Yatharth Hospital & Trauma Care Services Ltd.

BP WEALTH

Management Meet Note

20th September 2023

Super-specialty hospital a re-rating candidate on higher capex and occupancy

We met the management of Yatharth Hospital & Trauma Care Services Ltd. to understand better the private super-speciality hospital chain's differentiated strategy and future business prospects. We believe India's healthcare sector is at the start of a transformative revolution driven by government initiatives, technological advancements, and growing awareness about the importance of accessible and quality healthcare. Hospital chains in India have reported steady improvement in key operational metrics such as higher occupancy rate, rising insurance penetration and an increase in average revenue per operating bed (ARPOB) per day. We, thus, believe that Yatharth Hospital & Trauma Care Services looks attractive in the healthcare space on the back of strong operational efficiency, growth potential in Northern India, doubling bed capacity in the next three years, expanding into new geographies and growing their presence in the regional healthcare market. Further, they intend to focus on building capabilities for unique, more advanced specialties with high demand in the respective micro markets and deliver a higher ARPOB, which will aid growth and margins.

Following are the key takeaways from that interaction:

Strong brand recognition in the Northern region

Yatharth Hospital's Noida Extension hospital, with 450 beds, is one of the largest hospitals in the Noida Extension, Uttar Pradesh region. Its Greater Noida, Noida and Noida Extension hospitals had an overall average bed utilization of around 60.3% as of Q1FY24. There is ~88% occupancy in Noida, while its latest Jhansi-Orchha hospital (commenced in 2022) has about 8% bed occupancy as of Q1FY24. These hospitals provide a broad spectrum of super speciality services in cardiology, cardiovascular and thoracic surgery, neurology, neurosurgery, urology, nephrology, oncology, gastroenterology, etc. NABL accredits all their hospitals at Greater Noida and Noida Extension.

Expanding into new geographies and growing presence in the regional healthcare market

The acquisition of the Jhansi-Orchha Hospital is a strategic move to expand into new geographies and strengthen its position in the regional healthcare market. With plans to establish a comprehensive oncology treatment unit by FY25, the hospital aims to meet the growing demand for specialized medical services. Situated on an expansive 43,180 square meters of land, it is one of the largest healthcare facilities in the Jhansi-Orchha-Gwalior region with 305 total bed capacity as of Q1FY24.

Focus on expanding bed capacity and introducing new specialties at existing hospitals

The recently acquired land parcel of 1,885 sq. mt. at Greater Noida adjacent to the hospital in closeness to the airport indicates their focus on attracting international patients to expand the bed capacity. The company's growth strategy includes organic and inorganic avenues, with an open stance towards potential acquisitions. Further, Yatharth intends to introduce new specialties at their existing hospitals, such as radiation therapy, to their oncology department at their hospitals located in Noida Extension and Jhansi-Orchha, thereby increasing the company's ARPOB substantially.

Stable operating and financial performance to aid in healthy cashflow generation and superior return ratios

The company has reported strong growth in revenue and profitability over the past few years on account of bed addition and increase in occupancy rate. Regarding operational performance, the company's occupancy rate currently stands at 47.2% (including Jhansi acquisition). At the same time, they achieved an Average Revenue Per Occupied Bed (ARPOB) of Rs. 28,140 per day and an Average Length of Stay (ALOS) of 4.6 days as of Q1FY24. The operating metrics would further improve as Yatharth's recent acquisition of Jhansi-Orchha will slowly ramp up, along with the introduction of a fully functional oncology treatment unit by FY2025. Additionally, on the financial front, the company is generating strong operating cash flows and superior return ratios compared to its peers. Also, the company plans a capex of Rs. 8.4 bn over three years to double the bed capacity, which will provide further visibility to growth and margins.

Sector Outlook	Positive

Stock

CMP (Rs.)	380
NSE Symbol	YATHARTH
BSE Code	543950
Bloomberg	YATHARTH IN
Reuters	YATH.BO

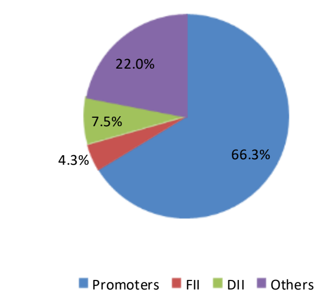
Key Data

Nifty	20171
52WeekH/L(INR)	405/306
O/s Shares (Mn)	85.8
Market Cap (INR bn)	33.0
Face Value (INR)	10

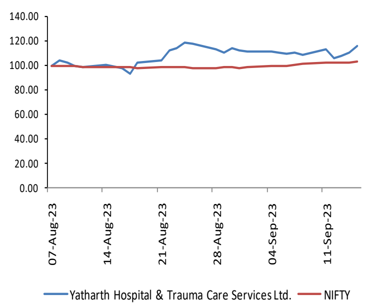
Average volume

3 months	2,830,580
6 months	-
1 year	-

Share Holding Pattern (%)



Relative Price Chart



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Yatharth Hospital & Trauma Care Services Ltd.

Valuation & Outlook

Yatharth, being a leading super-specialty hospital in the Delhi NCR region, is poised for significant growth. The company has a strong market position and caters to diverse specialties. Its strategic approach involves organic and inorganic expansions, introducing new specialties like radiation therapy for the oncology unit and human organ transplant unit, and targeting the medical tourism segment to attract international patients. The company also intends to focus on more advanced specialties which have high demand in respective markets, thereby delivering a higher ARPOB. We expect Rev/EBITDA/PAT to grow at 21.3%/22.7%/21.5% CAGR over FY22–25E, led by (i) strong operational efficiency, (ii) growth potential in northern India, where it plans to double bed capacity in the next three years, (iii) expanding into new geographies and (iv) growing presence in the regional healthcare market. **We, thus, expect Yatharth Hospital and Trauma Care Services to generate stable revenues over the long term and is trading at a PE of 40.1x/34.0x on FY24e/25e EPS estimates.**

Key Risks

⇒ The company sources medicines, consumables, equipment and machines from third-party suppliers under various arrangements. Any failure to procure reagents or drugs on a timely basis, or at all, from such third parties and on commercially suitable terms could affect its ability to provide the services.

⇒ The company may not be able to successfully integrate its acquisitions or investments, which may negatively affect its performance and respective contributions to the results of operations.

⇒ They have high fixed costs, which can adversely impact profitability. Further, if they fail to achieve favourable pricing on medical consumables, pharmacy items, drugs, and surgical instruments from its suppliers or are unable to pass on any cost increases to its payers, its profitability could be materially and adversely affected.

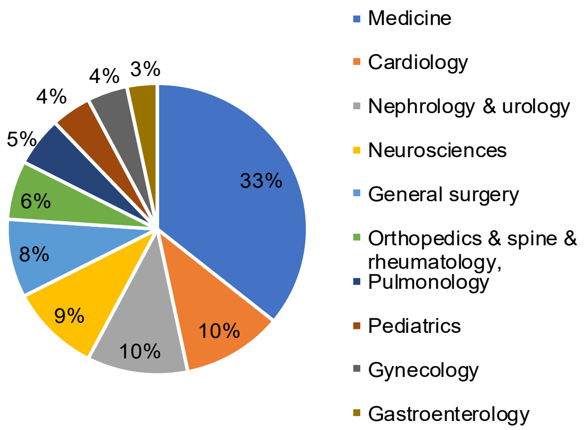
Yatharth Hospital & Trauma Care Services Ltd.

Diversified Revenue Mix Across Hospitals (FY23)

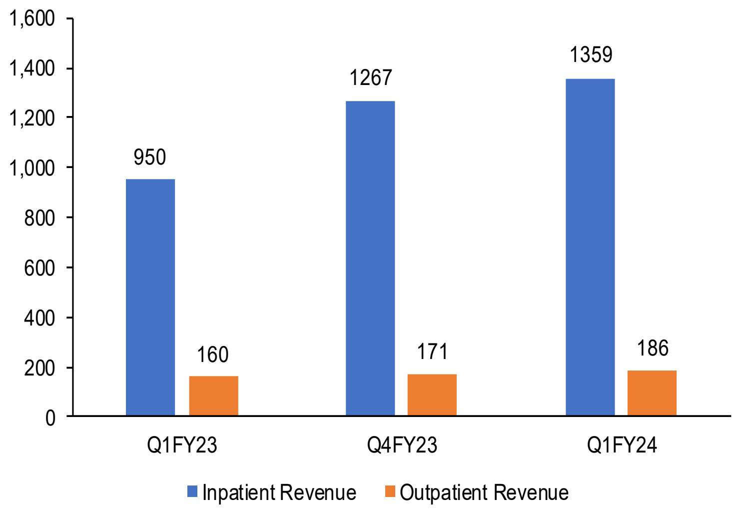
Hospitals	Greater Noida	Noida	Noida Extension	Jhansi - Orchha
Year of Operation	2010	2013	2019	2022
Beds Capacity	400	250	450	305
Occupancy Rate	62%	88%	31%	8%
ARPOB (Rs.)	26,539	24,949	30,475	17,692
ALOS (days)	4.4	5.8	3.1	3.8
In-Patient Volume	17,255	11,957	14,186	1,960
Outpatient Volume	137,937	72,906	102,278	16,639

Note: FY23 figures

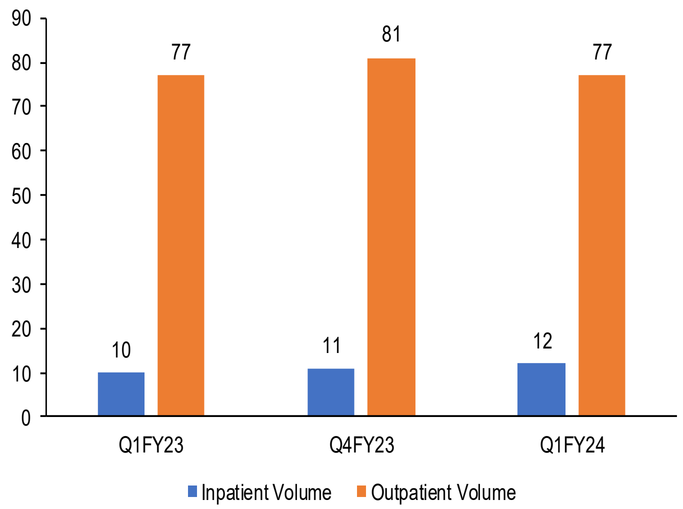
Specialty Mix (Q1FY24)



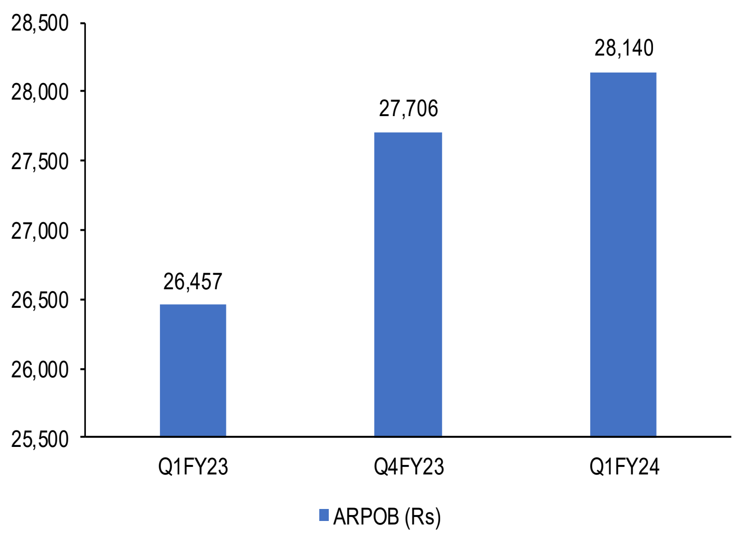
Revenue Mix (Rs. Mn)



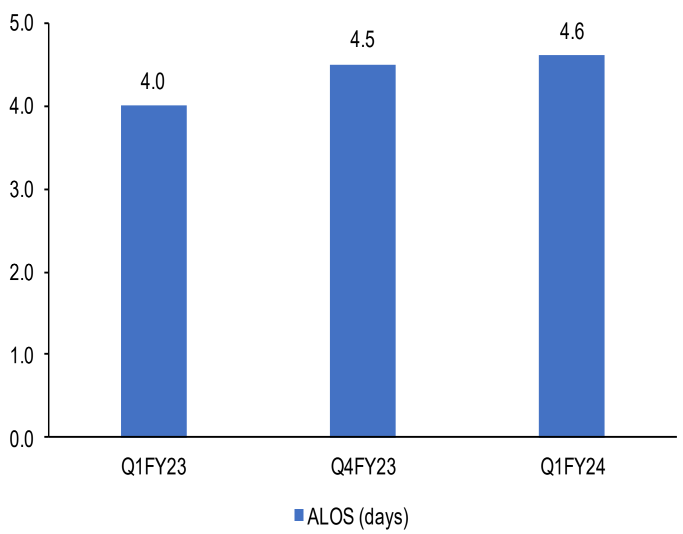
Patient Volume (in '000s)



Average Revenue per Occupied Bed (Rs.)



Average Length of Stay (days)



Source: Company, BP Equities Research

Yatharth Hospital & Trauma Care Services Ltd.

Key Financials						
YE March (Rs. Crs)	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Revenue	**1,460**	**2,287**	**4,009**	**5,203**	**6,467**	**7,651**
Revenue Growth (Y-oY)	*43.4%*	*56.6%*	*75.3%*	*29.8%*	*24.3%*	*18.3%*
EBIDTA	**384**	**681**	**1,120**	**1,352**	**1,714**	**2,035**
EBIDTA Growth (Y-o-Y)	*91.8%*	*77.1%*	*64.5%*	*20.7%*	*26.8%*	*18.7%*
Net Profit	**-21**	**196**	**442**	**658**	**821**	**972**
Net Profit Growth (Y-o-Y)	*(151.6%)*	*(1054.1%)*	*125.5%*	*48.9%*	*24.9%*	*18.3%*
Diluted EPS	**(0.8)**	**11.1**	**6.7**	**10.0**	**9.6**	**11.3**
Diluted EPS Growth (Y-o-Y)	*(132.5%)*	*(1503.8%)*	*39.2%*	*49.0%*	*(4.4%)*	*17.7%*
Key Ratios						
EBIDTA margin (%)	**26.3%**	**29.8%**	**27.9%**	**26.0%**	**26.5%**	**26.6%**
NPM (%)	-1.4%	8.6%	11.0%	12.6%	12.7%	12.7%
RoCE (%)	**6.7%**	**14.1%**	**22.7%**	**26.7%**	**27.2%**	**27.6%**
Valuation Ratios						
P/E (x)	**-487.0x**	**34.7x**	**57.1x**	**38.3x**	**40.1x**	**34.0x**
EV/EBITDA	12.8x	7.2x	4.8x	3.8x	3.2x	2.7x
P/BV (x)	**60.8x**	**45.6x**	**28.3x**	**18.1x**	**16.5x**	**15.0x**
Market Cap. / Sales (x)	2.3x	1.4x	0.8x	0.6x	0.5x	0.4x

Source: Company, BP Equities Research

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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