

11th December 2024

Aster DM – BUY

CMP : Rs.486

Target Price : Rs.620

Upside : 27%+

Stop Loss : Rs.423 (Closing basis)

Investment Thesis

- Aster DM Healthcare has positioned itself as a transformative force in the Indian healthcare landscape through a strategic merger with Quality Care, creating one of the top three hospital chains in India. The combined entity will boast an impressive network of 10,150+ beds, spanning 9 states and 25 cities, with a robust presence across South and Central India. This merger represents a pivotal moment for the company, bringing together two powerful healthcare providers with complementary strengths and a shared vision of delivering exceptional patient care and medical excellence.
- The merger presents a compelling investment opportunity through its significant operational and financial synergies. Aster DM currently operates 191 hospitals, 13 clinics, 232 labs, and 2,122 pharmacies, while Quality Care brings 19 hospitals across 14 cities, focusing on non-metro markets. The combined entity is expected to realize near-term EBITDA upside potential of 10-15% through revenue synergies, supply chain efficiencies, an integrated doctor model, lower overhead costs, and strategic capex optimization. This strategic combination is backed by Blackstone, the world's largest alternative asset manager, providing additional credibility and financial strength.
- The Aster DM's expansion strategy is both ambitious and strategic, with plans to add 1,750 beds across Kerala and Karnataka regions over the next 3-4 years. Approximately 60% of this expansion will be through brownfield developments, which are expected to be margin-accretive. A notable recent achievement is the Whitefield Specialty Hospital in Bangalore, which has already commercialized 347 beds (252 census beds), with 175 currently operational and achieving a healthy ARPOB (Average Revenue Per Occupied Bed) of INR 60,000 per day. The company will require approximately INR 12 billion in capital expenditure to commercialize these additional beds, which will be primarily funded through internal accruals.
- Looking forward, Aster DM Quality Care is well-positioned to capitalize on the growing healthcare market in India. The merger creates a diversified healthcare platform with a strong presence in both metropolitan and non-metro markets, offering significant growth potential through brownfield and greenfield expansions.

Financials

- Aster DM Healthcare delivered robust financial performance in Q2 FY25, with India revenues increasing to Rs. 1,086 crores, representing a 16% YoY growth. The company's operational strategy, including a 7% increase in occupied beds and improved payor mix, drove Operating EBITDA to Rs. 233 crores with margins expanding to 21.4%.

Consol. (Rs.Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenue	10,253	2,994	3,699	4,640	5,792
EBITDA	1,533	458	587	803	1,060
EBITDA Margin %	15.0%	15.3%	15.9%	17.3%	18.3%
PAT	601	160	205	322	453
EPS	12.0	3.2	4.1	6.5	9.1
PE	40.5	151.9	120.9	74.7	53.4
RoE	17.3%	4.2%	5.0%	7.4%	9.6%

Stock Data

Market Cap (Rs. Mn)	242,514
Market Cap (\$ Mn)	2,859
Shares O/S (in Mn)	499
Avg. Volume (3 month)	684,670
52-Week Range (Rs.)	558 / 311

Shareholding Pattern

Promoters	41.88%
FII's	23.86%
Institutions	20.91%
Others (incl. body corporate)	13.35%

Key Ratios

Div Yield	0.40%
TTM PE	62.3x
ROE	4.5%
TTM EPS (Rs.)	7.8/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	10.8%	35.6%	21.1%
NIFTY HEALTH	0.7%	16.2%	40.5%

- The strategic initiatives directly impacted profitability, with Profit After Tax (post-NCI) surging to Rs. 97 crores, a remarkable 95% YoY growth. This performance was underpinned by a shift in insurance contribution, which increased by over 300 basis points to 30%, and enhanced operational efficiencies across mature hospitals.
- For the first half of FY25, these operational improvements propelled overall India business revenue to Rs. 2,088 crores, an 18% growth. Operating EBITDA increased by 44% to Rs. 410 crores, with margins expanding from 16.1% to 19.6%, highlighting the company's effective operational strategy and financial management.

Key Business Highlights

- Aster DM Healthcare Limited is a comprehensive healthcare service provider in India with a robust and strategically distributed healthcare network. Operating across five states, the company maintains 19 hospitals with 4,994 beds, 13 clinics, 212 pharmacies, and 232 labs and patient experience centers. The organization's healthcare model spans primary, secondary, tertiary, and quaternary care, offering a holistic approach to medical services.
- Aster has distinguished itself through a commitment to technological innovation, being among the first 100 early adopters of digital healthcare standards, which demonstrates its focus on leveraging technology to improve patient care. The company's operational strategy emphasizes creating an integrated healthcare ecosystem that provides comprehensive medical services across multiple touchpoints. Its brand promise, "We'll Treat You Well," encapsulates a commitment to patient-centric care and medical excellence. In a significant strategic move, Aster DM Healthcare announced the separation of its India and GCC businesses, with a proposed investment in the GCC business by a consortium of investors led by Fajr Capital, a sovereign-owned private equity firm headquartered in the UAE. This divestment strategy allows the company to streamline its operations and focus on its core markets.
- Following this strategic restructuring, Aster DM Healthcare pursued a transformative merger with Quality Care, creating one of the top three hospital chains in India. The merger brings together a combined network of over 10,150 beds across 9 states and 25 cities, with a robust presence in South and Central India. The combined entity now encompasses Aster DM's existing 191 hospitals, 13 clinics, 232 labs, and 2,122 pharmacies, complemented by Quality Care's 19 hospitals across 14 cities, with a particular emphasis on expanding services in non-metro markets. This strategic expansion represents a significant milestone in Aster DM Healthcare's growth trajectory, positioning the company as a major player in India's healthcare landscape.

Valuation

Currently, Aster DM Healthcare is trading at **Rs. 486**, implying a TTM PE / EBITDA multiple of 62x / 31x vs the average of its pharmaceutical peers of 72x / 38x. This suggests that Aster DM is trading at a discounted valuation. Given the premium valuation Aster DM Healthcare presents a compelling investment opportunity with its strategic merger, robust expansion plans, and strong market positioning. Aster DM Quality Care is strategically positioned to leverage India's growing healthcare market. The merger creates a comprehensive healthcare ecosystem that can capitalize on increasing healthcare demand, technological advancements, and the need for quality medical infrastructure across urban and rural markets. The company's focus on brownfield and greenfield expansions, coupled with its diversified service model, sets a strong foundation for future growth and market leadership.

Therefore, considering the above, we assign a **BUY** rating for **Aster DM Healthcare** and value at **95.4x FY25E** EPS of 6.5 to arrive at a **target price** of **Rs. 620**, translating to an **upside** of **27%+**.

Risk & Concern

- Merger Risk:** The merger between Aster DM and Quality Care brings significant integration challenges. Combining two large healthcare organizations risks operational disruptions, potential culture clashes, and the challenge of maintaining consistent service quality across an expanded network.
- Regulatory Risk:** The healthcare industry is subject to evolving regulations that could impact pricing, reimbursement, and operational procedures.

Graphs & Charts

Figure 1: Net Sales Trend

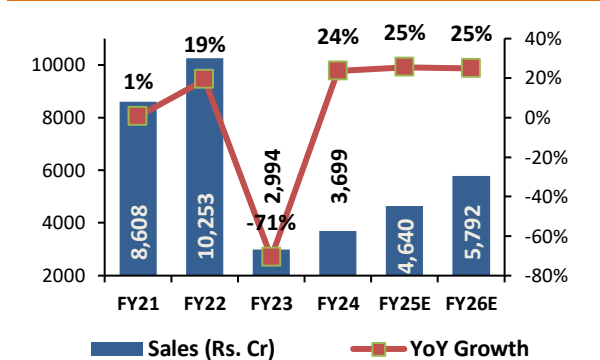


Figure 2: EBITDA & EBITDA Margin Trend

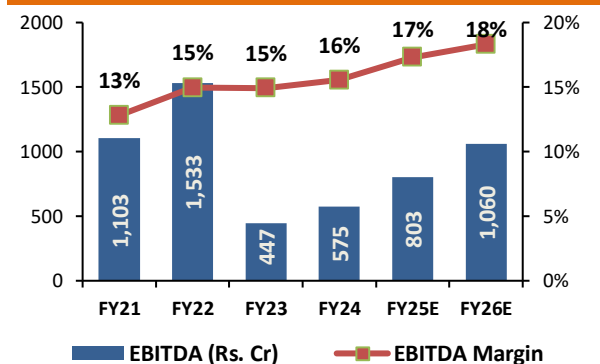


Figure 3: PAT & PAT Margin Trend

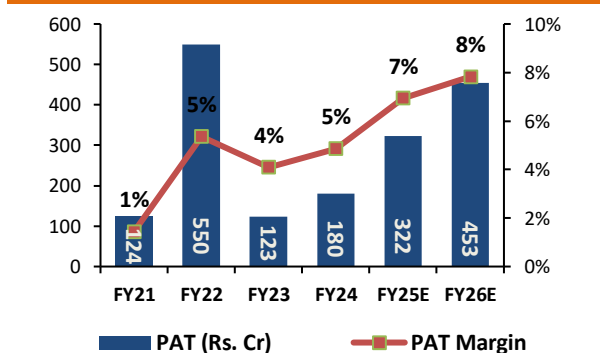
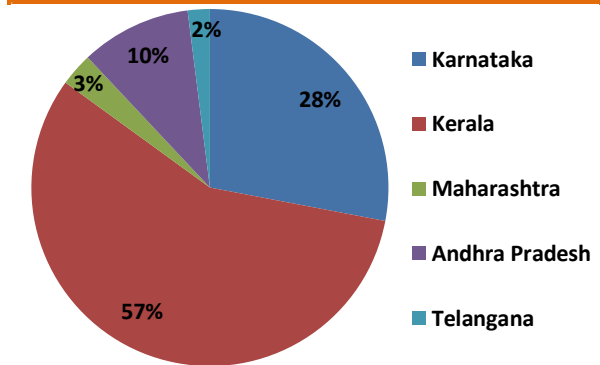


Figure 4: Region-wise Revenue (FY24)



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