

## Aster DM Healthcare Ltd

Aster DM Healthcare Ltd (ADHL) is one of the largest private healthcare service providers which operates in multiple GCC states and is an emerging healthcare player in India. ADHL operates in all of the GCC states (UAE, Oman, Saudi Arabia, Qatar, Kuwait, Bahrain and Jordan), India and the Philippines.

The company operates in multiple segments of the healthcare services industry, including hospitals, clinics and retail pharmacies. As of September 30, 2017, the Company had 17,408 employees including 1,417 full time doctors, 5,797 nurses, 1,752 paramedics, and 8,442 other employees (including pharmacists). GCC operations are headquartered in Dubai, UAE, while Indian operations are headquartered in Kochi, Kerala.

**Positives:** (a) Diversified revenue sources from hospitals, clinics and pharmacies (b) Long standing presence with established brand equity and positioning (c) Ability to attract and retain high quality medical professionals (d) Experienced core management team

**Investment concerns:** (a) In 1HFY2018, the company's 81% revenue came from GCC region and balance from India, reflecting geographical concentration risk (b) Despite strong revenue CAGR of ~24% over FY15-17, ADHL has seen fluctuation in profitability and reported loss in 1HFY18 due to instability in operating margins (c) In the past, the company has suffered losses from Sanad Hospital, Saudi Arabia which had higher exposure in revenue from government, however the company has reduced the revenue exposure from 82% in FY16 to 38% in FY17.

**Outlook & Valuation:** In terms of valuations, the pre-issue EV/EBITDA works out to 32.5x its 1HFY2018 annualized EBITDA (at the upper end of the issue price band), which is higher compared to its peers like Apollo Hospitals Enterprise (trading at PE 22.3x -1HFY2018 annualized EBITDA). On EV/ Bed basis, ADHL is ₹2.4cr vs Apollo Hospitals Enterprise's ₹1.7cr. Further, last three years' financial performance including 1HFY18 numbers doesn't provides confidence. **Hence, we recommend Neutral rating on the issue.**

### Key Financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
<b>Net Sales</b>	<b>3,876</b>	<b>5,250</b>	<b>5,931</b>	<b>3,123</b>
% chg	-	35.5	13.0	-
<b>Net Profit</b>	<b>272</b>	<b>8</b>	<b>267</b>	<b>(83)</b>
% chg	-	(97.0)	3,148.7	-
OPM (%)	13.1	8.5	5.6	5.7
<b>EPS (Rs)</b>	<b>6.7</b>	<b>0.2</b>	<b>6.6</b>	<b>(2.1)</b>
P/E (x)	28.2	933.0	28.7	-
P/BV (x)	3.4	12.8	3.4	-
RoE (%)	12.1	1.4	11.9	-
RoCE (%)	11.5	5.4	0.2	-
EV/Sales (x)	2.1	2.0	1.7	-
EV/EBITDA (x)	16.1	23.4	30.3	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## Neutral

Issue Open: Feb 12, 2018

Issue Close: Feb 15, 2018

### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹467cr

Fresh issue: ₹725cr

Post Eq. Paid up Capital: ₹505cr

Issue size (amount): ₹980cr (Include offer for sale - ₹255)

Price Band: ₹180-190

Lot Size: 78 shares and in multiple thereafter

Post-issue implied mkt. cap: ₹9,094cr - ₹9,599cr

Promoters holding Pre-Issue: 43.3%

Promoters holding Post-Issue: 37.4%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	37.4%
Others	62.6%

**Amarjeet S Maurya**

+022 39357600, Extn: 6831

amarjeet.maurya@angelbroking.com

## Company background

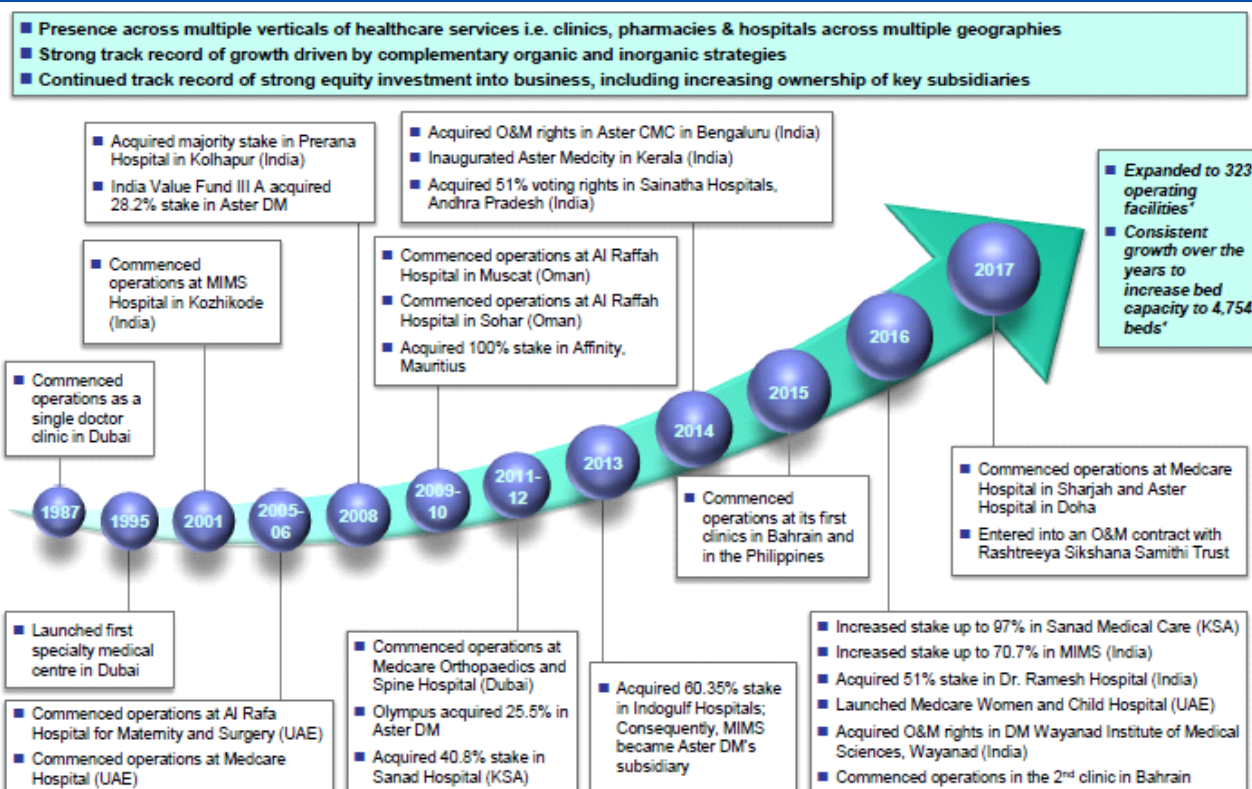
Incorporated in 1987, Aster DM Healthcare Ltd is Kochi, Kerala based healthcare service provider with operations in GCC states (United Arab Emirates, Oman, Saudi Arabia, Qatar, Kuwait and Bahrain), India and the Philippines. Company's Indian operations are headquartered in Kochi, Kerala.

Aster DM Healthcare operates in multiple segments of the healthcare industry including hospitals, clinics and retail pharmacies. Company operates hospitals and clinics, pharmacies, diagnostic centers, educational institutions, healthcare management and healthcare support systems. Company provides healthcare services to patients across economic segments under brand names including "Aster", "Medcare" and "Access".

Aster's healthcare facilities consists 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. Aster's 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).

Aster's hospitals in India are located in Kochi, Kolhapur, Kozhikode, Kottakkal, Bengaluru, Vijayawada, Guntur, Wayanad and Hyderabad, and are generally operated under the Aster, MIMS, Ramesh and Prime brands.

Exhibit 1: Evolution of Aster DM



Source: Company, Angel Research

## Issue details

ADHL's IPO is a mix of offer-for-sale and fresh issue of shares. The issue would constitute fresh issue of shares worth ₹ 725cr, with offer-for-sale of 1.3cr shares. The company will dilute 7.6% of its post-offer paid-up equity share capital.

### Exhibit 2: Pre and Post-IPO shareholding pattern

(No. of share)	Pre-Issue	(%)	Pre-Post	(%)
Promoters	202,134,341	43.3%	188706090	37.4%
Others	264,935,110	56.7%	316521256	62.6%
	467,069,451	100.0%	505227346	100.0%

Source: Source: RHP, Note: Calculated on upper price band

## Objects of the offer

The objects of the Offer for the Company are to:

- Repayment and/or pre-payment of debt (₹ 564cr)
- Purchase of medical equipment (₹ 110cr); and
- General corporate purposes

## Key Risk

- Aggressive expansion plan would improve the revenue visibility which can pose upside risk
- Higher attrition of reputed doctors can have an impact on the financials
- Increase in competition from other players can impact the business of company
- High geographical concentration in GCC countries which can increase risks for company

### Consolidated Income Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
<b>Total operating income</b>	<b>3,876</b>	<b>5,250</b>	<b>5,931</b>	<b>3,123</b>
% chg	-	35.5	13.0	-
<b>Total Expenditure</b>	<b>3,370</b>	<b>4,804</b>	<b>5,599</b>	<b>2,944</b>
Raw Material	1,222	1,623	1,887	973
Personnel	1,154	1,629	2,055	1,128
Others Expenses	994	1,552	1,657	844
<b>EBITDA</b>	<b>506</b>	<b>446</b>	<b>332</b>	<b>178</b>
% chg	-	(11.9)	(25.5)	-
(% of Net Sales)	13.1	8.5	5.6	5.7
Depreciation & Amortization	144	243	322	174
<b>EBIT</b>	<b>362</b>	<b>203</b>	<b>10</b>	<b>5</b>
% chg	-	(44.1)	(95.2)	-
(% of Net Sales)	9.3	3.9	0.2	0.1
Interest & other Charges	79	189	354	89
Other Income	23	25	37	19
(% of PBT)	7.6	67.2	12.7	(28.4)
Exceptional Items	-	-	596.1	-
Share in profit of Associates	0	(1)	(0)	(0)
<b>Recurring PBT</b>	<b>306</b>	<b>38</b>	<b>289</b>	<b>(66)</b>
% chg		(87.7)	666.8	-
Tax	34	29	22	17
(% of PBT)	11.2	78.2	7.6	(25.0)
<b>PAT (reported)</b>	<b>272.1</b>	<b>8.2</b>	<b>266.7</b>	<b>(82.7)</b>
% chg	-	(97.0)	3,148.7	-
(% of Net Sales)	7.0	0.2	4.5	(2.6)
<b>Basic EPS (₹)</b>	<b>6.7</b>	<b>0.2</b>	<b>6.6</b>	<b>(2.1)</b>
<b>Fully Diluted EPS (₹)</b>	<b>6.7</b>	<b>0.2</b>	<b>6.6</b>	<b>(2.1)</b>
% chg		(97.0)	3,148.7	

Source: RHP, Angel Research

### Consolidated Balance Sheet

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	389	403	403	403
Reserves & Surplus	1,857	194	1,847	1,774
<b>Shareholders Funds</b>	<b>2,246</b>	<b>597</b>	<b>2,251</b>	<b>2,177</b>
Total Loans	901	3,162	2,807	2,957
Deferred Tax Liability	135	156	169	170
<b>Total Liabilities</b>	<b>3,282</b>	<b>3,914</b>	<b>5,227</b>	<b>5,304</b>
<b>APPLICATION OF FUNDS</b>				
<b>Net Block</b>	<b>1,785</b>	<b>2,037</b>	<b>2,767</b>	<b>2,966</b>
Capital Work-in-Progress	197	358	290	233
<b>Investments</b>	<b>3</b>	<b>39</b>	<b>22</b>	<b>26</b>
<b>Goodwill</b>	<b>452</b>	<b>470</b>	<b>753</b>	<b>750</b>
Current Assets	1,965	2,822	2,936	3,072
Inventories	311	411	526	543
Sundry Debtors	884	1,342	1,288	1,488
Cash	304	267	152	127
Loans & Advances	-	-	-	-
Other Assets	465	802	971	914
Current Liabilities	1,130	1,842	1,581	1,790
<b>Net Current Assets</b>	<b>835</b>	<b>980</b>	<b>1,355</b>	<b>1,282</b>
<b>Deferred Tax Asset</b>	<b>10</b>	<b>30</b>	<b>40</b>	<b>47</b>
<b>Total Assets</b>	<b>3,282</b>	<b>3,914</b>	<b>5,227</b>	<b>5,304</b>

Source: RHP, Angel Research

### Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1H FY2018
Profit before tax	306	38	(307)	(66)
Depreciation	144	243	322	174
Change in Working Capital	(490)	(681)	(154)	(89)
Interest / Dividend (Net)	0	7	0	0
Direct taxes paid	(22)	(34)	(44)	(22)
Others	298	629	549	126
<b>Cash Flow from Operations</b>	<b>236</b>	<b>203</b>	<b>366</b>	<b>123</b>
(Inc.)/ Dec. in Fixed Assets	(395)	(744)	(925)	(201)
(Inc.)/ Dec. in Investments	(53)	(42)	(228)	(56)
<b>Cash Flow from Investing</b>	<b>(448)</b>	<b>(786)</b>	<b>(1153)</b>	<b>(257)</b>
Issue of Equity	(395)	(744)	(925)	(201)
Inc./(Dec.) in loans	212	2422	876	155
Dividend Paid (Incl. Tax)	(17)	(49)	(16)	(7)
Finance charges paid	(80)	(89)	(174)	(92)
Others	482	(961)	887	202
<b>Cash Flow from Financing</b>	<b>203</b>	<b>578</b>	<b>648</b>	<b>56</b>
Inc./(Dec.) in Cash	(10)	(5)	(138)	(79)
Effect of exch diff on cash	9	10	16	(0)
<b>Opening Cash balances</b>	<b>248</b>	<b>248</b>	<b>253</b>	<b>131</b>
<b>Closing Cash balances</b>	<b>248</b>	<b>253</b>	<b>131</b>	<b>52</b>

Source: Company, Angel Research

**Exhibit 3: Key Ratios**

<b>Y/E March</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	28.2	933.0	28.7
P/CEPS	18.4	30.5	13.0
P/BV	3.4	12.8	3.4
Dividend yield (%)	0.0	0.0	0.0
EV/Sales	2.1	2.0	1.7
EV/EBITDA	16.1	23.4	30.3
EV / Total Assets	2.5	2.7	1.9
<b>Per Share Data (Rs)</b>			
EPS (Basic)	6.7	0.2	6.6
EPS (fully diluted)	6.7	0.2	6.6
Cash EPS	10.3	6.2	14.6
Book Value	55.7	14.8	55.8
<b>Returns (%)</b>			
ROCE	11.5	5.4	0.2
Angel ROIC (Pre-tax)	13.2	6.1	0.2
ROE	12.1	1.4	11.9
<b>Turnover ratios (x)</b>			
Inventory / Sales (days)	29	29	32
Receivables (days)	83	93	79
Payables (days)	41	48	48
Working capital cycle (ex-cash) (days)	72	73	63

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)Website: [www.angelbroking.com](http://www.angelbroking.com)**DISCLAIMER**

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and investment advisor with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.