Aster DM Healthcare

Recommendation: SUBSCRIBE

SPA THE FINANCIAL ADVISORS

Healthcare

Aster DM Healthcare is one of the largest private healthcare service providers which operate in multiple GCC states based on numbers of hospitals and clinics and an emerging healthcare player in India. The company has a diversified portfolio of healthcare facilities, consisting of 9 hospitals, 90 clinics and 206 retail pharmacies in the GCC states, 10 multi-specialty hospitals and 7 clinics in India, and 1 clinic in the Philippines as of September 30, 2017. The company's total revenues from operations were INR 59.3 billion for FY17, while Adjusted EBITDA was INR 3,642.4 million for FY17.

Issue Snapshot	
Issue Open:	12-Feb-18
Issue Close:	15-Feb-18
Price Band	INR 180 - 190
Issue Size	INR 9801 mn
Market Cap	INR 90941 - INR 95993 mn

Particulars	
Fresh Issue	38.2 mn Equity shares
OFS	13.4 mn Equity shares
QIBs	50% of Net Issue
Non-institutional	15% of Net Issue
Retail	35% of Net Issue

Capital Structure	
Pre Issue Equity	INR 4670.69 mn
Post Issue Equity	INR 5052.27 mn
Bid Lot	78
Minimum Bid Amount @180	INR 14040
Minimum Bid Amount @190	INR 14820

Shareholding Pattern (%)	Pre Issue (%)	Post issue (%)
Promoters	43.28	37.35
Public	56.72	62.65

Particulars	
Face value	INR 10.00
Book Value (31st Mar 2017)	INR 45.6
EV/Sales (31st Mar 2017)	2.0x

Objects of the issue

Fresh Issue	
Repayment and/or pre-payment of Debt	INR 5641.56 mn
Purchase of Medical Equipment	INR 1103.11 mn
General Corporate Purposes	Balance

Investment Rationale

Long standing presence across GCC states and India with strong brand equity

The company is well placed to capitalise on the expected growth in healthcare sector in the GCC states due to an early mover advantage, strong brand presence using a targeted strategy of offering different brands to cater to diverse group of customers and existing track record. Further, the presence of the company's pharmacies at multiple locations across various GCC states also enhances the visibility of its brands.

Well diversified portfolio of service offerings to leverage multiple market opportunities

The company provides healthcare services in the United Arab Emirates, Oman, Saudi Arabia, Qatar, Kuwait and Bahrain, which comprise all of the GCC states, in Jordan (which is classified as part of its GCC operations) and in the Indian cities of Kochi, Kolhapur, Kozhikode, Kottakkal, Bengaluru, Vijayawada, Guntur, Wayanad and Hyderabad. Its clinic in Manila, Philippines commenced operations in August 2015. The company's GCC operations encompass all levels of healthcare services from primary to tertiary services. In addition to providing core medical, surgical and emergency services, it also offers advanced surgical treatments in various specialties, including cardiology, oncology, radiology, neurosciences, paediatrics, gastroenterology, orthopaedics and critical care services.

Increase presence by way of Greenfield Expansion and inorganic growth

The company has 9 hospitals in the GCC states, with a total capacity of 867 beds, as of September 30, 2017. The company intends to capitalise on the increasing demand for healthcare services in the GCC states by building or expanding 4 multi-specialty hospitals in the UAE, for a total additional capacity of 286 beds. These hospitals are in the process of construction and are expected to be completed within the next 1 to 2 years. It also plans to build or expand 5 hospitals in India within the next 4 years to add 1,372 beds to its total bed capacity, with a focus on building and expanding facilities in Tier I and II cities such as Bengaluru, Trivandrum, Kannur and Kozhikode. In the past the company has successfully used acquisitions and strategic partnerships to expand its operations and consolidate its presence in new markets. Since its incorporation, it has acquired 8 hospitals in India and management rights in Aster CMI Hospital and DM WIMS Hospital, as well as 1 hospital, 1 clinic and 39 retail pharmacies in the GCC states.

Outlook and Valuation

Aster DM Healthcare is one of its kind complete healthcare provider, which caters to patients through hospitals, clinics and pharmacy stores, which are vertically and horizontally integrated. Over the past two years the company has incurred a capex of ~INR 8700 million with which the company plans to expand its presence in GCC (with 4 hospitals and 355 beds) and India (with 5 hospitals and 1300 beds). The revenue from this capex is expected to be recognised in next two years. With stable growth in the GCC, the company plans to increase its contribution to revenues from India from ~19% to ~35% in 3-5 years (with expansion in Tier 1 and Tier 2 cities). With definite expansion plans through organic and inorganic growth opportunities and a limited timeframe for EBITDA breakeven (less than 12 months for hospitals, 18-24 months for clinics), the company is well poised for growth through expansion going ahead. The company's revenues grew at a CAGR 23.7% to INR 59.3 billion in FY17. PAT for FY17 was at INR 2670 million with EBITDA Margins of 6.5%. We expect the company revenues to continue to grow at similar level with EBITDA margins growing back to ~13% by FY20E. Domestic hospitals trade at TTM EV/Sales of 2.5x - 3.0x. The company is trading at a FY17 EV/Sales of 1.9x. We recommend SUBSCRIBE to the issue from a long term perspective.

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Healthcare Industry Overview

Healthcare Services Market Size

The UAE had significant healthcare expenditures with a 3.6% share of the GDP in 2014. The total healthcare expenditure was US$ 14.64 billion in 2014, growing at a CAGR of 8.0% since 2008. The healthcare expenditure can be estimated to reach US$ 16.14 billion in 2016, which is 4.9% of the estimated GDP of the UAE in the same year. In absolute value terms, while the public health expenditure increased at a CAGR of 9.7% between 2008 and 2014, the private health expenditure increased at a lower rate of 4.1%. However, in recent years, the growth in private health expenditure has been increasing.

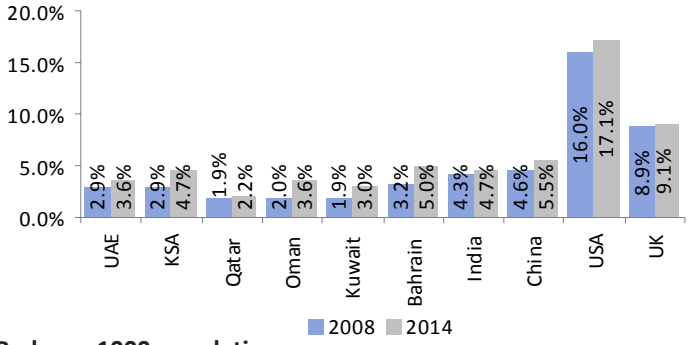
Overall, healthcare expenditure in the KSA has shown continuous growth with the increasing number of inpatient and outpatient visits in private hospitals, increasing per outpatient visit realisation in private hospitals (US$ 97 per visit in 2010 to US$ 113 in 2013), and increasing per capita expenditure on healthcare. It has also been a major focus sector by the Government and this growth is attributed to the numerous new and planned hospital projects by the Government as well as the private sector.

Qatar has seen growth rate of population in the recent past (CAGR of 4.4% over 2010-16). Qatar has been one of the fastest growing markets in the GCC region with the highest per capita spending on healthcare among the GCC states.

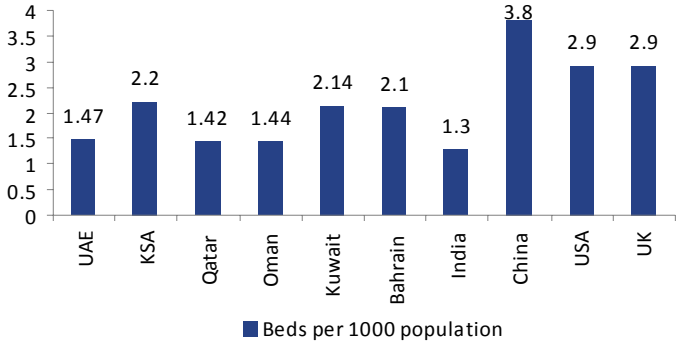
Likewise, Oman with a low population base has also experienced high growth in population (CAGR of 7.9% over 2010-16). Healthcare spend in Oman is mostly dependent on the public sector, which contributed to around 80% during the 2008-12 period and increased to about 90% of the total healthcare expenditure in 2014.

There has been a significant change in the out-of-pocket (OOP) healthcare expenditure in most of the countries in the GCC between 2008 and 2014. The biggest change has been observed in Qatar, where OOP changed from 100% in 2008 to 48% of total private healthcare expenditure in 2014.

Total Healthcare expenditure as a % of GDP:



Beds per 1000 population:



Pharmaceutical Distribution in GCC States

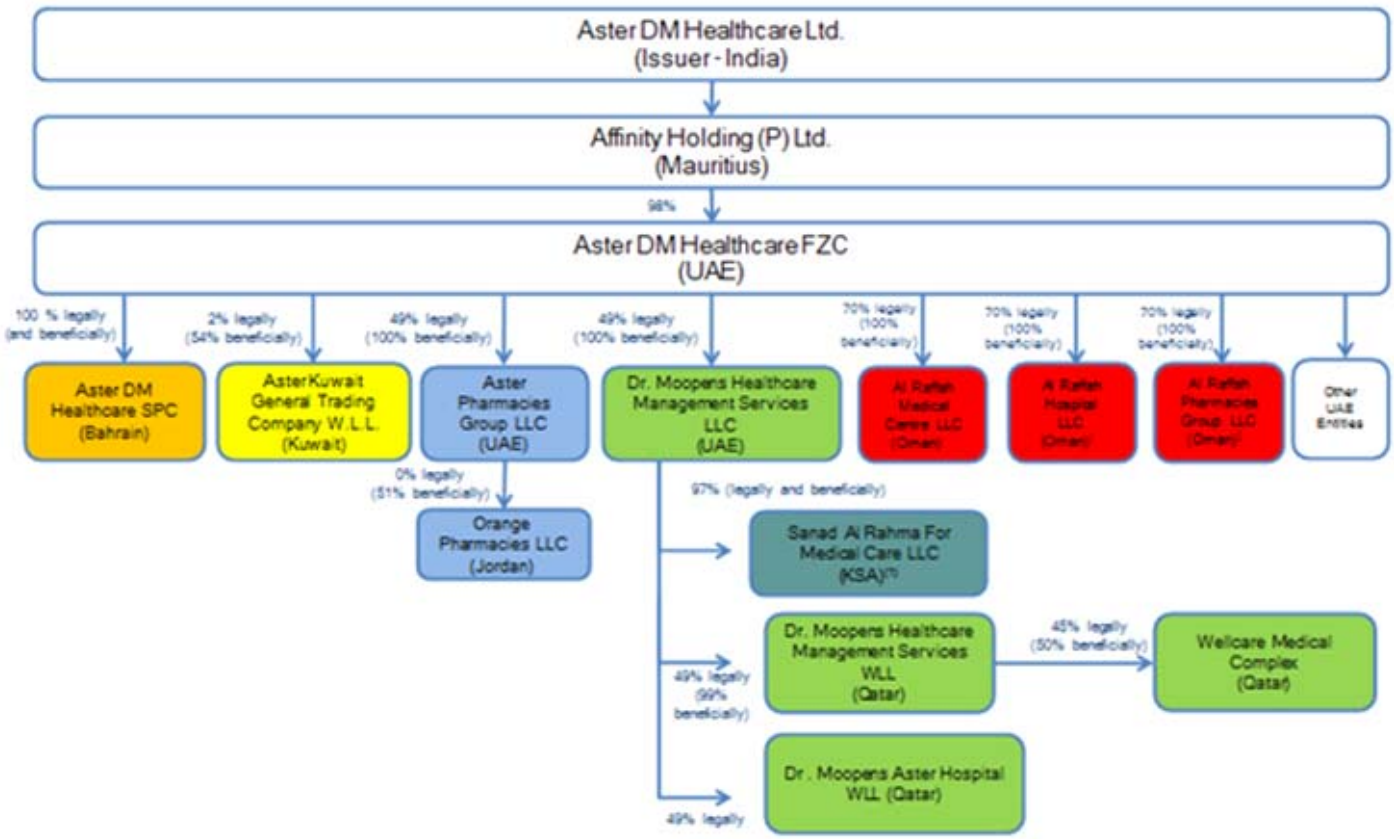
	KSA	UAE	Qatar	Oman	Kuwait
Key Market Features	Largest market for the pharmaceutical industry in the GCC. The KSA pharmaceutical market has a significant share of Government-purchased drugs. (about 35% of total market). Prescription drugs are also sold without prescriptions. Hence, the overall reliance on physicians is lower in the KSA.	The UAE is a key hub in the region for multinational pharmaceutical companies. All drug purchases are strictly prescription-based and hence, influenced by physicians. There is a recent trend in increase in use of generic drugs, aided by recent government reforms	Qatar is experiencing rapid development in health care services, including pharmaceutical services. National Health Strategy 2011-2016, which is expected to significantly improve access to healthcare, through phased implementation of mandatory health insurance.	The pharmaceutical market in Oman is predominantly import-driven. There are very few domestic manufacturers which are generic drugs manufacturers. There is a strong preference for patented medicines in the market.	Kuwait is experiencing rapid development in healthcare services, including pharmaceutical services. The market is dominated by imported and expensive patented drugs. Very few companies are"active in drug making, mainly in the generics segment.
Pricing	The MOH directly regulates the prices through SFDA and the calculation of drug price is based on Ex-factory or Cost, Insurance, and Freight (CIF) price into the KSA in the currency of the country of origin, and the qualifying factors affecting the prices	Each product that is registered with the MoH has three levels of price Cost, Insurance, and Freight (CIF) price, wholesaler price, and retailer price, all of which are regulated by the MoH	All retail medicine prices and allowed importers / distributors to establish their own prices	The pricing matrix is in accordance with the 'GCC unifying CIF (cost, insurance, freight) drug pricing system	The pricing of drugs is controlled by KuFDA, which publishes the list of registered drugs and prices of major drugs regularly. The mark-ups for retailers as well as wholesalers are fixed by the authority
Key Drivers	An increasing population base and surge in lifestyle-related illnesses Mandatory health insurance	Increase in access through medical insurance Increasing prevalence of chronic lifestyle diseases Increase in volume through medical tourism and Expo 2020 Consolidation in market Move towards Generics	High rate of urbanization Increasing prevalence of chronic lifestyle-related diseases Government initiatives Increasing health insurance penetration	Increase in income levels Increase in insurance penetration, and Transition to chronic, noncommunicable diseases	High rate of urbanization Increasing prevalence of chronic lifestyle-related diseases High public spending on healthcare Government initiatives
Pharmaceutical Market Size as of FY15	US$ 7.5 billion	US$ 2.4 billion	US$ 0.54 billion	US$ 0.65 billion	US$ 1 billion
Expected Pharmaceutical market size as on FY20E	US$ 14.3 billion	US$ 3.2 billion	US$ 0.9 billion	US$ 1.1 billion	US$ 1.5 billion

Business Overview

Aster DM Healthcare is one of the largest private healthcare service providers which operate in multiple GCC states based on numbers of hospitals and clinics and an emerging healthcare player in India. It had 149 operating facilities, including 10 hospitals with a total of 1,419 installed beds, as of March 31, 2013 and have expanded to 323 operating facilities, including 19 hospitals with a total of 4,754 installed beds, as of September 30, 2017. Further, it entered into an operation and management services agreement with Rashtreeya Sikshana Samithi Trust in Bengaluru effective February 25, 2017 to provide operation and management services at a hospital in J P Nagar, Bengaluru.

The company has a diversified portfolio of healthcare facilities, consisting of 9 hospitals, 90 clinics and 206 retail pharmacies in the GCC states, 10 multi-specialty hospitals and 7 clinics in India, and 1 clinic in the Philippines as of September 30, 2017. The company's total revenues from operations was INR 38.8 billion, INR 52.5 billion , INR 59.3 billion and INR 31.2 billion for FY15, FY16 and FY17 and H1FY18 respectively. Adjusted EBITDA was INR 5,142.9 million, INR 4,731.6 million, INR 3,642.4 million and INR 1,933.9 million for FY15, FY16 and FY17 H1FY18 respectively. Of the total revenues from operations for H1FY18, hospital segment accounted for 49.29%, clinic segment accounted for 25.92% and retail pharmacy segment accounted for 24.75%. Operations in India, which primarily consist of hospitals, accounted for 18.58% of the total revenues from operations for H1FY18.

Corporate Structure



Hospitals

Existing Hospitals:

Hospital	Location	Since	Type of Hospital	Installed Bed Capacity
GCC states				
Medcare Hospital	Dubai, UAE	Operational 2007	Multi-specialty	63
Al Raffah Hospital	Muscat, Oman	Operational 2009	Multi-specialty	86
Al Raffah Hospital	Sohar, Oman	Operational 2010	Multi-specialty	67
Medcare Orthopaedics and Spine Hospital	Dubai, UAE	Operational 2012	Speciality	33
Aster Hospital Mankhool	Dubai, UAE	Operational 2015	Multi-specialty	114
Medcare Women and Child Hospital	Dubai, UAE	Operational 2016	Multi-specialty	101
Medcare Hospital	Sharjah, UAE	Operational 2017	Multi-specialty	124
Sanad Hospital	Riyadh, Kingdom of Saudi Arabia	Increased interest to 97% in 01-09-2015	Multi-specialty	218
Aster Hospital	Doha, Qatar	Operational 2017	Multi-specialty	61
India				
Aster Aadhar Hospital	Kolhapur, Maharashtra	Acquired 2008, new facility operational from 2012	Multi-specialty	175
MIMS Kozhikode	Kozhikode, Kerala	Acquired 2013	Multi-specialty	678
MIMS Kottakkal	Kottakkal, Kerala	Acquired 2013	Multi-specialty	229
Aster CMI	Bengaluru, Karnataka	Operated and managed since 2014	Multi-specialty	509
Aster Medcity	Kochi, Kerala	Operational 2014	Multi-specialty	670
Prime Hospitals –Ameerpet	Hyderabad, Telangana	Acquired 2014	Multi-specialty	158
DM WIMS	Wayanad, Kerala	Operated and managed since 2016	Multi-specialty	880
Dr. Ramesh - Guntur	Guntur, Andhra Pradesh	Acquired 2016	Multi-specialty	350
Dr. Ramesh – Main Centre	Vijaywada, Andhra Pradesh	Acquired 2016	Multi-specialty	184
Dr. Ramesh – Labbipet	Vijaywada, Andhra Pradesh	Acquired 2016	Multi-specialty	54

Upcoming Hospitals:

Hospital	Location	Type	Expected Completion	Planned Beds	Stage
GCC states					
Aster Hospital	Dubai, UAE	Greenfield	2018	117	Construction
Aster Hospital	Dubai, UAE	Greenfield	2018	41	Construction
Aster Hospital	Sharjah, UAE	Greenfield	2019	80	Design
Medcare Hospital	Dubai, UAE	Greenfield	2020	48	Planning
Sanad Hospital	Riyadh, Saudi Arabia	Expansion	2018	69	Construction
India					
MIMS Kannur	Kannur, Kerala	Greenfield	2018	200	Construction
MIMS Pantheerankavu	Kozhikode, Kerala	Expansion	2020	200	Initial Planning
RSST Hospital	Bengaluru, Karnataka	O & M	2018	223	Initial Planning
MIMS Kozhikode	Kozhikode, Kerala	Expansion	2020	N/A	Initial Planning
Aster Capital	Trivandrum, Kerala	Greenfield	2021	Phase I – 510; Phase II- 239	Acquired land

GCC Hospitals:

Aster DM Healthcare is one of the leading private hospital operators in the UAE, where it operates 5 hospitals with a total installed bed capacity of 435 beds, and Oman, where it operates 2 hospitals with a total installed bed capacity of 153 beds as of September 30, 2017. It also operates 1 hospital in Saudi Arabia with an installed bed capacity of 218 beds and 1 hospital in Qatar with installed bed capacity of 61 as of September 30, 2017. For H1FY18, GCC operations accounted for 81.36% of its total revenues from operations.

The company has increased the installed bed capacity of the GCC hospitals from 401 beds as of March 31, 2013 to 867 beds as of September 30, 2017. For its GCC hospitals, the occupancy rate decreased from 62.03% in fiscal 2013 to 60.01% and 50.87% as of March 31, 2017 and September 30, 2017, respectively. The company's average revenue per occupied bed in the GCC states also increased from INR 93,264 for FY13 to INR 130,026 and INR 148,843 for FY17 and H1FY18, respectively.

The company is in the process of building 4 new hospitals in the UAE within the next 4 years, for a total additional capacity of 286 beds.

Domestic Hospitals:

The company operates 10 multi-specialty hospitals in India to capitalise on the opportunity for growth in the underpenetrated Indian healthcare market and in the fast-growing market for medical value travel in India.

It has increased the bed capacity of the Indian hospitals from 1,018 installed beds as of March 31, 2013 to 3,887 installed beds as of September 30, 2017. The average revenue per occupied bed increased from INR 8,130 as of FY13 to INR 22,175 and INR 22,876 for FY17 and H1FY18, respectively. This is also reflected in the total revenues from India business, which is comprised of primarily hospital operations, which were INR 4,280 million, INR 6,319 million, INR 9,500 million and INR 5,800 million for FY15, FY16 and FY17 and H1FY18, respectively. For H1FY18, the India operations accounted for 18.58% of total revenues from operations.

To meet the increasing demand, the company plans to build or expand 5 hospitals in India within the next 4 years to add a total of over 1,372 beds.

Clinics

The clinics in the GCC states generally function as outpatient medical facilities offering various healthcare services ranging from general medicine to medical specialties such as neurology, dermatology, orthopaedics, cardiology and gastroenterology. The company operates a total of 98 clinics as of September 30, 2017, of which 90 clinics are located in the GCC states, 7 clinics are located in India and 1 clinic is located in the Philippines. The network of 76 clinics in the UAE under the Medcare, Aster and Access brands makes Aster DM Healthcare one of the largest chains of private primary healthcare providers in the UAE based on the number of facilities as of September 30, 2017.

The number of clinics of the company has grown from 41 clinics as of FY13 to 98 clinics as of H1FY18. Patient volume at the clinics in the GCC states and the Philippines increased from 1.83 million to 4.62 million patient visits in FY13 and FY17, respectively.

The total revenues from clinic business were INR 9,086 million, INR 12,731 million, INR 16,229 million and INR 8,095 million for FY15, FY16, FY17 and H1FY18, respectively. The company's clinic segment accounted for 25.92% of total revenue from operations for H1FY18.

Retail Pharmacies

The company operates a total of 206 retail pharmacies as of September 30, 2017, all of which are located in the GCC states. It is the largest retail pharmacy chain in the UAE as of March 31, 2017 by number of outlets. As of September 30, 2017, it operates 173, 10, 12, 6 and 5 Aster-branded retail pharmacies in the UAE, Kuwait, Jordan, Qatar and Oman, respectively. The number of retail pharmacies has grown steadily from 98 retail pharmacies as of FY13 to 206 retail pharmacies as of H1FY18. The retail pharmacy business outside India employed 822 licensed pharmacists as of September 30, 2017.

The pharmacies in India are integrated with its hospitals and clinics, and cater to all its patients. The company does not operate retail pharmacies in Saudi Arabia or the Philippines.

The total revenues from retail pharmacy business were INR 10,646 million, INR 14,018 million, INR 15,978 million and INR 7,727 million for FY15, FY16, FY17 and H1FY18 respectively. The retail pharmacy segment accounted for 24.75% of total revenues from operations for H1FY18.

Investment Rationale

Long standing presence across GCC states and India with strong brand equity

Aster DM Healthcare is one of the largest private healthcare service providers which operates in multiple GCC states based on numbers of hospitals and clinics. It commenced operations in 1987 as a single doctor clinic in Dubai established by the founder, Dr. Azad Moopen and is able to draw upon decades of experience in providing quality care to its patients. The company is well placed to capitalise on the expected growth in healthcare sector in the GCC states due to an early mover advantage, strong brand presence using a targeted strategy of offering different brands to cater to diverse group of customers and existing track record. The company's 'Aster', 'Medcare' and 'Access' brands are widely recognised in the GCC states by both healthcare professionals and patients. 'Aster' and 'Medcare' brands address the needs of the upper and middle income segments in the GCC states respectively, while 'Access' brand offers affordable healthcare services to blue collar expatriate workers and the lower income segment in the GCC states. Further, the presence of the company's pharmacies at multiple locations across various GCC states also enhances the visibility of its brands. Its long-standing presence in the GCC states has helped the company gain an understanding of the respective markets and the regulatory environments and has contributed towards the success of GCC operations.

The company operates in India under its 'Aster', 'MIMS', 'Ramesh', 'Prime', 'Aster Aadhar' and 'Aster CMI' brands. In FY15, it launched Aster Medcity in Kochi, Kerala, which is intended to be positioned as a destination for medical value travel from select markets including India and countries across the GCC states, the MENA region and South Asia.

Well diversified portfolio of service offerings to leverage multiple market opportunities

The company has an established presence across multiple geographies, multiple healthcare delivery verticals and serve multiple economic segments. It provides healthcare services in the United Arab Emirates, Oman, Saudi Arabia, Qatar, Kuwait and Bahrain, which comprise all of the GCC states, in Jordan (which is classified as part of its GCC operations) and in the Indian cities of Kochi, Kolhapur, Kozhikode, Kottakkal, Bengaluru, Vijayawada, Guntur, Wayanad and Hyderabad. Its clinic in Manila, Philippines commenced operations in August 2015. It operates in multiple formats providing a wide range of services through a diverse network of 9 hospitals, 90 clinics and 206 retail pharmacies in the GCC states, 10 multi-specialty hospitals and 7 clinics in India, and 1 clinic in the Philippines as of September 30, 2017.

(INR million)	FY15	FY16	FY17	H1FY18
Region				
GCC states				
India	34,478	46,178	49,792	25,405
Other regions	4,280	6,319	9,500	5,800
(Philippines)	-	2	21	20
Total	**38,758**	**52,499**	**59,313**	**31,226**
Business segments				
Hospitals	19,003	25,729	27,047	15,391
Clinics	9,086	12,731	16,229	8,095
Pharmacies	10,646	14,018	15,978	7,727
Others	23	21	59	12
Total	**38,758**	**52,499**	**59,313**	**31,226**

The company's GCC operations encompass all levels of healthcare services from primary to tertiary services. In addition to providing core medical, surgical and emergency services, it also offers advanced surgical treatments in various specialties, including cardiology, oncology, radiology, neurosciences, paediatrics, gastroenterology, orthopaedics and critical care services.

Ability to attract and retain high quality medical professionals

The company had 17,408 employees as of September 30, 2017, including 1,417 full time doctors, 5,797 nurses, 1,752 paramedics and 8,442 other employees (including pharmacists). It also had 891 'fee for service' doctors working across various specialities in its hospitals in India as of September 30, 2017. In addition to attracting doctors and other medical professionals to its facilities, it has a track record in building long-term relationships with its doctors and other medical and non-medical professionals through various incentive programs such as domestic and international conference travel policies and sponsored training and education assistance policy. The operations in India enable the company to source doctors, nurses and other medical professionals from India to its operations in the GCC states. As of September 30, 2017, 60.74% of its doctors and 64.47% of its non-medical professionals in the GCC states are of Indian nationality.

Track record of operating and financial performance and growth

The company increased the bed capacity of its hospitals from 1,419 beds as of March 31, 2013 to 4,754 beds as of September 30, 2017. The operational beds increased from 1,309 as of March 31, 2013 to 3,584 as of September 30, 2017. This includes 432 operational beds out of a total capacity of 670 installed beds for Aster Medcity in Kochi, Kerala, which was launched in August 2014.

The ARPOB in the GCC states increased from INR 93,264 in FY13 to INR 130,026 in FY17 and INR 148,843 in H1FY18 and its ARPOB in India increased from INR 8,130 to INR 22,175 and INR 22,876 during the same period.

The company reported total operation revenues of INR 38,758 million, INR 52,499 million, INR 59,313 million and INR 31,226 million for FY15, FY16 and FY17 and H1FY18, respectively. Adjusted EBITDA was INR 5,143 million, INR 4,732 million, INR 3,642 million and INR 1,934 million for FY15, FY16, FY17 and H1FY18 respectively, with Adjusted EBITDA margins of 13.3%, 9.0%, 6.1% and 6.2% for FY15, FY16, FY17 and H1FY18.

The number of clinics in GCC states increased from 41 as of March 31, 2013 to 90 as of September 30, 2017, and the number of retail pharmacies increased from 98 as of March 31, 2013 to 206 as of September 30, 2017.

Strategy

Continue to grow within the existing centres

The company intends to grow its existing hospitals and clinics by adding new specialities and services, increasing the number of beds and relocating certain specialities into new facilities. Its expansion plans are generally driven by the existing facilities functioning at close to maximum capacity, as the new or expanded facilities will have a ready customer base, resulting in quicker operational ramp-up and higher business volume with lower operational risks.

It intends to continue the growth of its retail pharmacy business through organic growth and acquisitions. In 2014, it expanded its product profile and commenced distribution of a number of products, including over-the-counter medicine, cosmetics and vitamin supplements, for which it has been granted exclusive distribution rights for the UAE by the supplier, to be sold in its retail pharmacies as well as those of third parties. A number of its retail pharmacies are open 24 hours a day and offer services such as home delivery.

India is geographically well positioned for medical value travel from the GCC states, MENA region and South-East Asia and is highly competitive in terms of healthcare costs compared to developed countries. The medical value travellers, for whom it is less expensive to travel to receive quality medical treatment than to obtain such treatment locally, will contribute to higher revenues per bed per day than other patients and will help drive revenue growth. The company's Aster Medcity Kochi and Aster CMI Bengaluru hospitals are well-connected for both domestic and international travel to be preferred destinations for medical value travel. The company intends to increase its marketing efforts to attract medical value travellers to these facilities. The presence of a large network of its clinics and hospitals in the GCC states help to drive medical value travellers to its hospitals in India. For instance, the Aster Medcity Hospital in Kerala which commenced operations in August 2014, receives about 1.90% of patients from Oman with ARPOB of INR 79,251 for H1FY18, whereas the average ARPOB for India hospitals is INR 22,876 for H1FY18.

Increase presence by way of Greenfield Expansion

The company has 9 hospitals in the GCC states, with a total capacity of 867 beds, as of September 30, 2017. The company intends to capitalise on the increasing demand for healthcare services in the GCC states by building or expanding 4 multi-specialty hospitals in the UAE, for a total additional capacity of 286 beds. These hospitals are in the process of construction and are expected to be completed within the next 1 to 2 years. It also plans to build or expand 5 hospitals in India within the next 4 years to add 1,372 beds to its total bed capacity, with a focus on building and expanding facilities in Tier I and II cities such as Bengaluru, Trivandrum, Kannur and Kozhikode.

Each opportunity is evaluated on the basis of factors unique to that opportunity such as expected investment and financial returns, catchment area served, availability of appropriate talent and regulatory issues. For instance, Aster Medcity, a flagship facility in India, aims to offer a world class quaternary care facility in Kochi, where there is significant unfulfilled need from the local population.

Pursue inorganic growth opportunities to expand into newer service offerings or new markets

In the past the company has successfully used acquisitions and strategic partnerships to expand its operations and consolidate its presence in new markets. Since its incorporation, it has acquired 8 hospitals in India and management rights in Aster CMI Hospital and DM WIMS Hospital, as well as 1 hospital, 1 clinic and 39 retail pharmacies in the GCC states. It intends to leverage the acquisition experience to successfully identify, execute and integrate new opportunities that may arise in the future.

It has entered into strategic partnerships for the Kolhapur, Wayanad, Vijayawada and Hyderabad facilities to achieve the multiple objectives of rapidly expanding its operations in India and also gaining insights into the local environment. It entered into a strategic partnership for the Bengaluru facility with a view to unlocking the true potential of the Bengaluru facility. For certain reasons, before the partnership with the Company, the Bengaluru facility was operating at suboptimal levels. It has now taken over the management and is making significant investments in infrastructure, talent building, marketing and branding. The Bengaluru facility is expected to be an important destination for medical value travellers because of its superior service offerings and its proximity to the international airport.

To complement the expansion of services at its existing facilities and enhance its service offering, it intends to seek opportunities in new underpenetrated markets in India, mainly through exploring strategic investments in, or acquisitions of, hospitals. It will also continue to assess further opportunities in Tier 1 cities and may participate in competitive bidding auctions for acquisitions.

Capitalise on mandatory health insurance in GCC

The Emirate of Abu Dhabi introduced mandatory health insurance for all residents, locals as well as expatriates (along with their dependents), in 2006 and the number of people insured in Abu Dhabi increased at a CAGR of 7.4% between 2008 and 2013 to cover 3.43 million people in 2015. Mandatory health insurance was implemented in Dubai in March 2017. As a result, approximately 1.5 to 2 million additional people are likely to be covered by health insurance by 2017, with the increase primarily coming from the low-income population segment and middle-income dependents. All nationals and residents of Dubai (including those in the free zones), are required to have coverage to pay for emergency and curative healthcare needs since 2014. The mandatory health insurance law also requires visitors in Dubai to be covered under health insurance.

The company is well positioned to take advantage of the implementation of health insurance reforms and can leverage its existing partnerships with insurers and suppliers to increase its presence in these markets. It has demonstrated the ability to provide high quality medical services along with quality customer service, to respond quickly and positively to health insurance reforms, and to be viewed as a reliable partner by insurers.

The company is adding additional specialities such as cardiology as aims to expand on its high-end service offerings in tertiary and quaternary care.

It has 4 hospitals and 60 clinics in Dubai as on September 30, 2017 to capitalise on the implementation of compulsory insurance and expected increase in expenditure on medical care.

Key Risks

1. Ownership structure in most of the GCC states is subject to risks associated with foreign ownership restrictions and the shareholder arrangements with local shareholders might be violative of the local laws of the jurisdictions.

Country	Minimum Shareholding Required be held by Local Shareholders	Legal Shareholding of Local Shareholders in Subsidiaries
UAE (on-shore entities)	51%	51%
UAE (off-shore entities and free zone entities)	0%	0%
Oman	30%	30%
Qatar	51%	51%
Bahrain	0%	0%
Saudi Arabia	0%	3%
Kuwait	51%	51%
Jordan	50%	100%

2. **Certain licenses required to operate its businesses in the GCC may be held to contravene legal requirements.**

   The licenses required for the operation of certain medical facilities and pharmacies in the GCC states may be held to contravene legal requirements and there can be no assurance that the relevant authorities will continue to authorise such licenses, allow such licenses to be renewed or permit such licenses to be applied to additional medical facilities or pharmacies. The healthcare industry is highly regulated and any inability to hold the requisite licenses for its operations could have a material adverse effect on the business, financial condition and results of operations.

3. **Risks associated with potential acquisitions and expansion strategy.**
   The number of attractive expansion opportunities may be limited and may command high valuations. New hospital and clinic projects also require substantial capital expenditure. Cash generated from existing operating activities, taken together with proceeds from the Offer and funds that are available under the existing credit facilities, may not be sufficient to fund its current expansion strategy and may need other third-party financing to support their strategy. If such third-party financing is insufficient or not available on commercially acceptable terms, these additional expansion opportunities could be curtailed or stopped until sufficient funding is secured.

4. **If unable to increase hospital occupancy rates, may not be able to generate adequate returns on capital expenditures.**
   The company continues to invest a significant amount of capital expenditures in creating bed capacity and opening new hospitals. It is currently involved in the construction or development of four hospitals in the GCC states and five hospitals in India. It has also introduced new technologies, modernised the facilities and expanded its range of services. Its occupancy rates in the GCC stood at 64.97%, 63.27%, 60.10% and 50.87% for FY15, FY16 and FY17 and H1FY18, respectively, and in India stood at 62.09%, 64.07%, 60.45% and 67.92% for FY15, FY16 and FY17 and H1FY18. If it fails to improve its occupancy rates, but continues to incur significant capital expenditure in the future, this could materially adversely affect its operating efficiencies and profitability.

Outlook and Valuation

Aster DM Healthcare is one of its kind complete healthcare provider, which caters to patients through hospitals, clinics and pharmacy stores, which are vertically and horizontally integrated. Over the past two years the company has incurred a capex of ~INR 8700 million with which the company plans to expand its presence in GCC (with 4 hospitals and 355 beds) and India (with 5 hospitals and 1300 beds). The revenue from this capex is expected to be recognised in next two years. With stable growth in the GCC, the company plans to increase its contribution to revenues from India from ~19% to ~35% in 3-5 years (with expansion in Tier 1 and Tier 2 cities). With definite expansion plans through organic and inorganic growth opportunities and a limited timeframe for EBITDA breakeven (less than 12 months for hospitals, 18-24 months for clinics), the company is well poised for growth through expansion going ahead. The company's revenues grew at a CAGR 23.7% to INR 59.3 billion in FY17. PAT for FY17 was at INR 2670 million with EBITDA Margins of 6.5%. We expect the company revenues to continue to grow at similar level with EBITDA margins growing back to ~13% by FY20E. Domestic hospitals trade at TTM EV/Sales of 2.5x - 3.0x. The company is trading at a FY17 EV/Sales of 1.9x. We recommend **SUBSCRIBE** to the issue from a long term perspective.

Financials

Income Statement

Y/E (INR mn)	FY15	FY16	FY17	H1FY18
Net Sales	38758	52499	59313	31226
Net Sales Growth(%)	-	*35.5%*	*13.0%*	-
Cost of Goods Sold	12222	16231	18873	9727
Employee Cost	11536	16290	20545	11276
Other Optg. Exps.	9941	15522	16573	8441
Total Optg. Exps.	33698	48043	55992	29444
EBITDA(excl OI)	5060	4456	3321	1782
EBITDA Growth(%)	-	*-11.9%*	*-25.5%*	-
EBIDTA Margins(%)	*13.1%*	*8.5%*	*5.6%*	*5.7%*
Dep./Amortization	1440	2430	3224	1736
EBIT	3620	2026	97	46
EBIT Margins(%)	*9.3%*	*3.9%*	*0.2%*	*0.1%*
Interest Expense	791	1894	3536	893
Other Income	232	253	366	188
Exceptionals	0	0	5961	0
EBT	3062	384	2888	(659)
Tax Expenses	(342)	(294)	(218)	(165)
PAT	2720	90	2670	(825)
PAT Growth	-	*-96.7%*	*2864.1%*	-
PAT Margins	7.0%	0.2%	4.5%	-2.6%
Share of Associate	1	(8)	(2)	(3)
Adj PAT	2721	82	2667	(827)
Adj PAT Growth	-	*-97.0%*	*3148.7%*	-
Adj PAT Margins	*7.0%*	*0.2%*	*4.5%*	*-2.6%*

Balance Sheet

Y/E (INR mn)	FY15	FY16	FY17	H1FY18
Share Capital	3,886	4,031	4,032	4,032
Reserves and Surplus	10,958	166	14,722	14,098
Total Networth	14,844	4,196	18,754	18,130
Minority Interest	7,617	1,770	3,753	3,638
Long Term Borrowing	6,118	25,774	18,905	21,499
Deferred tax liabilities	1313.92	1320.11	1436.61	1436.61
Other Non-Currernt Liabilities	1,837	4,831	3,212	3,350
Short Term Borrowing	2,894	5,841	8,304	7,206
Current Liabilities	9,496	13,824	13,708	15,680
Total Liability	**44,120**	**57,558**	**68,073**	**70,941**
Net Block	22,486	25,186	35,304	37,265
CWIP	1,974	3,581	2,898	2,333
Investments	0	10	0	0
Other Non-Current Assets	1,654	3,725	5,146	5,220
Current Assets	18,007	25,056	24,725	26,123
Total Assets	**44,120**	**57,558**	**68,073**	**70,941**

Key Ratios

Y/E	FY15	FY16	FY17	H1FY18
Per Share Data (INR)				
Reported EPS	5.8	0.2	5.7	-1.7
Adj.EPS	5.4	0.2	5.3	-1.6
CEPS	12.8	13.5	14.6	1.8
DPS	0.0	0.0	0.0	0.0
BVPS	34.8	83.2	45.6	38.8
Return Ratios(%)				
RoACE	19.7	11.4	13.4	-
RoANW	26.0	12.3	10.4	-
Liquidity Ratios				
Net Debt/Equity	0.4	0.4	1.1	1.6
Interest Coverage Ratio	4.6	1.1	0.0	0.1
Current Ratio	1.9	1.8	1.8	1.7
Quick Ratio	1.8	1.8	1.7	1.6
Efficiency Ratios				
Asset Turnover Ratio	0.9	0.9	0.9	0.4
Inventory Days	29	25	29	30
Debtor Days	90	88	88	88
Creditor Days	53	50	53	53
Valuation Ratios				
P/E(x)	32.7	1082.2	33.2	-
P/BV(x)	5.5	2.3	4.2	4.9
P/CEPS(x)	14.8	14.1	13.0	105.3
EV/Net Sales(x)	2.9	2.2	1.9	1.8
EV/EBIDTA(x)	22.4	25.5	34.2	31.9

Cash Flow

Y/E (INR mn)	FY15	FY16	FY17	H1FY18
EBT	3,062	384	-3,073	-659
Less: Other Income/Exceptionals	(134)	(36)	(39)	(5)
Add:Depreciation	1440	2430	3224	1736
Add: Interest paid	791	1894	3536	893
Direct Tax Paid	(342)	(294)	(218)	(165)
Change in Working Capital	-2,461	-2,352	232	-572
Cash Flow from operations (a)	**2,355**	**2,027**	**3,662**	**1,228**
Change in Fixed Assets	-4,113	-7,450	-9,261	-2,002
Change in Investments	-367	-408	-2,267	-571
Cash Flow from Investing (b)	**-4,480**	**-7,859**	**-11,527**	**-2,573**
Change in Equity	2,361	17,196	78	1
Debt Raised/(Repaid)	692	7,812	8,764	1,547
Dividend paid	-165	-494	-157	-73
Interest Paid	-799	-894	-1,744	-916
Acquisition of non-controlling interest	-64	-17,842	-457	0
Cash Flow from Financing (c)	**2,025**	**5,777**	**6,484**	**559**
Net Change in Cash (a+b+c)	**-100**	**-55**	**-1,381**	**-786**
Opening Cash	2,483	2,477	2,527	1,310
Changes on cash and cash equivalents	94	105	165	-2
Closing Cash	2,477	2,527	1,310	522

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