

Health Care Services

India

Sector View: **Attractive** NIFTY-50: **20,070**

September 13, 2023

Spotlight on per bed profitability outlook

In light of expansion plans over the next five years for most hospitals being known, compared to EBITDA growth, analyzing growth in EBITDA/occupied bed provides better clarity on trajectory of core profitability after factoring in the impact of bed expansion. Within our coverage, we expect Rainbow to report the lowest EBITDA/occupied bed CAGR at ~3%, while most others are expected to report 8-10% EBITDA/occupied bed CAGR over FY2023-28E. Roll forward to September 2025E and downgrade KIMS and Aster DM to REDUCE (from BUY) and ADD (from BUY), respectively, given the run-up.

Highlighting the implied EBITDA/occupied bed assumptions in our FVs

We build in a 13-19% sales CAGR and 12-21% pre-Ind AS-116 EBITDA CAGR, over FY2023-28E for the India hospital segments of our coverage. Given expansion plans over the next five years for most hospitals are known, compared to EBITDA growth, analyzing growth in EBITDA/occupied bed provides better clarity on improvement in core profitability after factoring in the impact of bed expansion. Accordingly, we look at the magnitude of improvement in India EBITDA/occupied bed for our coverage companies being implied by our current Fair Values. We have considered pre-Ind AS-116 EBITDAs to make the comparison like-for-like given the high rental component in companies such as Rainbow.

Most hospitals to report 8-10% EBITDA/occupied bed CAGR over FY2023-28E

Within our coverage, we expect Rainbow to report the lowest, while KIMS is expected to report the highest EBITDA/occupied bed CAGR on a relatively lower base. As of FY2023, KIMS had one of the lowest EBITDA per occupied bed metrics, post which we expect the company to deliver a healthy ~10% EBITDA/occupied bed CAGR over FY2023-28E. We believe this would be aided by expansion in high ARPOB markets (Kondapur, Thane and Nagpur) compared to KIMS' existing AP cluster. On the other hand, Rainbow reported one of the highest EBITDA/occupied bed in our coverage in FY2023. Also, due to the upcoming greenfield expansion in Gurugram in mid-FY2027E and the resultant initial hit, we expect Rainbow to report the lowest EBITDA/occupied bed CAGR over FY2023-28E in our coverage. Despite Max's industry-leading EBITDA/occupied bed in FY2023, we expect the company to generate ~9% EBITDA/occupied bed CAGR over FY2023-28E aided by gradual reduction in institutional bed mix. We expect a similar 8-9% EBITDA/occupied bed CAGR over FY2023-28E for APHS, NARH and Aster DM.

Downgrade KIMS and Aster DM; prefer APHS and Medanta within hospitals

We roll forward to September 2025E, keeping our estimates unchanged, and downgrade KIMS and Aster DM to REDUCE (from BUY) and ADD (from BUY) given the recent sharp run-up in the stock prices. While we stay constructive on the hospitals space led by a healthy EBITDA and FCF outlook over the medium term despite ongoing expansion, given the elevated valuations we stay very selective. APHS and Medanta are our preferred picks in the healthcare services space.

Company data and valuation summary

Indian hospitals	FV (Rs)	Implied pre-Ind AS-116 EV/EBITDA (X)		
		2024E	2025E	2026E
Apollo (hospitals)	5,725	24.3	20.1	18.2
Aster (India)	355	16.0	13.1	11.8
KIMS (unadjusted for minority interest)	2,115	29.4	23.0	18.9
Max Healthcare	570	32.7	27.5	21.8
Medanta	760	24.0	21.4	17.7
Narayana Hrudayalaya (India)	1,060	24.5	20.9	18.1
Rainbow	1,060	29.4	23.6	20.7
Mean		25.0	20.8	17.7

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of September 13, 2023

Quick Numbers

We expect most hospitals to report 8-10% EBITDA/occupied bed CAGR over FY2023-28E

We build in a 13-19% sales CAGR and 12-21% pre-Ind AS-116 EBITDA CAGR, over FY2023-28E for the India hospital segments of our coverage

Related Research

- Global Health: Going strong
- Apollo: All segments stay on course
- KIMS: New growth avenues on track

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Alankar Garude, CFA
alankar.garude@kotak.com
+91-22-4336-0871

Samitinjoy Basak
samitinjoy.basak@kotak.com
+91-22-4336-0872

Aniket Singh
aniket.singh2@kotak.com
+91-22-4336-0856

We roll forward to September 2025E and downgrade KIMS to REDUCE and Aster to ADD

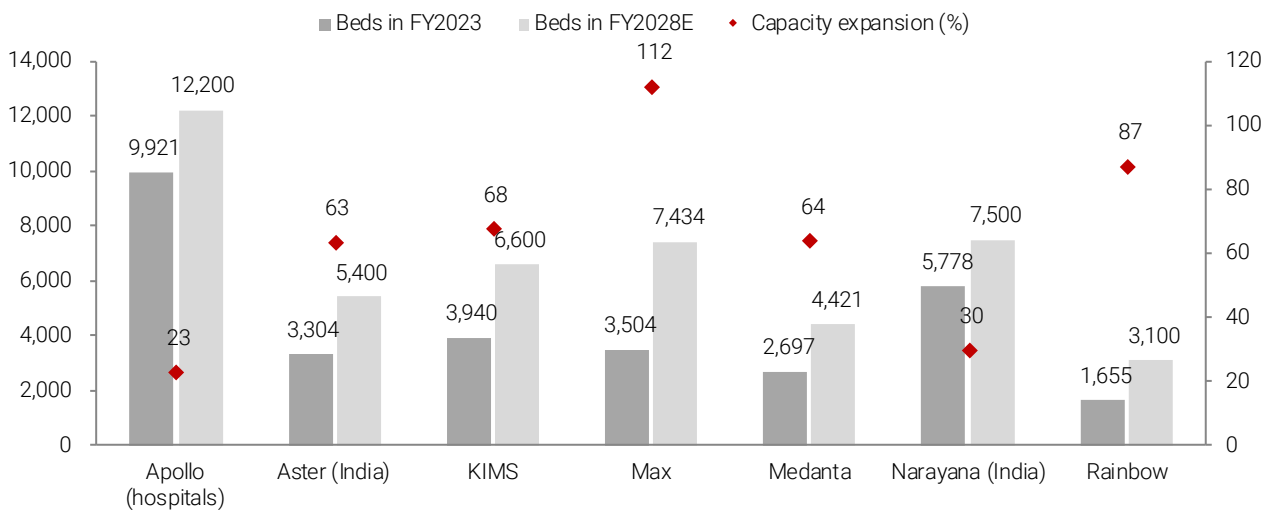
Exhibit 1: Summary of rating revisions, March fiscal year-end, 2024E (Rs, %)

Companies	New FV (Rs)	Old FV (Rs)	Change in FV (%)	Old rating	New rating
APHS	5,725	5,550	3.2	BUY	BUY
ASTER	355	340	4.4	BUY	ADD
KIMS	2,115	2,020	4.7	BUY	REDUCE
MAX	570	540	5.6	REDUCE	REDUCE
MEDANTA	760	720	5.6	ADD	ADD
NARH	1,060	1,015	4.4	REDUCE	REDUCE
RAINBOW	1,060	1,025	3.4	REDUCE	REDUCE

Source: Companies, Kotak Institutional Equities estimates

Most of our coverage companies have embarked on a 50%+ capacity expansion plan over FY2023-28E

Exhibit 2: Bed capacity expansion plans, March fiscal year-ends, 2023-28E (#, %)



Source: Companies, Kotak Institutional Equities estimates

Our FV implies a 3-10% pre-Ind AS-116 EBITDA/occupied bed CAGR, over FY2023-28E, for our coverage

Exhibit 3: Implied EBITDA/occupied bed CAGR, March fiscal year-ends, 2023-28E (Rs mn, %)

Companies	Pre-Ind AS-116 EBITDA/occupied bed (Rs mn) FY2023	Implied pre-Ind AS-116 EBITDA/occupied bed CAGR (%) FY2023-28E	Occupancy (%) FY2023	EV/pre-Ind AS-116 EBITDA (X) FY2023
Apollo (hospitals)	4.1	8.4	64.2	27.6
Aster (India)	4.3	8.7	67.1	19.8
KIMS	2.8	9.8	58.6	35.7
Max	5.9	8.6	76.4	35.9
Medanta	4.8	6.0	58.8	31.0
Narayana (India)	2.0	8.4	48.5	27.6
Rainbow	4.7	2.7	55.4	33.6

Source: Companies, Kotak Institutional Equities estimates

Our FV implies 13-19% sales and 12-21% pre-Ind AS-116 EBITDA CAGR, over FY2023-28E, for our coverage

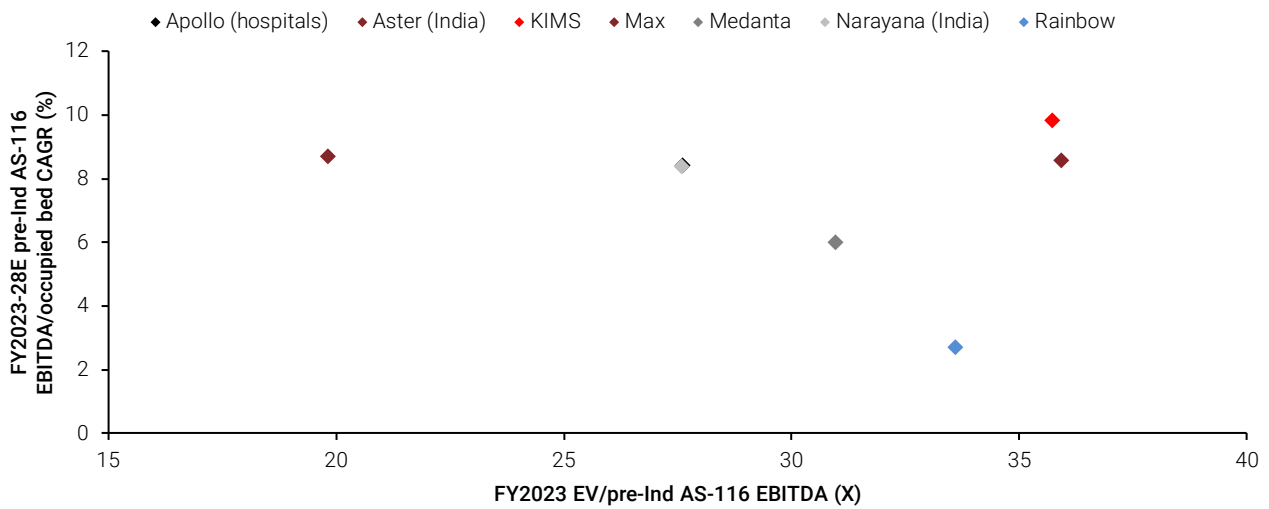
Exhibit 4: Implied sales and EBITDA CAGRs, March fiscal year-ends, 2023-28E (%)

Companies	Implied FY2023-28E CAGR (%)	
	Sales	Pre-Ind AS-116 EBITDA
Apollo (hospitals)	12.5	14.3
Aster (India)	15.5	17.4
KIMS	18.5	20.7
Max	18.4	19.1
Medanta	17.9	18.9
Narayana (India)	13.2	15.6
Rainbow	18.1	12.2

Source: Companies, Kotak Institutional Equities estimates

APHS and Aster DM offer a decent blend of healthy EBITDA/occupied bed CAGR over FY2023-28E and relatively lower valuations

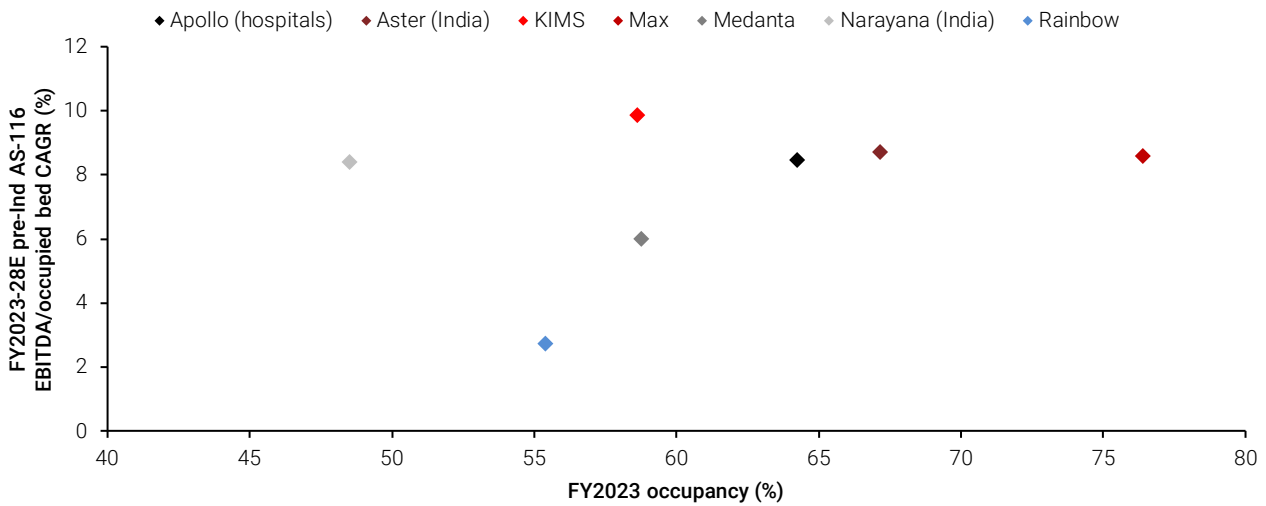
Exhibit 5: EBITDA/occupied bed CAGR versus EV/EBITDA, March fiscal year-ends, 2023-28E (X, %)



Source: Companies, Kotak Institutional Equities estimates

We expect Max and NARH to report similar EBITDA/occupied bed CAGRs, over FY2023-28E, despite stark differences in occupancies

Exhibit 6: EBITDA/occupied bed CAGR versus occupancy, March fiscal year-ends, 2023-28E (%)



Source: Companies, Kotak Institutional Equities estimates

While Max is trading at 27.5X FY2025E EV/pre-Ind AS-116 EBITDA, APHS is trading at 20.1X

Exhibit 7: Implied valuation for hospitals, March fiscal year-ends, 2022-26E (Rs mn, X)

Company	EV (Rs mn)	Post-Ind AS-116 EBITDA (Rs mn)					Pre-Ind AS-116 EBITDA (Rs mn)				
		2022	2023	2024E	2025E	2026E	2022	2023	2024E	2025E	2026E
Apollo (hospitals)	575,611	18,032	21,330	24,003	29,019	32,030	17,760	20,840	23,659	28,680	31,667
Aster (India)	87,399	3,928	4,867	5,962	7,204	7,985	3,528	4,407	5,452	6,664	7,405
Fortis (hospitals)	217,674	6,571	9,297	11,264	13,647	16,087	6,211	8,897	10,864	13,247	15,687
KIMS (unadjusted for minority interest)	199,936	5,158	6,040	7,049	8,856	10,708	5,041	5,596	6,799	8,696	10,553
Max Healthcare	545,861	12,771	15,525	16,914	20,062	25,193	12,442	15,186	16,701	19,856	24,993
Medanta	179,651	4,546	6,198	7,938	8,886	10,667	4,134	5,799	7,501	8,399	10,132
Narayana Hrudayalaya (India)	152,451	3,574	6,087	6,812	7,886	9,041	3,027	5,524	6,232	7,288	8,426
Rainbow	103,198	3,049	3,964	4,525	5,493	6,212	2,311	3,072	3,508	4,366	4,974

Indian hospitals	Current price (Rs)	Post-Ind AS-116 EV/EBITDA (X)					Pre-Ind AS-116 EV/EBITDA (X)				
		2022	2023	2024E	2025E	2026E	2022	2023	2024E	2025E	2026E
Apollo (hospitals)	5,011	31.9	27.0	24.0	19.8	18.0	32.4	27.6	24.3	20.1	18.2
Aster (India)	332	22.3	18.0	14.7	12.1	10.9	24.8	19.8	16.0	13.1	11.8
Fortis	341	33.1	23.4	19.3	16.0	13.5	35.0	24.5	20.0	16.4	13.9
KIMS (unadjusted for minority interest)	2,088	38.8	33.1	28.4	22.6	18.7	39.7	35.7	29.4	23.0	18.9
Max Healthcare	583	42.7	35.2	32.3	27.2	21.7	43.9	35.9	32.7	27.5	21.8
Medanta	702	39.5	29.0	22.6	20.2	16.8	43.5	31.0	24.0	21.4	17.7
Narayana Hrudayalaya (India)	1,035	42.7	25.0	22.4	19.3	16.9	50.4	27.6	24.5	20.9	18.1
Rainbow	1,017	33.8	26.0	22.8	18.8	16.6	44.7	33.6	29.4	23.6	20.7
Mean		35.6	27.1	23.3	19.5	16.6	39.3	29.5	25.0	20.8	17.7

Notes:

(a) Stocks under coverage values based on KIE estimates, non-covered stocks based on Bloomberg consensus estimates.

Source: Bloomberg, Kotak Institutional Equities estimates

Indian companies are trading at a premium to Asian peers

Exhibit 8: Valuation summary for Asian hospitals, March fiscal year-ends, 2022-26E (Rs mn, X)

Indian hospitals	Rating	Fair value	Current price	P/E (X)			EV/Sales (X)			EV/EBITDA (X)		
		(Rs)	(Rs)	2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E
Apollo Hospitals	BUY	5,725	5,011	88.0	55.9	38.5	4.6	3.9	3.2	36.9	29.3	23.1
Aster DM	ADD	355	332	38.2	27.6	21.7	1.9	1.8	1.6	14.8	12.6	11.1
KIMS	REDUCE	2,115	2,088	49.7	46.9	37.9	8.0	6.7	5.6	29.0	24.9	19.8
Global Health	ADD	760	702	57.7	47.1	42.0	6.9	5.7	4.9	30.1	24.8	22.2
Max Healthcare	REDUCE	570	583	41.3	49.8	41.5	9.5	8.5	7.2	35.7	32.5	27.3
Narayana Hrudayalaya	REDUCE	1,060	1,035	34.9	31.3	30.0	4.7	4.2	3.7	22.2	19.1	17.0
Rainbow Children's Medicare	REDUCE	1,060	1,017	49.0	43.8	36.2	9.2	7.9	6.7	27.2	23.9	19.6
Fortis Healthcare	NR	NA	328	42.1	38.2	30.1	4.2	3.7	3.3	23.8	20.4	17.3
HCG	NR	NA	359	169.9	67.0	38.6	3.4	3.0	2.7	19.3	16.3	13.6
Mean				63.4	45.3	35.2	5.8	5.0	4.3	26.6	22.6	19.0
Median				49.0	46.9	37.9	4.7	4.2	3.7	27.2	23.9	19.6

Asian hospitals	Rating	Fair value	Current price	P/E (X)			EV/Sales (X)			EV/EBITDA (X)		
		(LC)	(LC)	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E
Aier Eye Hospital Group Co-A	NR	NA	18	65.4	49.4	37.8	10.5	8.2	6.5	36.4	28.8	22.9
Hygeia Healthcare Holdings C	NR	NA	45	58.1	38.1	28.0	8.3	6.3	4.7	29.9	22.9	17.1
IHH Healthcare	NR	NA	6	34.9	33.2	29.1	3.5	3.2	3.0	15.9	14.2	13.3
Kpj Healthcare	NR	NA	1	31.0	23.8	21.6	2.9	2.6	2.4	12.5	11.1	10.5
Al Hammadi Holding	NR	NA	53	32.8	28.1	25.8	7.6	6.9	6.1	21.9	19.2	17.4
Dallah Healthcare	NR	NA	137	45.0	43.7	34.2	6.2	5.5	4.9	28.6	25.5	22.7
Middle East Healthcare Co	NR	NA	57	69.6	31.0	21.8	3.5	3.0	2.7	26.3	17.5	15.5
Mouwasat Medical Services	NR	NA	106	35.5	31.9	28.0	9.4	8.3	7.3	25.9	22.6	20.1
Raffles Medical Group	NR	NA	1	16.3	19.7	19.7	2.8	2.9	2.8	9.1	11.1	11.0
Bangkok Chain Hospital	NR	NA	20	16.0	33.2	28.0	2.7	4.1	3.8	9.8	16.5	15.0
Bangkok Dusit Medical Service	NR	NA	27	34.5	32.0	29.7	4.8	4.5	4.2	19.4	18.7	17.5
Bumrungrad Hospital	NR	NA	262	42.2	31.8	29.6	9.9	8.2	7.7	28.8	22.4	21.0
Burjeel Holdings Plc	NR	NA	3	48.8	30.8	24.4	4.4	3.8	3.4	20.4	17.3	14.8
Mean				40.8	32.8	27.5	5.9	5.2	4.6	21.9	19.1	16.8
Median				35.5	31.9	28.0	4.8	4.5	4.2	21.9	18.7	17.1

Notes:

- (a) Stocks under coverage values based on KIE estimates, non-covered stocks based on Bloomberg consensus estimates.
- (b) 2022, 2023, 2024, 2025 represent calendar year-ends for global hospitals and fiscal year-ends for domestic hospitals.

Source: Bloomberg, Kotak Institutional Equities estimates

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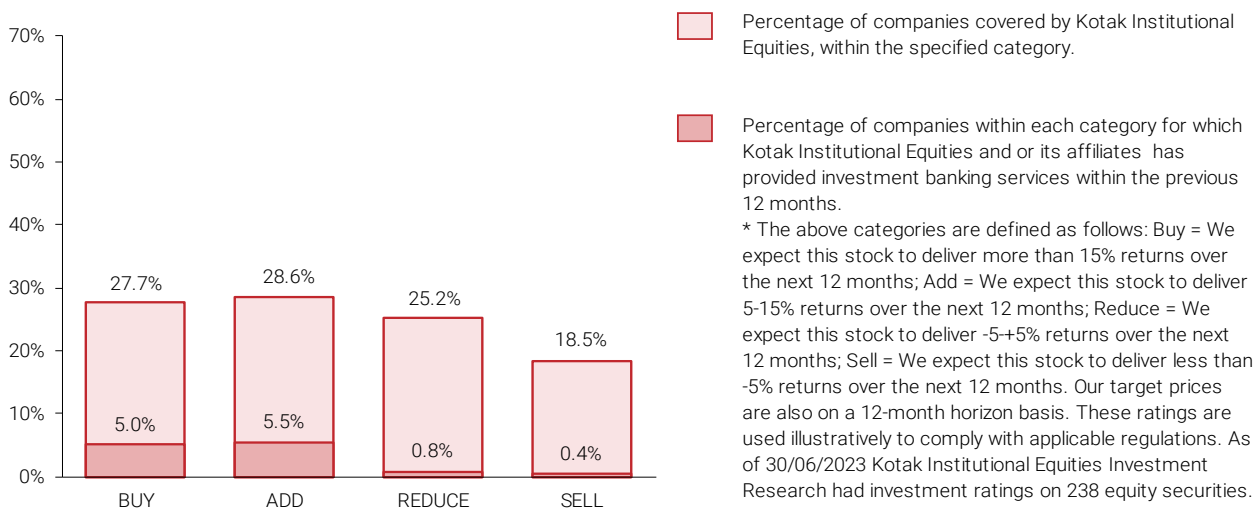
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As of June 30, 2023

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Corporate Office

Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block" Bandra Kurla
Complex, Bandra (E) Mumbai 400 051, India
Tel: +91-22-43360000

Overseas Affiliates

Kotak Mahindra (UK) Ltd
8th Floor, Portoken House
155-157 Minorities, London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc
PENN 1,1 Pennsylvania Plaza,
Suite 1720, New York, NY 10119, USA
Tel: +1-212-600-8858

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Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137/(Member of NSE, BSE, MSE, MCX & NCDEX), AMFI ARN 0164, PMS INP00000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-629-2021. Compliance Officer Details: Mr. Sandeep Gupta. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com

Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097	18002099393	ks.escalation@kotak.com
Head of Customer Care	Mr. Tabrez Anwar		022-42858208	ks.servicehead@kotak.com
Compliance Officer	Mr Sandeep Gupta		022-42858484	ks.compliance@kotak.com
CEO	Mr. Jaideep Hansraj		022-42858301	ceo.ks@kotak.com

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