

ASTER DM HEALTHCARE

MIDCAPS

NOW ON APP
 Research at your
 finger tips



16 AUG 2018

Quarterly Update

BUY

Target Price: Rs 224

Momentum to continue

Despite seasonally weak quarter for GCC region (83% of revenue), Aster posted strong performance in hospitals and clinics business. EBITDA grew to Rs 1.4 bn (Rs 480 mn in Q1FY18) and EBITDA margin expanded 460 bps YoY at 7.7% on (1) higher ARPOBs; (2) growth in in-patient volumes; (3) higher footfalls in clinics and pharmacies; (4) maturity of hospitals; and (5) rich case mix. On blended basis, in-patient volumes grew 9% YoY with ARPOB at Rs 57,500 (vs. Rs 49,300 in Q1FY18) and occupancy stood at 58% (vs. 60% in Q1FY18).

We expect profitability to soar over next 2-3 years as (1) GCC (ex-Saudi) continues to grow on new asset creation and existing facilities maturing, (2) Saudi facility turns around, and (3) Indian facilities mature. Mandatory health insurance in Dubai and Abu Dhabi (~60% of GCC business) and other emirates likely to follow suit should sustain long-term growth and profitability. Maintain **BUY** with **TP of Rs 224 (13x FY20E EV/EBITDA)**.

CMP : Rs 185
 Potential Upside : 21%

MARKET DATA

No. of Shares : 505 mn
 Free Float : 63%
 Market Cap : Rs 93 bn
 52-week High / Low : Rs 194 / Rs 140
 Avg. Daily vol. (6mth) : 0 shares
 Bloomberg Code : ASTERDM IB Equity
 Promoters Holding : 37%
 FII / DII : 8% / 2%

Segmental highlights

GCC (83% of revenue)

- ♦ **Hospitals:** Revenue grew 21% YoY at Rs 6 bn in a seasonally weak quarter on higher in-patient volumes (+25% YoY) and rich case mix. EBITDA grew robust 374% YoY at Rs 840 mn (vs. Rs 180 mn in Q1FY18) resulting in EBITDA margin of 14.3% (vs. 3.6% in Q1FY18). Margin improvement was led by (a) turnaround of two facilities – Medcare (Sharjah) and Aster (Doha) – achieving operational breakeven (within 12 months); (b) higher footfall and (c) better utilization during the quarter. EBITDA loss from above-mentioned two facilities reduced to Rs 20 mn (vs. Rs 460 mn in Q1FY18). Saudi facility had minimal EBITDA loss during the quarter and government contracts now contribute 30% to revenue of the facility. Management indicated Saudi facility to turn profitable by end of FY19.

(Continued on page 2...)

Financial summary (Consolidated)

Y/E March	FY17	FY18	FY19E	FY20E
Sales (Rs mn)	59,313	67,212	84,226	98,051
Adj PAT (Rs mn)	(3,293)	1,520	2,575	3,973
Con. EPS* (Rs.)	-	-	-	-
EPS (Rs.)	(8.2)	3.0	5.1	7.9
Change YOY (%)	(4,109.1)	(136.8)	69.4	54.3
P/E (x)	(22.6)	61.3	36.2	23.5
RoE (%)	(28.7)	6.5	8.7	12.1
RoCE (%)	1.0	6.8	8.4	10.9
EV/EBITDA (x)	30.3	18.3	14.1	11.1
DPS	-	-	-	-

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

EBITDA (Rs bn)	FY18	FY19E	FY20E
GCC	5.0	6.6	8.3
India	1.2	1.5	2.0

Price performance

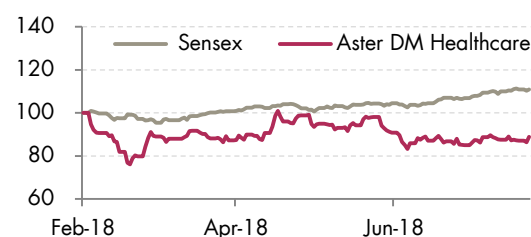


Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Jun-18	Jun-17	% Chg	Mar-18	% Chg	FY19E	FY18	% Chg
Net Sales	17,747	15,564	14.0	17,843	(0.5)	84,226	67,212	25.3
EBIDTA	1,239	398	211.1	2,631	(52.9)	8,157	6,128	33.1
Other income	173	93	86.2	91	89.7	300	454	(34.0)
PBIDT	1,412	491	187.5	2,722	(48.1)	8,457	6,582	28.5
Depreciation	738	785	(6.1)	557	32.4	3,689	2,977	23.9
Interest	401	433	(7.4)	466	(13.9)	1,549	1,846	(16.1)
PBT	274	(727)	-	1,700	(83.9)	3,219	1,758	83.1
Tax	117	73	60.5	103	13.0	644	261	146.8
Minority Interest	(46)	1	-	(5)	-	0	0	-
Adjusted PAT	203	(800)	-	1,601	(87.3)	2,575	1,498	72.0
Extra ordinary income/ (exp.)	0	0	-	451	-	0	(23)	-
Reported PAT	203	(800)	-	2,052	(90.1)	2,575	1,520	69.4
No. of shares (mn)	505	403	-	505	-	505	505	-
EBIDTA margin (%)	7.0	2.6	-	14.7	-	9.7	9.1	-
PBIDT margin (%)	8.0	3.2	-	15.3	-	10.0	9.8	-
EPS - annualized (Rs.)	1.6	(7.9)	-	12.7	(87.3)	5.1	3.0	72.0

Source: Company, Axis Capital

(...continued from page 1)

Total no. of beds increased to 887 beds (vs. 863 beds in Q1FY18) with 87% of beds being operational during Q1. ARPOB increased 6% YoY at Rs 150,400 driven by 25% YoY growth in in-patient volumes at 19,100. Occupancy level improved to 57% (vs. 53% in Q1FY18) with an ALOS of 2 days (vs. 2.2 days in Q1FY18). Aster operates 9 hospitals in GCC region (7 matured and 2 newly established) with matured hospitals contributing 91% to revenue.

We believe GCC is a lucrative business and will continue to grow driven by (1) compulsory healthcare insurance in GCC region; (2) ability to attract and retain talent; (3) low capital requirements; (4) higher ARPOBs (5x vs. India); and (5) high EBITDA/cash conversion rate of ~70%.

Exhibit 2: Maturity profile – GCC

	Hospitals	No. of Op beds	Occupancy (%)	ARPOB (Rs)	Revenue (Rs bn)	EBITDAR (%)
Over 3 years	7	634	64	147,100	5.4	16.1
0 – 3 years	2	135	22	195,000	0.5	-ve

Source: Company, Axis Capital

- ♦ **Clinics:** Clinics are the nucleus of Aster DM's business and act as the first port of call for patients. These clinics are typically located in residential pockets and have consulting doctors across specialties like Gynaec, Paediatric, ENT, Ortho, General Medicine, Dentistry, etc. Clinics act as a referral for Aster hospitals. Also, in-house pharmacies derive ~80% of revenue from patients using Aster clinics.

Revenue increased 11% YoY at Rs 4.6 bn. EBITDA at Rs 540 mn grew robust 57% YoY, resulting in margin of 12% (vs. 8% in Q1FY18). Margin expansion in clinics (+400 bps YoY) was on improved performance of newly setup clinics in GCC region and higher footfalls in matured clinics. Aster has a network of 112 clinics spread across GCC region (103 clinics) and India (9 clinics).

Aster's clinics have demonstrated steady-state margin profile of ~17% historically making it a 30+% ROCE format and, we believe, the growth rate will continue on backdrop of compulsory medical health coverage in the GCC region.

- ♦ **Pharmacies:** Revenue increased 20% YoY at Rs 4.7 bn driven by rationalization of product mix, exclusive tie-ups and in-licensing arrangements with pharma companies. EBITDA increased 16% YoY at Rs 290 mn resulting in EBITDA margin of 6.1% (vs. 6.2% in Q1FY18). Aster has the largest pharmacy chain in GCC with 213 retail stores. It has ~25% market share in UAE market.

We believe the growth story for pharmacies remains intact as most of the pharmacies are integrated with clinics ensuring higher footfalls and faster breakeven. Low working capital requirements, strong cash flows and high EBITDA/ cash conversion rate (~80%) make it a lucrative business segment for Aster.

India (17% of revenue)

- ♦ **Hospitals:** Revenue increased 12% YoY at Rs 3.1 bn with matured hospitals contributing 84% to the hospital revenue. EBITDA grew 23% YoY at Rs 240 mn resulting in EBITDA margin of 7.9% (vs. 7.2% in Q1FY18). Margin improvement of 70 bps YoY was driven by increase in no. of beds and rich case mix. Management guided some salary hikes were taken for nurses in Kerala hospitals to comply with the amendment in minimum wage. Aster managed to reduce the loss (PAT at pre-NCI level) to Rs 100 mn (vs. Rs 200 mn in Q1FY18).

Total no. of beds increased to 4,038 beds (vs. 3,944 beds in Q1FY18) with 73% of beds operational during Q1FY19. Aster acquired a new facility in Ongole with 150 bed capacity, taking the hospital count to 11. ARPOB increased 17% YoY at Rs 26,200 despite in-patient volumes flat at 32,500 (vs. 32,100 in Q1FY18). Occupancy level stood at 59% (vs. 63% in Q1FY18) with ALOS improving to 3.5 days (vs. 3.7 days in Q1FY18). Management guided that ARPOBs should increase at 14-15% YoY over the next 2-3 years.

We believe India growth story for Aster is intact driven by (1) rising population as well life expectancy requiring greater health coverage; (2) increasing income levels to make quality healthcare services more affordable; (3) increase in demand for lifestyle disease-related healthcare services over the next five years; (4) growth in health insurance coverage to propel demand; and (5) growth in medical tourism to aid demand of healthcare delivery market.

Exhibit 3: Maturity profile - India

	Hospitals	No. of Op beds	Occupancy (%)	ARPOB (Rs)	Revenue (Rs bn)	EBITDAR (%)
Over 3 years	9	1,866	61	24,400	2.6	9.6
0 – 3 years	2	1,073	47	42,500	0.5	2.2

Source: Company, Axis Capital

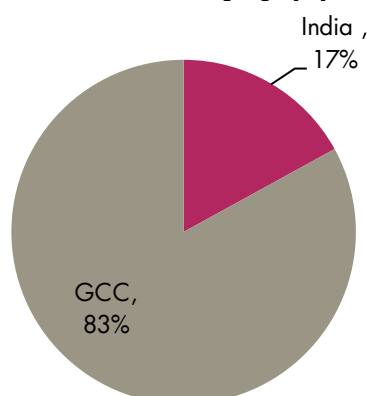
Other highlights

- ◆ Consolidated net debt stood at Rs 21.5 bn and cash balance at Rs 2.7 bn.
- ◆ Finance income of Rs 260 mn has been reclassified and netted against finance cost for Q1FY19.
- ◆ Management indicated capex of Rs 6.5 bn/Rs 3 bn for FY19/FY20. Of Rs 6.5 bn capex in FY19, Rs 3.5 bn will be in GCC and the remaining in India business. Company will raise additional debt of Rs 1.5 bn to fund capex plans in FY19.

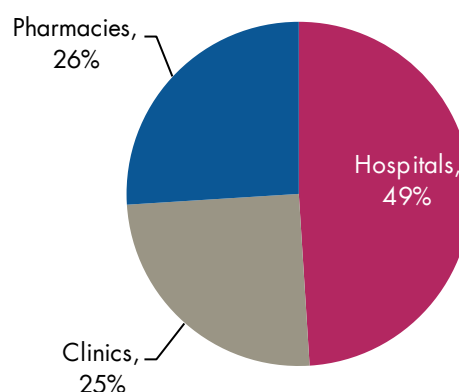
Exhibit 4: Capex plan for next 2 years

	Location	Type	Planned beds	Expected completion
Hospital - GCC				
Aster Hospital	Dubai	Greenfield	117	Q2FY19
Aster Hospital	Dubai	Greenfield	41	Q1FY20
Aster Hospital	Sharjah	Greenfield	80	Q4FY20
Sanad Hospital	Riyadh	Expansion	69	Q4FY19
Hospital - India				
MIMS Kannur	Kannur	Greenfield	200	Q4FY19
Aster RV Hospital	Bengaluru	Brownfield	223	Q4FY19
Aster Hospital	Chennai	Greenfield	500	FY21

Source: Company, Axis Capital

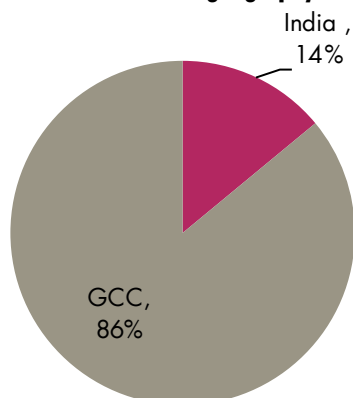
Exhibit 5: Revenue mix based on geography


Source: Company, Axis Capital

Exhibit 6: Revenue mix based on segments


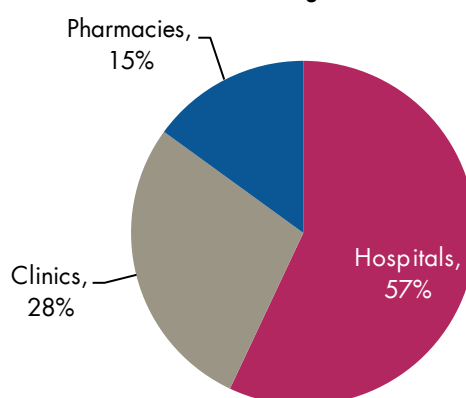
Source: Company, Axis Capital

Exhibit 7: EBITDA mix based on geography



Source: Company, Axis Capital

Exhibit 8: EBITDA mix based on segments



Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY17	FY18	FY19E	FY20E
Net sales	59,313	67,212	84,226	98,051
Other operating income	-	-	-	-
Total operating income	59,313	67,212	84,226	98,051
Cost of goods sold	(18,873)	(20,589)	(26,110)	(30,396)
Gross profit	40,440	46,622	58,116	67,655
<i>Gross margin (%)</i>	<i>68.2</i>	<i>69.4</i>	<i>69.0</i>	<i>69.0</i>
Total operating expenses	(37,118)	(40,494)	(49,959)	(57,368)
EBITDA	3,321	6,128	8,157	10,287
<i>EBITDA margin (%)</i>	<i>5.6</i>	<i>9.1</i>	<i>9.7</i>	<i>10.5</i>
Depreciation	(3,224)	(2,977)	(3,689)	(4,089)
EBIT	97	3,150	4,468	6,198
Net interest	(3,536)	(1,846)	(1,549)	(1,531)
Other income	366	454	300	300
Profit before tax	(3,073)	1,758	3,219	4,967
Total taxation	(218)	(261)	(644)	(993)
<i>Tax rate (%)</i>	<i>(7.1)</i>	<i>14.8</i>	<i>20.0</i>	<i>20.0</i>
Profit after tax	(3,291)	1,498	2,575	3,973
Minorities	(2)	23	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	(3,293)	1,520	2,575	3,973
<i>Adj. PAT margin (%)</i>	<i>(5.6)</i>	<i>2.3</i>	<i>3.1</i>	<i>4.1</i>
Net non-recurring items	-	-	-	-
Reported net profit	(3,293)	1,520	2,575	3,973

Balance sheet (Rs mn)

Y/E March	FY17	FY18	FY19E	FY20E
Paid-up capital	4,032	5,052	5,052	5,052
Reserves & surplus	14,722	23,269	25,844	29,817
Net worth	18,754	28,321	30,896	34,869
Borrowing	27,577	22,124	22,124	21,624
Other non-current liabilities	1,406	1,374	1,374	1,374
Total liabilities	51,382	55,398	57,974	61,447
Gross fixed assets	38,048	42,868	49,368	52,868
Less: Depreciation	(9,591)	(12,568)	(16,258)	(20,347)
Net fixed assets	28,457	30,299	33,110	32,520
Add: Capital WIP	2,898	4,017	2,500	2,500
Total fixed assets	31,355	34,317	35,610	35,020
Total Investment	216	247	247	247
Inventory	5,255	6,270	8,423	9,805
Debtors	12,876	15,464	17,547	20,427
Cash & bank	1,521	2,998	75	981
Loans & advances	-	-	-	-
Current liabilities	16,590	19,395	20,267	22,299
Net current assets	13,072	13,752	15,033	19,096
Other non-current assets	6,740	7,083	7,083	7,083
Total assets	51,382	55,398	57,974	61,447

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY17	FY18	FY19E	FY20E
Profit before tax	(3,073)	1,758	3,219	4,967
Depreciation & Amortisation	3,224	2,977	3,689	4,089
<i>Chg in working capital</i>	<i>(1,536)</i>	<i>(798)</i>	<i>(3,363)</i>	<i>(2,231)</i>
Cash flow from operations	3,662	5,978	4,750	7,663
<i>Capital expenditure</i>	<i>(9,261)</i>	<i>(3,700)</i>	<i>(8,017)</i>	<i>(3,500)</i>
Cash flow from investing	(11,527)	(3,731)	(8,017)	(3,500)
<i>Equity raised/ (repaid)</i>	<i>78</i>	<i>8,270</i>	-	-
<i>Debt raised/ (repaid)</i>	<i>8,307</i>	<i>(5,453)</i>	-	<i>(500)</i>
<i>Dividend paid</i>	<i>(157)</i>	-	-	-
Cash flow from financing	6,484	970	(1,549)	(2,031)
Net chg in cash	(1,381)	3,217	(4,816)	2,132

Key ratios

Y/E March	FY17	FY18	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	(8.2)	3.0	5.1	7.9
CEPS (Rs)	(0.2)	8.9	12.4	16.0
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
GROWTH				
Net sales (%)	13.0	13.3	25.3	16.4
EBITDA (%)	(25.5)	84.5	33.1	26.1
Adj net profit (%)	(4,110.8)	(146.2)	69.4	54.3
FDEPS (%)	(4,109.1)	(136.8)	69.4	54.3
PERFORMANCE				
RoE (%)	(28.7)	6.5	8.7	12.1
RoCE (%)	1.0	6.8	8.4	10.9
EFFICIENCY				
Asset turnover (x)	1.4	1.4	1.6	1.7
Sales/ total assets (x)	0.9	0.9	1.1	1.2
Working capital/ sales (x)	0.2	0.2	0.2	0.2
Receivable days	79.2	84.0	76.0	76.0
Inventory days	34.3	37.5	40.4	40.8
Payable days	94.8	104.5	87.2	83.1
FINANCIAL STABILITY				
Total debt/ equity (x)	2.0	0.8	0.7	0.6
Net debt/ equity (x)	1.8	0.7	0.7	0.6
Current ratio (x)	1.8	1.7	1.7	1.9
Interest cover (x)	-	1.7	2.9	4.0
VALUATION				
PE (x)	(22.6)	61.3	36.2	23.5
EV/ EBITDA (x)	30.3	18.3	14.1	11.1
EV/ Net sales (x)	1.7	1.7	1.4	1.2
PB (x)	4.0	3.3	3.0	2.7
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	(7.5)	2.4	(3.5)	4.5

Source: Company, Axis Capital

Axis Capital Limited is registered with the Securities & Exchange Board of India (SEBI) as "Research Analyst" with SEBI-registration number INH000002434 and which registration is valid up to 03/12/2020

DISCLAIMERS / DISCLOSURES

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Capital Limited (ACL), the Research Entity (RE) as defined in the Regulations, is engaged in the business of Investment banking, Stock broking and Distribution of Mutual Fund products.
2. ACL is registered with the Securities & Exchange Board of India (SEBI) for its investment banking and stockbroking business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products.
3. ACL has no material adverse disciplinary history as on the date of publication of this report
4. ACL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ACL may have a conflict of interest that may affect the objectivity of this report. Investors should not consider this report as the only factor in making their investment decision.
5. The research analyst or any of his / her family members or relatives may have financial interest or any other material conflict of interest in the subject company of this research report.
6. The research analyst has not served as director / officer, etc. in the subject company in the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report.
7. The RE and / or the research analyst or any of his / her family members or relatives may have actual / beneficial ownership exceeding 1% or more, of the securities of the subject company as at the end of the month immediately preceding the date of publication of this research report.
8. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report ACL or any of its associates may have:
 - i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
 - ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
 - iii. Received compensation for products or services other than investment banking, merchant banking or stockbroking services from the subject company of this research report and / or;
 - iv. Received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report
9. The other disclosures / terms and conditions on which this research report is being published are as under:
 - i. This document is prepared for the sole use of the clients or prospective clients of ACL who are / proposed to be registered in India. It may be also be accessed through financial websites by those persons who are usually enabled to access such websites. It is not for sale or distribution to the general public.
 - ii. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision.
 - iii. Nothing in this document should be construed as investment or financial advice, or advice to buy / sell or solicitation to buy / sell the securities of companies referred to in this document.
 - iv. The intent of this document is not to be recommendatory in nature
 - v. The investment discussed or views expressed may not be suitable for all investors
 - vi. The investment discussed or views expressed may not be suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the suitability, merits and risks of such an investment.
 - vii. ACL has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document
 - viii. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval
 - ix. Subject to the disclosures made herein above, ACL, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct entity, independent of each other. The recipient shall take this into account before interpreting the document.
 - x. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ACL. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein
 - xi. This document is being supplied to the recipient solely for information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose and the same shall be void where prohibited.
 - xii. Neither the whole nor part of this document or copy thereof may be taken or transmitted into the United States of America (to U.S. Persons), Canada, Japan and the People's Republic of China (China) or distributed or redistributed, directly or indirectly, in the United States of America, Canada, Japan and China or to any resident thereof.
 - xiii. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document may come shall inform themselves about, and observe, any such restrictions.
 - xiv. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including but not limited to loss of capital, revenue or profits that may arise from or in connection with the use of the information.
 - xv. Copyright in this document vests exclusively with Axis Capital Limited.

Axis Capital Limited

Axis House, C2, Wadia International Centre, P.B Marg, Worli, Mumbai 400 025, India.

Tel:- Board +91-22 4325 2525; **Dealing** +91-22 2438 8861-69;

Fax:- Research +91-22 4325 1100; **Dealing** +91-22 4325 3500

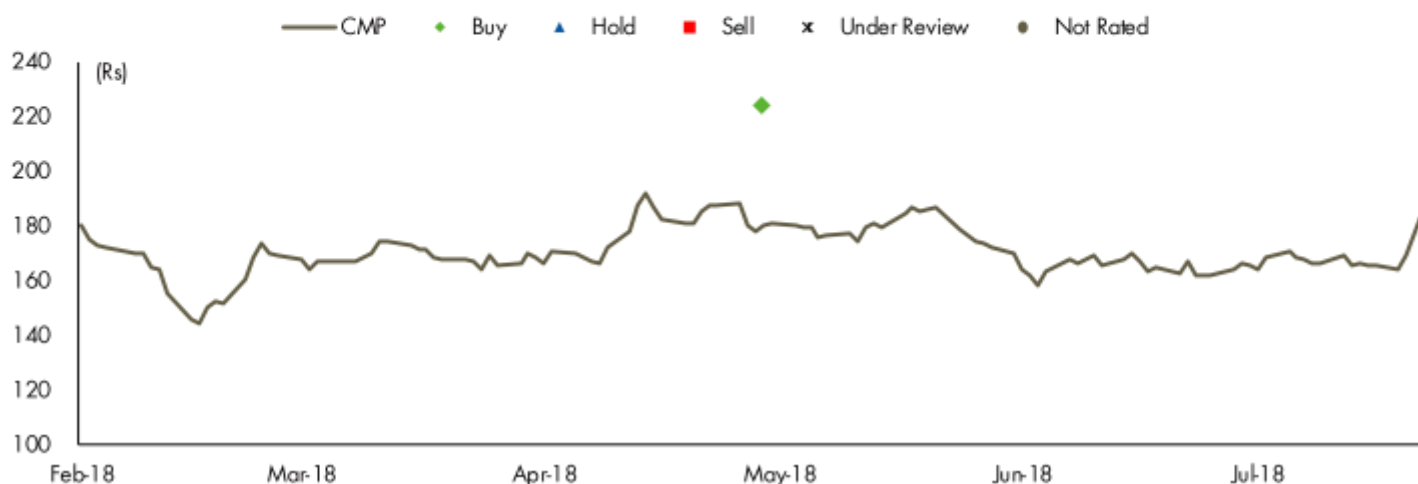
DEFINITION OF RATINGS

Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

ANALYST DISCLOSURES

1. The analyst(s) declares that neither he/ his relatives have a Beneficial or Actual ownership of > 1% of equity of subject company/ companies
2. The analyst(s) declares that he has no material conflict of interest with the subject company/ companies of this report

Aster DM Healthcare (ASTERDM BO, ATRD IN) Price and Recommendation History



Date	Target Price	Reco
24-May-18	224	Buy

Source: Axis Capital