Global Markets Research

Healthcare

NCR hospitals on adrenalin

Hospitals at full occupancy; managements remain optimistic

Our site visits of six flagship hospital facilities in the NCR (belonging to Fortis Healthcare (FORH IN), Max Healthcare (MAXHEALTH IN), Indraprastha Medical Corporation (IMC IN), Yatharth Hospital [YATHARTH IN], Global Health (MEDANTA IN) and Artemis Health (ARTMSL IN)) reveal continued strong demand environment. All these facilities were crowded with patients and almost all beds were occupied. The management personnel, across levels, were very bullish on the demand environment and exuded confidence that the region can absorb any sort of increase in bed capacity.

Pushing ahead with major expansion plans

Top management of respective companies continue to share a bullish outlook. They have major expansion plans in NCR as well as other regions. While MAXHEALTH and MEDANTA reiterated their plans with specifics, others talked about significant expansion plans in terms of bed capacity. None seemed concerned about filling up new bed capacity – they sound confident about a rapid pickup in new beds occupancy and break-even of new facilities in a year's time.

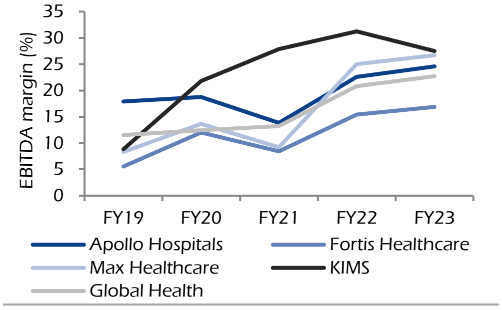
No envisioning of draconian price regulation

While management remain concerned about the recent Supreme Court directive on pricing regulation of healthcare services, none expect the government to implement a draconian price control regime that can kill the private healthcare industry. At the same time, they expect some sort of price regulation to come into effect. All say the current social responsibility commitments are being fully met in terms of reserving beds for the economically weaker sections (EWS). Even the currently reserved beds are not fully occupied.

Our view: retain our cautious stance on high valuation

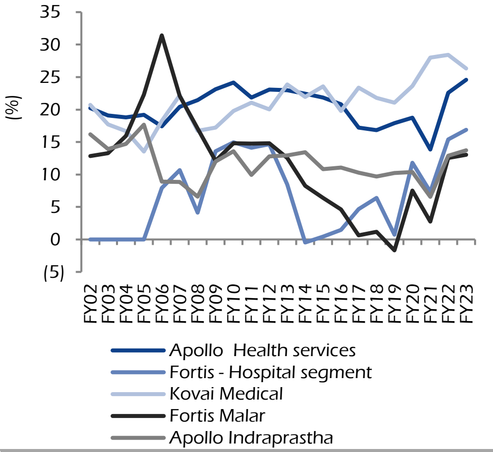
Although we do not see a major deterioration in strong momentum, we see softening of growth and margin in the next 2-4 quarters. In our view, all-time high valuations do not price this in. Hence, we remain cautious as companies are likely to disappoint strong growth expectations that we believe are built 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



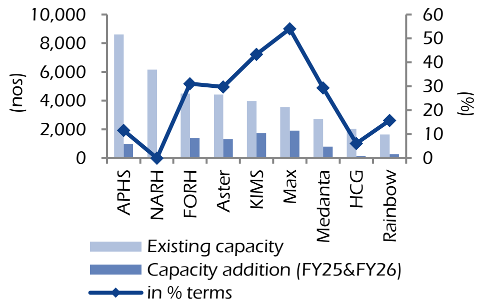
Source: Company, Elara Securities Research

EBITDA margin at a cyclical peak, but not unusually high



Source: Company, Elara Securities Research

Large bed additions slated in the next two years



Source: Company, Elara Securities Estimate

Key financials

Company	Ticker	Rating	Mcap	CMP	TP	Upside	P/E (x)			EV/EBITDA (x)			ROE (x)		
			USD mn	(INR)	(INR)	(%)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Apollo Hospitals	APHS IN	Reduce	10,599	6,134	6,183	1	99.2	66.8	66.7	38.5	30.2	29.0	13.7	18.9	16.2
Fortis Healthcare	FORH IN	Accumulate	3,660	403	488	21	55.5	44.4	34.7	25.1	22.0	18.7	7.1	8.3	9.7
Shalby	SHALBY IN	Buy	345	265	364	37	32.3	24.7	21.1	15.7	12.6	11.0	9.6	12.1	12.8
Aster DM Healthcare*	ASTERDM IN	NR	2,797	468	NR	NA	48.2	35.4	27.2	15.1	12.9	11.2	9.8	12.9	14.4
Max Healthcare*	MAXHEALT IN	NR	8,998	770	NR	NA	57.8	48.1	38.5	39.0	32.1	25.7	15.7	15.8	17.0
Global Health*	MEDANTA IN	NR	4,262	1321	NR	NA	71.0	56.5	45.6	41.1	33.7	28.0	18.4	19.4	20.0
Rainbow Healthcare*	RAINBOW IN	NR	1,588	1,301	NR	NA	58.7	47.7	38.4	31.6	26.6	22.2	19.0	19.7	20.4
KIMS*	KIMS IN	NR	2,145	2,231	NR	NA	52.4	43.1	36.7	28.3	23.3	20.0	17.5	17.8	17.4

Note: pricing as on 1 March 2024; NR: Not Rated, *Bloomberg; Rating & TP as per our last published report; Source:, Elara Securities Estimate

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Fortis Healthcare

Management meet takeaways

FMRI facility

- Fortis Memorial Research Institute (FMRI) facility has five categories of rooms and is currently going through 21 beds of Brownfield addition and 200 beds of semi-Greenfield expansion.
- It has strong occupancy and an average revenue per operating bed (ARPOB) is at ~INR 90,000
- Currently the international patient contribution stands at 33%
- Oncology mix for FMRI is about 22-23%

Low margin hospitals

Currently, there are five hospitals that are laggards in terms of margin and operational metrics of which it has divested two, namely Malar and Arcot. The other three hospitals include FEHI, Fortis Jaipur and Fortis Vashi

FEHI

- FORH acquired the Fortis Escort Heart Institute(FEHI) hospital from the Nanda family in 2005, which earlier was registered as a Trust; subsequently, the status was changed to company (before sale)
- Delhi Development Authority (DDA) is the counter-party that claims the conversion is illegal. It also claims the facility is not following its EWS commitment of 25% against which it was fined INR 5bn
- Due to legal overhang, the company is not investing much; hence, its medical infrastructure is weak compared to group facilities
- However (post clearance of legal issues), it sees a sizeable opportunity in FEHI as it has an adjacent building, which can be utilized for bed expansion (600-700 beds)
- Currently, it is generating 10% EBITDA, which management says has scope to improve further by 200-300bp. However, improvement will be gradual
- The company does not intend to divest FEHI
- Management is focused on improving operational performance for which it is adding specialties, namely heart, gastro and orthopedic
- Currently, FEHI is operating at 70& occupancy
- It has taken active steps to change the payor mix

Jaipur hospital

- Fortis Jaipur is facing issues due to the State government policy, which includes providing services to any patient at rates lower than the Central Govt. Health Scheme (CGHS)
- It also does not have the oncology specialty, which is one of the leading specialties in terms of growth
- Management feels by commissioning the oncology division, it can upscale margin by 500bp to 15%
- Currently, it is servicing 25% of patients via this scheme

Fortis Vashi

- The Vashi facility is operating at a 5-6% EBITDA margin with occupancy at 60%
- Management targets occupancy of 75%, which it can expand by 1,000bp
- The facility is facing a legal issue and the counter party is City & Industrial Development Corporation (CIDCO)
- It also faces intense competition from Apollo Hospitals

SRL Diagnostics

- The Delhi Mohalla Clinic issue has led to a one-time provision of INR 180mn in Q3
- Withdrawal of the proposed Agilus IPO was due to delay in approval by SEBI
- The company also incurred legal expenses due to brand change of INR 110mn, which it expects to continue in FY25, post which there will be a decline
- Brand change has led to lower addition of collection centers, resulting in a significant decline in revenue
- The company expects business to stabilize during Q1-Q2FY25

Capacity expansion timeline

- A 50-bed expansion at the Faridabad facility is expected to be completed by June and commercialization by September 2024
- The Noida facility expansion of 170 beds is set to be completed in the next year
- In the next 18 months, the FMRI facility is set to expand capacity by 250 beds
- The company looks to add 2,000 beds in the next five years
- It aims to incur a capex of INR 12.5mn/bed for its planned 2,000-bed addition

Shalimar Bagh

- The Shalimar Bagh facility at Delhi offers all specialties and is operating at a 25% EBITDA margin

Guidance

- Management targets 11-12% of revenue growth in the next 3-4 years
- New bed expansion will be significantly in oncology
- Overall, management wants to double its oncology specialty contribution from the current 10-11% to 20-22%
- The company expects medium- to long-term ARPOB growth of 5-6%
- It looks for annual price hikes in the range of 2.0-2.5% on a consolidated basis

Specialty mix

- Management is focused on strategies in oncology, neurology, gastroenterology, and cardiology
- Currently, super specialties contribute 61% of revenue and management is working to increase its contribution to 64-65%

Fortis Mulund

- Fortis Mulund is operating well and expected to achieve its internal target. Currently, the facility is operating at a 22% margin

O&M model

- O&M Hospital K Raheja is not contributing much to revenue and profitability
- Under the agreement, FORT earns an annual licence fee of INR 100-150mn
- The company is not looking to expand in the O&M model

Global Health

Management meet takeaways

Medicity Gurgaon

- Medicity Gurgaon treats 20,000 international patients annually and has 10% revenue contribution from international
- On the group level, the share from international patients stands at 6%
- Realization for cash and international patients is similar; hence, management is not aggressively pursuing international patients
- Management feels 72% is peak occupancy for Medicity
- Management took the last price hike at Gurgaon in January 2023
- On the current premises, it has land available which has potential to add 1,000 beds
- The facility has a 5% EWS quota

Patna facility

- Patna facility has CGHS obligations of 25%, under which the subsidy amount is paid directly by the State government.
- The CGHS rate is at 60-65% of cash rate

SC observations

- The company does not expect any stern action based on the Supreme Court's comments on the PIL based on rate regulations
- The company expects the government to issue voluntary guidelines with regards to pricing and volume improvement

Industry outlook

- In the past 1-2 years, Medanta has not undertaken any significant price hikes and bulk of growth was driven by volume
- Management sees margin stabilizing in the range of 23-25% for the healthcare industry overall

Lucknow

- Earlier, the company saw strong volume traction from Lucknow in its existing facilities, making a case for management for operationalizing a hospital at Lucknow
- The Uttar Pradesh Government's COVID directives of converting all government hospitals into COVID facilities during COVID led to strong volume gains for other specialties at the Lucknow facility
- This facility is built on private land; hence, it has no provisions under CGHS and EWS

Max Healthcare

Management meet takeaways

Drivers for growth

- Increased insurance penetration, rising health awareness, uptick in urbanization leading to strong demand, and low bed addition in the previous decade proved to be an added advantage for the existing firms with good capacity
- Improvement in technology and operational efficiency have led to cost savings, resulting in a positive impact on margin

- COVID has led to reset of cost structure, resulting in an overall increase in magnitude and frequency of price hikes
- Good connectivity has contributed to occupancy growth

Price hike

- Annually, MAXHEALTH takes price hikes of ~5% on the services component, which on an overall basis dilutes to 2.0-2.5%

ARPOB

- Management expects ARPOB to grow in the range of 8-10% on a conservative basis
- Price hikes and increase in OPD cases have been key drivers for ARPOB growth

Trends

- MAXHEALTH sees good traction for requirement of single beds. It has converted many twin-sharing beds into single beds
- The company is reconfiguring the intensive care unit (ICU) and shifting laboratories out of the hospital primarily for creating space for operating theatres (OT)
- Occupancy for twin beds stands at 68-70% across hospitals
- ARPOB differential will be close to 20% between single bed and twin-sharing

Sahara facility oncology department

- Management sees significant scope for expansion in the Sahara Hospital oncology share. Currently, the share is less than 2%
- It plans to upscale it to group-level oncology share in the medium to long term

Medical talent hiring

- In terms of hiring, MAXHEALTH is seeking younger doctors
- Under its doctor-centric approach, it works to provide strong medical infrastructure and other facilities, easing a doctor's work
- The company has created a position of Directorate for Medical Services, primarily to assist doctors with medical issues
- A majority of doctors at MAXHEALTH are full-time staff barring 10-12 at the Nanavati facility and doctors in categories, such as dental and psychiatry

Insurance companies

- Insurance companies usually get a ~10% discount on treatment cost compared to cost for cash patients

Nagpur facility

- The Nagpur facility is more of a medical hospital than a surgical one
- It is currently looking to add new oncology setups to increase its oncology share
- MAXHEALTH targets to hire 8-10 doctors by end-FY25
- In terms of revenue scale, it expects it to be similar to the Dehradun facility
- Management targets a monthly run-rate of INR 250mn with a monthly EBITDA run-rate of INR 80-90mn
- Currently, 96% business is cash and Third Party Administrator; the company is prioritizing changing its mix

Specialty focus

- Management sees oncology, neurology, and cardiology to be key specialties in terms of growth

Expansion update

- The Nanavati expansion progress is on schedule
- Transplantation is under process for the *Saket* (smart) facility
- Management expects to set up Sewage Treatment Plant(STP) and Waste Treatment Plant (WTP) at the *Saket* facility in the next 11 months
- Approval process for the Vikrant facility is ongoing, and it is currently awaiting environmental clearance
- Management targets to add 1,400 beds at the *Saket* facility in the next 6-7 years

Break-even timelines

- Management expects the Greenfield Dwarka facility to take 11 -12 months to break-even on assumption of a 56% occupancy rate
- Pre-COVID breakeven used to be 18 months
- Management expects the Brownfield facility to achieve break-even in the next 4-5 months

Artemis Health

Management meet takeaways

Apart from the multi-specialty hospital at Gurugram, ARTMSL operates in three segments: 1) Daffodils (women and child care), 2) Artemis Cardiac in JV with Phillips, and 3) Artemis Lite.

Artemis Cardiac Care Centre

- Under Artemis Cardiac Care, the company sets up Cath labs in hospitals and locations where the specialty is not available
- Cardiac centers operate on a revenue sharing model; the percentage share with the other party is in the high single digits
- These centers are operating at break-even and cost effective

Daffodils

- Daffodils currently has 100 beds across three cities in North India
- Investment required to set up a center is INR 50mn
- As per management, the model provides the best EBITDA margin across the Group at 22%

Artemis Lite

- The model is similar to Apollo Spectra model where it tries to bridge the gap between the family physician and tertiary care

Capex plans

- Post this expansion, the company is looking to target tier III cities in the Uttar Pradesh region
- It expects to fund its organic expansion through internal accruals

O&M

- The company earns a fixed management fee from its O&M operations at Mauritius

Margin

- Margin expansion was due to economies of scale led by commercialization of Tower 3

Hospital business

- Treatment prices under the Ayushman Bharat scheme are 45-60% lower than cash patients depending on specialties
- Standalone multi-specialty margin is close to 18%
- Prices of ARTMSL are similar to Medanta Medicity
- Health consciousness, high insurance penetration, medical value tourism, connectivity, growing middle class, increasing urbanization trend are key growth drivers
- Volume trends are expected to continue in the medium to long term
- Post COVID, smaller nursing homes cater largely to scheme-based patients
- Domestic patient is 75% of total count under which 80% is from Gurgaon and the rest from UP & other adjacent cities
- International share is in the range of 25-30%
- Bed allocation for the Ayushman Bharat scheme is at 10% for the Gurgaon facility

Guidance

- The company is actively working to enhance its capacity by 1,000 beds in NCR over the next three years (750 beds in the hospital division and 250 via other asset light models)

Yatharth Hospital

Management meet takeaways

International division

- The company has hired 50% of Artemis Hospital international team. It is expected to provide a strong connect with facilitators for ramping its medical tourism volume
- Commission for facilitators is in the range of 20-35%
- Management has applied for Joint Commission International (JCI) accreditation for Noida extension facility, The certification is expected to provide strong branding
- It expects to receive accreditation within 4-5 months post audit of the facility
- The Jewar Airport is set to be key lever in terms of volume growth for international patients

Radiology

- The company is ready with the radiology setup and targets commercialization in March 2024

Robotics

- The company currently has 4-5 doctors who are *Da Vinci* robotics certified
- Cost differential between robotics and manual surgery is close to INR 100,000-150,000
- Benefits of robotics surgery include reduction in the hospital-induced bacterial infection

- Reduction in Average length of stay(ALOS) and lower wastage of medical consumables resulting in overall decline in medical cost

Room tariff

- The company's tariff structure is in the range of INR 3,500-25,500

Key growth drivers

- Insurance penetration has risen significantly in the tier II & III cities
- Demand for quality healthcare has risen in the post COVID era, and this is a long-term trend
- Improvement in connectivity has led to easy patient movement; currently, the facility attracts significant patient pool from nearby cities (~ 100-200km)

Key specialties

- Pricing differential compared to big companies, such as MAXHEALTH and MEDANTA is close to 15-20% in major specialties
- Cardiology, nephrology and neurology stand as key specialties in terms of growth
- Contribution from super-specialties is ~60% for the Noida extension facility
- Management's medium- to long-term vision is to expand contribution of its oncology division from the current 11-12% to 25% post commercialization of the radiology division

Medical talent

- Compensation to doctors is similar that of major firms, which includes a fixed amount plus a variable model (35-40%) of revenue
- The attrition rate for super-specialty doctors stands at 10% and is significantly lower than that for junior residents

Guidance

- Management targets to scale up ARPOB for its Noida extension facility from the current INR 32,000-33,000 to INR 45,000 in the next 2-3 years
- Management expects the Noida Hospital (mature) to grow in the range of 9-10% while for the Noida extension (new) in the range of 25-30%, primarily driven by case mix

Capex plans

- Management plans to double capacity in the next three years under which it plans to commercialize 200 beds at Faridabad, 200 beds at Greater Noida, another 250 beds at the Noida extension facility and the rest (800 beds) through the inorganic route
- The company is currently exploring 2-3 inorganic opportunities at Delhi and hopes to execute one acquisition by H1FY25
- The payback period for the facilities under YATHARTH is closer to 3-4 years
- Apart from Noida, the company sees potential at Faridabad and Ghaziabad

Faridabad acquisition

- Management expects to incur an additional INR 400mn for medical equipment infrastructure apart from the Faridabad acquisition cost of INR 1.2bn
- It expects to commission the hospital at the beginning of FY25

Margin

- Despite inorganic expansion, management expects to sustain EBITDA margin, primarily driven by the case mix and ramp-up in occupancy & international volume
- Growth in ARPOB of 70% is driven by case mix and the rest by price hikes

Debt

- Management will raise debt for executing acquisitions in the next three years, but debt is expected to be short term in nature, and it does not intend to cross its pre-IPO debt of INR 2.5bn

Indraprastha Medical Corporation

Management meet takeaways

Specialty and payor mix

- IMC caters to all specialties of which transplants share is ~17-18%, oncology at 15%, cardiac at 11-12%, and neurology & orthopedics at 10% each
- The payor mix is 32-33% cash and 31% insurance
- It has 12% corporate (PSU) and international patients at 22%

International business

- Major international business is from Nigeria, Kenya, and Southeast Asian countries
- ARPOB for international patient is double that of domestic patients
- International margin is slightly better than the domestic business, primarily due to referral charges to the home country doctors
- Referral fees to facilitators is in the range of 15-30%

Margin

- Margin are adversely affected due to EWS obligations, which is currently capped at 33% for In-Patient Department (IPD) and 40% Out Patient Department (OPD)

Capex

- Currently, the hospital is based on a land parcel of 15 acres of which nearly 50% is under-utilized; the under-utilized parcel has the potential to add 1,200 beds
- The company is working on a phase-wise expansion under which it has laid out a plan of 300 beds addition in the next 2-3 years
- Overall expansion of 300 beds to cost ~INR 5bn, which will be partly funded through debt and & internal accruals either (50:50 or 70:30)
- The company has the option to buyout government stake, but it looks difficult

Key drivers for growth

- Post COVID, the company has seen meaningful change in the category mix (for eg, room and other service requirements)
- Higher insurance penetration has been one of the key drivers of ARPOB growth

Hospital business

- IMC tariff structure is similar to that of MAXHEALTH and MEDANTA; minor differences are attributed to different specialties
- Management takes price hikes of 5-10% annually to offset medical cost and other expenses
- Pharmacy cost is 18-20% of total cost
- Although competition has made significant bed capacity additions, management sees no increased competitive pressure as the disease incidence percentage is growing at a faster rate
- Occupancy currently is at 70% which management can scale up to 75-78%
- ARPOB is around INR 62,000 (ex-pharmacy); including pharmacy, revenue ARPOB levels are at INR 78,000

Doctor empanelment

- IMC has empaneled doctors at variable compensation under which the concerned doctor is paid 18-27% of bill amount as share
- Most doctors are full-time consultants
- There is no concept of minimum compensation for doctors except for newly hired doctors who are established and that too is available for six months to one year
- The attrition rate for nurses stands at 45%
- The company added 10-12 new doctor consultants in the past year

Post COVID trend

- Post COVID, the company sees a trend that major scheme patients are being catered by small nursing clinics
- Post COVID, it has seen a sharp rise in cardiology cases particularly in the age group of 30-40

Oncology

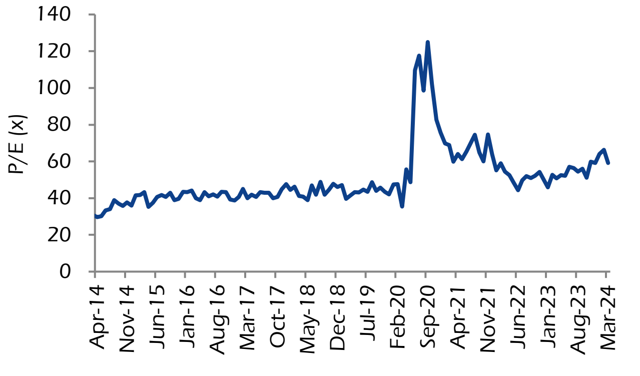
- The company has onboarded new oncology specialists and has refurbished a part of the facility aimed at oncology expansion
- The company aims to execute one CAR-T therapy in FY25

Tariff structure

- Tariff for the deluxe room is ~INR 19,000/day while the Suites cost ~INR 40,000/day; it is at par with peers

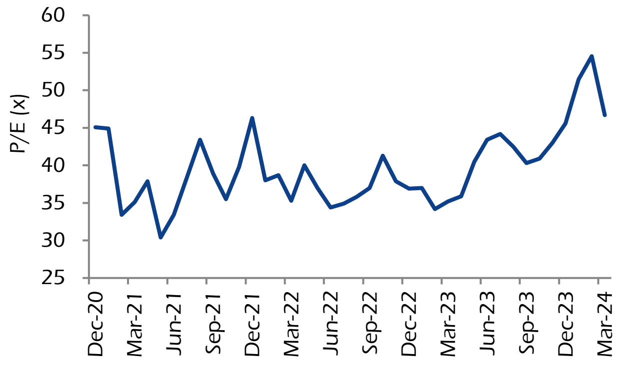
One-year forward P/E (x) for major hospital companies

Exhibit 1: APHS one-year forward P/E of 59.2x



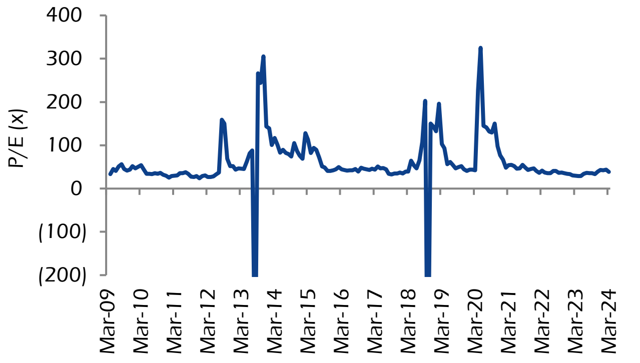
Source: Bloomberg, Company, Elara Securities Research

Exhibit 2: MAXHEALT one-year forward P/Eof 46.7x



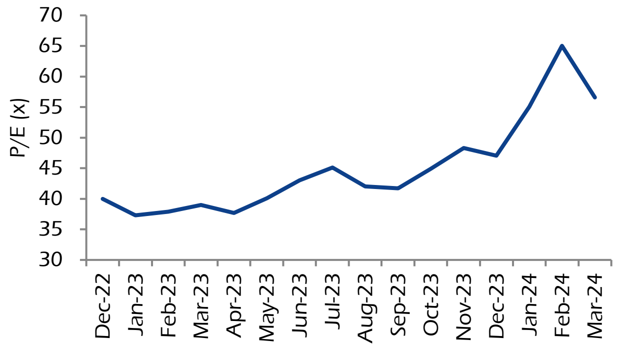
Source: Bloomberg, Company, Elara Securities Research

Exhibit 3: FORH one-year forward P/E of 38.8x



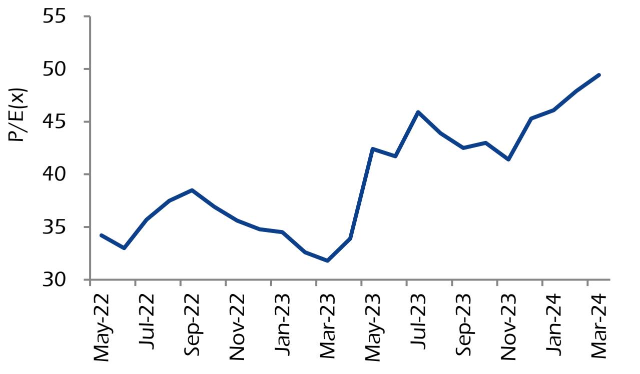
Source: Bloomberg, Company, Elara Securities Research

Exhibit 4: MEDANTA one-year forward P/E of 56.6x



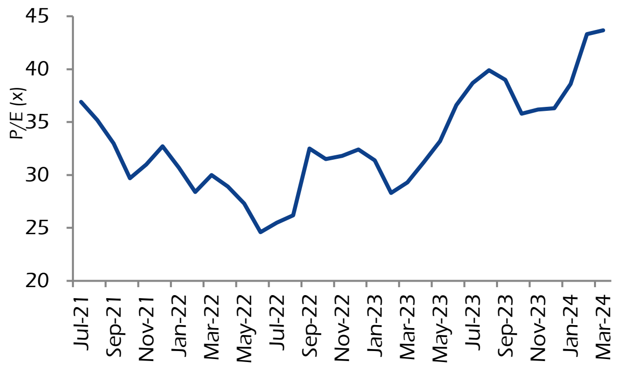
Source: Bloomberg, Company, Elara Securities Research

Exhibit 5: RAINBOW one-year forward P/E of 49.4x



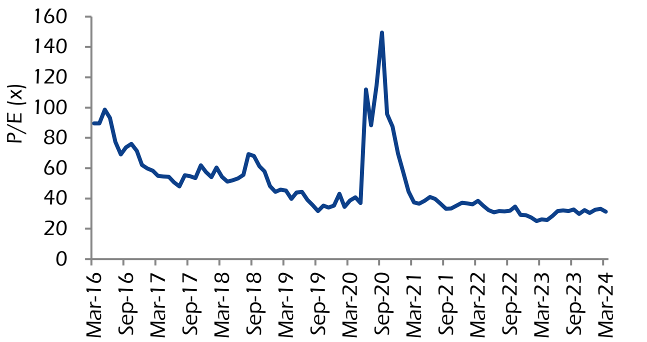
Source: Bloomberg, Company, Elara Securities Research

Exhibit 6: Krishna Institute of Medical Sciences (KIMS) P/E of 43.7x



Source: Bloomberg, Company, Elara Securities Research

Exhibit 7: NARH one-year forward P/E of 31.3x

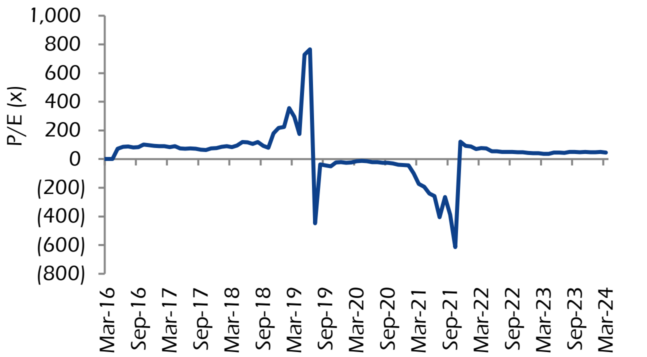


Source: Bloomberg, Company, Elara Securities Research

Exhibit 8: ASTER DM one-year forward P/E of 35.8x

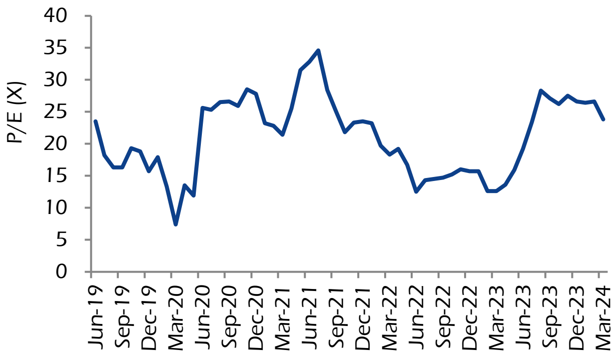
Source: Bloomberg, Company, Elara Securities Research

Exhibit 9: HCG one-year forward P/E of 45.4x



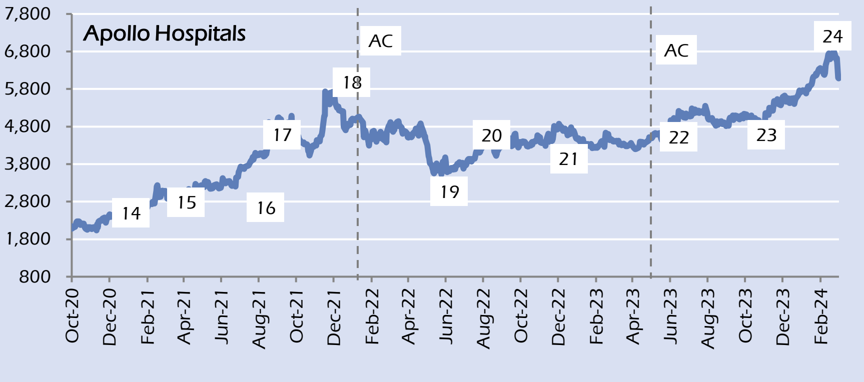
Source: Bloomberg, Company, Elara Securities Research

Exhibit 10: SHALBY one-year forward P/E of 23.8x



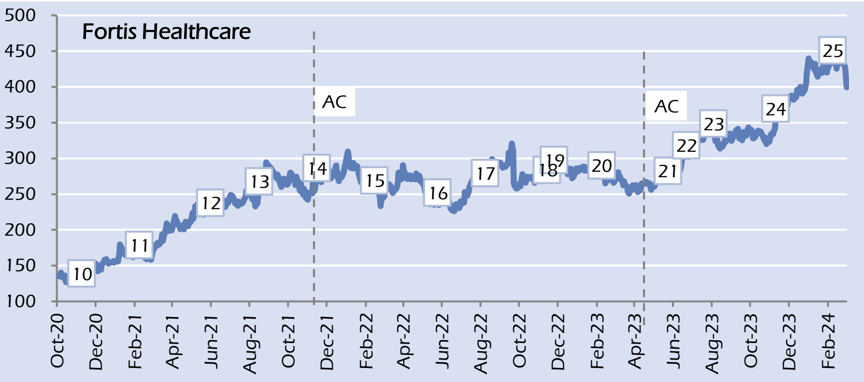
Source: Bloomberg, Company, Elara Securities Research

Coverage History



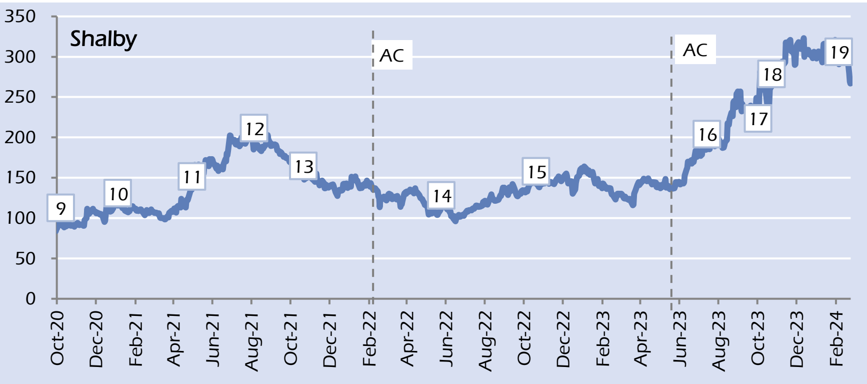
	Date	Rating	Target Price	Closing Price
21	25-Nov-2022	Accumulate	INR 5,150	INR 4,789
22	31-May-2023	Accumulate	INR 5,001	INR 4,622
23	11-Aug-2023	Reduce	INR 5,001	INR 4,906
24	9-Feb-2024	Reduce	INR 6,183	INR 6,437

AC= Analyst change



	Date	Rating	Target Price	Closing Price
20	13-Feb-2023	Buy	INR 380	INR 272
21	24-May-2023	Buy	INR 349	INR 288
22	22-Jun-2023	Buy	INR 372	INR 309
23	4-Aug-2023	Accumulate	INR 372	INR 339
24	10-Nov-2023	Accumulate	INR 390	INR 359
25	8-Feb-2024	Accumulate	INR 488	INR 441

AC= Analyst change



	Date	Rating	Target Price	Closing Price
15	27-Oct-2022	Buy	INR 185	INR 143
16	21-Jul-2023	Buy	INR 234	INR 189
17	9-Oct-2023	Buy	INR 301	INR 237
18	30-Oct-2023	Buy	INR 321	INR 263
19	13-Feb-2024	Buy	INR 364	INR 293

AC= Analyst change

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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