

Global Health | BUY

Positive surprises continue

Medanta's 4Q earnings surprised positively driven by better EBITDA margins and higher other income coupled with lower tax rate. Medanta has delivered Revenue/EBITDA/PAT CAGR of 36%/79%/237% respectively over FY21-23. We see new hospitals contribute 33% to revenues in FY23 (vs. 10% in FY19). The new hospitals have ramped-up exceptionally well lending a strong support to overall earnings growth which we expect to sustain. They continue to optically lower the overall ARPOB and occupancy level over the next two years as we see addition of nearly 600 beds. We remain conservative on our margin assumptions due to (1) cost increases amid bed additions; (2) payer mix normalising in Patna and Lucknow; and (3) Noida launch by end of FY25. However, we expect the benefit of recent price hikes to fully reflect in FY24. Matured hospitals posted 26%YoY growth in FY23 and we expect double digit growth to sustain in FY24/25 as there is expansion of capacities for mother & child, oncology etc. and new doctor additions. Noida (FY25 end) and Indore (FY27) remain on track thereby providing future revenue visibility. We continue to believe that Medanta's consistent earnings growth with margin expansion will drive consensus earnings upgrade. We increase our FY24/25 earnings by 19%/20% to factor in lower interest costs, faster Patna ramp up, price hikes and higher EBITDA contribution from Lucknow. We increase our multiple to 20x (vs. 19x earlier) given the robust cashflow, continuing earnings momentum and scope for potential inorganic acquisitions to derive a Mar'24 Price Target of INR 665. Maintain BUY.

- Developing hospital margins surging:** Medanta's early Patna breakeven and exceptional Lucknow ramp-up has led to developing hospitals revenue increasing by 83%YoY to INR 7.4bn with ~29% EBITDA margin in FY23. This margin expansion, in our view, is led by Lucknow which could be operating at ~33% margin and Patna at double digit EBITDAM. Developing hospitals' ARPOB were flat YoY (-6%YoY in 4Q) due to Patna ramp-up which has lower ARPOB of ~45k (PPP model). During the year, Medanta added 293 beds and we expect more bed additions in Lucknow (200 beds) and Patna (70 beds) in FY24 to drive mid-teens revenue growth for the company. While new beds will keep margins in check, the exceptional turnaround of new assets builds confidence around positive surprises on execution. By end of FY25, we expect Noida to contribute to revenues. The share of developing hospitals to revenue has increased to 33% in FY23 (vs. 10% in FY19). Medanta continues to add clinicians, new specialties and latest medical equipment.
- Mature hospitals grow steadily:** In FY23, Mature hospitals grew 12%YoY with flattish EBITDAM due to higher corporate costs, marketing costs and repair and maintenance. ARPOB improved 11%YoY to INR 60456 (vs. INR 54273) and we expect this to gradually improve (2-3%) going forward. We expect cost drag to reduce in FY24 thereby improving margins by c.100bps over FY23-25. Occupancies were lower at 58% in FY23 (vs. 60% FY22). Medanta started lung transplant in Gurgaon and will add ~100 beds for oncology, mother and child (M&C) etc. and 80 doctor additions will allow sustain growth in mature hospitals.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	665
Upside/(Downside)	11.8%
Previous Price Target	575
Change	15.7%

Key Data – MEDANTA IN

Current Market Price	INR595
Market cap (bn)	INR159.5/US\$1.9
Free Float	44%
Shares in issue (mn)	268.2
Diluted share (mn)	268.2
3-mon avg daily val (mn)	INR237.7/US\$2.9
52-week range	609/391
Sensex/Nifty	62,846/18,599
INR/US\$	82.6

Price Performance

%	1M	6M	12M
Absolute	15.3	28.1	0.0
Relative*	12.1	28.6	0.0

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Sales	14,293	21,540	26,942	30,844	36,070
Sales Growth (%)	-3.5	50.7	25.1	14.5	16.9
EBITDA	1,914	4,505	6,431	7,157	8,530
EBITDA Margin (%)	13.2	20.8	23.6	23.1	23.6
Adjusted Net Profit	288	1,962	3,569	4,102	4,988
Diluted EPS (INR)	1.1	7.7	13.8	15.3	18.6
Diluted EPS Growth (%)	-20.9	579.3	78.0	10.9	21.6
ROIC (%)	3.5	12.2	18.6	18.2	19.2
ROE (%)	2.1	13.1	17.7	15.6	16.2
P/E (x)	521.9	76.8	43.2	38.9	32.0
P/B (x)	10.9	9.3	6.3	5.6	4.8
EV/EBITDA (x)	85.2	36.1	24.1	21.5	17.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 29/May/2023

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
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Thomson Publisher & Reuters,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

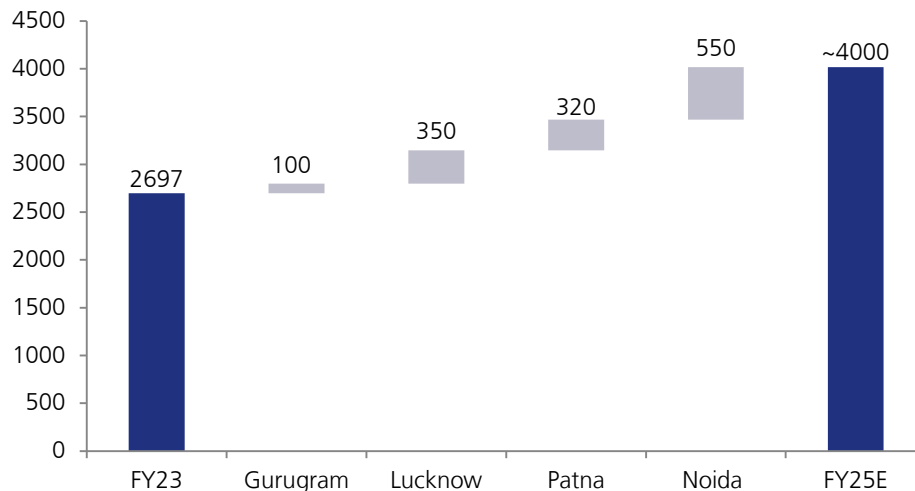
- **~1000 bed additions over FY23-25 to keep in Medanta in fast lane:** We expect 700-750 total beds to be installed in existing facilities over the next 2 years thereby reducing cash outflow. We expect 60% of INR 10bn capex for Noida hospital which will start contributing from FY25 and breakeven by end of FY26. Medanta also announced operation and maintenance of a 300 bed hospital (100+ critical care beds) in Indore. The hospital is expected to be ready by FY27 which provides further long term revenue visibility. Given their robust cash reserves of INR 4.7bn+ cash, Medanta has sufficient headroom for inorganic acquisition. Medanta announced service offerings across the continuum vide (1) Medanta Labs, which started in Jan'23, opened 22 collection centres. They plan to add 10+labs and 125+ collection centres in the next phase; (2) RWA and clinic network – operates 6 clinics across 4 cities. New mediclinic inaugurated in Gurgaon in Nov'22; (3) Homecare – 31000+ home care patients served in FY23.
- **Key financials:** Revenue/EBITDA/PAT of INR 7bn/1.6bn/1bn grew 35%/106%/476% YoY and were +1%/+6%/+39% vs. our estimates. Gross margins improved 100bps YoY to 76.6%. EBITDA margins grew 800bps YoY at 23.2% (vs. 23% QoQ; JMFe: 22.1%). EPS was 3.8 (vs. 0.7 YoY). ARPOB for the quarter was INR 60880 (vs. INR 58367 QoQ; INR 56624 YoY). Occupancy was 58% (vs. 59%QoQ; 52%YoY). Mature hospitals revenue increased 26%YoY to INR 5.3bn with EBITDAM improving 500bps to 24.7%. ARPOB and occupancy for mature hospitals was INR 63053 (vs. INR 55804YoY) and 58% (vs. 54%YoY) respectively. Developing hospitals' revenue grew 84%YoY to INR 2bn in 4Q with EBITDAM at 30.9%. ARPOB and occupancy were INR 56194 (vs. INR 59846 YoY) and 58% (vs. 48% YoY) respectively. Lower ARPOBs were due to Patna ramp-up (has a lower ARPOB due to PPP model) and has achieved breakeven in first full year of operations.

Exhibit 1. Valuation

Valuation	INR mn
Mar'25 EBITDA	8530
EV/EBITDA	20
Enterprise Value	170597
Less: Net Debt (excl. lease)	-7886
Equity Value	178483
No of shares	268
Mar'24 Price Target	665
Mar'24 Price Target (rounded off)	665

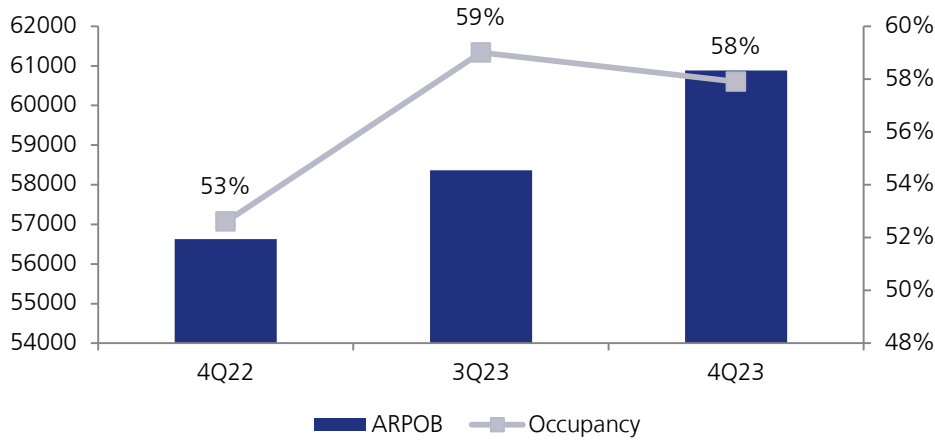
Source: Company, JM Financial

Exhibit 2. Aggressive bed expansion over FY23-25



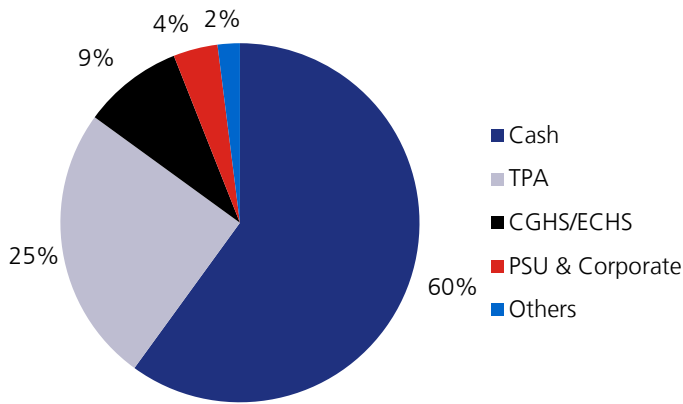
Source: Company, JM Financial

Exhibit 3. ARPOB and Occupancy remains robust



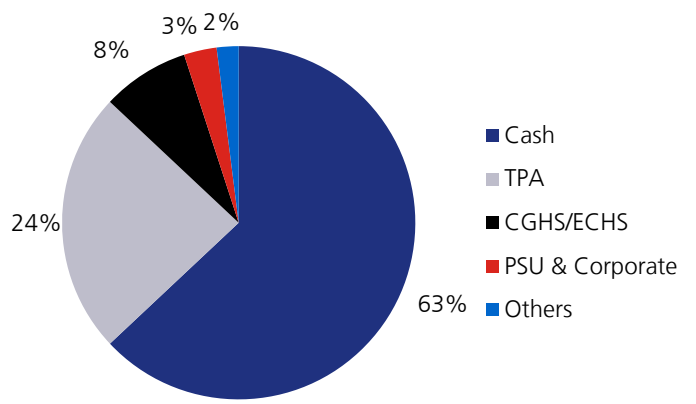
Source: Company, JM Financial

Exhibit 4. Revenue by payer mix- FY22



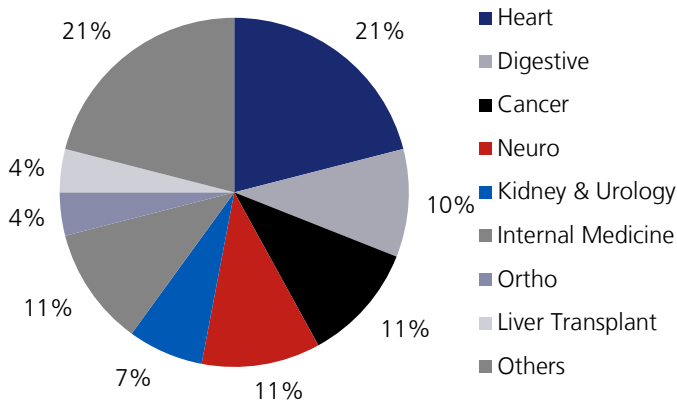
Source: Company, JM Financial

Exhibit 5. Revenue by payer mix- FY23



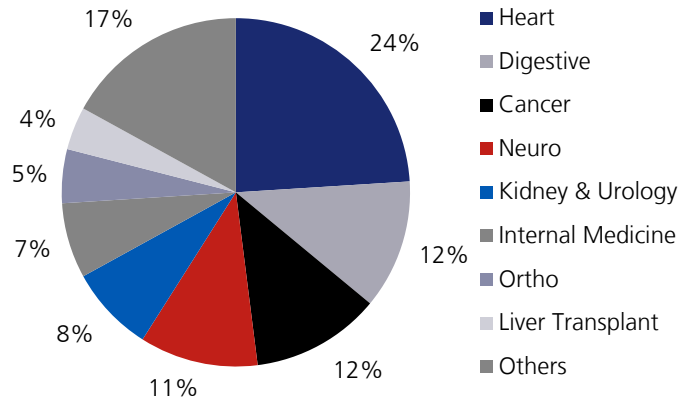
Source: Company, JM Financial

Exhibit 6. Revenue by therapy- FY22



Source: Company, JM Financial

Exhibit 7. Revenue by therapy- FY23



Source: Company, JM Financial

Exhibit 8. 4Q23 and FY23 performance review

Medanta - P&L (INR mn)	4Q22A	4Q23A	% YoY	4Q23E	% Delta vs. JMFe	3Q23A	% QoQ	FY22A	FY23A	% YoY
Net Sales	5,204	7,034	35%	6,960		6,943	1%	21,673	26,942	24%
Other op income	0	0		0		0		0	0	
Total Revenue	5,204	7,034	35%	6,960	1%	6,943	1%	21,673	26,942	24%
COGS	1,271	1,648	30%	1,628	1%	1,580	4%	5,429	6,253	15%
Gross Profit	3,932	5,386	37%	5,332	1%	5,364	0%	16,244	20,690	27%
Gross Profit %	75.6%	76.6%	101 bps	76.6%	-4 bps	77.3%	-67 bps	74.9%	76.8%	184 bps
Staff Cost	1,457	1,589	9%	1,660	-4%	1,596	0%	5,680	6,343	12%
Other expenses	1,694	2,138	26%	2,184	-2%	2,139	0%	6,018	8,148	35%
Impairment of Financial assets	-12	29	-336%	-48		28	0%	33	76	128%
EBITDA	794	1,631	106%	1,536	6%	1,600	2%	4,512	6,122	36%
EBITDA margin (%)	15.3%	23.2%	794 bps	22.1%	111 bps	23.0%	15 bps	20.8%	22.7%	190 bps
Other Income	128	284	122%	133	114%	119	139%	385	649	69%
Finance Cost	281	205	-27%	196		207	-1%	795	779	-2%
Depreciation	348	380	9%	400		388	-2%	1,297	1,499	16%
PBT	292	1,331	355%	1,073	24%	1,125	18%	2,806	4,493	60%
Exceptional Items	0	0		0		0		0	0	
Tax	117	320	174%	348		318	1%	844	1,232	46%
Tax Rate (%)	40.0%	24.1%		32.5%		28.3%		30.1%	27.4%	
Minority Interest	0	0		0		0		0	0	
PAT (Reported)	176	1,011	476%	725	39%	806	25%	1,962	3,261	66%
PAT margin (%)	3.4%	14.4%		10.4%		11.6%		9.1%	12.1%	
Diluted EPS (INR)	0.7	3.8	477%	2.7	40%	3.1	22%	7.8	12.6	62%
Medanta - Cost margins	4Q22A	4Q23A	% YoY	4Q23E	% Delta vs. JMFe	3Q23A	% QoQ	FY22A	FY23A	% YoY
COGS/sales	24.4%	23.4%	-101 bps	23.4%	4 bps	22.7%	67 bps	25.1%	23.2%	-184 bps
Staff cost/sales	28.0%	22.6%	-541 bps	23.8%	-125 bps	23.0%	-40 bps	26.2%	23.5%	-266 bps
Other expenditure/sales	32.5%	30.4%	-215 bps	31.4%	-99 bps	30.8%	-42 bps	27.8%	30.2%	247 bps

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Sales	14,293	21,540	26,942	30,844	36,070	
Sales Growth	-3.5%	50.7%	25.1%	14.5%	16.9%	
Other Operating Income	174	126	308	140	150	
Total Revenue	14,467	21,666	27,251	30,984	36,220	
Cost of Goods Sold/Op. Exp	3,486	5,429	6,253	7,095	8,258	
Personnel Cost	4,663	5,680	6,343	7,312	8,512	
Other Expenses	4,404	6,052	8,224	9,419	10,920	
EBITDA	1,914	4,505	6,431	7,157	8,530	
EBITDA Margin	13.2%	20.8%	23.6%	23.1%	23.6%	
EBITDA Growth	2.6%	135.3%	42.7%	11.3%	19.2%	
Deprn. & Amort.	1,232	1,297	1,499	1,794	2,136	
EBIT	682	3,208	4,931	5,363	6,394	
Other Income	314	392	649	779	857	
Finance Cost	672	795	779	523	418	
PBT before Excep. & Forex	325	2,805	4,801	5,619	6,833	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	325	2,805	4,801	5,619	6,833	
Taxes	37	844	1,232	1,517	1,845	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	288	1,962	3,569	4,102	4,988	
Adjusted Net Profit	288	1,962	3,569	4,102	4,988	
Net Margin	2.0%	9.1%	13.1%	13.2%	13.8%	
Diluted Share Cap. (mn)	252.7	253.3	258.9	268.2	268.2	
Diluted EPS (INR)	1.1	7.7	13.8	15.3	18.6	
Diluted EPS Growth	-20.9%	579.3%	78.0%	10.9%	21.6%	
Total Dividend + Tax	0	0	0	0	0	
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Shareholders' Fund	13,823	16,160	24,282	28,384	33,372	
Share Capital	496	506	536	536	536	
Reserves & Surplus	13,328	15,654	23,746	27,848	32,836	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	6,446	8,379	8,422	4,672	3,172	
Def. Tax Liab. / Assets (-)	-257	-278	-69	-69	-69	
Total - Equity & Liab.	20,012	24,261	32,635	32,987	36,475	
Net Fixed Assets	20,795	22,151	23,771	26,477	28,841	
Gross Fixed Assets	21,275	24,006	28,279	32,779	37,279	
Intangible Assets	72	63	52	52	52	
Less: Deprn. & Amort.	5,191	6,310	7,830	9,623	11,760	
Capital WIP	4,638	4,393	3,270	3,270	3,270	
Investments	2,199	3,924	5,109	5,109	5,109	
Current Assets	3,690	5,102	12,023	9,844	11,426	
Inventories	398	534	604	764	893	
Sundry Debtors	1,336	1,802	1,942	2,462	2,779	
Cash & Bank Balances	695	1,194	7,672	4,814	5,950	
Loans & Advances	0	0	0	0	0	
Other Current Assets	1,261	1,572	1,805	1,805	1,805	
Current Liab. & Prov.	6,672	6,916	8,267	8,443	8,900	
Current Liabilities	4,186	4,256	4,999	5,175	5,632	
Provisions & Others	2,485	2,660	3,268	3,268	3,268	
Net Current Assets	-2,982	-1,815	3,756	1,402	2,526	
Total - Assets	20,012	24,261	32,635	32,987	36,475	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Profit before Tax	325	2,805	4,493	5,619	6,833	
Deprn. & Amort.	1,232	1,297	1,499	1,794	2,136	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCap.	366	-668	1,028	-505	12	
Others	659	658	486	-256	-439	
Taxes Paid	-164	-980	-1,061	-1,517	-1,845	
Operating Cash Flow	2,418	3,112	6,445	5,135	6,697	
Capex	-1,457	-2,745	-2,360	-4,500	-4,500	
Free Cash Flow	960	368	4,085	635	2,197	
Inc (-) / Dec in Investments	-1,122	-1,642	-1,416	0	0	
Others	188	178	353	779	857	
Investing Cash Flow	-2,392	-4,209	-3,423	-3,721	-3,643	
Inc / Dec (-) in Capital	2	380	4,785	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	-30	2,152	-276	-3,750	-1,500	
Others	-779	-936	-1,053	-523	-418	
Financing Cash Flow	-807	1,596	3,456	-4,273	-1,918	
Inc / Dec (-) in Cash	-781	499	6,478	-2,859	1,136	
Opening Cash Balance	1,476	695	1,194	7,672	4,814	
Closing Cash Balance	695	1,194	7,672	4,814	5,950	

Source: Company, JM Financial

Dupont Analysis		FY21A	FY22A	FY23A	FY24E	FY25E
Y/E March						
Net Margin	2.0%	9.1%	13.1%	13.2%	13.8%	
Asset Turnover (x)	0.6	0.8	0.8	0.8	0.9	
Leverage Factor (x)	1.7	1.7	1.6	1.4	1.2	
RoE	2.1%	13.1%	17.7%	15.6%	16.2%	

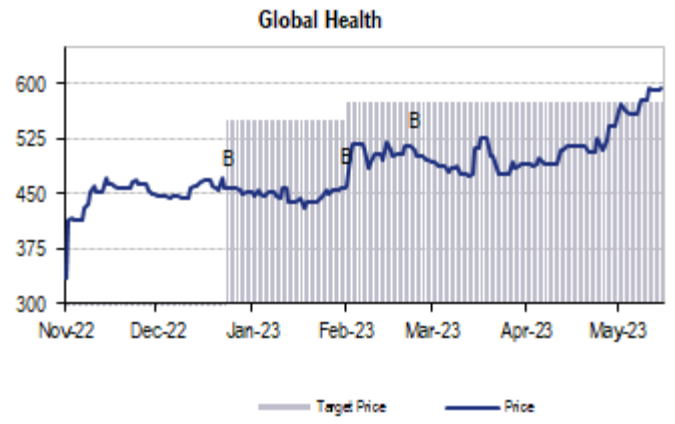
Key Ratios		FY21A	FY22A	FY23A	FY24E	FY25E
Y/E March						
BV/Share (INR)	54.7	63.8	93.8	105.8	124.4	
ROIC	3.5%	12.2%	18.6%	18.2%	19.2%	
ROE	2.1%	13.1%	17.7%	15.6%	16.2%	
Net Debt/Equity (x)	0.3	0.2	-0.2	-0.2	-0.2	
P/E (x)	521.9	76.8	43.2	38.9	32.0	
P/B (x)	10.9	9.3	6.3	5.6	4.8	
EV/EBITDA (x)	85.2	36.1	24.1	21.5	17.8	
EV/Sales (x)	11.3	7.5	5.7	5.0	4.2	
Debtor days	34	30	26	29	28	
Inventory days	10	9	8	9	9	
Creditor days	38	29	34	33	34	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
7-Jan-23	Buy	550	
15-Feb-23	Buy	575	4.5
9-Mar-23	Buy	575	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REIT refers to Real Estate Investment Trusts.

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