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Yatharth Hospital & Trauma Care Services Ltd.

26th July, 2023

IPO NOTE

Recommendation	Subscribe
Price Band	Rs 285 – 300
Bidding Date	26 – 28 July
Book Running Lead Manager	Intensive Fiscal Services, Ambit Private, IIFL Sec.
Registrar	Link Intime India Pvt. Ltd.
Sector	Healthcare

Minimum Retail Application- Detail At Cut off Price	
Number of Shares	50
Minimum Application Money	Rs 15000
Discount to	NIL
Payment Mode	ASBA

Consolidated Financials (Rs. Cr)	FY22	FY23
Revenue	401	520
EBITDA	111	134
Adj PAT	44	66

Valuations (FY22)	Upper Band
Market Cap (Rs Cr)	2576
Adj EPS	7.66
PE	39
EV/ EBITDA	20.9
Enterprise Value (Rs Cr)	2801

Post Issue Shareholding Pattern	
Promoters	66%
Public	34%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs. in cr)	85.85
Issue Size (Rs in cr)	687
Face Value (Rs)	10

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BACKGROUND

Company Overview:

Incorporated in 2008, Yatharth Hospital and Trauma Care Services Ltd. (Yatharth) is a multi-care hospital chain. Yatharth Hospital operates through its super specialty hospitals situated in Delhi NCR - Noida, Greater Noida, and Noida Extension, Uttar Pradesh. The hospital located in Noida Extension Hospital has 450 beds and is one of the largest hospitals in the area. Further, they acquired a 305-bedded multi-specialty hospital in Orchha, Madhya Pradesh near Jhansi, which commenced operations in Apr'22; taking total bed capacity to 1405.

Objects and Details of the Issue:

The public issue consists of fresh Issue of Equity shares aggregating upto Rs 490 Cr and Offer for sale of Equity Shares aggregating upto Rs 197 Cr.

Out of the fresh issue net proceeds, Rs 245 Cr will be utilized in repayment of debt; Rs 198 Cr will used to fund capex and further inorganic growth initiatives. Remaining of the proceeds will be utilized for general corporate purposes.

Investment Rationale:

- One of the leading super-specialty hospital in Noida with diverse specialty and payer mix
- Introducing new specialties at existing hospitals leading to higher ARPOB
- Scaling through organic and inorganic manner in current markets
- Healthy Financials

Valuation and Recommendation:-

Yatharth is one of the largest hospitals in Noida region. No. of occupied beds and ARPOB grew by 13% and 12% CAGR respectively over FY21-23; which led to a 51% CAGR growth in company's revenue. EBITDA grew at a CAGR of 41% over the aforementioned period. India's current healthcare expenditure is largely dominated by private expenditure. North India regions including Haryana and Uttar Pradesh have lower than average doctor and nurse density per 10,000 population. This is expected to improve going ahead, favouring company's expansion plans. Yatharth's recent acquisition of Jhansi-Orchha is aimed at further expanding into new geographies and to grow their presence into regional healthcare market. Company intends to focus on more advanced specialties; having high demand in respective markets and deliver a higher ARPOB. With high ROE and ROCE of 36% and 24.4% respectively, we believe Yatharth is being offered at a reasonable valuation of 20.9x FY23 EV/EBITDA as compared to its peers. With healthy financials along with growth potentials in Northern India, **we recommend 'SUBSCRIBE' to the issue.**

Financials (Rs Cr)	FY21	FY22	FY23
Net Revenues	229	404	520
Growth	*56.6%*	*75.3%*	*29.8%*
EBIDTA	67	111	134
EBITDA Margins	*29.3%*	*27.6%*	*25.7%*
PBT	28	63	88
Adjusted PAT	18	44	66
EPS	2.1	5.1	7.7
ROCE	17.6%	22.6%	24.4%
EV/EBITDA	41.8	25.3	20.9
P/E	141.8	58.5	39.2

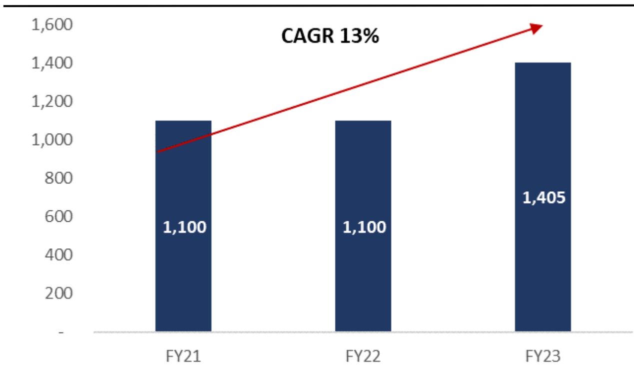
Source: Company data, NBR

Company Background

Yatharth Hospital & Trauma Care Services Ltd (Yatharth) operate 3 super specialty hospitals in Delhi NCR, i.e., at Noida, Greater Noida and Noida Extension. Further, they acquired a 305-bedded multi-speciality hospital in Orchha, Madhya Pradesh near Jhansi ("Jhansi-Orchha") which commenced commercial operations from Apr'22, and is one of the largest hospitals in Jhansi-Orchha-Gwalior region in terms of number of beds. With this acquisition, their total bed capacity has increased to 1,405 beds. In addition, their critical care program comprises 394 critical care beds, as of FY23. Noida Extension Hospital and Greater Noida are the 8th and 10th largest private hospital in Delhi NCR, respectively, in terms of number of beds in FY23.

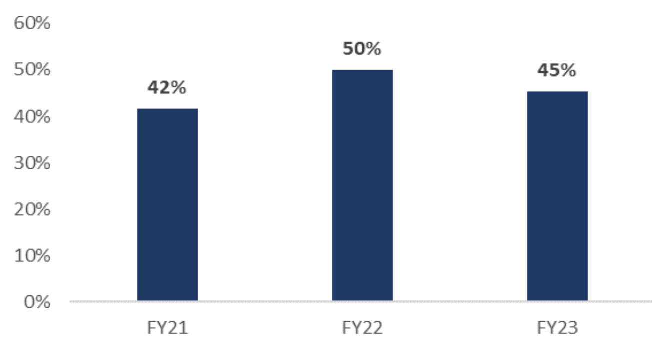
As of FY23, Yatharth had 609 doctors engaged on their panel for servicing the patients offering healthcare services across several specialties and super specialties such as Cardiology, Neuroscience, Orthopaedics, Oncology, Urology, etc. In FY23 the hospital had 3303 individuals engaged with the company including 178 resident medical officers, 267 consulting doctors and 164 visiting doctors. Company also 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.

Number of beds



Source: RHP, NBR

Bed Occupancy Rate (%)



Source: RHP, NBR

Yatharth commenced operations in 2008 with a clinic in Noida and thereafter established their 1st hospital in Greater Noida in November 2010. This hospital has since grown to become a super-specialty tertiary care hospital with 400 beds, including 112 critical care beds, 9 modular and other operation theatre. The 2nd hospital in Noida commenced in 2013 as a 250-bedded super-specialty tertiary care hospital. The 3rd hospital located in Noida Extension is a 450-bedded tertiary care hospital with a mix of 11 modular and other operation theatres. It also has 125 critical care beds and had commenced operations in May 2019. Further, they acquired a 305-bedded Jhansi-Orchha hospital in Q4FY22. It commenced commercial operations from Apr'22, and is equipped with 11 modular and other operation theatres and has 76 critical care beds.

Key Operating Metrics of each Hospital (FY23)

Particulars	Greater Noida	Noida	Noida Extension	Jhansi-Orchha
Total bed capacity	400	250	450	305
No. of census beds	330	215	390	250
No. of ICU beds	112	81	125	76
Bed occupancy rate (%)	62.4%	87.9%	31.3%	8.4%
ARPOB (Rs)	26,539	24,949	30,475	17,692
ALOS	4.35	5.77	3.14	3.79

Source: RHP, NBR

Revenue Split (Hospital Wise)

	FY21		FY22		FY23	
Rs Cr.	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Greater Noida	81	35%	170	42%	199	38%
Noida	68	30%	128	32%	172	33%
Noida Extension	80	35%	102	26%	136	26%
Jhansi-Orchha	-	-	-	-	13	3%
Total Revenue	**229**	**100%**	**401**	**100%**	**520**	**100%**

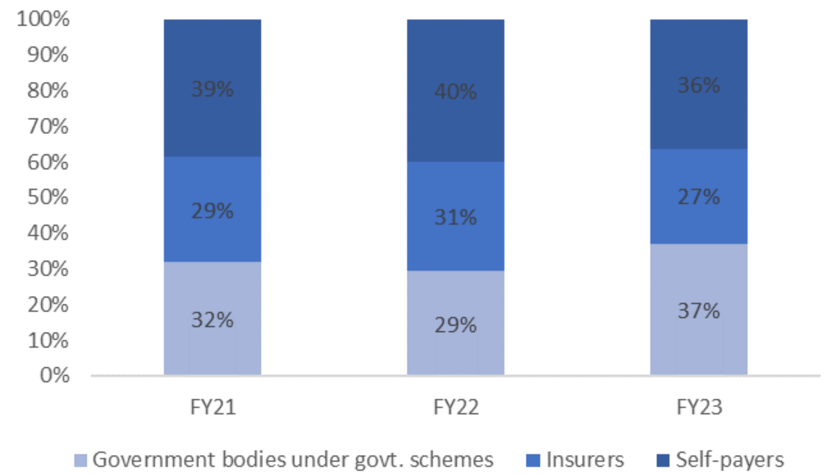
Source: RHP, NBR

Investment Rationale

One of the leading super-specialty hospital in Delhi NCR with diverse specialty and payer mix

Yatharth engaged 609 doctors led by experienced clinical department directors and offer a range of healthcare services across their specialties and super specialties including Cardiology, Neuroscience, Orthopaedics, Oncology, Urology, etc. Company's operations encompass all levels of healthcare services from primary to tertiary. Diversification of revenue in terms of specialties, hospital and customer mix allows them to grow their business whilst maintaining a relatively de-risked business proportions and allows them to impose differential pricing and marketing strategies more effectively to attract the customers and the patients.

Revenue Mix Payer Category



Source: RHP, NBR

Introducing new specialties at existing hospitals leading to higher ARPOB

Yatharth is intending 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. Company's existing oncology treatment includes medical and surgical oncology and by introducing radiation therapy, they aspire to make Noida Extension hospital as their centre of excellence for complete oncology treatment.

Company has also started bone marrow and kidney transplant operations at their Noida Extension and Greater Noida hospitals. Further, they have also received requisite approvals to start liver transplant at their Noida Extension hospital. They also plan to introduce an additional specialty of human organ transplant and intend to develop their Greater Noida hospital as their Organ Transplant centre. Both oncology treatment and human organ transplant are expensive treatments; thereby increasing company's ARPOB substantially.

Scaling through organic and inorganic manner in current markets

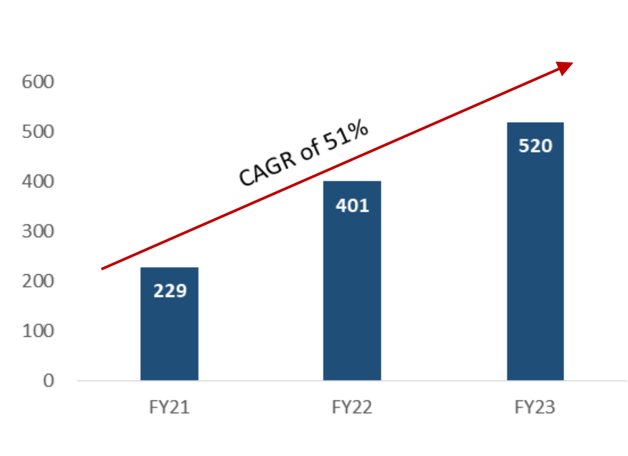
Company has its hospitals in Delhi NCR region which has witnessed strong economic growth in the last few years. With more population moving from rural region to urban region, Yatharth is looking to capitalise this growth by expanding the network of hospitals through brownfield and greenfield projects, strategic acquisitions and arrangements with third party service providers.

After acquiring a 305-bedded multi-speciality hospital in Jhansi-Orchha, company has now been allotted 1,885.15 sq.mtr of land adjacent to its Greater Noida hospital with intention to expand the bed capacity by 200 beds. Further, they have emerged as the highest bidder to lease 3,660.00 sq. mtr of land adjacent to their Noida Extension hospital with the intention to expand the bed capacity. However, the process to enter into definite agreements with the authorities is currently in process and no such agreements have been entered. They also intend to explore opportunities for expansion via asset-light models or models involving no ownership of assets.

Healthy Financials

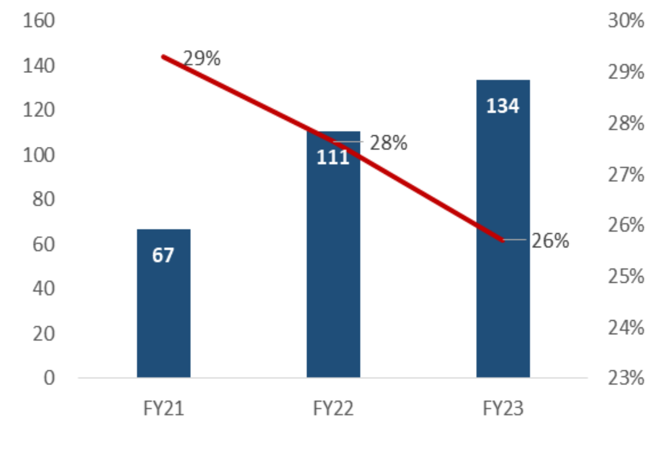
Company has reported strong growth in revenue and profitability over the past few years on account of bed addition and increase in occupancy rate. Revenue grew at a CAGR of 51% over FY21-FY23; whereas EBITDA grew at a CAGR of 41% over the same period with margins of 26% in FY23. Number of operational beds increased from 864 in FY21 to 1405 in FY23. Occupancy rate in FY23 was lower at 49% as the company acquired Jhansi-Orchha hospital operating at 8%. Occupancy level ex Jhansi-Orchha stood at around 50%. Ramp up in Jhansi-Orchha hospital will increase its occupancy rate; thereby improving profitability.

Revenue Growth (YoY)



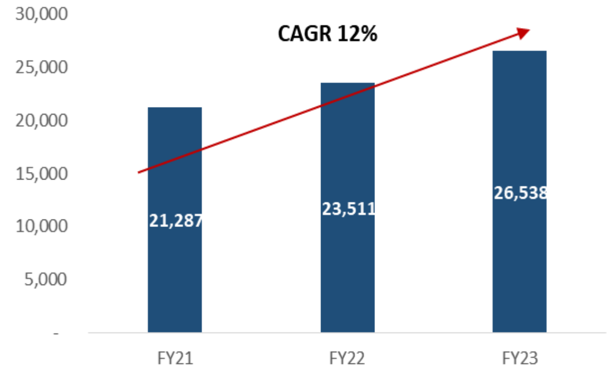
Source: RHP, NBR

EBITDA & Margins



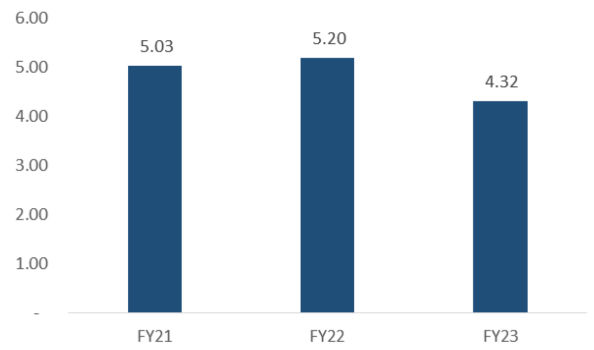
Source: RHP, NBR

ARPOB



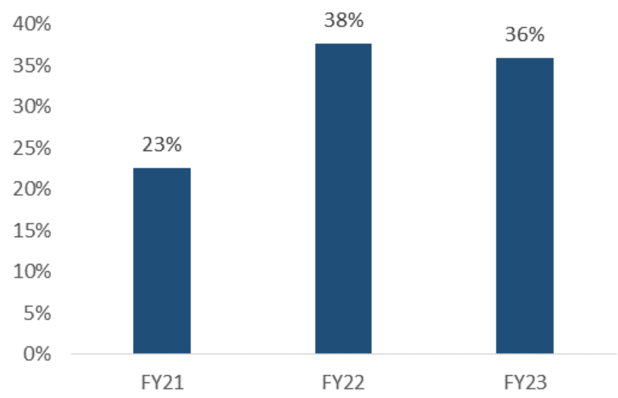
Source: RHP, NBR

ALOS (no. of days)



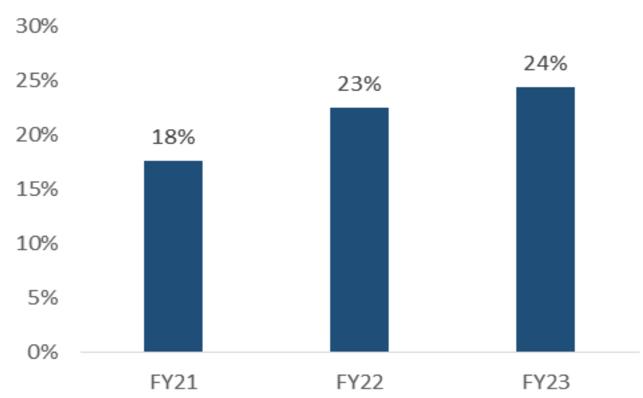
Source: RHP, NBR

ROE (%)



Source: RHP, NBR

ROCE (%)



Source: RHP, NBR

Key Risks & Concerns

Unfavorable government policies & regulations

Healthcare industry is a highly regulated industry which requires compliance with applicable safety, health, environmental and other governmental regulations. The company may incur substantial costs in order to comply with current or future laws, rules and regulations.

Retention of healthcare professionals

Yatharth's performance and growth strategies depends substantially on its ability to attract and retain experienced doctors, nurses and other healthcare professionals in a highly competitive industry. The demand for doctors is highly competitive. The availability of specialist doctors is limited by the training period, which can be up to 15 years and even longer for certain medical specialties. If the company is unable to attract or retain medical personnel as required, it may not be able to maintain the quality of its services and could be forced to admit fewer patients, which may adversely impact its revenue.

Competition from other Hospitals

Competition in the healthcare industry has increased with new hospitals coming up in the geographies Yatharth operates in. A highly competitive industry, coupled with tightening of healthcare regulations, has made it difficult for smaller players in the industry to stay profitable. Larger hospital brands like Apollo, Max and Medanta, typically have stronger financial discipline and negotiating power with suppliers, better ability to attract medical talent, and greater capital and administrative resources to meet these needs over standalone hospitals. If the company is not able to attract or retain such professionals then the competitive pressure can have an adverse impact on the company's business and financial condition. In addition, any consolidation in the healthcare industry may lead to concentration of market share which may exert pricing and recruiting pressure.

Delay in receiving payments from government bodies

Revenue from government bodies contribute more than 37%. Receiving payments from government usually takes time which increases company's receivable days. Any delays in receiving payment of significant outstanding dues from government bodies may have a material adverse impact on its business, financial condition, cash flows, results of operations and prospects.

Valuation and Recommendation

Yatharth is one of the largest hospitals in Noida region. No. of occupied beds and ARPOB grew by 13% and 12% CAGR respectively over FY21-23; which led to a 51% CAGR growth in company's revenue. EBITDA grew at a CAGR of 41% over the aforementioned period. India's current healthcare expenditure is largely dominated by private expenditure. North India regions including Haryana and Uttar Pradesh have lower than average doctor and nurse density per 10,000 population. This is expected to improve going ahead, favouring company's expansion plans. Yatharth's recent acquisition of Jhansi-Orchha is aimed at further expanding into new geographies and to grow their presence into regional healthcare market. Company intends to focus on more advanced specialties; having high demand in respective markets and deliver a higher ARPOB. With high ROE and ROCE of 36% and 24.4% respectively, we believe Yatharth is being offered at a reasonable valuation of 20.9x FY23 EV/EBITDA as compared to its peers. With healthy financials along with growth potentials in Northern India, **we recommend 'SUBSCRIBE' to the issue.**

Listed Peers

FY23 Figures	Fortis Healthcare	Max Healthcare	Apollo Hospitals	Narayana Hrudalaya	KIMS	Global Health Ltd	Average	Yathrath Hospitals
Revenue	6,298	4,563	16,612	4,525	2,198	2,694	6,148	520
CAGR (FY21-23)	25%	35%	25%	32%	29%	36%	30.4%	51%
EBITDA Margin	17.5%	27.2%	12.1%	21.8%	27.5%	22.7%	21.5%	25.7%
Asset Turns (x)	0.5	0.5	1.2	1.1	0.7	0.7	1	1.1
Wkg Cap Days	(9)	33	22	25	30	136	39	54
ROCE	12.5%	15.0%	14.6%	31.6%	25.1%	16.8%	19.3%	24.4%
ROE	9.4%	14.9%	13.9%	33.1%	21.3%	16.1%	18.1%	35.9%
Debt/Equity	0.1	0.1	0.4	0.4	0.3	0.5	0.3	1.4
EV/EBITDA	23.3	47.4	39.1	21.9	25.7	30.7	31.3	20.9
P/E	42.9	53.6	91.3	34.8	44.4	58.1	54.2	39.2

Source: RHP, NBR

Financials

P&L (Rs. Cr)	FY19	FY20	FY21	FY22	FY23
Net Revenue	**102**	**146**	**229**	**401**	**520**
% Growth		*43%*	*57%*	*75%*	*30%*
Raw Materials	19	27	46	81	93
% of Revenues	*19%*	*18%*	*20%*	*20%*	*18%*
Employee Cost	20	27	47	80	92
% of Revenues	*20%*	*18%*	*20%*	*20%*	*18%*
Other expenses	42	55	69	128	202
% of Revenues	*42%*	*38%*	*30%*	*32%*	*39%*
EBITDA	**19**	**38**	**67**	**111**	**134**
EBITDA Margin	*19%*	*26%*	*29%*	*28%*	*26%*
Depreciation	8	21	21	28	28
Other Income	0	1	1	2	3
Interest	6	19	19	21	21
Exceptional item	0	0	0	0	0
PBT	**5**	**(2)**	**28**	**63**	**88**
Tax	1	(0)	9	19	22
Tax rate	*21%*	*21%*	*30%*	*30%*	*25%*
Minority Interest	(0)	(1)	1	0	0
Adj. PAT (norm. Tax)	**4**	**(1)**	**18**	**44**	**66**
% Growth		*-123%*	*-2061%*	*142%*	*49%*
EPS (Post Issue)	**0.46**	**(0.11)**	**2.12**	**5.13**	**7.66**

Ratios & Others	FY19	FY20	FY21	FY22	FY23
Debt / Equity	2.8	3.0	2.3	2.2	1.4
EBITDA Margin (%)	19.1%	25.7%	29.3%	27.6%	25.7%
PAT Margin (%)	3.9%	-0.6%	7.9%	11.0%	12.6%
ROE (%)	6.8%	-1.5%	22.5%	37.7%	35.9%
ROCE (%)	5.1%	6.8%	17.6%	22.6%	24.4%

Turnover Ratios	FY19	FY20	FY21	FY22	FY23
Debtors Days	43	42	59	78	76
Inventory Days	8	7	5	5	4
Creditor Days	45	34	26	19	12
Asset Turnover (x)	0.4	0.5	0.7	0.9	1.1

Valuation Ratios	FY19	FY20	FY21	FY22	FY23
Price/Earnings (x)	647.4	-2781.3	141.8	58.5	39.2
EV/EBITDA (x)	144.0	74.5	41.8	25.3	20.9
EV/Sales (x)	27.5	19.2	12.2	7.0	5.4
Price/BV (x)	44.2	41.5	31.9	22.0	14.1

Source: RHP, NBR

Balance Sheet (Rs. Cr)	FY19	FY20	FY21	FY22	FY23
Share Capital	16	16	16	66	66
Other Equity & minority int	42	46	64	51	117
Networth	**58**	**62**	**81**	**117**	**183**
Total Loans	**165**	**185**	**186**	**258**	**264**
Other non-curr liab.	10	8	9	5	3
Trade payable	13	14	17	20	17
Other Current Liab	11	19	16	26	19
Total Equity & Liab.	**257**	**287**	**309**	**426**	**486**
Fixed Assets & CWIP	217	241	243	258	255
Right-of-use-asset & Other	12	10	8	45	43
Deferred Tax Assets			0	5	8
Inventories	2	3	3	5	6
Other non Curr. assets	4	7	9	8	3
Cash	0	2	5	12	37
Bank	0	0	0	0	1
Debtors	12	17	37	86	108
Other Current assets	9	7	4	7	24
Total Assets	**257**	**287**	**309**	**426**	**486**

Cash Flow (Rs. Cr)	FY19	FY20	FY21	FY22	FY23
Profit Before Tax	5	(2)	28	63	88
Provisions & Others	15	40	39	49	49
Op. profit before WC	**20**	**38**	**67**	**112**	**136**
Change in WC	0	4	(22)	(39)	(35)
Less: Tax	(2)	(3)	(2)	(13)	(37)
CF from operations	**17**	**40**	**44**	**60**	**64**
Int & Div Received	0	0	0	0	0
Others			0	(26)	0
Investment in/maturity of BD	0	(0)	(1)	(13)	0
Payment for PPE	(78)	(43)	(20)	(13)	(20)
CF from Investing	**(78)**	**(43)**	**(21)**	**(52)**	**(20)**
Net movement of long term borrowi	49	18	(0)	20	4
Repayment from brorrowings					
Issue of Shares including premium	5	6			
interest & div paid	(6)	(19)	(19)	(21)	(21)
CF from Financing	**47**	**5**	**(19)**	**(1)**	**(18)**
Net Change in cash	**(13)**	**2**	**3**	**7**	**26**
Cash & Bank at beginning	13	0	2	5	12
Cash & Bank at end	0	2	5	12	38

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