

Rating: BUY | CMP: Rs220 | TP: Rs265

November 15, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	265		234	
Sales (Rs. m)	1,20,525	1,30,517	1,21,194	1,30,502
% Chng.	(0.6)	-		
EBITDA (Rs. m)	16,687	19,011	17,750	19,590
% Chng.	(6.0)	(3.0)		
EPS (Rs.)	11.6	14.8	14.2	16.5
% Chng.	(18.2)	(10.3)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,02,530	1,11,809	1,20,525	1,30,517
EBITDA (Rs. m)	14,830	14,394	16,687	19,011
Margin (%)	14.5	12.9	13.8	14.6
PAT (Rs. m)	5,252	3,896	5,285	6,840
EPS (Rs.)	12.1	8.8	11.6	14.8
Gr. (%)	245.1	(26.8)	31.6	26.9
DPS (Rs.)	-	2.0	2.0	2.0
Yield (%)	-	0.9	0.9	0.9
RoE (%)	14.3	9.5	11.9	13.9
RoCE (%)	14.2	11.3	13.3	15.0
EV/Sales (x)	1.2	1.1	1.0	0.9
EV/EBITDA (x)	8.6	8.9	7.5	6.3
PE (x)	18.2	24.8	18.9	14.9
P/BV (x)	2.8	2.6	2.4	2.1

Key Data

[ATR.DM.BO](https://www.bseindia.com/asterrdm) | [ASTERDM IN](https://www.asterrdm.com)

52-W High / Low	Rs.276 / Rs.158
Sensex / Nifty	61,873 / 18,403
Market Cap	Rs.110bn / \$ 1,353m
Shares Outstanding	500m
3M Avg. Daily Value	Rs.234.73m

Shareholding Pattern (%)

Promoter's	37.88
Foreign	11.77
Domestic Institution	8.94
Public & Others	41.41
Promoter Pledge (Rs bn)	4.34

Stock Performance (%)

	1M	6M	12M
Absolute	(9.2)	28.2	5.9
Relative	(15.0)	9.3	3.9

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Strong quarter for India; subdued GCC operations

Quick Pointers:

- GCC restructuring plan is at evaluation stage.
- Subdued performance in GCC hospitals given commissioning of new units

ASTER DM's consolidated EBITDA (post IND AS 116) de-grew 7% YoY (up 9% QoQ) to Rs 3.2bn; 13% below our est. of Rs 3.6bn. GCC hospital EBITDA declined by 10% YoY (flat QoQ) to Rs 1.3bn, while India business EBITDA (post Ind AS) was up 22% YoY (51% QoQ) to Rs. 1.3bn. ASTERDM has a unique business model with presence in India and an established business with strong returns in GCC. We expect 9% EBITDA CAGR over FY22-25E, as margin in its India business will gradually improve with brownfield expansion and new hospitals ramp-up in GCC.

At current market price, the stock trades at an attractive valuation of 10x FY24E EV/EBITDA, which is at 25-50% discount to Indian peers. We believe such high discount reflects ASTERDM's lower contribution from India region and higher capital outlay outside India. Also, such steep discount is unwarranted given stable profit trajectory and increasing contribution from India. Our FY23E and FY24E EBITDA stand reduced by 6-8%. We maintain our 'Buy' rating with TP of Rs. 265/share (earlier Rs 234/share) based on 18x FY24E EV/EBITDA to India business and 8x EV/EBITDA to GCC business.

- **EBITDA miss on GCC biz:** Consolidated margins were down 240bps YoY to 11.3%. Other income came in lower QoQ at Rs 184mn. PAT came in lower at Rs 416mn, vs our estimate of Rs 1.3bn. Revenue grew by 13% YoY (6% QoQ) to Rs 28.1bn; largely in line with our est. Adjusted for Covid Testing and vaccination revenues; it was up 22% YoY. GCC hospital biz reported OPM of 13.9%; down 285 bps YoY and 70 bps QoQ while India hospital biz reported OPM of 18.3% (up 10 bps YoY and 465 bps QoQ). ARPOB for India business was down 4% QoQ to Rs 34.9K per day. Segment wise, pharmacy reported strong EBITDA growth of 16% YoY while clinics reported 33% YoY EBITDA decline given high Covid base. In GCC, contribution of Covid testing revenue reduced to 6% vs 26% in Q2FY22 (4% in Q1). India and GCC hospitals occupancies were at 72% and 49% in Q2. Net debt increased by Rs.2bn to Rs 20.5bn; of which India debt amounted Rs.3.9bn.
- **Key con-call takeaways:** (1) GCC biz was impacted by seasonality. Further losses from new hospitals commissioned in GCC were at Rs210mn during Q2 vs Rs160mn in Q1FY23. (2) Intends to launch +250 pharmacies in the next 5 years in partnership model in Saudi with Al Hokair Group. (3) Added 150 beds multispecialty hospital in Tirupati, Andhra Pradesh through O&M model likely to be commercialize by end of Q4FY23. Intends to add another 300-400 beds through the O&M route by FY2023-end. Sees India hospital EBITDA margin improvement by 100-200 bps led by higher occupancies and a better case mix (4) Company has received expressions of interest from potential investors for restructuring of GCC business (5) Company is burning cash at present (Rs100mn EBITDA loss in H1) for Aster Lab business in India and expects breakeven in FY24. (5) Total capex planned Rs6bn in FY23 of which Rs3.1bn spend so far in 1HFY23 (6) Aster DM has announced a franchise agreement to run pharmacies in Bangladesh.

Exhibit 1: Q2FY23 Result Overview (Rs mn)–EBITDA below our est.

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Net Sales	28,163	25,043	12.5	26,621	5.8
COGS	8,580	7,283	17.8	8,279	3.6
<i>% of Net Sales</i>	<i>30.5</i>	<i>29.1</i>		<i>31.1</i>	
Employee Cost	9,953	8,023	24.1	9,394	5.9
<i>% of Net Sales</i>	<i>35.3</i>	<i>32.0</i>		<i>35.3</i>	
Other Expenses	6,442	6,310	2.1	6,028	6.9
<i>% of Net Sales</i>	<i>22.9</i>	<i>25.2</i>		<i>22.6</i>	
Total	24,974	21,615	15.5	23,700	5.4
EBITDA	3,189	3,428	(7.0)	2,921	9.2
<i>Margins (%)</i>	<i>11.3</i>	<i>13.7</i>		<i>11.0</i>	
Other Income	184	91	102.2	373	(50.6)
Interest	772	614	25.8	688	12.2
Depreciation	1,894	1,564	21.1	1,750	8.2
PBT	708	1,342	(47.3)	856	(17.4)
Tax	165	76	118.2	55	203.5
<i>Tax rate %</i>	<i>23.4</i>	<i>5.6</i>		<i>6.4</i>	
PAT	542	1,266	(57.2)	802	(32.4)
Share in (loss)/profit of associate	(1)	10		(4)	
Minority Interest	(125)	(207)		(112)	
Reported PAT	416	1,069	(61.1)	685	(39.3)

Source: Company, PL

Exhibit 2: Break up of revenues

Revenues (Rs. mn)	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
GCC Hospitals	9,500	8,780	8.2	9,130	4.1
<i>% of Total Sales</i>	<i>33.7</i>	<i>35.0</i>		<i>34.3</i>	
GCC Clinics	5,280	5,920	(10.8)	5,380	(1.9)
<i>% of Total Sales</i>	<i>18.8</i>	<i>23.6</i>		<i>20.2</i>	
GCC Pharmacy	6,950	5,200	33.7	6,600	5.3
<i>% of Total Sales</i>	<i>24.7</i>	<i>20.8</i>		<i>24.8</i>	
India Hospitals & Clinics	7,780	6,260	24.3	6,690	16.3
<i>% of Total Sales</i>	<i>27.6</i>	<i>25.0</i>		<i>25.1</i>	
Unallocated	(1,350)	(1,110)	21.6	(1,190)	13.4
Total sales	28,160	25,050	12.4	26,610	5.8

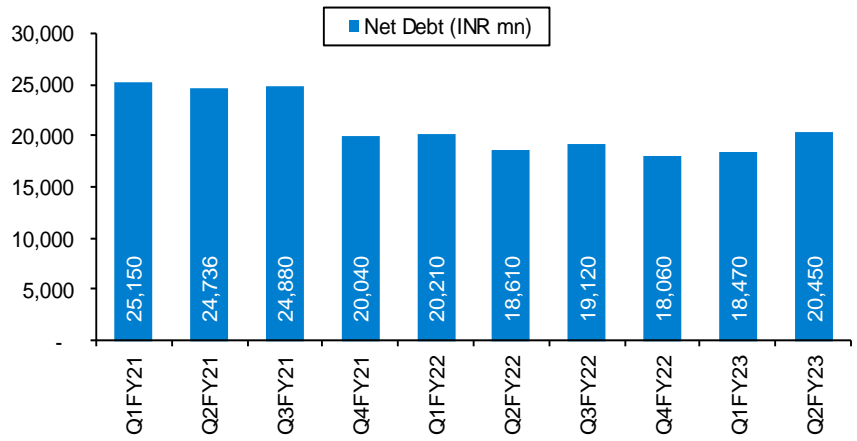
Source: Company, PL

Exhibit 3: EBITDA break up

EBITDA (Rs. mn)	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
GCC Hospitals	1,320	1,470	(10.2)	1,330	(0.8)
GCC Clinics	660	980	(32.7)	910	(27.5)
GCC Pharmacy	660	570	15.8	580	13.8
India Hospitals & Clinics	1,370	1,120	22.3	910	50.5
Unallocated	(810)	(710)	14.1	(810)	-
Total EBITDA	3,200	3,430	-6.7	2,920	9.6

Source: Company, PL

Exhibit 4: Net debt increased QoQ by Rs.2bn



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	1,02,530	1,11,809	1,20,525	1,30,517
YoY gr. (%)	19.1	9.0	7.8	8.3
Cost of Goods Sold	28,918	35,779	38,568	41,766
Gross Profit	73,612	76,030	81,957	88,752
Margin (%)	71.8	68.0	68.0	68.0
Employee Cost	32,645	33,950	35,308	36,721
Other Expenses	26,138	27,686	29,961	33,020
EBITDA	14,830	14,394	16,687	19,011
YoY gr. (%)	39.6	(2.9)	15.9	13.9
Margin (%)	14.5	12.9	13.8	14.6
Depreciation and Amortization	6,406	7,364	8,050	8,736
EBIT	8,424	7,030	8,637	10,275
Margin (%)	8.2	6.3	7.2	7.9
Net Interest	2,570	3,034	2,988	2,838
Other Income	507	1,000	1,000	1,000
Profit Before Tax	6,360	4,996	6,649	8,437
Margin (%)	6.2	4.5	5.5	6.5
Total Tax	358	600	864	1,097
Effective tax rate (%)	5.6	12.0	13.0	13.0
Profit after tax	6,002	4,396	5,785	7,340
Minority interest	751	500	500	500
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,252	3,896	5,285	6,840
YoY gr. (%)	256.5	(25.8)	35.6	29.4
Margin (%)	5.1	3.5	4.4	5.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,252	3,896	5,285	6,840
YoY gr. (%)	256.5	(25.8)	35.6	29.4
Margin (%)	5.1	3.5	4.4	5.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,252	3,896	5,285	6,840
Equity Shares O/s (m)	497	497	497	497
EPS (Rs)	12.1	8.8	11.6	14.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	91,192	98,192	1,05,192	1,12,192
Tangibles	91,192	98,192	1,05,192	1,12,192
Intangibles	-	-	-	-
Acc: Dep / Amortization	34,565	41,929	49,979	58,716
Tangibles	34,565	41,929	49,979	58,716
Intangibles	-	-	-	-
Net fixed assets	56,627	56,263	55,213	53,477
Tangibles	56,627	56,263	55,213	53,477
Intangibles	-	-	-	-
Capital Work In Progress	9,777	9,777	9,777	9,777
Goodwill	13,660	13,660	13,660	13,660
Non-Current Investments	382	382	382	382
Net Deferred tax assets	(1,439)	(1,439)	(1,439)	(1,439)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	10,257	12,253	13,208	14,303
Trade receivables	20,205	22,974	25,426	27,534
Cash & Bank Balance	3,796	2,243	4,071	8,549
Other Current Assets	8,361	8,779	9,218	9,679
Total Assets	1,25,462	1,28,979	1,33,881	1,40,601
Equity				
Equity Share Capital	4,972	4,972	4,972	4,972
Other Equity	34,562	37,285	41,396	47,063
Total Network	39,534	42,257	46,368	52,035
Non-Current Liabilities				
Long Term borrowings	14,664	13,664	12,664	11,664
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	7,258	7,258	7,258	7,258
Trade payables	21,181	22,974	24,765	26,819
Other current liabilities	35,844	35,844	35,844	35,844
Total Equity & Liabilities	1,25,462	1,28,979	1,33,881	1,40,601

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	5,854	3,996	5,649	7,437
Add. Depreciation	6,406	7,364	8,050	8,736
Add. Interest	2,570	3,034	2,988	2,838
Less Financial Other Income	507	1,000	1,000	1,000
Add. Other	(751)	(500)	(500)	(500)
Op. profit before WC changes	14,079	13,894	16,187	18,511
Net Changes-WC	(3,278)	(3,640)	(2,334)	(1,924)
Direct tax	(358)	(600)	(864)	(1,097)
Net cash from Op. activities	10,443	9,654	12,989	15,490
Capital expenditures	(7,192)	(7,000)	(7,000)	(7,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(7,192)	(7,000)	(7,000)	(7,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,520)	(1,000)	(1,000)	(1,000)
Dividend paid	-	(1,173)	(1,173)	(1,173)
Interest paid	(2,570)	(3,034)	(2,988)	(2,838)
Others	1,822	1,000	1,000	1,000
Net cash from Fin. activities	(2,268)	(4,207)	(4,162)	(4,012)
Net change in cash	982	(1,553)	1,827	4,479
Free Cash Flow	3,251	2,654	5,989	8,490

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	26,496	27,278	26,621	28,163
YoY gr. (%)	18.9	14.1	12.3	12.5
Raw Material Expenses	8,100	7,583	8,279	8,580
Gross Profit	18,396	19,695	18,343	19,583
Margin (%)	69.4	72.2	68.9	69.5
EBITDA	3,971	4,625	2,921	3,189
YoY gr. (%)	21.1	44.1	4.0	(7.0)
Margin (%)	15.0	17.0	11.0	11.3
Depreciation / Depletion	1,609	1,704	1,750	1,894
EBIT	2,362	2,922	1,171	1,295
Margin (%)	8.9	10.7	4.4	4.6
Net Interest	669	622	688	772
Other Income	115	220	373	184
Profit before Tax	1,808	2,519	856	707
Margin (%)	6.8	9.2	3.2	2.5
Total Tax	131	42	55	165
Effective tax rate (%)	7.3	1.7	6.4	23.4
Profit after Tax	1,676	2,477	802	542
Minority interest	199	194	112	125
Share Profit from Associates	6	(21)	(4)	(1)
Adjusted PAT	1,483	2,263	685	416
YoY gr. (%)	60.5	114.7	54.1	(61.1)
Margin (%)	5.6	8.3	2.6	1.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,483	2,263	685	416
YoY gr. (%)	60.5	114.7	54.1	(61.1)
Margin (%)	5.6	8.3	2.6	1.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,483	2,263	685	416
Avg. Shares O/s (m)	497	497	497	497
EPS (Rs)	3.0	4.6	1.4	0.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	12.1	8.8	11.6	14.8
CEPS	23.4	22.6	26.8	31.3
BVPS	79.5	85.0	93.3	104.7
FCF	6.5	5.3	12.0	17.1
DPS	-	2.0	2.0	2.0
Return Ratio(%)				
RoCE	14.2	11.3	13.3	15.0
ROIC	6.9	5.5	6.7	7.8
RoE	14.3	9.5	11.9	13.9
Balance Sheet				
Net Debt : Equity (x)	0.5	0.4	0.3	0.2
Net Working Capital (Days)	33	40	42	42
Valuation(x)				
PER	18.2	24.8	18.9	14.9
P/B	2.8	2.6	2.4	2.1
P/CEPS	9.4	9.7	8.2	7.0
EV/EBITDA	8.6	8.9	7.5	6.3
EV/Sales	1.2	1.1	1.0	0.9
Dividend Yield (%)	-	0.9	0.9	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
GCC hospitals	35,320	38,615	42,496	44,572
India hospitals	23,840	29,314	30,455	34,398
Sale of medicines	22,450	27,165	29,338	31,685
Clinics	24,400	21,716	23,236	24,863

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	234	249
2	16-Aug-22	BUY	234	204
3	07-Jul-22	BUY	234	183
4	26-May-22	BUY	234	191
5	08-Apr-22	BUY	234	193
6	03-Mar-22	BUY	234	167

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,421
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	360	304
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	375	295
11	Indoco Remedies	BUY	430	348
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,982
14	Krishna Institute of Medical Sciences	BUY	1,660	1,448
15	Lupin	Hold	650	719
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	900	740
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	Accumulate	465	429

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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