Rating: Avoid | Price Band: Rs. 180-190 | Date: 12/02/2018

Aster DM Healthcare: Long Term bet

I N D E X

IPO Highlights:

Issue Period	Issue Opens On: Monday, February 12, 2018
	Issue Closes On: Thursday, February 15, 2018
Issue Details	Fresh Issue of Equity Shares aggregating up to Rs. 725 Cr
	Offer for Sale of 255 Crs. (Upper limit of price band)
Issue Size (Rs. Cr)	980.14 Crs. (Upper limit of price band)
Price Band	Rs 180 - 190
Bid Lot	78 Equity Shares and multiple thereof
Issue Structure:	
QIB	50% of the offer
NIB	15% of the offer
Retail	35% of the offer

Key Financials:

Rs in Cr.	FY18E	6M2018	2017	2016	2015
Revenue	6937	3122.58	5931.29	5249.9	3875.84
Growth (%)	16.9%		11.49%	26.17%	
EBITDA	770	193.4	364	473	514
EBITDA Margin (%)	11.09%	6.19%	6.14%	9.01%	13.26%
PAT	242	-82.71	266.74	8.21	272.11

Shareholding Pattern:

Category	Pre - Issue	Post - Issue
Promoter and Promoter Group	43.28%	37.35%
Public	55.93%	61.92%
Non promoter and Non Public	0.79%	0.73%
Total	100.00%	100.00%

Objects of the Offer:

Company proposes to utilise the Net Proceeds from the Fresh Issue towards funding the following objects:

1. Repayment and/or pre-payment of Indian debt of ~Rs. 564 Crs. Currently held at a finance cost of 9.5% ;

2. Purchase of medical equipment woth 110 crs. Out of which 30crs. Will be used in FY18 and the rest in FY19.

3. General corporate purposes.

Business Overview:

Aster DM Healthcare Limited is one of the largest Private Healthcare Service Providers which operate in multiple of The Cooperation Council for the Arab States of the Gulf ("GCC") states (UAE, Oman, Arabia, Qatar, Kuwait, Bahrain, Jordan) India and Philippines, based on numbers of hospitals and clinics, according to the Frost & Sullivan Report, and an emerging healthcare player in India.

The company currently operate in all of the GCC states, which comprise the United Arab Emirates, Oman, Saudi Arabia, Qatar, Kuwait and Bahrain, in Jordan (which they classify as a GCC state as part of their GCC operations), in India and the Philippines. Their GCC operations are headquartered in Dubai, United Arab Emirates and the Indian operations are headquartered in Kochi, Kerala.

The company 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 our various brands "Aster", "Medcare" and "Access". "Aster" and our other brands are widely recognised in the GCC states both by healthcare professionals and patients.

The operations were commencedin 1987 as a single doctor clinic in Dubai established by our founder, Dr. Azad Moopen. The company was incorporated in 2008 in a reorganisation to facilitate the growth of operations, subsequent to which operations in the GCC states and India were consolidated under the Company.

In the GCC states, the number of its clinics increased from 41 in FY13 end to 90 as of H1 FY18, and the number of its retail pharmacies increased from 98 to 206, over the same period. The company's pharmacies in India are integrated with the hospitals and clinics.

Aster DM has diversified portfolio of healthcare facilities, consisting 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.

The company has 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) and has 891 "fee for service" doctors.

Key points:

1. Seasonality in GCC

   Business in GCC is affected by seasonality such as summer holidays and the month of Ramadan (Holy Festival), which falls in the first half of our financial year. During these holiday periods and in the summer months, there is usually an exodus of expatriates and locals out of the GCC states, therefore resulting in a lower level of patient volume. In addition, a large number of doctors may take vacations during these periods, thereby also affecting the number of patients our facilities can treat. As such, the quarterly financial statements and operating results may not be indicative of full year results. H1 of the fiscal year is a lean period for the company and it generates around 45% of the annual top-line and 25-27% of the annual EBITDA during this period. In H1 FY18, Aster reported a net loss of Rs. 764.3mn on a top-line of Rs. 31,225.9mn. The balance 75% of the company'sannual EBITDA comes in the second half.

2. Asset light model

   GCC is a low capex/high ROCE region as they have an asset light model. Hospital premisesare not owned, but leased that result in higher realizations. The realizations are as high as six times that of India. ROCE is about 25-30% in hospitals and greater than 30% in clinics in the GCC region. Dubai has made insurance mandatory for all since 31March, 2017 which will increase the demand of clinics and hospitals alike.

3. Growth strategy:

   The current revenue of Aster mainly comes from the GCC countries with about 81% contribution. India, that contributes 19% of the top line as per September 2017 is set to grow to about 35 % in about 3 years from now. This will happen mainly because f the favourable conditions in India for healthcare, capacity to add more quality hospitals and changing dynamics among India's demography and purchasing power alike. Aster is also looking for suitable acquisitions. The percentage of Aster's business comes from insurance. They are committed to create an ecosystem – clinics to hospitals to pharmacy. In addition, Dr Azad himself leads the digitization of their clinics and hospitals.The company is in the process of building or expanding 10 Hospitals, whichare expected to add approximately 1,727 beds.

4. Budget 2018

   Mr. Jaitley announced a new flagship National Health Protection Scheme, providing a health insurance cover of ₹5 lakh a family per annum. The scheme will cover 10 crore vulnerable families, with approximately 50 crore beneficiaries. This is a step to progress towards universal healthcare system. Mr. Jaitley also announced the creation of health and wellness centres, which will "bring healthcare closer to home". These centres, 1.5 lakh in number, will provide free essential drugs and diagnostic services. A sum of Rs. 1200 crore has been allocated for this.The company feels that there is a serious case to venture in the tier II & III cities and towns as post the budget announcement the affordability of the medical services would improve.

5. India business:

   The management believes that they will be able to increase their overall revenue in India from 19% to 32% in the next 3 years owing to increase in capacity and hospitals, increase in medical value travel, etc. Bangalore EBITDA breakeven took just 1 year thanks to better capacity utilization. They see good opportunity in India and necessary expansion plans are in place.

6. Medical Technology

The company continually focuses on investing in the latest medical technologies and innovations, attracting skilled physicians and surgeons and developing our expertise across key specialisations and in high growth tertiary and quaternary care areas to serve the increasing demand for sophisticated clinical care and procedures. By implementing our strategy to focus on high growth facilities and other technologies and specialist skill-driven clinical areas, we intend to improve our case mix and increase revenues per occupied bed per day. The company is also in the process of fully integrating our IT platform across our businesses and are implementing the use of electronic medical records and analytics which are intended to improve patient care, facilitate referrals among our facilities and allow us to more efficiently deploy our resources

7. Temporary glitch causing financials to be non-uniform:

The Sanad hospital in the Saudi Arabia generated maximum revenue from the government. However due to fall in the crude prices in the last 2-3years, Aster in consultation with the Saudi government had to take a haircut on the receivables. In FY16 and FY17, the company has made a provision of around 500 crores for the same. The management has guided that, it is confident of getting the payments from the government. Thus, any write back of the provision would be positive for the company. However, in FY17, it has changed the business strategy of the Sanad hospital and now is concentrating more on the private patients. This is a major reason for an inconsistent balance sheet.

The loss in first half of this year is because of aggressive push of clinics in the GCC countries due to the increased opportunity of mandatory insurance in GCC countries. The number of people under mandatory insurance has jumped from 1.3 million to 4.3 million.

Key risks:

Slow ramp-up of existing and new business

Unfavourable patient volume and case mix

Unfavourable regulatory changes

Unexpected rise in employee cost

Peer comparison:

Company	Conso. EPS (FY17)	Price as on 31st Jan	P/E	RoNW
Apollo Hospitals	15.8	1161.6	73.5	2.30%
Fortis Healthcare	9.19	139.1	15.1	7.60%
Narayana Hrudayalaya	4.1	286.4	69.6	8.60%
Healthcare Global Enterprises	2.69	325.1	120.9	5.30%
Aster DM Healthcare	4.29	190	44.3	10.59%

Valuation:

No. of shares post issue: 505,227,345

Amt. In Rs. Crs.	**FY17**	**FY18E**
Net Earnings	266.74	242
EPS	5.28	4.78
P/E	35.98X	39.7X
EV/EBIDTA	31.9X	15.12X

*Valuation is done at upper end of price band i.e., at Rs. 190.

Management:

Dr. Azad Moopen is the Promoter, Chairman and Managing Director of the company. He is responsible for the company's overall business operations and setting forth the group strategy and vision. He has been a Director of the company since its incorporation. He has been honoured by the Government of India with the Padma Shri Award in 2011 and the PravasiBharatiyaSamman in 2010.

T. J. Wilson is the Director of the company and the Group Head – Governance and Corporate Affairs, GCC. He is responsible for overseeing the legal, secretarial and governance function, internal audit and large portfolio of new hospital projects. He has been a Director of the company since April 20, 2009.

AnoopMoopen is the Director of the company. He is also engaged in the field of construction and healthcare management. He has been a Director of the company since April 20, 2009.

Alisha Moopen is the Director of the company and the Chief Executive Officer – Hospitals & Clinics, GCC. She is experienced in the field of finance and administration. She is responsible for overseeing the strategy of the group. She has been a Director of the company since September 20, 2013.

Daniel Robert Mintz is an Additional Director of the company. He has more than 24 years of experience in the fields of private equity investment. He is one of the Founding Directors of Olympus Capital Holdings Asia.

Shamsudheen Bin MohideenMammu Haji is the Director of the company. He has been a Director of the company since September 16, 2015.

Harsh C. Mariwala, RajagopalSukumar, Ravi Prasad, Daniel James Snyder, M. MadhavanNambiar and **Suresh M. Kumar** are the Independent Director of the company.

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