

Healthcare

Bengaluru hospitals in top gear

Demand remains strong; managements remain optimistic

We recently made several site visits covering five flagship hospital facilities at Bengaluru. The units belong to the Rainbow Hospital (RAINBOW IN), HCG (HCG IN), Fortis Healthcare (FORH IN), Narayana Hrudayalaya (NARH IN) and Aster DM Healthcare (ASTERDM IN). Our visits reveal continued robust demand environment. New beds are getting occupied rapidly and new facilities are achieving break-even faster than originally envisaged. The region- and facility- level managements are bullish on demand and appeared confident the region can absorb a further increase in bed capacity.

More expansion plans

Managements reiterated timely commissioning of bed expansion plans already announced. But these plans do not end there as most managements are looking for land and existing infra in other areas of the city to add to their expansion plans. They also are open to M&A deals, especially where they can take over older, struggling hospitals.

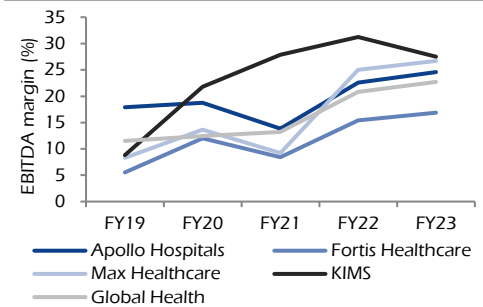
Draconian price control regime for private hospitals unlikely

While managements remain concerned about the recent Supreme Court directive on pricing regulation of healthcare services, they do not expect the government to implement a draconian price control regime that can hurt the private healthcare industry. At the same time, they expect some sort of price regulation to come into effect. Managements stressed the importance of promoting further penetration of health insurance as the key strategy for ensuring access to healthcare for all; price control on healthcare services is unlikely to achieve the same.

Compelling structural story but cautious on rich valuation

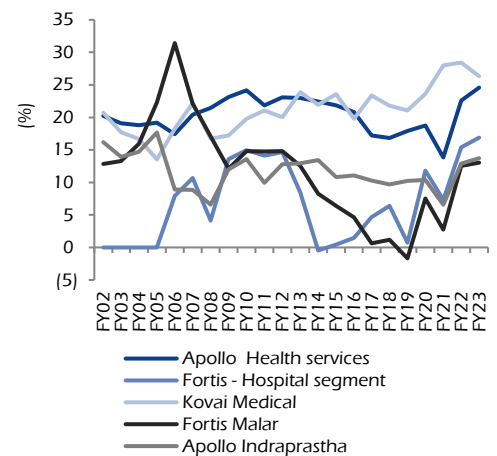
Although we do not see a major deterioration in momentum, we see softening of growth and margin in the next 2-4 quarters. In our view, all-time high valuations do not price this softening. Hence, we remain cautious as companies are likely to disappoint high growth expectations we believe are already built into the stock price. Among our coverage universe, we reiterate **Reduce** on **Apollo Hospitals** (APHS IN) and **Accumulate** on **Fortis Healthcare** (FORH IN). We retain **Buy** on **Shalby** (SHALBY IN), given relatively reasonable valuation.

Sharp expansion in hospitals margin during FY19-23



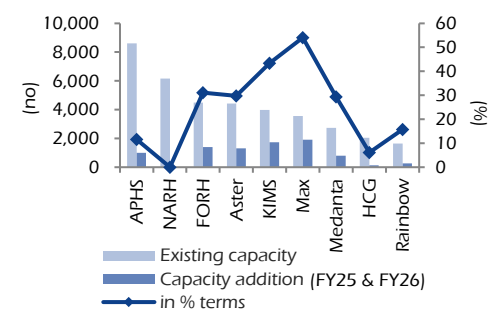
Source: Company, Elara Securities Research

EBITDA margin at a cyclical peak, but not high



Source: Company, Elara Securities Research

Large bed additions slated in the next two years (FY25-26E)



Source: Company, Elara Securities Estimate

Peer valuation

Company	Ticker	Rating	Mcap				TP Upside (%)	P/E (x)			EV/EBITDA (x)			ROE (x)		
			USD mn	CMP (INR)	TP (INR)	(%)		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Apollo Hospitals	APHS IN	Reduce	10,644	6,376	6,183	(39)	122.9	111.2	72.9	46.3	40.3	31.6	13.9	13.7	18.9	
Fortis Healthcare	FORH IN	Accumulate	3,669	409	488	19	60.8	52.7	42.2	26.3	23.8	20.9	7.4	7.1	8.3	
Shalby	SHALBY IN	Buy	345	243	364	50	57.3	39.2	28.6	23.4	17.4	14.0	7.7	9.6	12.1	
Aster DM Healthcare*	ASTERDM IN	NR	2,819	465	NR	NA	54.8	48.2	35.4	11.6	15.1	12.9	11.1	9.8	12.9	
Max Healthcare*	MAXHEALT IN	NR	9,036	852	NR	NA	67.7	57.8	48.1	33.9	39.0	32.1	16.1	15.7	15.8	
Global Health*	MEDANTA IN	NR	4,280	1,487	NR	NA	105.0	71.0	56.5	22.5	41.1	33.7	16.1	18.4	19.4	
Rainbow Healthcare*	RAINBOW IN	NR	1,593	1,280	NR	NA	62.3	58.7	47.7	18.5	31.6	26.6	25.4	19.0	19.7	
KIMS*	KIMS IN	NR	2,154	2,245	NR	NA	53.1	52.4	43.1	19.9	28.3	23.3	22.0	17.5	17.8	

Note: pricing as on 22 March 2024; NR: Not Rated, *Bloomberg for NR firms; Source: Company, Elara Securities Estimate

Rainbow Hospital

Management meet takeaways

Marathahalli

- The Marathahalli facility is the hub hospital while others are spoke hospitals at Bengaluru
- Occupancy of Marathahalli stands at 40% with total bed capacity of 165
- Management plans to increase occupancy by introducing In vitro fertilization (IVF) and a cardiac division in the facility
- It targets to reach at least 60% occupancy. At 60% occupancy, management expects better margin from the facility
- The facility has 45 neonatal intensive care unit (NICU) beds and five operating theatres (OT)
- The Marathahalli hospital has 64 doctors (41 permanent and 15 visiting facility) including reputed Pediatrician Dr Arvind Shenoy and reputed Gynecologist Dr Pravina Shenoy
- Around 60% of revenue in the Marathahalli facility comes from pediatrics while the rest is from obstetrics and gynecology (OBGYN)
- Pricing of Rainbow's Marathahalli facility is 10-15% higher than its local peers; at the group level, it takes a 6-8% pa price increase
- The facility generates significant annual revenue from international patients as well
- Pediatric outpatient-inpatient conversion is ~10% in the facility

Expansion plan

- Rainbow has several hospitals in the pipeline for Bengaluru, including Hennur (100-bed hospital) which should be operational by December 2024. Others will be added later on.

Other facilities

- Rainbow BG Road facility generates revenue of ~INR 800mn pa (with 60% of revenue from OBGYN and 40% from pediatrics). Facility has ~100 operational beds with a high occupancy and EBITDA margin
- The Sarjapur facility is new and is picking up fast – management is targeting quick Ebitda breakeven.
- For future facilities as well, the management is targeting break-even in the first year of operations

Healthcare Global Enterprise

Management meet takeaways

HCG Hospital

- Market share of HCG in oncology is ~32-33%
- New patients' registration is ~10% of total cancer occurrence in India
- Around 8-9% of HCG revenue is from international patients, and a considerable number are cash-paying
- Management is focused on referrals as sales activity as oncology is a referral business. HCG also has a marketing team primarily focused on digital branding.

HCG Center of Excellence (Bengaluru)

- HCG Center of Excellence (Bengaluru) is a 200-bed facility with has five towers and five outpatient departments (OPD) out of which two towers are self-owned and three are leased
- The facility has 100+ oncologists and generates ~INR 4,000mn revenue pa with ~29% EBITDA margin
- Patient footfalls in the facility are ~65% from Bengaluru, ~30% from other domestic regions and ~10% from international
- The facility is equipped with services, such as *Cyberknife* and *Ethos* (non-invasive treatment for cancerous and non-cancerous tumors) . None of the hospitals at Bengaluru have such facilities
- One sitting of *Cyberknife* costs ~INR 0.35mn, and overall cost of *Cyberknife* is ~INR 250mn. Apart from the HCG Center of Excellence, HCG (Colaba) has a *Cyberknife* machine. Other hospitals, such as Tata Memorial and AIIMS have linear accelerator (LINAC) technology, which is inferior to *Cyberknife*. Around 33% of *Cyberknife* revenue is from international patients
- *Ethos* is the first machine in India, which provides AI-based adaptive radiotherapy treatment. Its cost is ~USD 5mn
- Around 13-14% of facilities' revenue is from international patients
- Inpatient average revenue per operating bed (ARPOB) for the facility is ~ INR 0.12mn while ARPOB for daycare is INR 47,000

Other facilities

- HCG Ahmedabad facility generates revenue of ~INR 3,000mn pa out of which ~INR 1,500-2,000mn is from oncology. Revenue is driven by well-reputed doctors at the facility
- HCG Nashik and HCG Kolkata are set to be EBITDA positive in the near term
- HCG Indore is getting closer to break-even

Expansion plan

- There are two new hospitals in the pipeline at Bengaluru, which is likely to reach break-even in the two years after commencement of operations
- The payback period for a new HCG facility is ~6-7 years

Fortis Hospital**Management meet takeaways****Fortis Hospital on BG Road**

- There are 299 operating beds at the facility and this number can go up to 450. Occupancy is ~60%
- The facility has 45+ specialties. Thus, there is huge growth potential due to internal references
- Orthopedics and neurology are the biggest specialty contributors
- Net promoter matrix indicates patients' experience at the hospital. Fortis BG Road Facility registers one of the highest scores among FORH hospitals
- The BG Road facility has growth opportunity from tertiary and quaternary care. Around 5-6 bypass surgeries are performed daily. The hospital promotes high-end facility developed in-house i.e., robotics transplants & bypass, and specified oncology treatment
- Around 1,080 robotics surgeries (730 orthopedic and the rest under neurology, oncology, gynecology, and gastrology) were performed at the facility in FY23. With the same infrastructure, the hospital can ramp up to 2,500 robotics surgeries pa
- Robotics surgeries account for 10% of total number of surgeries; revenue-wise, it contributes 15% of overall hospital revenue. While transplants are 1% of total surgery, revenue contribution is ~2% of total revenue. Robotics surgeries reduce average length of stay (ALOS), accuracy is higher than normal, and prices are at par with normal ones
- The Fortis BG Road facility has a 50% market share of robotics surgeries at Bengaluru. Currently, insurance

companies do not cover robotics surgery, which is the biggest challenge facing the procedure

- Around 12% of revenue comes from international patients at the BG Road facility with 300 footfalls every month, which is one of the highest at Bengaluru. Most international patients are from the Middle East, and North & East Africa. Delhi FMRI contributes 30% of overall international patient revenue
- Surgery rates for the Fortis BG Road facility is ~5% higher than that at Apollo BG Road
- There is room for further growth from increasing occupancy
- Around 90% of doctors are full-time at the Fortis BG Road facility while 10% are visiting consultants

Health Insurance

- Bengaluru insurance penetration is ~25% of population
- Insurance contribution is ~45% of the PAYOR mix at the Fortis BG Road facility; post COVID, out-of-pocket cash patients have gone down. Insurance contribution is growing by 20% while cash contribution is up 2-3%. Around 10-11% of revenue and 15% of volume comes from government schemes. Ex-Servicemen Contributory Health Scheme (ECHS) receivables is 200 days while the Central Government Health Scheme (CGHS) receivables is 150
- Insurance companies have seen new insurance registration volume growth of 25% post COVID. Premiums have risen by 20%. But price of surgeries has not increased. Hospitals have not taken price hikes post COVID with concerns over losing volume
- Fortis BG Company has tied up with 25 insurance companies, out of which four are General Insurance Public Sector Association (GIPSA) companies. BG Road Fortis facility takes ~10% price hike from insurance companies every two years. In CY22, price hike was not taken due to COVID-19. Hence, it is possible in CY24. Around 13 private insurance companies have agreed to hospitals 15-20% price hike and the rest are in talks for a price hike
- The GIPSA share of Fortis BG Road is ~25% of total insurance i.e., 15% of total payor mix
- Delhi payor mix is ~30% from the government scheme due to higher number of government employees in Delhi

Narayana Hrudayalaya

Management meet takeaways

Narayana Hrudayalaya

- ARTICS (Kolkata), NICS and MSMC hospitals have 30% margin, and Mysuru has double-digit margin; Gurugram has mid-single digit margin. Dharamshila (New Delhi) has a double-digit margin, and Jaipur is 8-12%
- Three facilities ARTICS (Kolkata), NICS and MSMC contribute ~60% of overall EBITDA. If we were to add Caymen, then these four facilities would contribute 75%+ EBITDA for the hospital. Kolkata and Bengaluru will contribute ~82% of India EBITDA
- Jamshedpur, Guwahati, Dharamshila are rented. while Jaipur, Kolkata, Bengaluru cluster, and Ahmedabad facilities are owned
- NARH ROCE is high because most facilities are rented. Renting a business is complicated. Rented hospitals have a revenue-sharing of ~8-10% going to the owner of the building along with the monthly rent. Thus, management wants to enter Greenfield expansion, as it believes Greenfield expansion will be a growth driver
- Management is not focused on margin expansion; it is focused on cost reduction; it does not want to reach 25% margin unless the overall industry starts clocking in 30% margin

Bengaluru facility

- Healthcare City has a capacity of 1,400 beds (800 beds are NICS, and 600 are MSMC (includes 125 beds for the Sparsh Trauma center) at the facility
- MSMC caters to specialties other than cardiac (600 beds including 125 Sparsh beds dedicated to orthopedics
- Occupancy at the Bengaluru facilities is ~75-80%, while pan-India is ~60%
- At the Health City campus, additional land is available for bed expansion and 400,000 sq ft buildup is free for infrastructure development; management expects to see a 50% increase in footfalls and capacity. This land is owned and it was bought at market rate
- 10-13 pediatric heart surgeries and 30-35 adult heart surgeries are performed every day at NICS. Last year, NICS performed 2,700 pediatric heart surgeries with a 2-3% mortality rate. Rainbow Hospital at the group level performs 600 heart surgeries every year. Also, 140 (ECHMOS) are done every year at the facility

- NIHC has 10 pediatric cardiologists and 30 adult cardiologists. The facility has one nurse for every sick patient and one for every 2 semi-sick patients
- Cash patients vs insurance patients are charged ~INR 0.5mn for cardiac surgeries vs INR 0.12mn for schemed patients
- The Bengaluru cluster has a capacity of 1,500 beds
- ARPOB is ~INR 40,000 pan-India, ARPOB is higher at Bengaluru among the NH Group hospitals, Bengaluru and Kolkata do more advance surgeries than other NH Group hospitals
- The PAYOR mix for the facility is 15-20% for international patients, 9-10% government schemes and the rest are cash plus insurance
- NH does not pay referral fees to doctors
- Revenue per bed is 15-20% higher at Bengaluru. Revenue per bed pan-India is INR 120mn

International patients

- Pan-India international patient contribution is 8% to NH revenue, and 80% of international patients are from Bangladesh. Pricing for international patients is the same as domestic. Billing is done in US dollars
- ARPOB for international patients is the same as that of domestic

Comments on CGHS

- NARH management is not expecting any major fallout of the recent Supreme Court directive on price regulation in Healthcare services.
- Central and state governments are not in support of a Uniform CGHS Rates Scheme
- The Central government is likely to reply to the Supreme Court on 15-20 April
- There is no communications between the Central government and hospitals bodies as on now
- Capping of some product prices is a possibility, but capping of overall surgical rates is not possible; if capping were to happen, quality would go down

Other NH facilities

- NH Kolkata cluster has 1,000 operational beds
- In the past five years, NH expanded everywhere except at Bengaluru and Kolkata; management focus is to expand there. For the same, NH has bought land in Kolkata for INR 1.75bn. All regulatory hurdles have been cleared, and construction is expected to start in the next 4-5 months

- The Mumbai hospital sees higher pediatric patients. In FY25, management expects the facility to become EBITDA positive
- Occupancy for the Mumbai, Gurugram and Jaipur facilities is ~60%
- Around 30% of hospitals total OPD is contributed by the Bengaluru facility while 24% hospitals total IPD is contributed from the Bengaluru facility

Pricing and insurance scenario

- NH has its rate card available on its website (which is for cash patients), Few competitors list their rate card on their website. There might be price fluctuations mentioned in the rate card based on the complication of the surgery
- NH cost of surgery is the cheapest among comparable hospitals
- NH takes a 3-5% price hike every year, which is updated every 1 January
- Pricing with insurance companies is negotiated every two years. They see a 5-7% price increase from insurance companies for every two years
- The procedure cost for cardiac surgeries is similar to that of other hospitals but billing cost to the patients NH will be 20% lower than MAX hospital or Apollo Hospital

Clinics and insurance

- Management has decided to invest INR 3,000mn on clinic and insurance over the next three years, out of which INR 1,500mn has been already spent
- Eight NHIC (clinics) around 1,000 sqft each have been set up, and management is further planning to add another eight. Currently, these clinics are in the vicinity of Bommasandra area in Bengaluru. INR 80mn is invested every quarter in this segment of business
- NHIL (insurance): Insurance business will start at Mysuru hospital then will be expanded to Bengaluru hospitals. Experienced insurance industry veterans have been recruited and put in charge.
- Break-even in clinics and insurance businesses is expected to be in the next three years
- In case of NHIL and NHIC do well in Karnataka, Mysuru then management plans to expand in Kolkata followed by Delhi.

Cayman Islands

- Management is looking for assets in Caribbean Island, and it has already explored assets in the Bahamas but things have yet to materialize. It is difficult to set up a Greenfield facility in the Caribbean Islands as doctors have a strong hold in the region. Opportunities are being looked at in the UK as well
- The Caymans was successful because it is British colony and rules are stringent there
- Aster tried to enter the Caymans, but things did not materialize as planned as margin of the new entrants is not so lucrative to invest in that region
- In the Caymans, most patients are from Cayman and nearby regions, while patients inflow from US is rare
- In the Cayman, everyone has insurance, and 2-3 companies have a major chunk of insurance enrolment
- Surgery pricing here is similar to the US
- Most doctors and Nurses in the Caymans are from India
- Most treatments in Cayman is daycare, the trend is similar to that of the US
- Cayman's occupancy is ~50%. The addition of a new facility is done for exploring into other specialties, and the location of the new hospital is near the affluent.
- The specialty mix in Cayman is spread symmetrically; for eg, cardiology, nephrology and gastrology are ~15%
- Initial capex to set up the Caymen Hospital was provided from Narayana India; post that, it is self-sufficient so setting up of new hospital is funded by Cayman Islands only

Expansion plan

- NH is planning to buy land at Bengaluru for a Greenfield expansion. It is already investigating a few prospects for buying land there (land explored at Whitefield, South Bengaluru and Central Bengaluru)

Aster Hospital

Management meet takeaways

Aster CMI Hospital

- The Aster CMI facility is the second-biggest facility after Kochi; Aster is the third-largest healthcare provider at Bengaluru
- The Karnataka cluster has ~1,000 beds, and the Aster CMI facility has 500
- The PAYOR mix at the CMI facility is 65% of revenue from the credit facility, and 35% is from cash patients
- It performs 35 robotic surgeries every month at the CMI facility. Management says robotic surgery is covered by insurance, which started in the past few months. The cost of robotics is expected to go down next year as cost of robots is expected to fall below INR 50mn
- The CMI facility did break-even in 18 months and the Whitefield facility broke even in three months
- The specialty mix is spread for the CMI facility. Niche specialty (cardiology and neurology) contributes ~56% for pan-India Aster setup; management aims to reach 60% in the near term. The Kochi and Bengaluru specialty contribution is ~70%
- ARPOB for the facility is ~INR 70,000
- Bengaluru, Kochi and Kozhikode facilities contribute ~55% of total hospitals EBITDA
- Average nurse cost at Bengaluru is ~INR 25,000-35,000
- The Whitefield hospital is a concept maternity hospital and does 120 deliveries every month. Management is adding another 150 beds in the facility

Kerala Hospital

- Aster is a dominant player in Kerala with ~2,000 beds
- Kochi Medicare Hospital broke even over 18 months post commencement of operations. Kannur opened in CY17 and started with an occupancy of ~80% in six months post commencement of operations even facility was EBITDA positive within six months
- Kerala is 70% cash-paying market, North Kerala is ~82% cash-paying market. It expects cash payment to go down and insurance is rise in the near term
- Kerala has good healthcare facilities provided by government and non-profit organizations: for quaternary care, people used to go to Coimbatore, Mangalore, and Bengaluru. During COVID, the government hospitals took over COVID cases and other cases were transferred to other multispecialty hospitals. Thus, it is making an entry as a multispecialty hospital in Kerala

- Aster has a 50% market share in Kerala
- Kerala's blended EBITDA margin is ~21.5%; Medcity facility is at 17% while Kannur is at 25%
- Cost of operations in Kerala is 5% lower than at Bengaluru

Other hospitals

- Kolhapur has a population of ~1.5mn. Aster Kolhapur facility has quaternary care and is a self-owned
- Tirupati Hospital beds can be expanded by another 100, thereby making it a 250-bed facility
- Management may drop the Aster KLE Plan and another 500 beds can be added in the existing CMI facility
- Most international patients pay in cash; they prefer Delhi due to ease of travelling to Delhi and presence of an embassy there
- Tamil Nadu is an expansion region. A 500-bed hospital can be easily set up as there are cities with population of more than 3mn
- Andra Hospital FY23 margin dipped due to high base. Around 36% of revenue comes from the cardiac specialty. It has a blended margin of ~10%; and in the next three years, it can clock in a 15% margin
- Insurance companies give different discount rates to hospitals based on the footfalls of patients

Growth plan

- Corporate-level margin is ~17%, and growth opportunity is expansion in bed capacity; clinic is ~20% margin
- Cost efficiency: cost of materials is 21%, down from 25% in the past year; reduction in labor cost per bed can be achieved by increasing occupancy
- Growth driver is to penetrate into secondary and tertiary care in Tier III & IV cities; quaternary care is available in Tier I and II cities

Other business

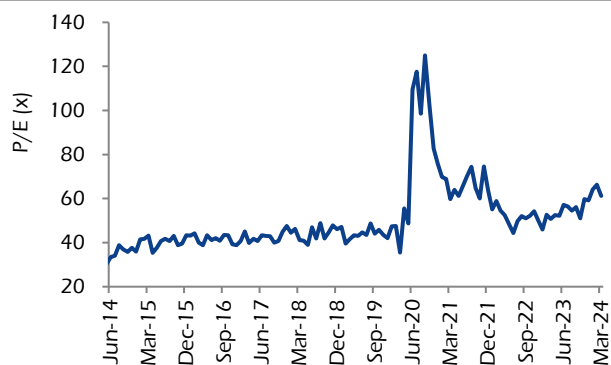
- The pharmacy business could break-even in the near future. Revenue per day from every pharmacy store is ~INR 12,000-13,000 while cost for settling a pharma store is ~INR 6.0mn for Aster
- The lab business achieved break-even in FY23

Expansion plan

- Bulk of the expansion plan is happening in existing cluster ex-Kerala and Bengaluru
- Most expansion will be in existing hospitals. Overall expansion is on track

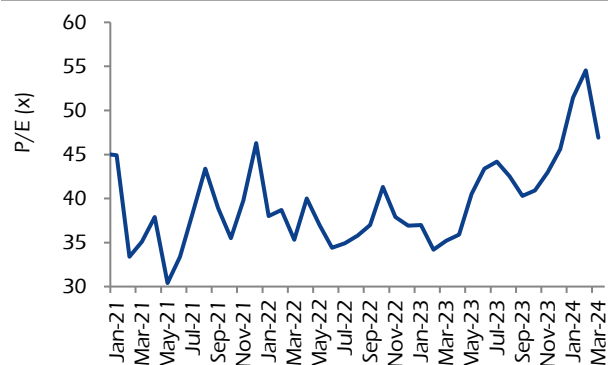
One-year forward P/E of major hospital companies

Exhibit 1: APHS one-year forward P/E chart



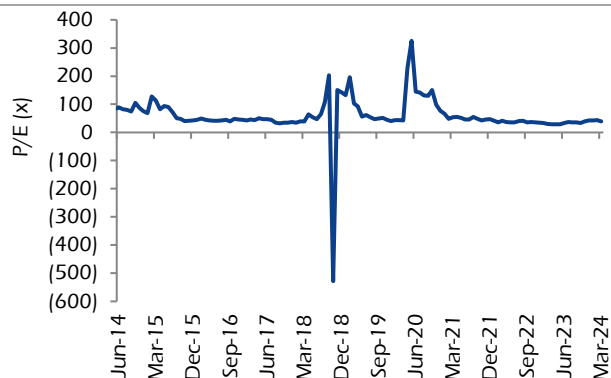
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 2: MAXHEALT one-year forward P/E chart



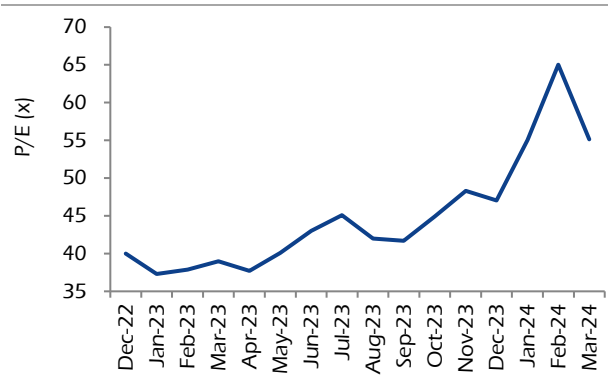
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 3: FORH one-year forward P/E chart



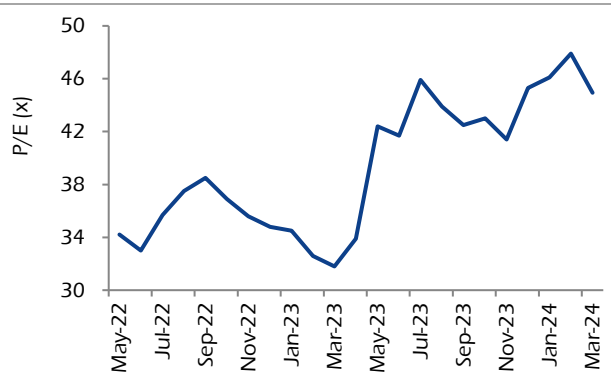
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 4: MEDANTA one-year forward P/E chart



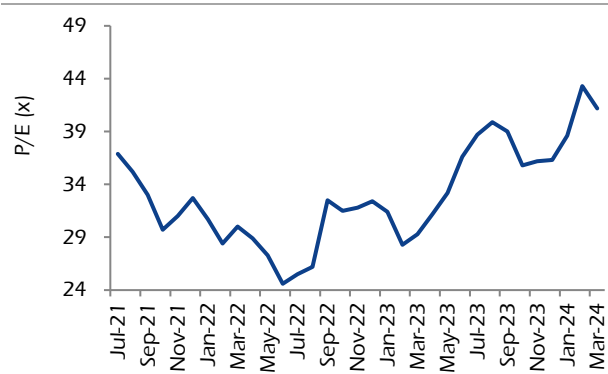
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 5: RAINBOWI one-year forward P/E chart



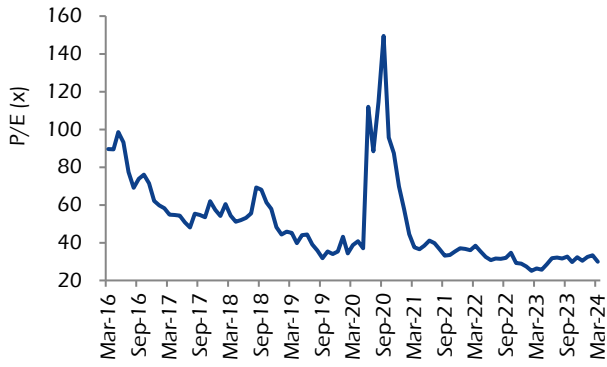
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 6: KIMS one-year forward P/E chart



Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 7: NARH one-year forward P/E chart



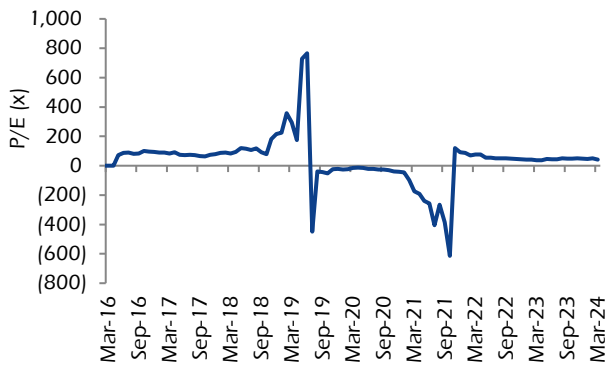
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 8: ASTERDM one-year forward P/E chart



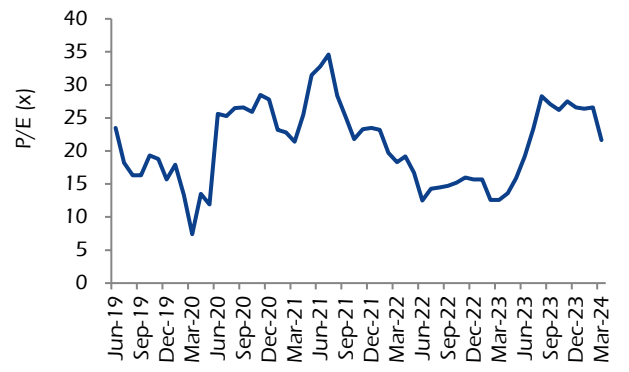
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 9: HCG one-year forward P/E chart



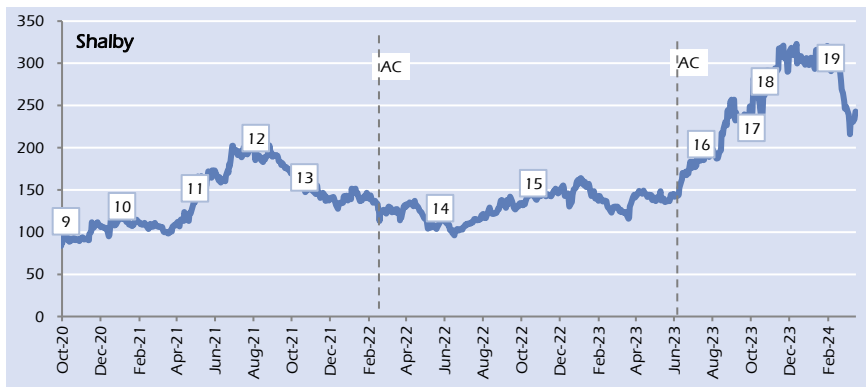
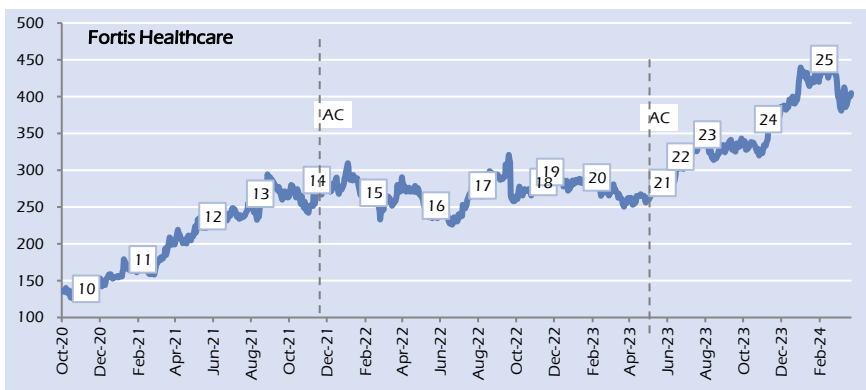
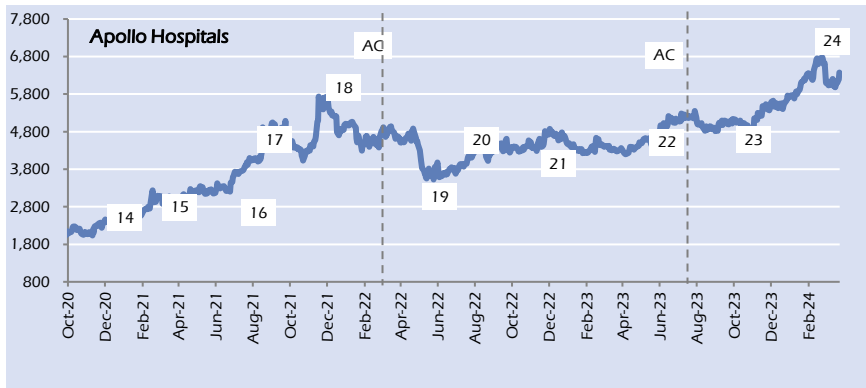
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 10: SHALBY one-year forward P/E chart



Source: Bloomberg, Company, Elara Securities Estimate

Coverage History



Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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