

Aster DM Healthcare

BUY
Maintained
Rs121

COVID-19 weighs on performance

Aster DM Healthcare's (Aster) Q4FY20 performance, with lower occupancy, was largely below our estimates primarily as it was impacted by COVID-19 led disruptions in last two weeks of Mar'20. Overall occupancy was down by 5% YoY to 57% in Q4FY20. Consolidated revenue grew 4.6% YoY to Rs23.0bn led by 13.6% growth in India business and 6.4% growth in GCC Hospitals. Adjusted EBITDA margin (ex-IND AS) dropped 220bps to 13.7% (I-Sec: 15.9%). The margin decline was weak operational performance in India business and GCC Clinics. The occupancy level has started improving from lows of Apr'20 and management expects normalcy Q3FY20 onwards. We believe the company's approach of asset-light expansion and an improving margin trajectory (100bps over FY20-FY22E ex-IND AS impact) would aid positive FCF generation. **Maintain BUY.**

- ▶ **Revenue growth affected by COVID-19 led disruptions:** Steady revenue growth was maintained in hospital business on back of strong traction in Jan-Feb 2020. GCC hospital revenue grew 6.4% with higher occupancy, although ARPOB was down YoY. India hospital witnessed 13.6% revenue increase on with ~500 new operational beds and 8% rise in ARPOB, although occupancy dropped 9% YoY. However, GCC Clinics business declined 2.8% as it was the worst affected due to COVID-19. Pharmacy business grew 6.4%. We expect overall double digit growth to come back from H2FY21 as normalisation of operations is expected by Q3FY21 and estimate strong 18.4% consolidated revenue growth in FY22E.
- ▶ **Margin impacted by lower revenue:** Overall, the reported consolidated margin improved 170bps YoY (incl. IND-AS 116 benefit of 390bps) and 100bps QoQ. It was largely driven by improvement of 230bps in GCC hospitals. However, adjusted margin excl IND-AS benefit, dropped 210bps due to GCC Clinics and India business. We expect increasing proportion of matured beds to help improve consolidated occupancy by 250bps over FY20E-FY22E. Subsequently, EBITDA margin would improve from 11.1% in FY20 to 12.1% by FY22E, excl IND-AS.
- ▶ **Outlook:** We expect Aster to report 11.3/14.6/30.7% revenue/EBITDA/PAT CAGRs, respectively, over FY20E-FY22E largely driven by the hospital business as we estimate single-digit growth in clinics and pharmacies. Reduced capex requirement and improving margin would aid positive FCF generation. We expect RoE/RoCE to gradually improve to 13.5/8.9% by FY22E.
- ▶ **Valuations:** We marginally lower revenue/EBITDA estimates of 0-1%/2-4% for FY21-FY22 to factor in lower occupancy in hospitals. The stock is attractively valued at 6.2x FY22E EV/EBITDA. We maintain our **BUY** rating on the stock with a revised SoTP-based target price of Rs155/share (earlier: Rs146/share). Key downside risks to our call: Regulatory hurdles, higher than expected impact of COVID-19 and delay in turnaround of new hospitals.

Market Cap	Rs60.7bn/US\$802mn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	ASTERDM IN	Net Revenue (Rs mn)	79,627	87,385	91,480	108,331
Shares Outstanding (mn)	499.5	Net Profit (Rs mn)	3,345	2,953	2,244	5,050
52-week Range (Rs)	178/84	Dil. EPS (Rs)	6.7	5.9	4.5	10.1
Free Float (%)	62.1	% Chg YoY	122.7	(11.6)	(24.1)	125.1
FII (%)	9.1	P/E (x)	18.1	20.5	26.9	12.0
Daily Volume (US\$'000)	710	CEPS (Rs)	12.8	17.3	18.0	24.3
Absolute Return 3m (%)	45.4	EV/EBITDA (x)	10.2	9.1	8.3	6.2
Absolute Return 12m (%)	(9.1)	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	30.9	RoCE (%)	7.7	7.9	6.3	8.9
Sensex Return 12m (%)	(10.0)	RoE (%)	11.1	9.1	6.6	13.5

Q4FY20 result review and earnings revision

Pharmaceuticals

Target price: Rs155

Earnings revision

(%)	FY21E	FY22E
Sales	(1.3)	(0.6)
EBITDA	(3.6)	(2.2)

Target price revision

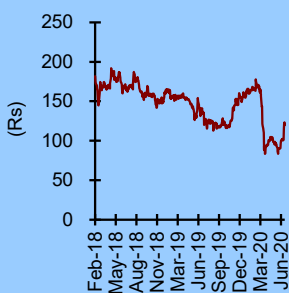
Rs155 from Rs146

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	37.8	37.8	37.9
Institutional investors	17.6	18.0	17.3
MFs and others	3.7	4.0	5.0
FIs / Banks	-	-	0.6
FII	11.2	11.3	9.1
Foreign VC	2.7	2.7	2.6
Others	44.6	44.2	44.8

Source: BSE

Price chart



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Highlights of Q4FY20 result and earnings call

Net sales grew 4.6% YoY in Q4FY20 to Rs23.0bn.

- **Hospital business** grew by 7.4% YoY to Rs11.8bn.
 - **GCC hospitals** grew 6.4% YoY but remained flat QoQ to Rs7.9bn. Occupancy for the region improved which supported revenue growth despite a drop in the ARPOB YoY.

EBITDA for GCC hospital has increased to Rs1.4bn from Rs1.1bn YoY with 230bps margin improvement. This was largely due to an increase in number of beds and outpatients as well as inpatients.

COVID-19 affected the business in the last two week of Mar'20. Oman and Qatar were the worst affected as government was tackling all the COVID-19 related patients. In other regions company provided beds and facilities for patients. In Dubai, company also rented space in the nearing hotels to cater to the growing demand. Post easing of lockdown, company has witnessed recovery with delay elective surgeries returning.

- **Indian hospitals and clinics** grew 13.6% YoY but declined 5.9% QoQ to Rs4.0bn. Growth on a yearly basis was due to rise in beds, outpatients, inpatients and ARPOB. However, sequential decline was due to COVID-19 led disruption. Medical tourism was severely affected during the quarter and company expects it to normalise in H2FY21. Recovery post COVID-19 was best visible in the Kerala cluster, however other regions are still suffering from low occupancy and normalisation is expected Q3FY21 onwards.

EBITDA for India hospital has decreased to Rs330mn from Rs440mn YoY with margin falling 420bps. This was due to lower revenue and higher costs attributed towards new safety protocols amid the pandemic.

- **Clinical business** in GCC declined 2.8% YoY and 4.1% QoQ to Rs5.2bn. This segment was worst affected by COVID-19 as footfalls declined drastically.
- **Pharmacy business** grew 6.4% YoY and 6.7% QoQ to Rs6.7bn. Company has discontinued operations at Kuwait which mostly comprised of pharmacy business.
- Company's diagnostic division Aster Lab received approval from ICMR to conduct COVID-19 testing. Till date they tested >4,500 samples including government and private patients. Company is trying to for more MoUs with private hospitals to expand its B2B model. Post normalisation the company will also focus on the B2C segment.
- **EBITDA margin** improved 170bps YoY with the incorporation of Ind-AS-116 adjustment. Pre-adjustment margin declined 220bps YoY.
- Company does not have any liquidity issues. However, capex would be deferred at few locations in the challenging environment.

Table 1: Q4FY20 result review*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY % Chg	Q3FY20	QoQ % Chg
Net Sales	23,014	22,010	4.6	23,217	(0.9)
EBITDA	4,040	3,504	15.3	3,851	4.9
Other income	266	75	255.7	39	577.8
PBIDT	4,305	3,579	20.3	3,890	10.7
Depreciation	1,711	780	119.5	1,398	22.4
Interest	871	554	57.3	715	21.8
PBT	1,724	2,246	(23.3)	1,778	(3.1)
Exceptional items	(263)	-		(184)	
PBT after exceptional	1,461	2,246	(35.0)	1,594	(8.4)
Tax	(1)	44	(101.1)	82	(100.6)
Minority Interest	152	105	44.6	123	23.5
Share of profit in associates	2	(3)	(156.3)	3	(30.8)
Reported PAT	1,311	2,093	(37.4)	1,391	(5.8)
Adjusted PAT	1,574	2,093	(24.8)	1,565	0.5
<i>EBITDA margins (%)</i>	<i>17.6</i>	<i>15.9</i>	<i>170bps</i>	<i>16.6</i>	<i>100bps</i>

Source: Company data, I-Sec research

Table 2: Revenue breakup*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY % Chg	Q3FY20	QoQ % Chg
GCC Hospitals	7,850	7,380	6.4	7,910	(0.8)
GCC Clinics	5,210	5,360	(2.8)	5,430	(4.1)
GCC Pharmacies	6,650	6,250	6.4	6,230	6.7
India Hospitals & Clinics	4,020	3,540	13.6	4,270	(5.9)
Gross Sales	23,730	22,530	5.3	23,840	(0.5)

Source: Company data, I-Sec research

Valuations

We expect Aster DM to register earnings CAGR of 30.7% over FY20-FY22E driven by revenue CAGR of 11.3% and EBITDA margin expansion of 90bps. We believe revenue growth would be mainly led by hospitals business (18.3% CAGR). We expect return ratios to gradually improve to 13.5% RoE and 8.9% RoCE in FY22E with profitability improvement. Receivable days for Aster appear higher than its Indian peers but lower than or equal to its GCC peers. It is high as major revenue is being generated from GCC hospital business largely funded by the government and insurance companies.

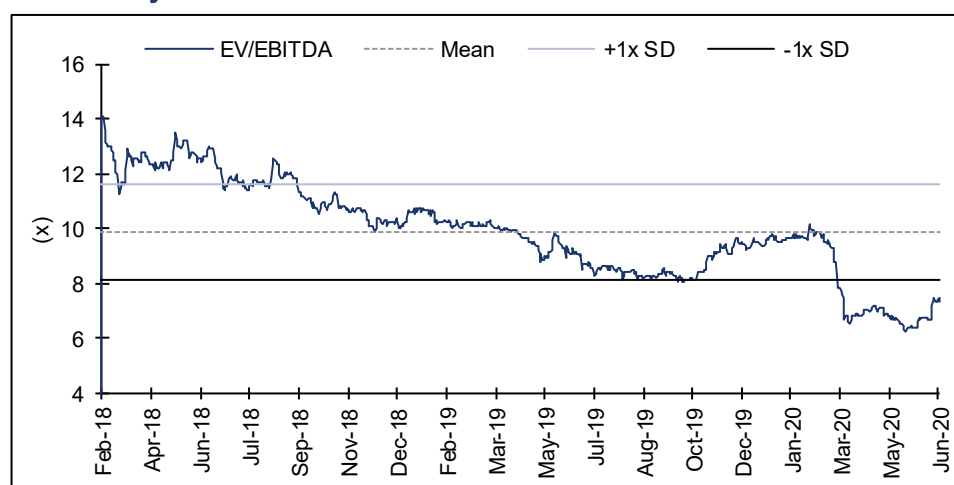
The stock currently trades at valuations of EV/EBITDA of 8.3x FY21E and 6.2x FY22E. We believe it is trading at attractive valuations and rerating is likely considering the consistent revenue growth and margin expansion. We maintain our **BUY** rating and value the stock at a target price of Rs155/share (earlier: Rs146/share) based on SoTP valuation and this would imply an EV/EBITDA of 9.5x FY21E and 7.3x FY22E. We ascribe 9x to GCC business and 11x to India hospital business.

Table 3: Sum of the parts (SoTP) valuation

FY22E	EBITDA	(x)	Rs mn
GCC Hospitals	4,682	9.0	42,140
India Hospitals	3,384	11.0	37,220
Clinics	2,807	6.0	16,842
Pharmacies	2,277	6.0	13,660
EV	13,150	8.4	109,862
Less: Net debt			(27,830)
Minority interest			(4,464)
Implied market cap			77,568
Value Rs/share			155

Source: Company data, I-Sec research

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Hospitals	39,690	46,080	50,961	64,526
Clinics	19,900	20,050	20,393	21,592
Pharmacies	21,780	23,720	22,591	24,677
Total Gross Sales	79,627	87,385	91,480	108,331
Other Op Income	-	-	-	-
Total Net Revenue	79,627	87,385	91,480	108,331
YoY Growth%	18.5	9.7	4.7	18.4
Total Op. Exp.	70,997	74,809	78,215	91,810
EBITDA	8,631	12,576	13,265	16,520
Margins %	10.8	14.4	14.5	15.3
YoY Growth%	40.8	45.7	5.5	24.5
Depreciation	3,065	5,859	6,758	7,078
EBIT	5,566	6,717	6,506	9,442
Other Income	346	379	379	379
Interest	1,792	3,597	3,969	3,649
Share of P/L of asso.	(3)	(2)	-	-
Exceptional Items (net)	(15)	(196)	-	-
PBT	4,103	3,300	2,916	6,172
Tax	429	154	292	741
Tax Rate (%)	10.5	4.7	10.0	12.0
Minority Interest	342	381	381	381
Reported PAT	3,331	2,766	2,244	5,050
Adj PAT	3,345	2,953	2,244	5,050
Net Margins (%)	4.2	3.4	2.5	4.7

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Paid-up Capital	5,052	4,995	4,995	4,995
Reserves & Surplus	27,085	27,726	29,970	35,020
Total Equity	32,138	32,721	34,965	40,016
Minority Interest	4,661	4,464	4,844	5,225
Total Debt	26,076	51,117	48,117	43,117
Deferred Liabilities	1,408	1,227	1,227	1,227
Capital Employed	64,282	89,528	89,152	89,583
Current Liabilities	24,999	34,525	35,949	41,649
Total Liabilities	89,281	124,053	125,101	131,232
Net Fixed Assets	48,386	78,596	75,837	72,759
Investments	-	-	-	-
Inventory	7,322	9,610	10,047	11,793
Debtors	20,287	23,664	24,773	29,337
Other Current Assets	9,852	10,297	10,568	11,686
Cash and Equivalents	3,435	1,887	3,875	5,657
Total Cur. Assets	40,896	45,458	49,264	58,473
Total Assets	89,281	124,053	125,101	131,232

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
PBT (Adj. for Extraordinary)	4,103	3,302	2,916	6,172
Depreciation	3,065	5,859	6,758	7,078
Net Chg in WC	(3,296)	(970)	(900)	(3,807)
Taxes	(538)	(657)	(292)	(741)
Others	884	1,101	505	2,080
CFO	4,217	8,636	8,988	10,782
Capex	(7,000)	(7,415)	(4,000)	(4,000)
Net Investments made	(175)	695	(5)	(22)
Others	-	-	-	-
CFI	(7,174)	(6,720)	(4,005)	(4,022)
Change in Share capital	24	(1,205)	-	-
Change in Debts	2,929	(2,174)	(3,000)	(5,000)
Div. & Div Tax	-	-	-	-
Others	1,499	(177)	-	-
CFF	4,452	(3,556)	(3,000)	(5,000)
Total Cash Generated	1,495	(1,640)	1,983	1,760
Cash Opening Balance	1,916	3,411	1,771	3,754
Cash Closing Balance	3,411	1,771	3,754	5,514

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Adj EPS	6.7	5.9	4.5	10.1
YoY Growth%	122.7	(11.6)	(24.1)	125.1
Cash EPS	12.8	17.3	18.0	24.3
EBITDA - Core (%)	10.8	14.4	14.5	15.3
NPM (%)	4.2	3.4	2.5	4.7
Net Debt to Equity (x)	0.7	1.5	1.3	0.9
P/E (x)	18.1	20.5	26.9	12.0
EV/EBITDA Core (x)	10.2	9.1	8.3	6.2
P/BV (x)	1.9	1.8	1.7	1.5
EV/Sales (x)	1.1	1.3	1.2	1.0
RoCE (%)	7.7	7.9	6.3	8.9
RoE (%)	11.1	9.1	6.6	13.5
RoIC (%)	8.2	8.1	6.5	9.4
Book Value (Rs)	64.3	65.5	70.0	80.1
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
Asset Turnover Ratio	1.0	0.8	0.7	0.8
Avg Collection days	81.9	91.8	96.6	91.2
Avg Inventory days	31	35	39	37

Source: Company data, I-Sec research

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