Dealmoney
World-Class Financial Services

ASTER DM HEALTHCARE LIMITED

IPO Note

(CAUTIOUS)

Analyst:

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IPO details

Key Data	
Issue Opens	12-Feb-18
Issue Closes	15-Feb-18
Equity Shares Offered (in mn.)	51.59
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs.)	10
Price Band (Rs.)	180-190
Max. Issue Size (Rs. mn)	9,801
Lot Size (Eq. Shares)	78 and multiple thereof

	Pre Issue		Post Issue^	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	202.1	43.3%	188.7	37.4%
Public	261.2	55.9%	261.2	51.7%
Others	3.7		3.7	0.7%
Offer for sale			13.4	2.7%
Fresh Issue			38.2	7.6%
Total	467.1	100.00%	505.2	100.0%

Object of the issue

- Repayment and/or pre-payment of debt
- Purchase of medical equipment
- General corporate purposes

Valuation	@ Rs.180 per share	@ Rs.190 per share
Market Cap (Rs. mn)	90,941	95,993
Net Debt (Rs. mn)	26,550	26,550
Enterprise Value (Rs. mn)	117,491	122,543
EV/ Sales	2.0	2.1
EV/ EBIDTA	35.4	36.9
P/B	4.0	4.3
P/E	42.1	44.4

Recommendation

In the healthcare segment, the company has well distributed revenues across Hospitals, clinics and retail pharmacy segment. The business model becomes comparatively low capital intensive and lesser risky. Therefore comparatively at par margin (PATM at 4.5%) and higher ROE (14.2%) over its peers appears to be more sustainable. It is a niche player in Indian organized healthcare segment with strong presence in lucrative GCC territory. Limited presence in India leaves a wide room for further expansion as per the management's strategy.

On valuation front, upper issue price at 44.4x FY17 earnings is fairly at par with its peers leaving limited room for further upside in the near future. Therefore we are **CAUTIOUS** over the issue.

Source: Red Herring Prospectus, dealmoney Research

One of the largest private healthcare service providers

- ASTER DM HEALTHCARE LIMITED (ASTER) is one of the largest private healthcare service providers which operate in multiple GCC states based on numbers of hospitals and clinics, according to the Frost & Sullivan Report, and an emerging healthcare player in India.
- Aster's currently operate in all of the GCC states, which comprise the United Arab Emirates, Oman, Saudi Arabia, Qatar, Kuwait and Bahrain, in Jordan (which classify as a GCC state as part of its GCC operations), in India and the Philippines. Its GCC operations are headquartered in Dubai, United Arab Emirates and its Indian operations are headquartered in Kochi, Kerala.
- Aster operates in multiple segments of the healthcare industry, including hospitals, clinics and retail pharmacies and provide healthcare services to patients across economic segments in several GCC states through its various brands "Aster", "Medcare" and "Access". it believes that "Aster" and its other brands are widely recognised in the GCC states both by healthcare professionals and patients.
- Aster had 149 operating facilities, including 10 hospitals with a total of 1,419 installed beds, as of March 31, 2013 and have expanded to 316 operating facilities, including 18 hospitals with a total of 4,651 installed beds, as of March 31, 2017.
- Aster has a diversified portfolio of healthcare facilities, consisting of 7 hospitals, 89 clinics and 202 retail pharmacies in the GCC states, 11 multi-specialty hospitals and 6 clinics in India, and 1 clinic in the Philippines as of March 31, 2017. In addition, its Medcare Hospital in Sharjah, UAE and Aster Hospital in Doha, Qatar became operational in April 2017 and June 2017 respectively.
- Aster's total revenues from operations was Rs.38,758.43 million, Rs.52,498.90 million and Rs.59,312.87 million for fiscal 2015, 2016 and 2017, respectively. Its Adjusted EBITDA was Rs.5,142.91 million, Rs.4,731.59 million and Rs.3,642.40 million for fiscal 2015, 2016 and 2017, respectively. Of its total revenues from operations for fiscal 2017, its hospital segment accounted for 45.60%, clinic segment accounted for 27.36% and retail pharmacy segment accounted for 26.94%. Its operations in India, which primarily consist of hospitals, accounted for 16.02% of total revenues from operations for the year ended March 31, 2017.

Source: Red Herring Prospectus, dealmoney research

Strengths

- **Long standing presence across GCC states and India with strong brand equity:**Largest private healthcare service providers which operate in multiple GCC states based on numbers of hospitals and clinics, according to the Frost & Sullivan Report, and an emerging healthcare player in India.
- **Well diversified portfolio of service offerings to leverage multiple market opportunities:**Has established presence across multiple geographies, multiple healthcare delivery verticals and serve multiple economic segments. It provides healthcare services in the United Arab Emirates, Oman, Saudi Arabia, Qatar, Kuwait and Bahrain, which comprise all of the GCC states, in Jordan (which it classify as part of its GCC operations) and in the Indian cities of Kochi, Kolhapur, Kozhikode, Kottakkal, Bengaluru, Vijayawada, Guntur, Wayanad and Hyderabad.
- **Provision of high quality healthcare service:** Since its first clinic commenced operations in 1987, it has been focused on providing high quality healthcare service. It constantly strives for a high standard of clinical excellence at all its hospitals, clinics and retail pharmacies. It follow well defined quality and patient safety protocols in patient handling and care.
- **Ability to attract and retain high quality medical professionals:** It had 17,240 employees as of March 31, 2017, including 1,269 full time doctors, 5,692 nurses, 2,186 paramedics and 8,093 other employees (including pharmacists). It also had 934 “fee for service” doctors working across various specialities in its hospitals in India as of March 31, 2017.
- **Ability to identify, adapt to and capitalise on market developments, conditions, trends and opportunities:** Its ability to identify, adapt to and capitalise on market developments, as well as its flexible business model have enabled it to stay at the forefront of market trends and develop a strong track record of achieving profitability and growth.
- **Track record of operating and financial performance and growth:** It has grown from 149 operating facilities in 5 countries, including 10 hospitals, as of March 31, 2013 to 316 operating facilities in 9 countries, including 18 hospitals, as of March 31, 2017. ARPOB in the GCC states increased from Rs.93,264 in fiscal 2013 to Rs.130,026 in fiscal 2017 and ARPOB in India increased from Rs.8,130 to Rs.22,175 during the same period.

Source: Red Herring Prospectus, dealmoney research

Future road ahead

- **Continue to grow within its existing centres:** It intends to grow its existing hospitals and clinics by adding new specialities and services, increasing the number of beds and relocating certain specialities into new facilities. Its expansion plans are generally driven by its existing facilities functioning at close to maximum capacity, as the new or expanded facilities will have a ready customer base, resulting in quicker operational ramp-up and higher business volume with lower operational risks.
- **Increase its presence by way of greenfield expansions:** It intends to capitalise on the increasing demand for healthcare services in the GCC states by building or expanding 3 multi-specialty hospitals in the UAE, for a total additional capacity of 245 beds. These hospitals are in the process of construction and are expected to be completed within the next 1 to 2 years. It also plans to build or expand 5 hospitals in India within the next 4 years to add 1,372 beds to its total bed capacity, with a focus on building and expanding facilities in Tier I and II cities such as Bengaluru, Trivandrum, Kannur and Kozhikode.
- **Pursue inorganic growth opportunities to expand into newer service offerings or new markets:** Since its incorporation, it acquired 8 hospitals in India and management rights in Aster CMI Hospital and DM WIMS Hospital, as well as 1 hospital, 1 clinic and 39 retail pharmacies in the GCC states. It intends to leverage its acquisition experience to successfully identify, execute and integrate new opportunities that may arise in the future.
- **Capitalise on mandatory health insurance in GCC:** The Emirate of Abu Dhabi introduced mandatory health insurance for all residents, locals as well as expatriates (along with their dependents), in 2006 and the number of people insured in Abu Dhabi increased at a CAGR of 7.4% between 2008 and 2013 to cover 3.43 million people in 2015. The mandatory health insurance law also requires visitors in Dubai to be covered under health insurance. Aster is well positioned to take advantage of the implementation of health insurance reforms and it can leverage its existing partnerships with insurers and suppliers to increase its presence in these markets.
- **Implementation of initiatives to improve existing operational efficiencies and profitability:** It intend to focus on the following key areas to improve its clinical and administrative operating efficiencies and profitability

- *Integrated healthcare network:* Plans to improve efficiencies at its hospitals and retail pharmacies through greater integration across its network.
- *Integrated IT platform:* It is in the process of fully integrating its IT platform across its businesses and are implementing the use of electronic medical records and analytics which are intended to improve patient care, facilitate referrals among its facilities and allow it to more efficiently deploy its resources
- *Medical technology:* Focus continually on investing in the latest medical technologies and innovations, attracting skilled physicians and surgeons and developing its expertise across key specialisations and in high growth tertiary and quaternary care areas to serve the increasing demand for sophisticated clinical care and procedures.

Source: Red Herring Prospectus, dealmoney research

Peer Comparison

Companies	Revenue (Rs. Mn)	P/E	ROCE (%)	ROE (%)	EBIT margin (%)	PAT margin (%)
Aster DM Healthcare Limited	59,312.87	44.39	8.8	14.2	5.6	4.5
Apollo Hospitals Enterprise Limited	72549.10	75.90	6.74	2.54	6.02	1.22
Fortis Healthcare Limited	45737.10	17.40	4.43	-0.15	6.45	-0.15
Narayana Hrudayalaya Limited	18781.65	72.80	14.77	9.89	9.10	4.84
Healthcare Global Enterprises Limited	7001.10	103.8	7.22	5.38	8.26	3.29
Shalby Limited	3,253.87	8.1	10.73	23.54	21.74	18.80

Source: Red Herring Prospectus, dealmoney Research

Consolidated Summary Financials

Income Statement

Rs. mn	FY17	FY16	FY15
Total Income	59,313	52,499	38,758
Operating Expense	55,992	48,043	33,698
EBIDTA	**3,321**	**4,456**	**5,060**
Depreciation	3,224	2,430	1,440
Other Income	366	253	232
Finance Costs	3,536	1,894	791
PBT	**(3,073)**	**384**	**3,062**
Exceptional items	5,961	-	-
Profit before share of loss of equity accounted investees and tax	**2,888**	**384**	**3,062**
Share of profit/ (loss) of equity accounted investees	(2)	(8)	1
Profit before tax	**2,885**	**376**	**3,063**
Current tax (including MAT)	(106)	(392)	(321)
Deferred tax (including MAT credit entitlement)	(112)	98	(20)
Profit for the year	**2,667**	**82**	**2,721**

Rs. mn	FY17	FY16	FY15
EBIDTA Margin	5.6%	8.4%	13.0%
Net Margin	4.5%	0.2%	7.0%
ROE	14.2%	2.0%	18.3%
ROCE	8.8%	11.1%	14.7%

Balance Sheet

Rs. mn	FY17	FY16	FY15
Liabilities			
Share capital	4,032	4,031	3,886
Reserves and surplus	14,722	166	10,958
Non-controlling interest	3,753	1,770	7,617
Long-Term Borrowings	19,766	25,774	6,118
Deferred tax liabilities(Net)	1,437	1,320	1,314
Other Long Term Liabilities	159	3,040	616
Long term provisions	1,748	1,474	1,053
Other non-current liabilities	444	317	168
Short term borrowings	8,304	5,841	2,894
Trade payables	7,825	6,970	4,324
Other current liabilities	5,003	5,836	4,504
Other financial liabilities	297	404	385
Income tax liabilities	253	239	35
Other current liabilities	330	375	247
Total Liabilities	**68,073**	**57,558**	**44,120**
Assets			
Net Block	27,668	20,374	17,852
Intangible assets	789	282	188
Capital work in progress	2,898	3,581	1,974
Goodwill (on consolidation)	6,740	4,419	4,329
Equity accounted investees	108	111	116
Investments	0	10	0
Other financial assets	2,220	985	841
Deferred tax asset	30	128	27
Other non-current assets	2,523	2,444	709
Income tax asset	373	168	76
Inventories	5,255	4,107	3,108
Investments	216	377	27
Trade receivables	12,876	13,423	8,843
Cash and cash equi.	1,521	2,667	3,042
Other financial assets	2,329	1,727	1,261
Other current assets	2,528	2,755	1,726
Total Assets	**68,073**	**57,558**	**44,120**

Source: Red Herring Prospectus, dealmoney research

Key Risks

- Its ownership structure in most of the GCC states is subject to risks associated with foreign ownership restrictions and the shareholder arrangements with local shareholders might be violative of the local laws of the jurisdictions.
- Certain licenses required to operate in businesses in the GCC may be held to contravene legal requirements.
- Certain nominee arrangements lack certain provisions of a protective nature commonly used in similar structures, which may adversely affect its business.
- Its revenue is highly dependent on its operations in the GCC states. Further, its results of operations are, and are expected to continue to be, significantly affected by foreign ownership restrictions, financial, economic and political developments in or affecting the GCC states.
- Its performance depends on its ability to recruit and retain high quality doctors and other healthcare professionals, such as nurses, pharmacists and technicians.

Source: Red Herring Prospectus, dealmoney research

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