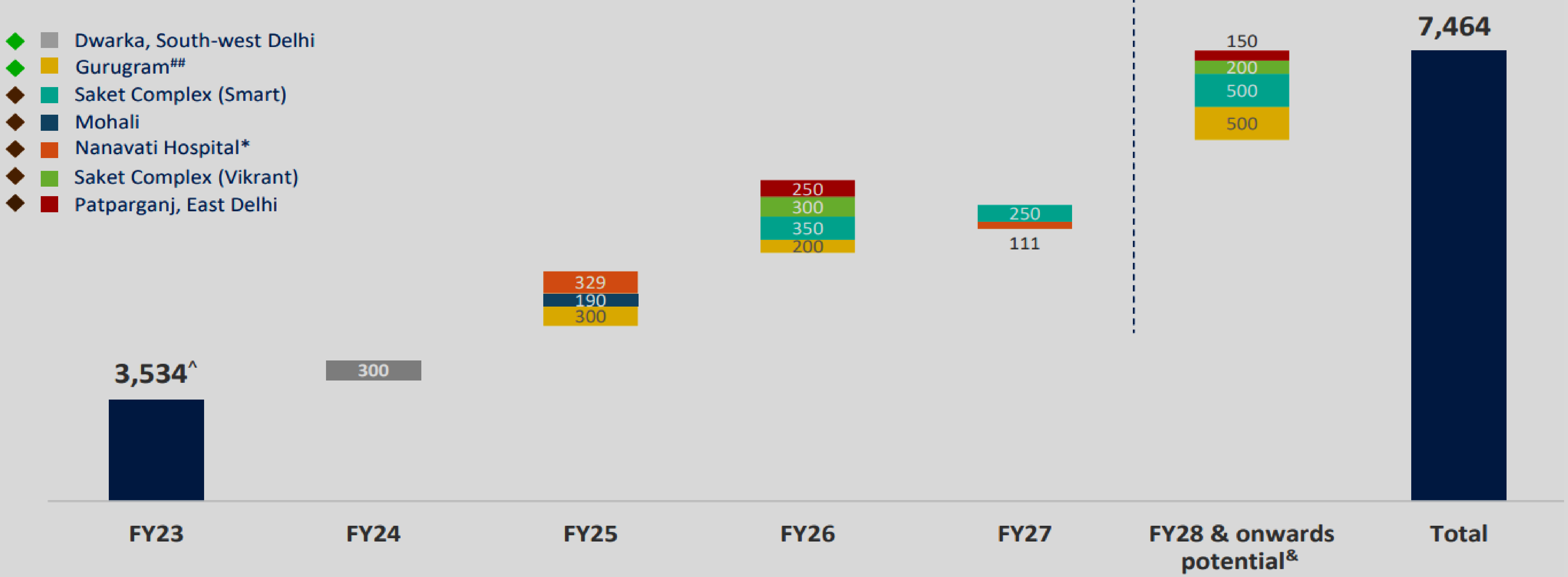
Indicative timelines for completion of expansion projects

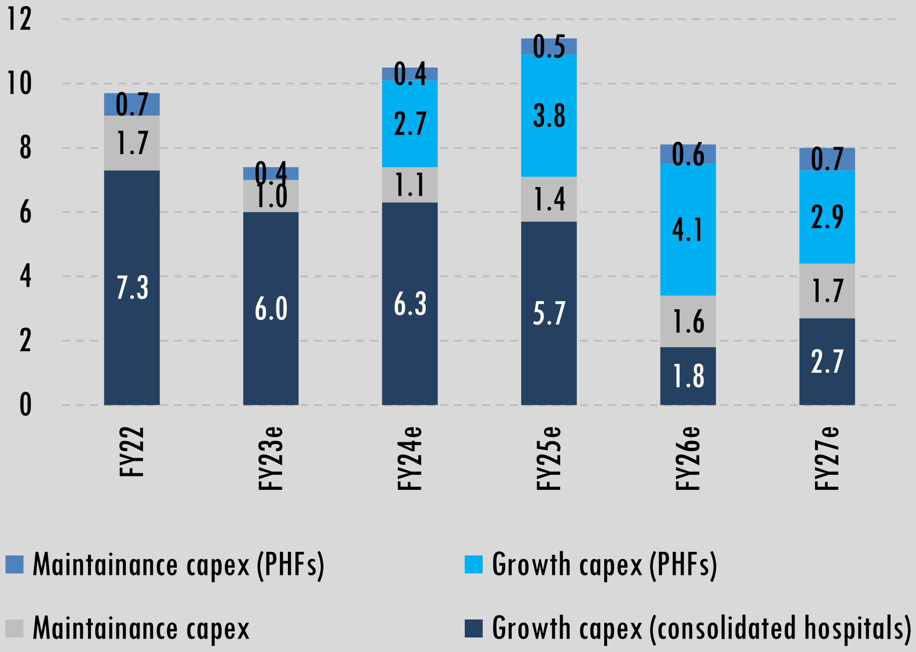


Bed Additions**	300	819	1,100	521*	1,350##
Estimated Capex# (INR Cr)	918	1,592	1,377	552	*To be firmed up*

◆ *Brownfield* ◆ *Greenfield*

Source: Company, Anand Rathi Research

Max Healthcare - Indicative completion timelines for expansion projects



Type of Expansion	Existing beds	Bed additions	Bed capacity	Commencement of construction	Commencement of operations	Capex (Rs m)
Brownfield						
Max Super-Specialty Hospital, Mohali	220	190	410	Q4 FY22	H2 FY24	1,990
Max Smart Super-Speciality Hospital, Saket	250	350	600	Q4 FY22	H1 FY25	6,840
Nanavati Max Hospital, Mumbai	328	329	657	Q4 FY22	H2 FY25	4,350
Equova Healthcare, Patparganj	-	250	250	Q3 FY24	H1 FY26	2,350
Max Super-Specialty Hospital (East Block) Saket (a)	320	300	620	Q4 FY24	H1 FY26	3,600
Max Smart Super-Specialty Hospital, Saket	600	250	850	Q3 FY25	H1 FY27	2,300
Nanavati Max Hospital, Mumbai (b)	657	111	768	Q2 FY25	H2 FY27	2,830
Equova Healthcare, Patparganj	250	150	400	Post-FY28	Post-FY28	1,600
Max Super-Specialty Hospital (East Block) Saket (a)	620	200	820	Post-FY28	Post-FY28	2,400
Max Smart Super-Specialty Hospital, Saket	850	500	1350	Post-FY28	Post-FY28	4,950
Greenfield						
Max Hospital, Gurugram - Sector 56	50	300	350	Q4 FY23	H2 FY25	4,020
Max Hospital, Gurugram - Sector 56	350	200	550	Q3 FY24	H2 FY26	2,680
Max Hospital, Gurugram - Sector 53*	42	500	542	Post-FY28	Post-FY28	6,700
Asset-light expansion						
Dwarka Hospital	-	300	300	Q3 FY22	H1 Y24	1,500

Source: Company, Anand Rathi Research

Max Healthcare - Status of ongoing projects

Dwarka - 300 beds

- OC application submitted in Oct'23
- Lift installation and other finishings in progress
- Expected commissioning by end-Q4 FY24

Mohali - 190 beds

- All statutory approvals received
- Design development in finalisation
- Project largely on schedule

Nanavati - 329 beds in Phase 1

- Basement and ground level structures completed
- Steel fabrication above the ground started
- Project largely on schedule

Sector 56, GGN - 300 beds in phase 1

- Approval for drawings received in Jan'24
- Design development ongoing
- Project largely on schedule

Saket complex (Max Smart) - 350 beds in phase 1

Saket complex (Vikrant) - 300 beds in phase 1

Saket complex (Max Smart):

- Tree transplantation underway
- Existing structures demolished
- Project delayed by 6-7 months, led by initial delay

Saket complex (Vikrant):

- Building plans re-submitted to MCD, post-review
- Tender documents under review
- Project largely on schedule

Max Healthcare - Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	51,710	58,750	68,076	84,057	1,06,130
Growth (%)	43.6	13.6	15.9	23.5	26.3
Raw material	13,500	13,920	17,359	21,435	27,063
Employee & other expenses	24,770	28,760	31,778	39,643	49,668
EBITDA	**13,440**	**16,070**	**18,938**	**22,980**	**29,399**
EBITDA margins (%)	26.0	27.4	27.8	27.3	27.7
- Depreciation	2,480	2,600	2,730	3,003	3,303
Other income	470	290	400	700	1,000
Interest expense	1,120	390	-400	-400	-500
PBT	10,810	13,750	17,428	21,077	27,596
Effective tax rates (%)	14	-2	18	20	20
+ Associates / (Minorities)					
Adjusted income	8,880	13,670	13,947	16,862	22,076
Extraordinary item (Loss) / Profit	500	380	420	-	-
Reported PAT	8,380	13,290	13,527	16,862	22,076
WANS	970	971	971	971	971
FDEPS (Rs)	9.2	14.1	14.4	17.4	22.7

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	9,696	9,709	9,709	9,709	9,709
Net worth	67,180	80,700	93,016	1,07,703	1,27,060
Debt (incl. Pref)	9,180	6,820	4,820	2,820	820
Minority interest					
Deferred tax liability/ (Asset)	1,850	-500	-500	-500	-500
Capital employed	**78,210**	**87,020**	**97,336**	**1,10,023**	**1,27,380**
Net tangible assets	39,150	41,390	46,540	66,537	73,234
CWIP (tangible and intangible)	40,080	39,760	39,766	39,772	39,778
Investments (strategic)	20	20	20	20	20
Investments (financial)					
Current assets (excl. cash) incl. LT	5,372	3,335	8,018	10,032	12,444
Cash	6,150	15,650	17,260	9,492	19,796
Current liabilities	12,562	13,135	14,268	15,830	17,891
Working capital	-7,190	-9,800	-6,250	-5,798	-5,448
Capital deployed	**78,210**	**87,020**	**97,336**	**1,10,023**	**1,27,380**
Contingent liabilities	4,250	4,400	4,400	4,400	4,400

Source: Company, Anand Rathi Research

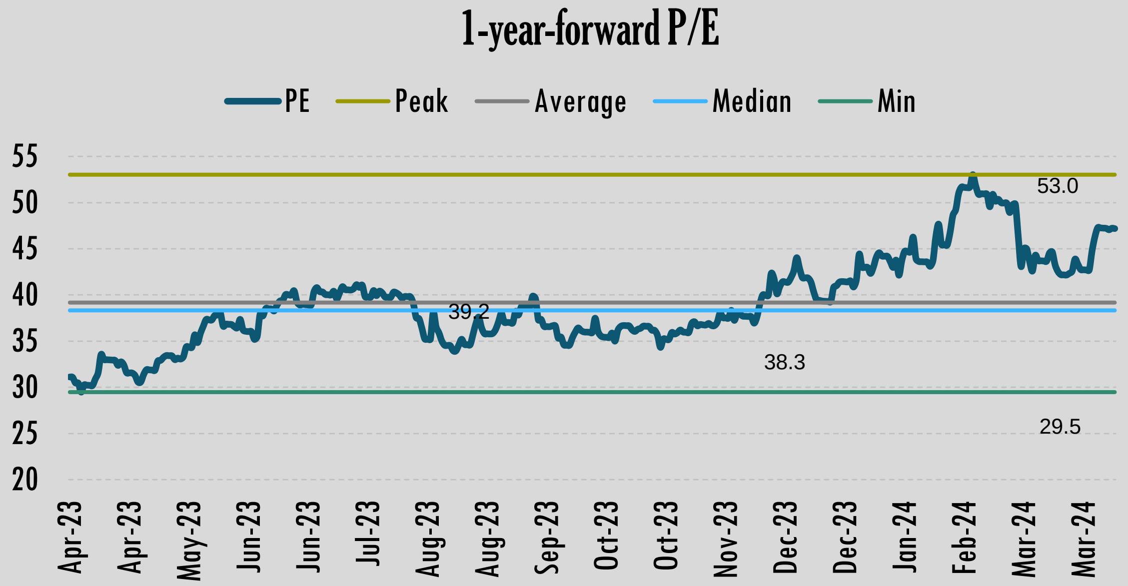
Max Healthcare - Financials

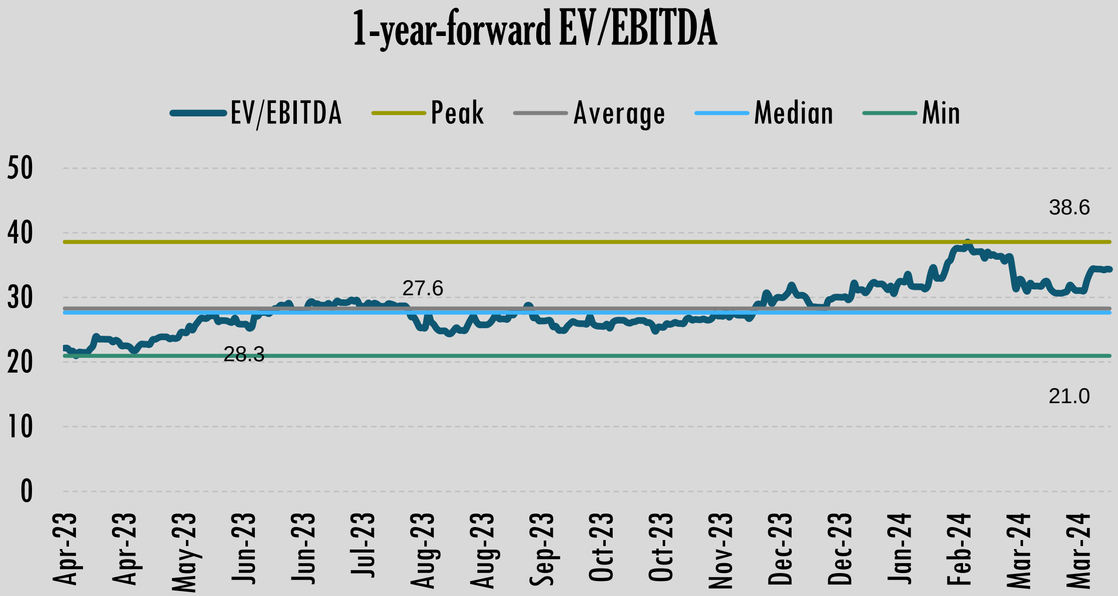
Cash flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	10,310	13,370	17,008	21,077	27,596
+ Non-cash items	3,600	2,990	2,330	2,603	2,803
Operating profit before WC changes	13,910	16,360	19,338	23,680	30,399
- Incr. / (decr.) in WC	90	1,154	1,585	1,912	2,545
Others incuding taxes	1,430	-300	3,062	4,215	5,519
Operating cash-flow	12,390	15,506	14,692	17,552	22,335
- Capex (tangible + intangible)	(7,195)	(4,200)	(12,087)	(24,087)	(11,087)
Free cashflow	5,195	11,306	2,605	-6,535	11,248
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)					
+ Equity raised	-	-	-	-	-
+ Debt raised	-2,100	-2,360	-2,000	-2,000	-2,000
- Fin. investments					
- Misc. items (CFI + CFF)	3,605	(554)	(1,005)	(767)	(1,057)
Net cashflow	-510	9,500	1,609	-7,768	10,304

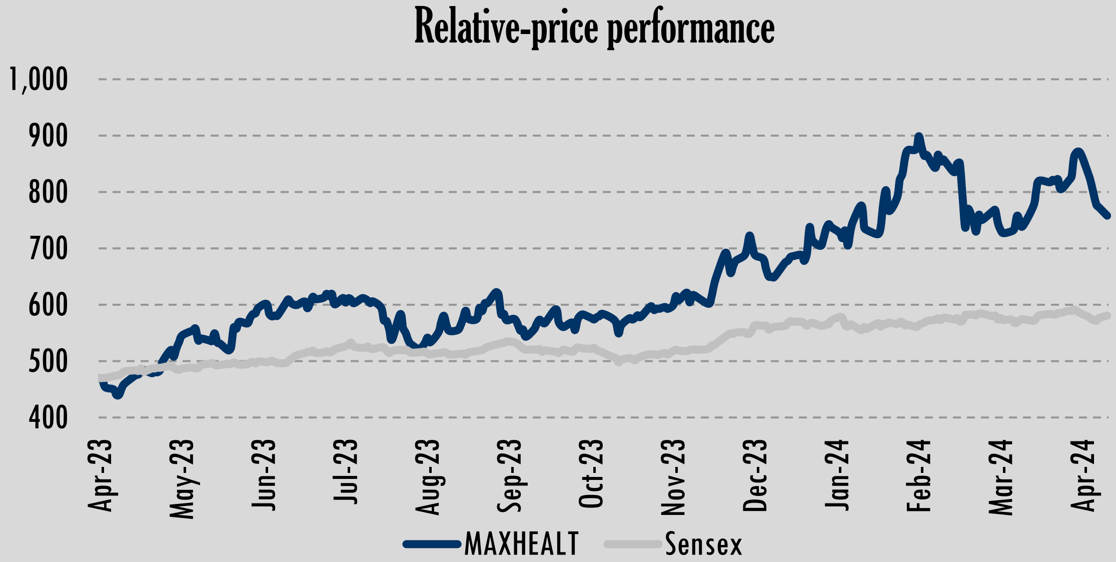
Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	83.0	54.0	52.9	43.8	33.4
EV/EBITDA (x)	55.1	45.4	38.3	31.8	24.5
EV/Sales (x)	14.3	12.4	10.7	8.7	6.8
P/B (x)	11.0	9.1	7.9	6.9	5.8
RoE (%)	15.9	20.7	17.5	18.6	20.5
RoCE (%) - after tax	14.0	15.3	16.7	18.6	21.5
RoIC (%) - after tax	12.6	17.1	15.3	16.7	18.7
DPS (Rs)	-	1.0	1.5	2.0	2.5
Dividend yield (%)	-	0.1	0.2	0.3	0.3
Dividend payout (%)					
Net debt/equity (x)	0.0	-0.1	-0.1	-0.1	-0.1
Receivables (days)	35	36	37	37	36
Inventory (days)	6	8	8	8	8
Payables (days)	43	43	43	43	43
CFO : PAT, %	140	113	105	104	101

Source: Company, Anand Rathi Research

Max Healthcare - Valuation charts







Source: Bloomberg, Anand Rathi Research

Appendix

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