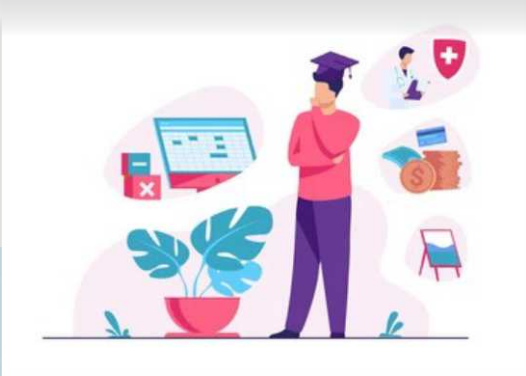


# MSEARCH

"Health is a priceless wealth. Invest while you can."

– Bryant McGill



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**Kovai Medical Center & Hospital Ltd**

**09th January 2023**

**Industry: Hospital**

**Recommendation: Buy**

**CMP Rs: 1730**

### Key Data

BSE Code	523323
NSE Code	KOVALI
52 Week High (Rs)	1924
52 Week Low (Rs)	1311
Market Cap (Rs Cr)	1897
Face Value	10

### About the Company:

Kovai Medical Center and Hospital Limited (KMCH) started its commercial operation in June 1990, with a capacity of 200 Bed Hospital in the outskirts of Coimbatore. It is in the business of advanced healthcare services and has also forayed into education services in 2019 with the commencement of its new Medical College in Coimbatore. Currently, it has grown into a 2,250 bed multi-locational, multi-disciplinary Super specialty hospital and is most trusted in Southern India. It has 24 operation theatres, 300 internationally renowned full-time clinicians and over 350 postgraduate medical professionals assisting them. Entering into the education service foray gives KMCH the advantage of hiring qualified professionals and to maintain the current margin levels.

### Industry Snapshot

Customers	Open
Market Presence	Domestic
Govt Regulations	Medium
Msearch View	Positive

### Investment Rationale:

**1) Track record of over three decades and healthy scale of operations**– KMCH is well supported by an experienced and qualified operational and management team with professionals who have rich experience in the healthcare industry. Due to its strong brand equity and superior quality of service, it is known as a health care provider of western approach with an Indian touch.

**2) Diversified revenue sources from multiple segments like hospitals and medical college** - KMCH had commenced Medical College in FY2019 and in FY2022, medical college contributed to 4% of the total revenue. This strategic move will help company to hire scarcely available doctors and nurses and also it is a high margin segment which will company to sustain and increase their margins. It has also integrated 750-bed KMCH Medical College General Hospital on the campus of the medical college in FY22 and we expect it to be operational by FY2024.

**3) Comfortable capital structure and adequate operating efficiency** – The company has sound operational parameters such as occupancy level at 48% in FY22 and we expect it to go up to 50% and the presence of highly qualified professionals enables a low ALOS (4.2 days in FY22). The company has a net debt of INR 300 Crore and debt/equity stood at 1.05 and a healthy interest coverage Ratio at 4.05 which shows the stability of the company to comfortably repay the debt.

**4) Positive outlook for the sector in long run**- Positive demand outlook for healthcare services in the country, due to growing awareness of healthcare issues, under-served nature of the sector, better affordability through increasing per capita income, and widening medical insurance coverage. As per reports, industry is expected to grow at a 15% CAGR for next two years.

#### Risk:

**1) Dependency on single locality** – KMCH has presence only in Coimbatore.

**2) Reliance on scarcely available qualified medical professionals:** The healthcare industry is highly dependent on the scarcely available, qualified medical professionals. The doctors are paid a variable fee depending on the number of surgeries performed and patients treated. Given the constraints of individual practice and associated costs, the doctors are incentivised to be associated with the hospital and work with latest technology.

**3) Increase in insurance penetration** – Higher than the expected increase in insurance penetration would affect the margins of the hospital as a whole.

**4) Exposure to regulatory risk** - Any policy change that may negatively impact the credit risk profile will be closely monitored.

### Shareholding Sept. 2022

Promoters	55.76%
Public	44.24%

### Promoters/ Management

Mr Nalla G Palaniswami	ED & MD
Mrs Thavamani Palaniswami	ED & MD
Mr Arun N Palaniswami	ED & MD
Mr PK Gopikrishnan	CFO

### Key Ratios

PE	19.00
PB	2.86
EPS	90.40
ROE	18.63%
ROCE	16.12%

### Price Chart



### Research Analyst

**Yash Kukreja**  
 022-61507197  
 yash.k@mehtagroup.in

### Mview

We initiate coverage on KMCH with a buy rating at CMP as it is well positioned to benefit from the tailwinds in the hospital industry. It has strong brand presence in the Coimbatore, and aggressive focus on educational services segment as well. This foray aids to the margins and it helps the company to hire qualified professionals as well. We expect revenue and EBITDA CAGRs of 13% and 15% over FY23E- FY24E for KMCH. However, EBITDA margins would likely remain stable at ~28% with declining contribution of covid-led revenues, largely offset by constant growth in the hospital business, regaining in non-covid business, operating leverage and cost rationalisation. As per valuation per se the company is trading at a PE of 19 and EV/EBITDA of 8.51. We believe with the tailwinds in the hospital the stock can deliver a 25% CAGR over the next 2 years.

## Financials: Kovai Medical Center & Hospital Ltd

### Income Statement

PARTICULARS (Rs. Cr)	2020	2021	2022	2023E	2024E
Net Sales/Income from operations	710	688	901	1003	1160
Revenue Growth %	13	-3	31	11	16
EBITDA	166	191	253	281	336
<b>EBITDA Margin %</b>	<b>23</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>29</b>
EBITDA Growth %	26	15	32	11	20
Depreciation, amortization and depletion expense	52	68	85	90	95
EBIT	114	123	167	191	241
<b>EBIT Margin %</b>	<b>16</b>	<b>18</b>	<b>19</b>	<b>19</b>	<b>21</b>
Other Operating Income	2	2	5	8	7
Other Income	11	12	12	14	15
Finance Costs	15	31	43	40	40
PBT	112	106	141	173	223
Tax	17	28	36	43	55
PAT	95	78	104	130	168
<b>PAT Margin %</b>	<b>13</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>15</b>
PAT Growth %	57	-18	34	24	30
<b>EPS</b>	<b>87</b>	<b>71</b>	<b>96</b>	<b>119</b>	<b>154</b>

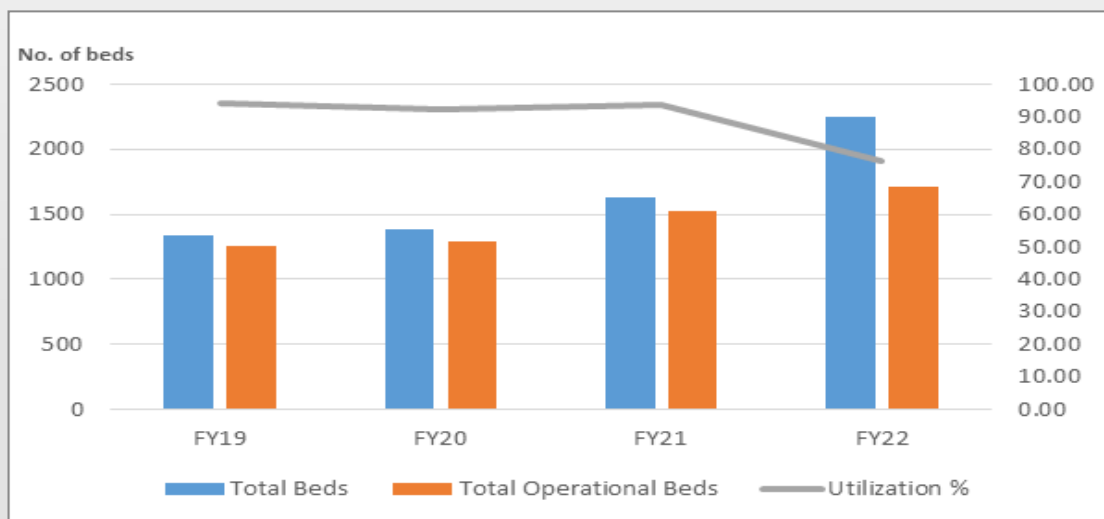
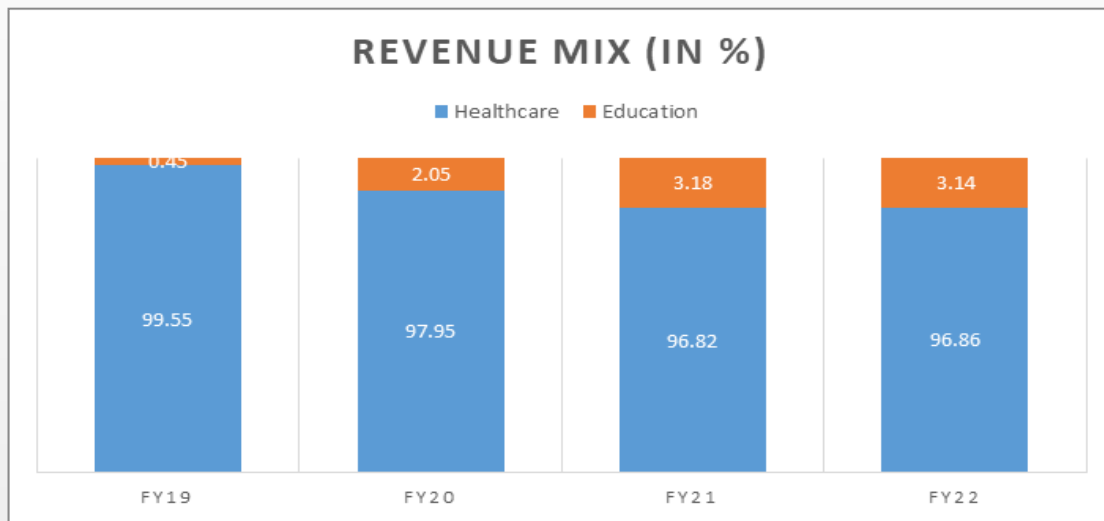
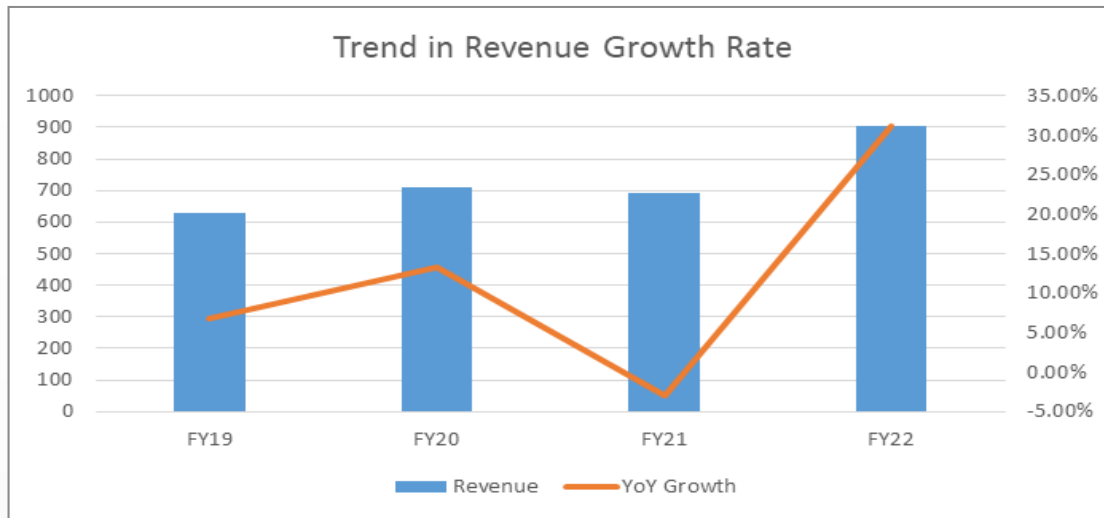
### Cashflow Statement:

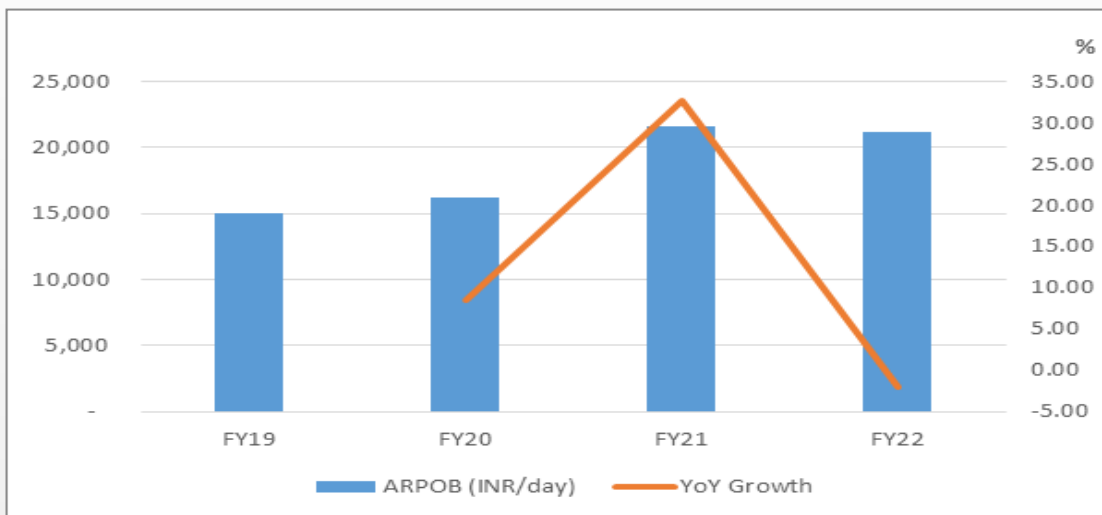
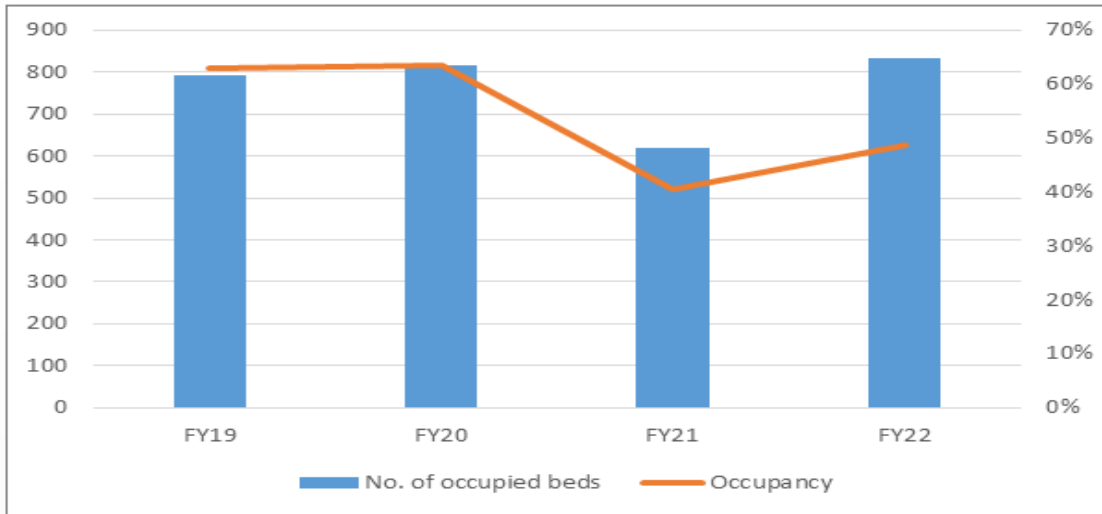
PARTICULARS (Rs. Cr)	2020	2021	2022	2023E	2024E
Cash at the Beginning of the Year	102	111	155	199	306
Net Cash from Operating Activities	152	186	263	303	358
Net Cash Used in Investing Activities	-256	-180	-99	-100	-100
Net Cash Used in Financing Activities	113	38	-120	-95	-95
Cash at the End of the year	111	155	199	306	470

## Balance Sheet

PARTICULARS (Rs. Cr)	2020	2021	2022	2023E	2024E
Shareholder's Funds					
Share Capital	11	11	11	11	11
Reserves and Surplus	420	499	598	723	884
Total Shareholder's Fund	431	510	609	734	906
Non-Current Liabilities					
Long-Term Borrowings	505	551	483	425	375
Lease Liabilities	29	39	37	35	33
Deferred Tax Liabilities (Net)	28	33	34	35	37
Other Long Term Liabilities	1	1	1	1	1
Long-Term Provisions	9	9	15	15	17
Total Non Current Liabilities	572	633	570	511	463
Current Liabilities					
Short-Term Borrowings	4	32	28	35	40
Lease Liabilities	1	1	2	2	2
Trade Payables	26	15	14	30	32
Other Current Liabilities	70	84	112	135	80
Short-Term Provisions	4	6	7	7	7
Total Current Liabilities	105	139	163	202	245
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1107</b>	<b>1281</b>	<b>1343</b>	<b>1447</b>	<b>1614</b>
ASSETS					
Non-Current Assets					
Fixed Assets	942	1078	1090	1094	1117
Tangible Assets	614	994	1048	1020	1050
Intangible Assets	1	3	3	33	25
Capital Work-in-Progress	300	45	5	9	9
Right-of-Use Assets	28	36	34	32	33
Long-Term Loans and Advances	23	10	12	11	16
Other Non-Current Assets	1	4	2	37	45
Total Non Current Assets	967	1093	1104	1142	1178
Current Assets					
Inventories	13	10	13	14	13
Trade Receivables	8	14	19	21	23
Cash and Cash Equivalents	111	155	199	306	470
Short-Term Loans and Advances	4	7	6	6	7
Other Current Assets	4	2	2	5	6
Total Current Assets	140	188	238	305	436
Other Assets	0	0	0	0	0
<b>TOTAL ASSETS</b>	<b>1107</b>	<b>1281</b>	<b>1343</b>	<b>1447</b>	<b>1614</b>

## STORY IN CHARTS:





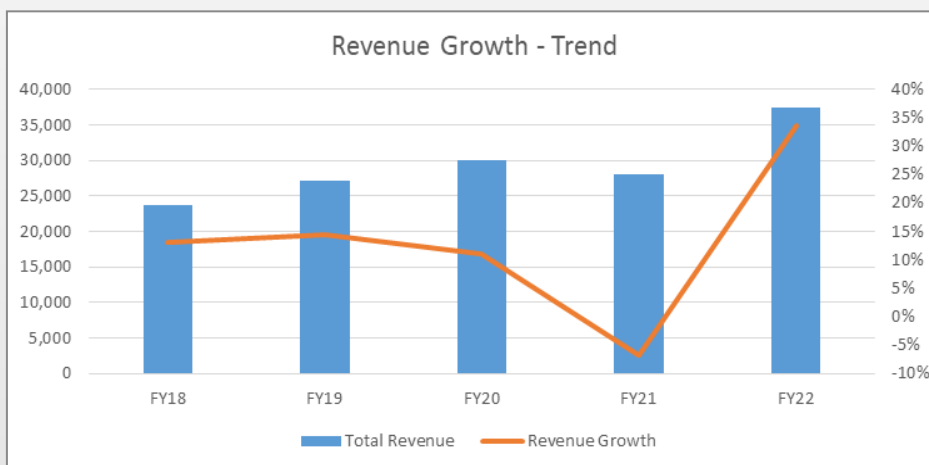
## HOSPITAL INDUSTRY

Healthcare has become one of India’s largest sectors, both in terms of revenue and employment. Healthcare comprises hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. - The healthcare industry in India stood at \$62 billion in 2017 and has grown at a 12% CAGR to reach a size of \$110 billion by 2022. It is expected to grow at a 15-17% CAGR driven by ageing population, burgeoning lifestyle diseases, rising affordability which in turn drives quality healthcare and improved medical insurance penetration.

The following table has details regarding the listed hospital industry:

Particulars (Rs Cr)	FY18	FY19	FY20	FY21	FY22
Total Revenue	23,686	27,083	30,098	28,046	37,503
Revenue Growth	-	14%	11%	-7%	34%
Total EBITDA	1,137	2,400	3,902	3,131	5,539
EBITDA Margins	5%	9%	13%	11%	15%
Total PAT	-460	396	951	101	2,691
PAT Margins	-2%	1%	3%	0%	7%

Source: Cline (includes: Apollo, Fortis, Healthcare Global, Narayana, Aster DM, Shalby, Kovai)

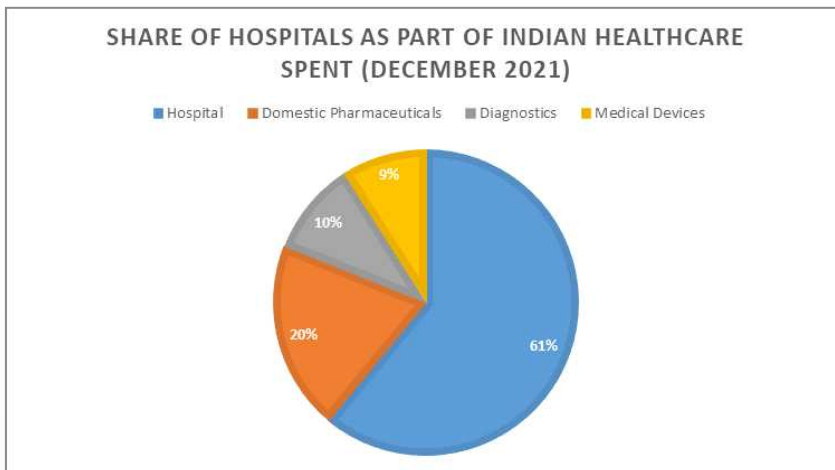


Source: Cline

The average revenue growth for the listed players in the hospital industry in the last 5 years is 13%. The companies had posted degrowth in the FY2021 due to covid outbreak which affected patient mobility and deferral of non-Covid surgeries. The hospitals paid most of their debt and now have stable interest coverage and debt/equity ratio which will have a positive impact on ROE and ROCE in the coming years.

We believe, hospital industry is well positioned to benefit with the improvement in the occupancy rates, deferral release of high-margin non-Covid surgeries, rationalization of operational costs and better absorption of fixed costs while deriving the benefits from economies of scale. The companies are adding beds through brownfield expansion and also trying to tap further.





Source: Industry

The Indian healthcare industry for FY22 is estimated at USD 110 billion (excluding Indian pharma exports), of which hospitals carve out the majority share, i.e., about 60% contributing about USD 67 billion. Hospital industry is expected to grow robustly over the next few years on account of growing demand due to both affordability and awareness, expected revival in medical tourism as well as brownfield and greenfield expansion by hospitals to tap into newer markets. Hospitals are increasingly looking to grow into parallel businesses like pharmacy, diagnostics and clinics to capture

the whole value chain of patient life-cycle management.

Metropolitan cities like Delhi, Mumbai, Chennai, and Kolkata host super specialty hospital groups (Apollo, Fortis, Max) with world class infrastructure, healthcare players are now looking to expand in Tier-2 and Tier-3 cities, such as Nashik (Maharashtra), Indore (Madhya Pradesh), Visakhapatnam (Andhra Pradesh), Jaipur (Rajasthan), Mohali (Chandigarh), Surat (Gujarat), and Dehradun (Uttarakhand).

The hospital industry in India offers huge investment opportunities for both global and domestic investors. At present, there are 582 investment opportunities worth US\$32.16 billion in the medical infrastructure sector.

100 percent foreign direct investment (FDI) is allowed for construction of hospitals under the automatic route for greenfield projects and for brownfield projects, up to 100 percent FDI is permitted under the government approval route.

Medical Tourism India offers significant opportunity for growth of medical tourism as the market was valued at US\$ 2.89 billion in 2020 and is expected to reach US\$ 13.42 billion by 2026. This market is expected to grow at a CAGR of 30% between FY20-26. Major contributing factors include the presence of world-class hospitals and skilled medical professionals, superior quality healthcare, low treatment costs in comparison with other countries, credibility of alternative systems of medicine, as well as increased global demand for wellness services like Yoga and meditation.

Medical Procedure (\$)	India	Thailand	Singapore*	South Korea*	USA
Heart Bypass	5,200	15,121	18,500	28,900	1,44,000
Heart valve replacement	5,500	21,212	12,500	43,500	1,70,000
Angioplasty	3,300	3,788	13,000	15,200	57,000
Hip replacement	7,000	7,879	12,000	14,120	50,000

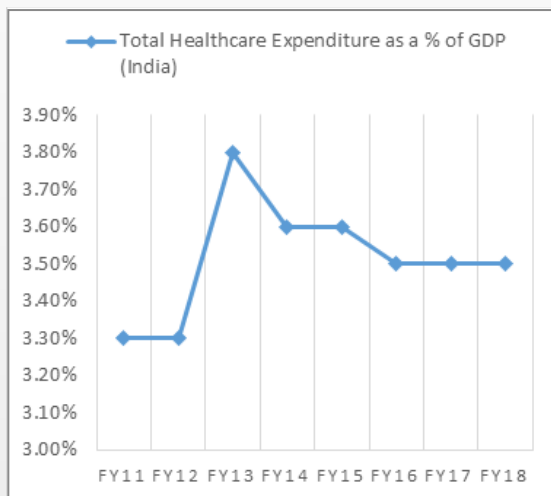
Source: Crisil Research

International patients used to contribute 10-12% of total revenues which is currently at 60-80% below pre-covid levels. As travel normalizes, revenue from international patients should pick up (which is of high margin in nature). Yoga, meditation, ayurveda, allopathy and other traditional methods of treatment are major service offerings that attract medical tourists from European nations and the Middle East to India.

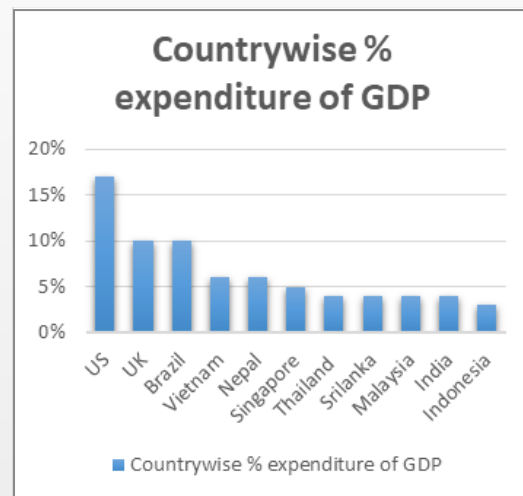
India also attracts medical tourists from developing nations due to lack of advanced medical facilities in many of these countries. India has been ranked 10th in the Medical Tourism Index (MTI) for 2020-21 out of 46 destinations by the Medical Tourism Association

### OPPORTUNITY IN HEALTHCARE INDUSTRY:

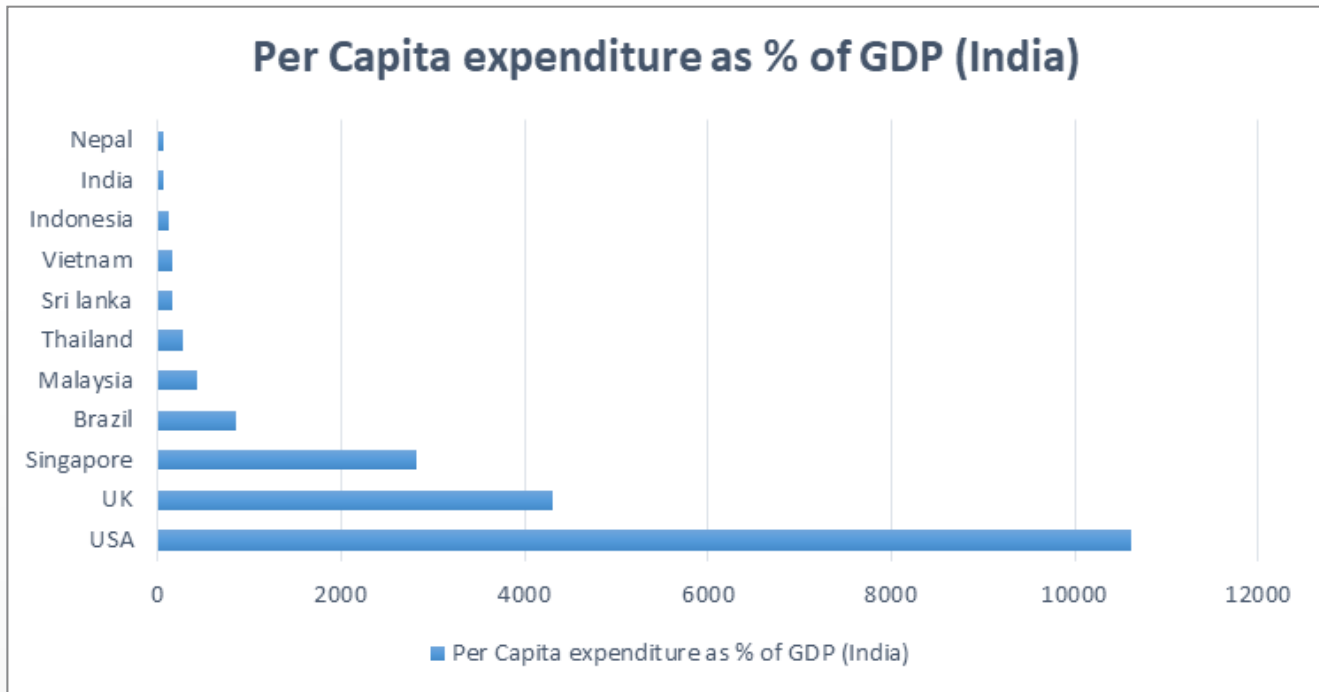
India's healthcare Industry is still behind some of the developing nations. As far as, the treatment cost is concerned it is 20% of the developed nations which in turn brings the medical tourism opportunities. India's Healthcare spend as a % of GDP is 4% whereas of US it is 17%.



Source: CRISIL

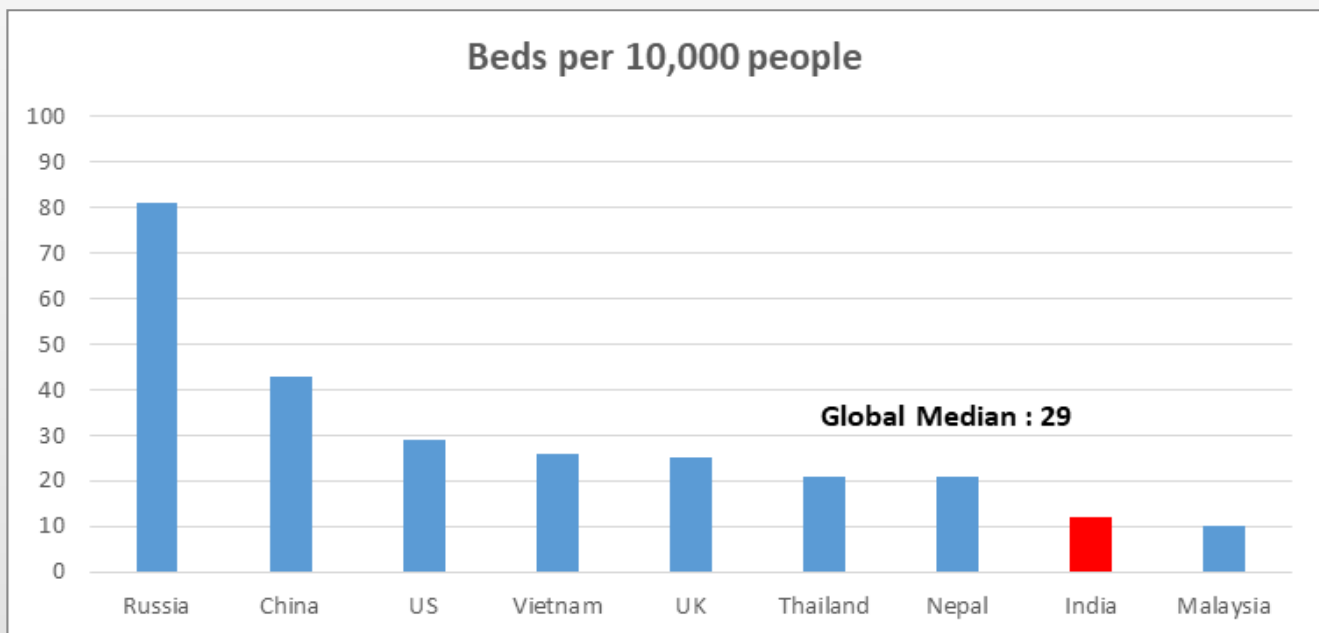


- 1) India's competitive advantage lies in its large pool of well-trained medical professionals.
- 2) India is also cost competitive compared to its peers in Asia and western countries. The cost of surgery in India is about one-tenth of that in the US or Western Europe.
- 3) India has all the essential ingredients for the exponential growth in this sector, including a large population, a robust pharma and medical supply chain, 750 million plus smartphone users, 3rd largest start-up pool globally with easy access to VC (Venture Capital Fund) funding and innovative tech entrepreneurs looking to solve global healthcare problems.



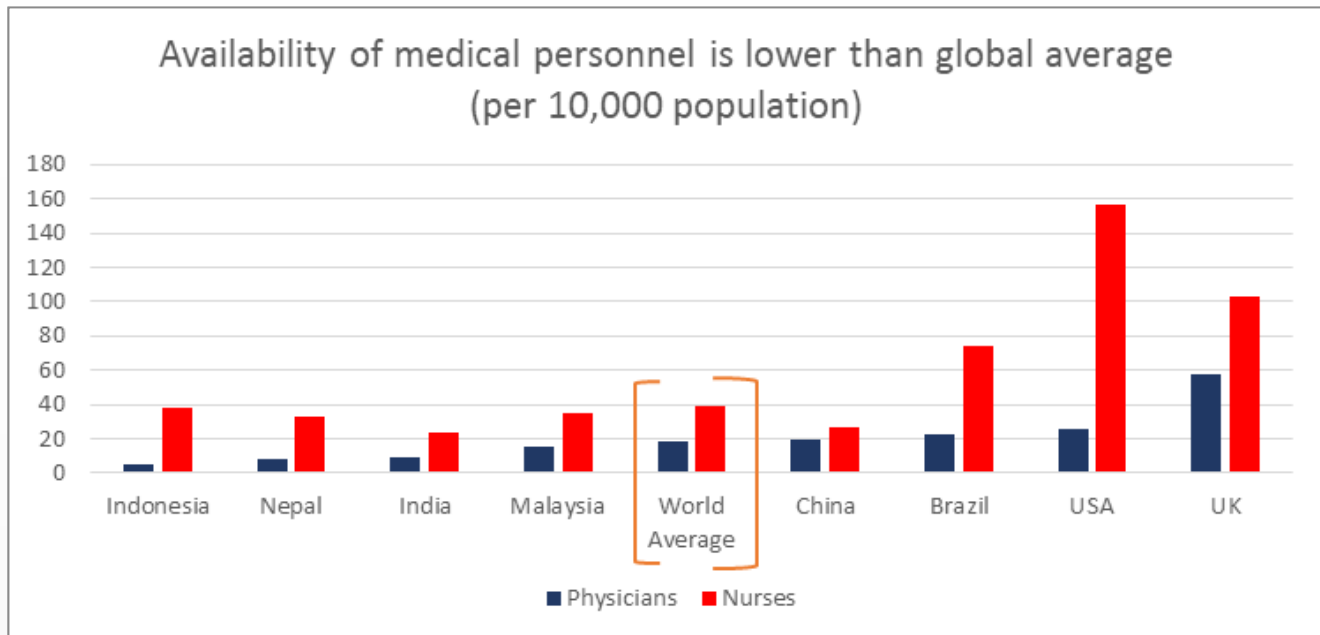
Source: CRISIL

Three million beds will be needed for India to achieve the target of 3 beds per 1,000 people by 2025. Also, India will have one doctor to every 800 patients by 2030.



Source: CRISIL

1.54 million doctors and 2.4 million nurses will be required to meet the growing demand for healthcare. 58,000 job opportunities are expected to be generated in the healthcare sector by 2025.



Source: CRISIL

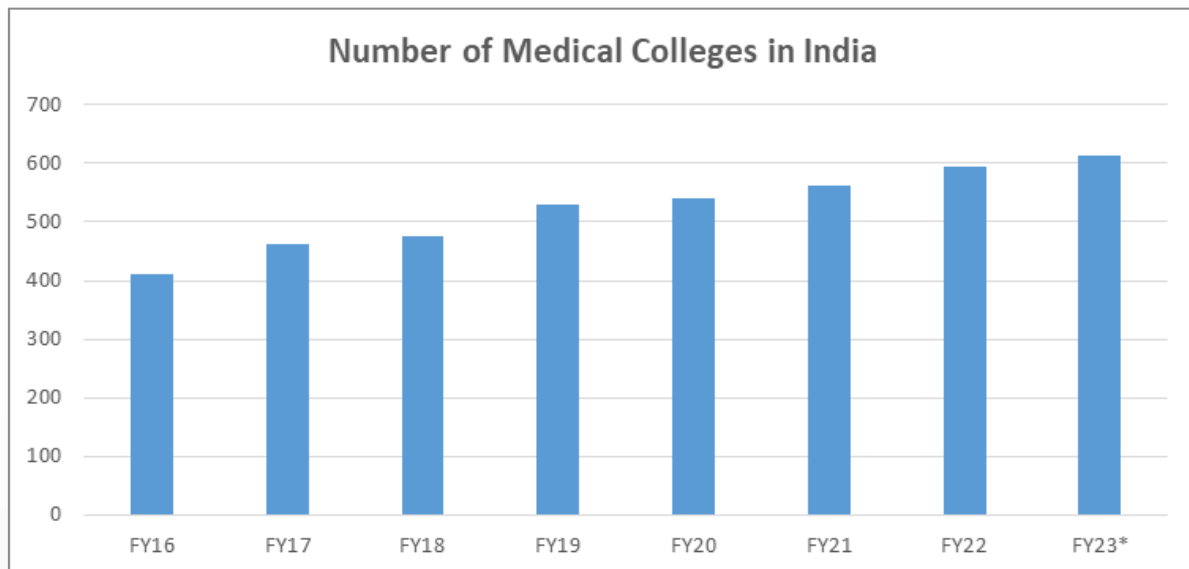
India's density of 33.5 health workers per 10,000 populations as compared to the WHO recommendation of 44.5 skilled health workers per 10,000 persons India with public spend likely to be limited to ~25-30% of annual healthcare spend. Low public spending and limited penetration of health insurance has led to 'out-of-pocket' expenditure accounting for ~63% of total healthcare which is one of highest in the world and well above global average of 22%.

Despite the uptick in government spending and increasing insurance coverage, Gov's current allocation to healthcare at ~1.8% of GDP (aims to reach ~2.5% of GDP by 2025) is way below the global average of 4.5-5%. Overall healthcare spends are also low at 3.6% of GDP (vs. an average of ~9% for OECD countries, 2018). Low government spend is an opportunity for private players.

### Medical College:

At present, India has 612 medical colleges -- 321 government and 291 private colleges. Availability of quality resources is a key challenge faced by the private sector. Currently, around 45-50k physicians graduate from the various medical colleges in India each year. According to the Medical Council of India, there are ~12.6lakh doctors (~10lakh active) in India at present, which translates to a ratio of 1 active doctor for every 1,343 people, which is not only lower than the global average of 1 doctor per ~640 people (World Bank, 2017), but also below the WHO norm of 1:1,000.

There is a huge opportunity in Medical Institutions as it solves the problem of scarcity of doctors, nurses and physicians. The hospitals have started their own medical college as it is high margin business and it helps the company to hire the qualified professionals from their own institutions. In May 2022, the Union Government approved grants for five new medical colleges in Gujarat with a grant of Rs. 190 crore (US\$ 23.78 million) each. These colleges will come up in Navsari, Porbandar, Rajpipla, Godhra and Morbi.



Source: IBEF

### Policy support & Government initiatives:

- Ayushman Bharat (PMJAY) - The government announced Rs. 64,180 crores (US\$ 8.80 billion) outlay for the healthcare sector over six years in the Union Budget 2021- 22 to strengthen the existing 'National Health Mission' by developing capacities of primary, secondary and tertiary care, healthcare systems, and institutions for detection and cure of new & emerging diseases.

- **National Health Insurance mission to cover entire population**

- **National Digital Health Mission (NDHM) –**

- a) On August 15, 2020, Prime Minister Mr. Narendra Modi launched the National Digital Health Mission (NDHM) programme, which was developed to provide the necessary support system for integrated digital health infrastructure of the country.

- b) As of May 2021, 11.9 lakh Health IDs have been generated and 3,106 doctors and 1,490 facilities have registered on the platform.

- **Various Tax Incentives –**

- a) All healthcare education and training services are exempted from service tax.

- b) Increase in tax holiday under section 80-IB for private healthcare providers in non-metros for minimum of 50 bedded hospitals.

- c) The benefit of section 80-IB has been extended to new hospitals with 100 beds or more that are set up in rural areas. Such hospitals are entitled to 100% deduction on profits for 5 years.

- **Encouraging policies for FDI in the private sector – 100% FDI is allowed under the automatic route for greenfield project and brownfield projects.**

### Key Pain Points:

- Government spends on healthcare is one of the lowest in the world
- Death of Qualified Medical Professional
- Structural Deficiencies – Inadequate Healthcare Infrastructure
- Lack of Health insurance in India
- Regulatory intervention
- Capex intensive sector

## COMPARATIVE ANALYSIS OF THE LISTED PEERS:

### PRESENCE

Company	Geographic Presence
Apollo Hospital Enterprise Ltd	Pan India
Fortis Healthcare Ltd	Pan India
Global Health Ltd (GHL) (Medanta)	North & East India
Max Healthcare Group*	North India
Narayana Hrudayalaya Ltd	Pan India
Shalby Ltd	Pan India
Aster DM Healthcare Ltd	South and West India
Kovai Medical Center & Hospital Ltd	South India

Source: Company annual reports/investor presentations, CRISIL Research

These hospitals are involved majorly in the provision of secondary and tertiary healthcare services (across a myriad of specialties). With the focus shifting to provision of healthcare services by private hospitals, bed addition by private players is happening at a faster pace as compared to government hospitals. The demand for healthcare remaining on an uptrend complimented by various factors, makes the demand- supply gap in the sector an attractive proposition to bridge.

### KEY SPECIALITIES

Company	Key Specialities Undertaken (Top 3)
Apollo Hospital Enterprise Ltd	Cardiology, Oncology, Neuro Sciences
Fortis Healthcare Ltd	Cardiology, Neurology, Orthopaedic
Global Health Ltd (GHL) (Medanta)	Cardiology & Cardiac Science, Oncology, Neuro
Max Healthcare Group*	Oncology, Cardiac Science, Transplants*
Narayana Hrudayalaya Ltd	Cardiac Science, Gastro, Oncology
Shalby Ltd	Arthoplasty, Cardiac Science, Oncology
Aster DM Healthcare Ltd	Joint Replacements, Urology, Gastro
Kovai Medical Center & Hospital Ltd	Transplants, Cardiac, Cancer

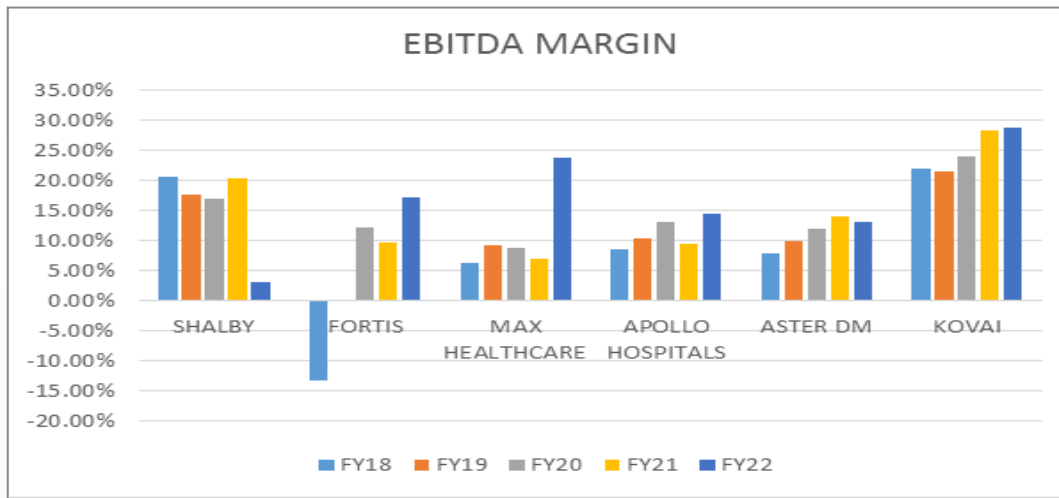
Source: Company annual reports/investor presentations, CRISIL Research

Data of Listed Peers (as on September 2022 - Q2FY23)							
	Apollo	Fortis	Healthcare	Narayana	Aster DM	Shalby	Kovai
Share Price (In Rs)	4,440	285	283	712	225	162	1,730
Market Cap (in Rs)(Cr)	63,782	21,516	3,938	14,566	11,284	1,759	1,897
BEDCAPACITY(in Nos)	9,425	5,310	2,567	6,490	4,033	2,112	2,250
No. of Operating beds	7,872	3,979	1,797	6,145	2,993	1,200	1,715
ALOS (in days)	3.4	3.7	2.3	4.5	3.4	3.9	4.2
ARPOB (in Rs per day)	51,136	53,972	36,914	1,10,600	36,300	33,439	21,144
Occupancy (in %)	64%	70%	66%	NA	63%	49%	49%
No. of Hospitals	49	26	25	44	15	11	5
Revenue (TTM) (Rs Cr)	15,232	5,940	1,548	4,131	10,946	728	931
EBITDA (TTM) (Rs Cr)	2,106	305	272	837	2,253	46	242
EBITDA Margins	14%	5%	18%	20%	21%	6%	26%
PAT (TTM) (Rs Cr)	840	511	-26	446	489	62	99
PAT Margins	6%	9%	-2%	11%	4%	9%	11%
Total Debt	2,560	940	371	562	439	123	533
Cash & Cash Equivalents	1,327	375	160	294	81	165	234
Net Debt	1,233	565	211	268	359	-46	299
Promoter Holding	29%	31%	71%	64%	38%	74%	56%

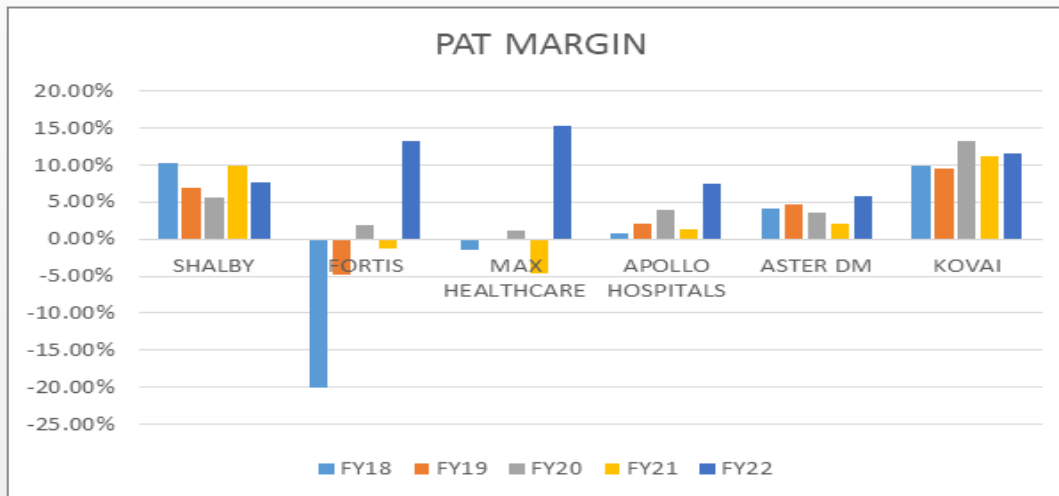
Source: Cline, Company Reports

\*Share price & Market cap is as on 9th January 2023

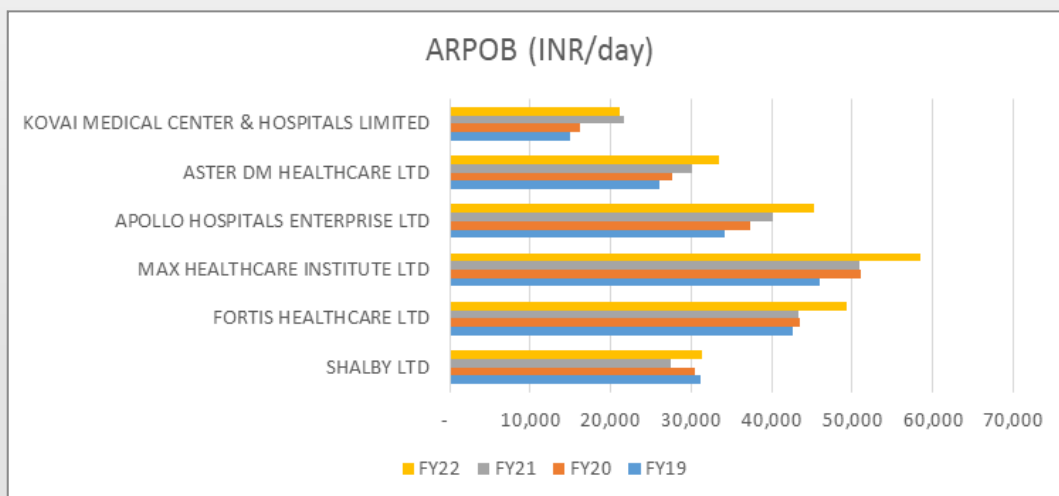
**PEER COMPARISON IN CHARTS:**



\*EBITDA – Earnings Before Interest Depreciation and Amortisation

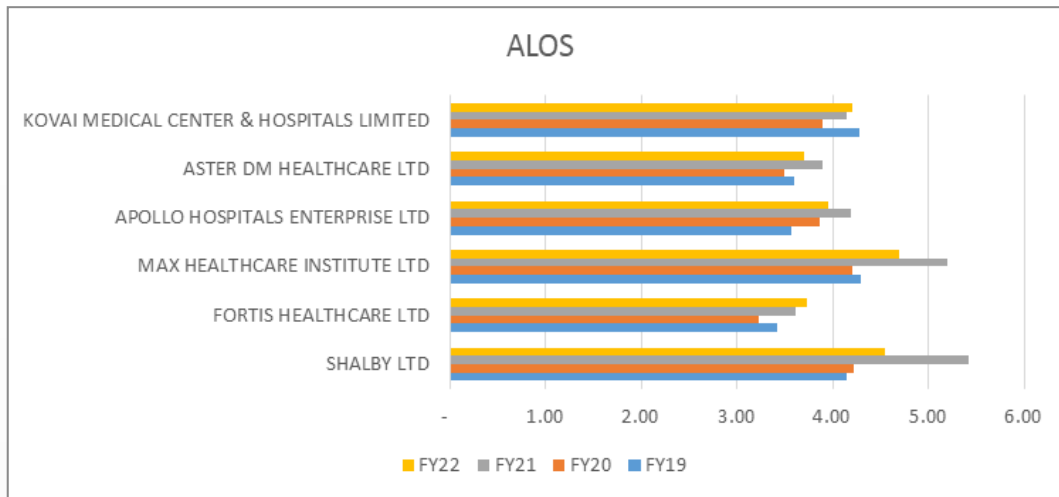


\*PAT – Profit After Tax

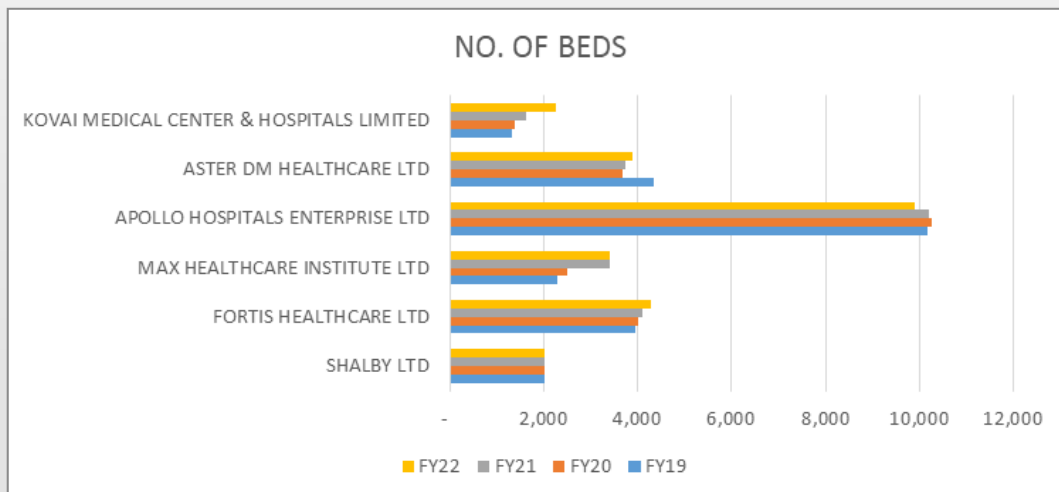
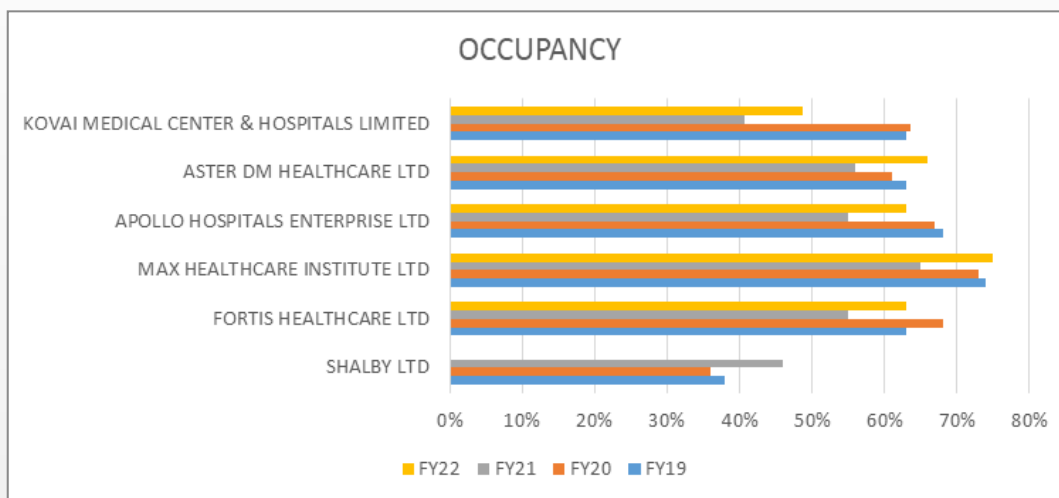


\*ARPOB – Average Revenue Per Occupied Bed





\*ALOS – Average Length of Stay



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