

Sanguine outlook despite capacity additions from FY25

In this report, we compare the operating and financial performance of 8 listed hospital companies from FY17-1HFY23. With most players focused on consolidating bed capacities over the past 5 years, the hospital sector's Ebitda margins/RoIC (pre-tax) expanded ~800/1800bps to ~23/25% resp. over FY17-1HFY23, thereby driving rerating for the sector. While companies have indicated plans to expand bed capacities by ~30-70% over the next 4-5yr period, and part of this incremental capacity will start getting commissioned from end-FY24, we believe the drag from new capacities on consol. financials will be significantly lower than it used to be in the past. Hence, the sector's margins/return ratios will broadly sustain, which will also be aided by further improvement in occupancies of existing hospitals and ARPOB growth, driven by rationalization of institutional business and increase in international patient volumes. Given Ebitda growth expectations of ~15/20% Cagr for large/mid hospitals over FY22-25ii and current valuations, we find relative value in Apollo/Fortis among large-cap stocks and KIMS/Narayana among mid-caps. We continue to like Rainbow's differentiated model of complex childcare and recommend adding the stock on corrections.

Occupancies are expected to improve further from a median ~62% to ~70-75% over the next 2 years

Combined bed capacity for the 8 listed hospital players (Apollo, Fortis, Max, Narayana, KIMS, Rainbow, HCG and Shalby) has grown only at ~2-3% Cagr over FY17-1HFY23; for mid-cap companies like KIMS, Rainbow and HCG, capacities have grown at a relatively faster rate of 7-15% Cagr during this period. The sector-level median occupancies, after having dipped to ~52% during the Covid period in FY21, have improved to ~62% in 1HFY23.

Figure 1: Combined bed capacity for the 8 listed hospital players (Apollo, Fortis, Max, Narayana, KIMS, Rainbow, HCG, Shalby) has grown only at ~2-3% Cagr over FY17-1HFY23

Operational Metrics	FY18	FY19	FY20	FY21	FY22	1HFY23	FY17-23ii Cagr
Hospitals (no.)							
Apollo	43	44	45	44	44	44	
Fortis		24	24	23	23	23	
Max Healthcare	12	12	12	12	12	12	
Narayana (India)	28	28	26	25	23	24	
KIMS	6	8	9	9	9	13	
HCG	21	24	24	24	24	24	
Rainbow	9	10	12	14	14	15	
Shalby	11	11	11	11	11	11	
Bed capacity (no.)							
Apollo	8,353	8,683	8,822	8,816	8,538	8,578	0%
Fortis	4,106	3,691	3,652	3,743	3,931	3,979	-1%
Max Healthcare	3,529	3,485	3,371	3,371	3,412	3,412	-1%
Narayana (India)	6,453	6,451	6,336	6,465	6,231	6,075	0%
KIMS	2,120	2,804	3,004	3,064	3,064	4,015	15%
HCG	1,569	1,872	2,071	2,036	1,944	2,053	7%
Rainbow	929	1,162	1,296	1,475	1,500	1,555	9%
Shalby	2,012	2,012	2,012	2,012	2,012	2,112	1%
Total of 8 players	29,071	30,160	30,564	30,982	30,632	31,778	2%
Operational beds (no.)							
Apollo	7,111	7,246	7,491	7,409	7,875	7,872	2%
Fortis	4,106	3,691	3,652	3,743	3,931	3,979	-1%
Max Healthcare	3,244	3,247	3,228	3,220	3,246	3,243	0%
Narayana (India)	5,529	5,665	5,627	5,760	5,689	5,752	2%
KIMS	1,705	2,209	2,434	2,590	2,590	3,543	15%
HCG	1,349	1,610	1,781	1,719	1,702	1,797	7%
Rainbow	782	931	1,001	1,132	1,150	1,165	7%
Shalby	1,150	1,012	1,200	1,200	1,200	1,200	7%
Total of 8 players	24,977	25,611	26,414	26,773	27,383	28,551	3%

Source: Company, IIFL Research

Figure 2: The sector-level median occupancies, after having dipped to ~52% during the Covid period in FY21, have improved to ~62% in 1HFY23. Occupancies are expected to improve further from a median ~62% to ~70-75% over the next 2 years

Operational Metrics	FY18	FY19	FY20	FY21	FY22	1HFY23	FY17-23ii Cagr
Bed occupancy (on operational beds)*							
Apollo	66%	68%	68%	55%	63%	64%	2%
Fortis	70%	67%	68%	55%	63%	68%	-2%
Max Healthcare	71%	74%	71%	65%	75%	76%	1%
Narayana (India)	51%	49%	49%	34%	44%	50%	2%
KIMS	64%	62%	69%	68%	69%	60%	12%
HCG	52%	51%	50%	48%	58%	66%	11%
Rainbow	46%	43%	52%	33%	45%	53%	11%
Shalby	29%	38%	38%	36%	46%	47%	13%
Median of 8 players	58%	56%	60%	52%	61%	62%	4%
In-Patient volumes ('000s)**							
Apollo	428	452	478	353	460	540	5%
Fortis	301	266	281	208	242	267	-3%
Max Healthcare		203	190	146	189	214	1%
Narayana (India)	245	260	286	156	191	229	0%
KIMS	89	111	141	117	137	188	12%
HCG	107	133	143	133	159	188	15%
Rainbow	48	53	67	51	66	82	12%
Shalby	33	34	39	29	44	52	13%
Total of 8 players		1,513	1,625	1,192	1,488	1,761	4%

Source: Company, IIFL Research; Note: *Cagr in occupied bed days, **1HFY23 IP volumes are annualized

While Apollo, Fortis, Max and KIMS (ex-Sunshine, Kingsway acquisitions) are already operating at sector-leading occupancies of ~65-75%, they have indicated plans to further expand occupancies on existing bed capacities by ~500-1,000bps over the next 2yr period, led by volume scale-up in newer/tier-2,3 hospitals, further recovery in international patient volumes (Max, Fortis and Narayana's international patient revenue contribution was 7-8% in 1HFY23 vs. 10-11% pre-Covid), and gradual rationalization of

institutional/ government business (currently standing at ~17-20% of revenue for most players). Although Rainbow's occupancies have normalized to pre-Covid levels of ~53% in 1HFY23, Narayana/Shalby's occupancies at ~50/47% are significantly below industry average.

Smaller players such as KIMS, Rainbow, HCG and Shalby have outperformed industry volume growth

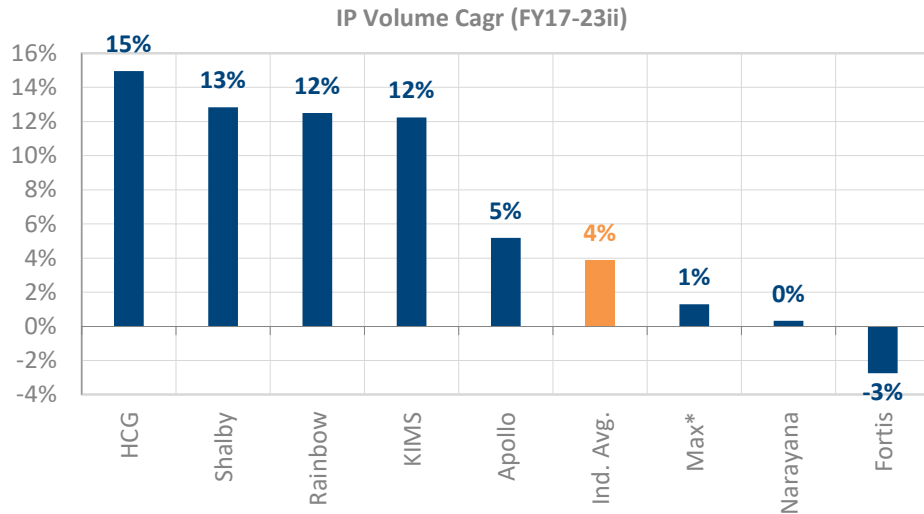
Combined hospital revenue for the 8 listed hospital players has grown at ~14% Cagr over FY17-1HFY23, driven by IP volume growth of ~4% Cagr and ARPOB growth of ~6% Cagr. Smaller players such as KIMS, Rainbow, HCG and Shalby have grown revenues at ~15-25% Cagr over this period, as IP volume growth for these players at ~12-15% Cagr is significantly above industry volume growth of ~4% Cagr. Comparatively, IP volume growth for larger players (Apollo, Fortis, Max and Narayana) has been tepid at ~0-5% Cagr. We think that smaller players have been able to demonstrate better volume growth, given they have continued to expand capacities over the past 4-5yr period, through both organic and inorganic measures. Larger players, on the other hand, have been focused on just consolidating capacities.

Figure 3: Combined hospital revenue for the 8 listed hospital players has grown at ~14% Cagr over FY17-1H23, led by 4% Cagr in IP volumes and 6% Cagr in ARPOB

FY17-23ii Cagr	Total Revenue	IP volume	ARPOB	ARPOB cont. to total growth
Apollo	14%	5%	8%	61%
Fortis	5%	-3%	5%	104%
Max Healthcare*	12%	1%	10%	79%
Narayana (India)	11%	0%	8%	75%
KIMS	25%	12%	8%	31%
HCG	15%	15%	4%	28%
Rainbow	22%	12%	11%	48%
Shalby	14%	13%	1%	6%
Total of 8 players	14%	4%	6%	47%

Source: Company, IIFL Research; Note: *FY19-1H23 Cagr for Max per pro-forma nos. incl. acquisitions

Figure 4: Smaller players like KIMS, Rainbow, HCG and Shalby have significantly outperformed industry volume growth

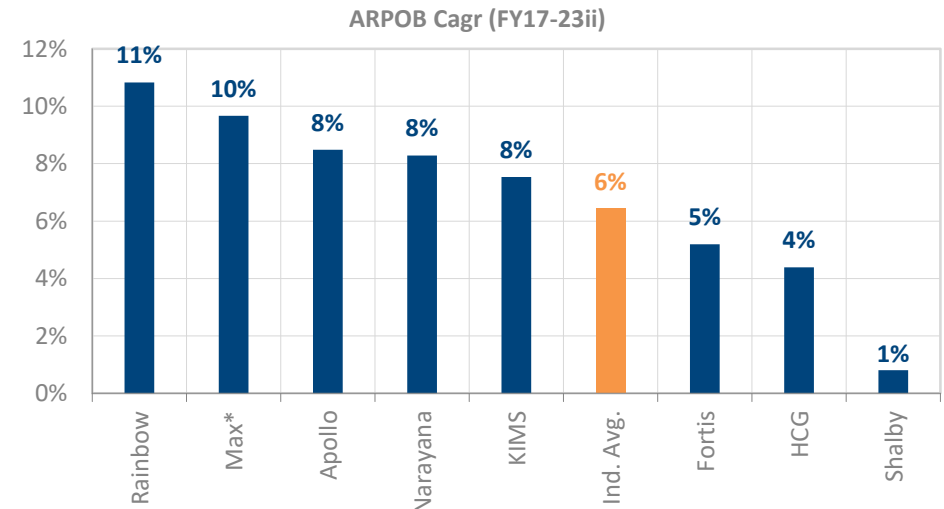


Source: Company, IIFL Research; Note: *FY19-1H23 Cagr for Max based on pro-forma numbers incl. acquisitions

ARPOB increases have accounted for 60-80% of growth for larger players and 30-50% for smaller players

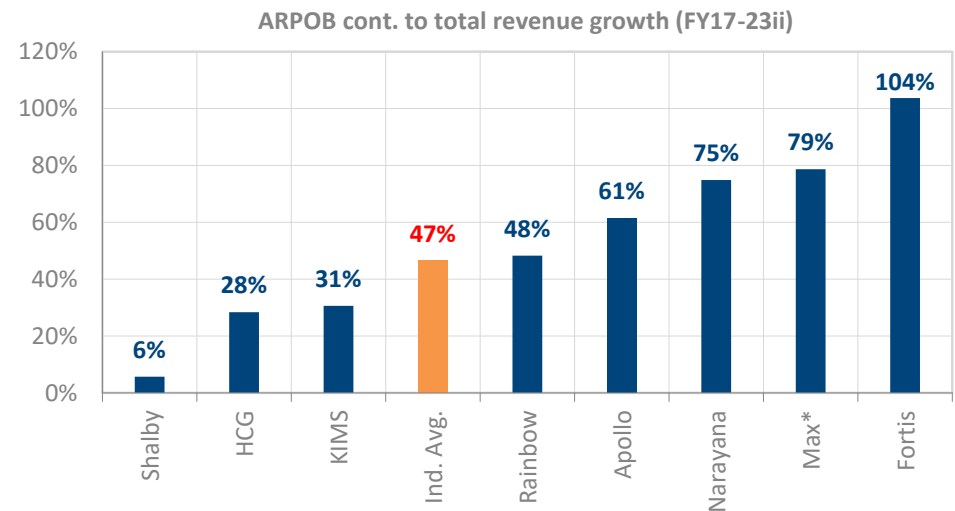
While industry ARPOB growth has been ~6% Cagr over FY17-1HFY23, that for Rainbow, Max, Apollo, Narayana and KIMS has been ~8-11% Cagr over this period. Only Fortis, HCG and Shalby's ARPOB growth has been below industry average. Industry ARPOB growth has been aided by improving case-mix and payor-mix; ARPOB increases have accounted for ~60-80% of overall revenue growth for larger players (Apollo, Fortis, Max and Narayana), given volume growth for these players has been tepid. Comparatively, for smaller players, the skew of growth is more towards volumes rather than ARPOB. We underscore that ARPOB increases have contributed only ~30% to KIMS and HCG's overall revenue growth from FY17-1HFY23, as against ~50% for the industry.

Figure 5: While industry ARPOB growth has been ~6% Cagr over FY17-1HFY23, the same for Rainbow, Max, Apollo, Narayana and KIMS has been ~8-11% Cagr



Source: Company, IIFL Research

Figure 6: ARPOB hikes have accounted for 60-80% of growth for larger players; comparatively, the skew of growth is more towards volumes for smaller players



Source: Company, IIFL Research

ARPOB growth might not sustain at current levels and 4-5% Cagr looks realistic; pricing remains a key monitorable risk for the sector

Given ARPOB increases have accounted for ~50% of industry's and ~60-80% of large hospitals' revenue growth over the past 5yr period, there have been investor concerns around sustainability of ARPOB growth for the hospital sector. Although most hospital players have seen 8-11% ARPOB Cagr over FY17-1HFY23, we believe ARPOB growth can sustain at 4-5% Cagr, driven by improving case-mix, rationalization of government business, and further increase in international patient volumes under Indian government's 'Heal in India' initiative. KIMS is targeting to increase its international patient revenue contribution from 1% currently to 7-8% over the next 3 years.

While Max is operating at industry-leading ARPOB of Rs66K per day (owing to its predominant presence in metro markets), its ARPOB in the government business is only Rs35K; gradual moderation in share of the government business (accounting for one-third of Max's overall occupancies currently) should help Max to continue to drive ARPOB growth.

CCI investigation on pricing practices of key hospital players in the Delhi-NCR market and imposition of any regulatory price caps, remain a key monitorable risk for the hospital sector. However, apart from a sentimental negative impact, we think that hospital players can offset regulatory price caps by increasing charges/costs for the service component (including doctor fees), similar to how the industry navigated price caps imposed on cardiac stents and knee implants in 2018/19.

Figure 7: Max is operating at industry-leading ARPOB of Rs66K per day. Although most hospital players have seen 8-11% ARPOB Cagr over FY17-1HFY23, we believe ARPOB growth might not sustain at current levels and 4-5% Cagr looks realistic

Operational Metrics	FY18	FY19	FY20	FY21	FY22	1HFY23	FY17-23ii Cagr
ARPOB / day (Rs '000s)*							
Apollo	31.8	34.1	37.0	39.9	48.4	50.8	8%
Fortis	40.8	41.6	43.6	43.3	49.3	53.8	5%
Max Healthcare	43.9	45.6	51.1	50.1	58.5	66.0	8%
Narayana (India)	21.9	24.7	26.6	28.5	32.3	33.6	8%
KIMS	18.8	18.3	18.3	20.6	25.4	29.6	8%
HCG	30.8	31.4	32.8	32.6	36.7	37.7	4%
Rainbow	30.1	36.6	37.3	47.6	51.5	49.9	11%
Shalby	31.6	31.2	30.5	27.4	31.3	34.4	1%
Median of 8 players	31.2	32.8	34.9	36.3	42.5	43.8	6%
ALOS (days)							
Apollo	4.0	4.0	3.9	4.2	4.0	3.4	3%
Fortis	3.5	3.4	3.2	3.6	3.7	3.7	-1%
Max Healthcare	3.4	4.3	4.4	5.2	4.7	4.2	-5%
Narayana (India)	4.2	3.9	3.5	4.6	4.8	4.6	-2%
KIMS	4.5	4.5	4.3	5.5	4.8	4.1	0%
HCG	2.4	2.3	2.3	2.3	2.3	2.3	4%
Rainbow	2.8	2.7	2.8	2.6	2.8	2.7	1%
Shalby	3.7	4.2	4.2	5.4	4.6	4.0	0%
Median of 8 players	3.6	3.9	3.7	4.4	4.3	3.8	0%

Source: Company, IIFL Research; Note: *ARPOB based on IP + OP revenue

Figure 8: Payor-mix across players – Max, Fortis and Narayana’s international patient revenue contribution was 7-8% in 1HFY23 vs. 10-11% pre-Covid

Payor-mix	FY18	FY19	FY20	FY21	FY22	1HFY23
Cash / Self						
Apollo		71%	66%	44%		
Fortis		46%	41%	40%	39%	
Max Healthcare			41%	41%	38%	37%
Narayana (India)	54%	52%	50%	50%	50%	47%
KIMS	51%	53%	56%	63%	60%	55%
Rainbow	51%	55%	57%	53%	56%	
Shalby	60%	60%	48%	55%	45%	35%
Insurance / TPA						
Apollo						
Fortis		27%	29%	36%	38%	
Max Healthcare			26%	32%	37%	38%
Narayana (India)	19%	21%	22%	27%	24%	24%
KIMS	16%	16%	16%	16%	19%	25%
Rainbow	49%	45%	43%	47%	44%	
Shalby	21%	15%	23%	24%	34%	44%
International						
Apollo						
Fortis		11%	10%	4%	5%	8%
Max Healthcare			11%	4%	6%	8%
Narayana (India)	10%	11%	10%	2%	4%	7%
KIMS	-	-	-	-	-	1%
Rainbow	-	-	-	-	-	
Shalby	-	-	-	-	-	
Govt & Govt schemes						
Apollo						
Fortis		15%	18%	19%	17%	
Max Healthcare			22%	23%	20%	17%
Narayana (India)	18%	17%	18%	20%	22%	23%
KIMS	33%	31%	28%	21%	21%	19%
Rainbow	-	-	-	-	-	
Shalby	16%	20%	27%	18%	20%	22%

Source: Company, IIFL Research

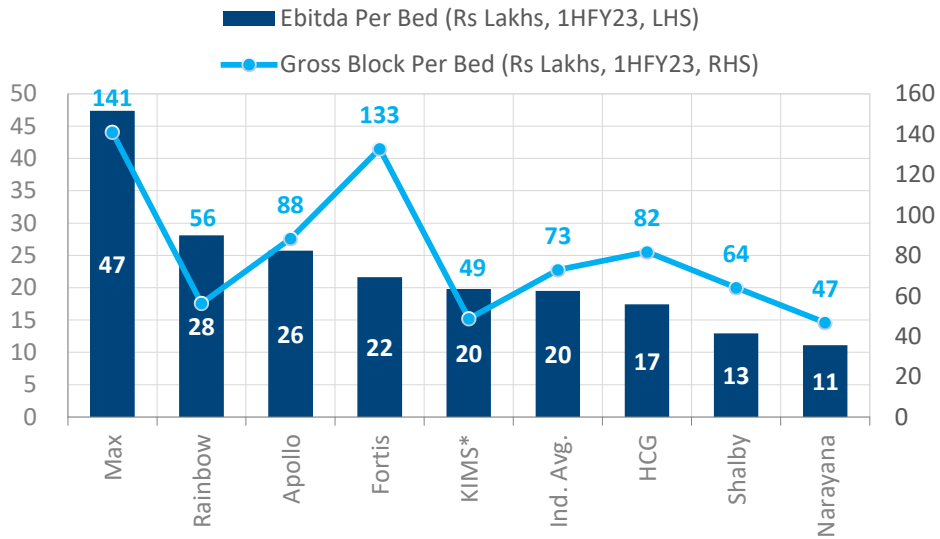
Max has industry-leading Ebitda per bed, but its gross block per bed is also the highest; Rainbow, KIMS, Max and Apollo are all operating at RoIC (pre-tax) of ~30-50%

With most hospital players focused on consolidating their bed capacities over the past 5 years, the Ebitda margins (median) for the 8 listed hospital players expanded ~800bps from ~15% in FY17 to ~23% in 1HFY23. Additionally, the sector’s RoIC (pre-tax, ex-cash, ex-goodwill) improved ~1,800bps from ~7% to ~25% over this period. Improvement in margins and returns profile has driven a rerating for the sector.

While Rainbow, KIMS, Max and Apollo are now operating with ~25-30% Ebitda margins, Fortis and Narayana’s (India hospital operations) margins at ~17-18% are significantly below industry average. Although Fortis and Narayana have expanded margins by ~500-550bps vs. pre-Covid levels, we believe there is potential of further margin improvement, since both the companies are working on optimizing profitability for low-margin hospitals by diversifying specialty mix, rationalizing scheme patients, and further increasing international patient volumes.

Owing to its predominant presence in metro markets (~85% bed capacity in metros), Max has industry-leading Ebitda per bed of Rs47 lakhs (on operational bed capacity) vs. industry average of Rs20 lakhs. However, its gross block per bed is also the highest at Rs140 lakhs vs. industry average of Rs75 lakhs, thereby translating into RoIC (pre-tax) of ~35% for Max. Although Rainbow/Apollo/KIMS (ex-acquisitions) have lower Ebitda per bed of Rs28/26/20 lakhs, their capex per bed is also significantly lower than Max, thereby allowing these companies as well to operate with RoIC (pre-tax) of ~30-50%. Rainbow has industry-leading RoIC (pre-tax) of ~55%, followed by KIMS (ex-Sunshine, ex-Kingsway) and Max at ~37%, and Apollo at ~25-30%.

Figure 9: Max has industry-leading Ebitda per bed and its gross block per bed also the highest. Although Rainbow/Apollo/KIMS have lower Ebitda per bed, their capex per bed also significantly lower than Max, thereby allowing these companies as well to operate with RoIC (pre-tax) of ~30-50%



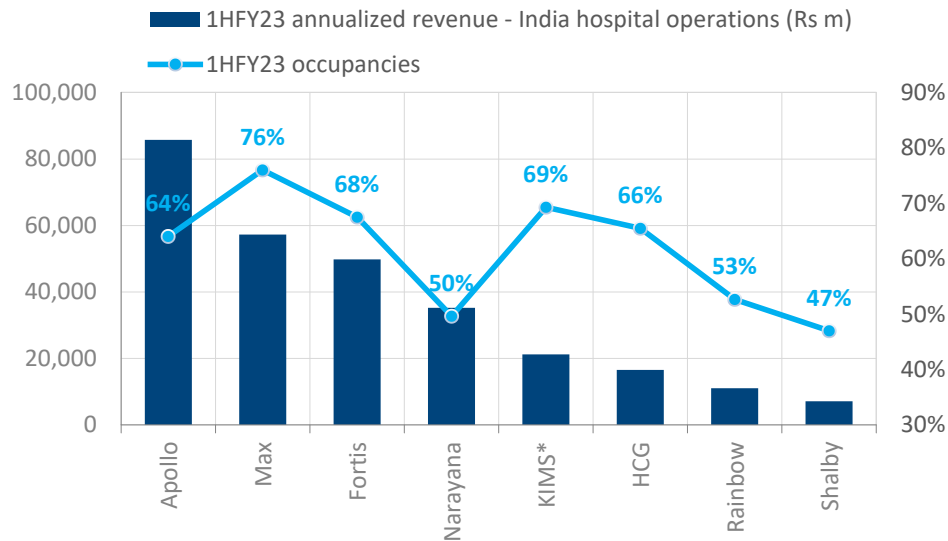
Source: Company, IIFL Research; Note: *KIMS' Ebitda/Bed is excluding acquisitions of Sunshine & Kingsway

Figure 10: Max has industry-leading Ebitda per bed; its gross block per bed is also the highest. Rainbow, KIMS, Max and Apollo are all operating at RoIC (pre-tax) of ~30-50%

Per Bed Economics	FY18	FY19	FY20	FY21	FY22	1HFY23	FY17-23ii Cagr
Ebitda Per Bed (Rs Lakhs)							
Apollo	11	13	13	8	22	26	17%
Fortis		3	12	6	17	22	60%
Max Healthcare		11	18	19	41	47	45%
Narayana (India)	4	4	6	0	6	11	15%
KIMS	8	7	10	14	20	16	13%
HCG	9	8	10	7	14	17	12%
Rainbow	8	12	15	10	21	28	28%
Shalby	7	8	7	7	11	13	6%
Median of 8 players	8	8	11	8	18	20	16%
Gross Block Per Bed (Rs Lakhs)							
Apollo	80	84	82	86	88	88	2%
Fortis		138	125	127	131	133	-1%
Max Healthcare			96	113	140	141	14%
Narayana (India)	32	33	38	37	42	47	12%
KIMS	46	41	42	43	48	49	1%
HCG	64	65	72	76	88	82	5%
Rainbow	50	49	46	50	55	56	3%
Shalby	59	75	64	65	65	64	7%
Median of 8 players	54	65	68	71	77	73	8%
RoCE (pre-tax Ebitda) on Gross Block							
Apollo	13%	15%	16%	10%	25%	29%	1597 bps
Fortis		2%	10%	5%	13%	16%	1392 bps
Max Healthcare			19%	17%	30%	34%	1453 bps
Narayana (India)	12%	13%	16%	1%	15%	24%	383 bps
KIMS	17%	17%	23%	33%	41%	33%	1648 bps
HCG	14%	12%	13%	10%	16%	21%	659 bps
Rainbow	17%	24%	32%	19%	39%	50%	3298 bps
Shalby	12%	11%	11%	11%	17%	20%	-178 bps
Median of 8 players	13%	13%	16%	10%	21%	26%	1027 bps

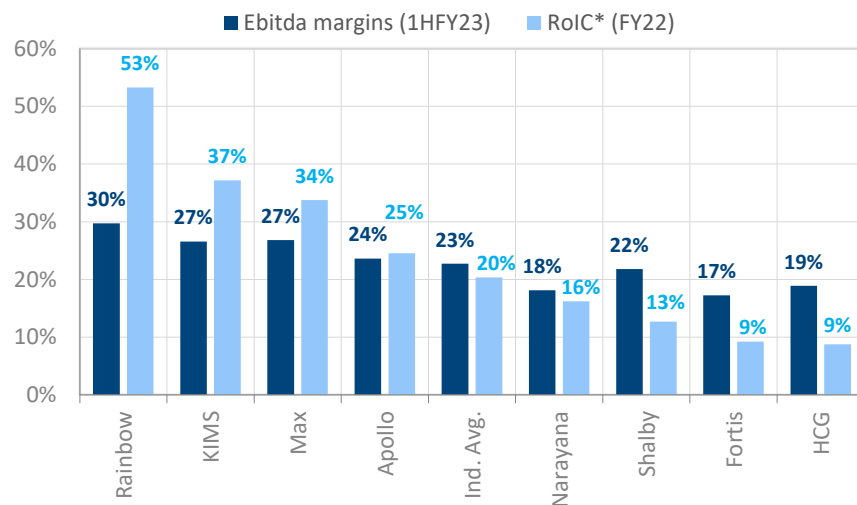
Source: Company, IIFL Research

Figure 11: Apollo, Max, Fortis and KIMS (ex-Sunshine, Kingsway acquisitions) are already operating at sector-leading occupancies of ~65-75%



Source: Company, IIFL Research; Note: *KIMS' occupancy is excluding Sunshine & Kingsway

Figure 12: Rainbow, KIMS, Max and Apollo are all operating at RoIC (pre-tax) of 30-50%

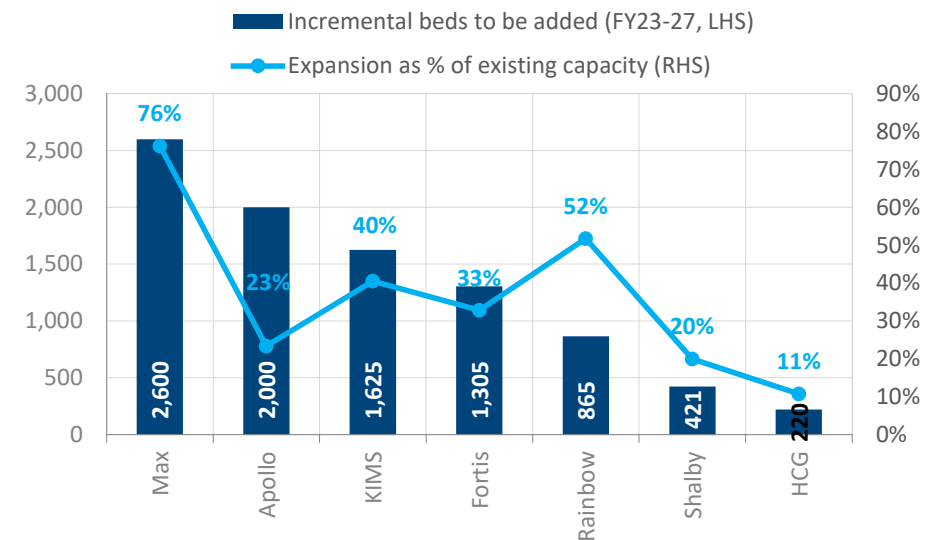


Source: Company, IIFL Research; Note: *RoIC pre-tax (ex-cash, ex-goodwill)

Bed capacities to expand by ~30-70% over the next 4-5yr period; Rainbow, KIMS and Max remain best-placed given their net cash BS

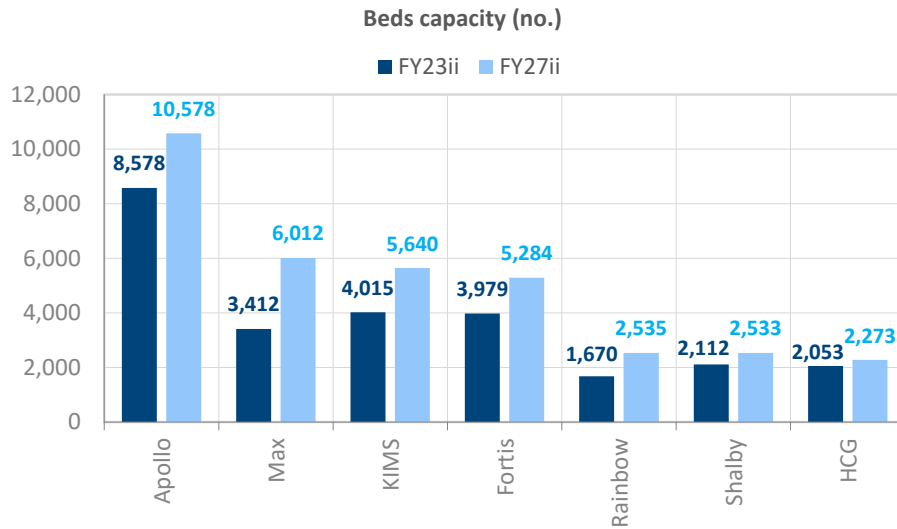
After a lull period over the past few years where the combined bed capacity for the 8 listed hospital players grew only at ~2-3% Cagr over FY17-1HFY23, the industry is again venturing into a capex expansion mode. This is because most companies have indicated plans to expand bed capacities by ~30-70% over the next 4-5yr period and part of this incremental capacity will start getting commissioned from end-FY24. Max has the most aggressive capacity expansion plan of ~75%, as it intends to add ~2,600 new beds to existing capacity of ~3,400 beds over the next 4-5yr period. After Max, Rainbow and KIMS plan to add ~40-50% incremental capacity to their network by FY27, while Apollo and Fortis are also targeting to expand capacities by ~20-30%.

Figure 13: Hospital industry is again venturing into a capex expansion mode, as most companies plan to expand bed capacities by 30-70% over the next 4-5yr period



Source: Company, IIFL Research

Figure 14: Apollo will continue to dominate bed capacity in the industry in FY27 too



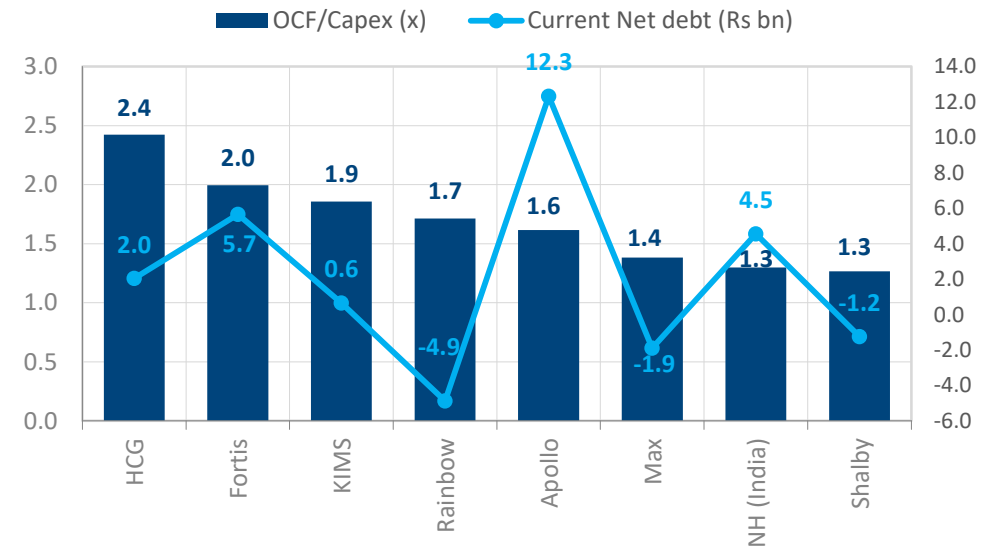
Source: Company, IIFL Research

Given that the balance sheet and leverage position of all the hospital players have significantly improved over the past few years, with the sector's Net Debt-to-Ebitda declining from ~3.8x in FY18 to ~0.4x in 1HFY23, we believe most companies will be able to fund capacity expansions largely through internal accruals, as OCF generation for the sector will be ~1.7x of the annual capex spends. With KIMS/Rainbow/Max's OCF being ~1.9/1.7/1.4x of their annual capex requirements and given their largely net cash balance sheets, we believe these 3 players remain best-placed to fund the large capacity expansions through internal accruals and will still continue to remain net cash companies over the next 4-5yr period.

Although the hospital sector is embarking on an aggressive capex expansion mode, and part of this incremental capacity will start getting commissioned from end-FY24, we believe the drag from new capacities on consol. financials will be significantly lower than it used to be in the past given the base hospital business has become sizeable for most companies. E.g. for Apollo, new hospitals which used to be a drag on company's margins and return ratios accounted

for ~25% of Apollo's overall hospital revenues in FY18/19. While Apollo intends to add ~2,000 new beds to its network by FY26, we think that these new capacities will take 3 years (FY29) to achieve 50% occupancy levels; the new capacities will account for only ~10-12% of Apollo's overall hospital revenues in FY29 (vs. ~25% in the past) assuming the base hospital business continues to grow at ~10% Cagr over the next 5-6 years.

Figure 15: With KIMS/Rainbow/Max's OCF being ~1.9/1.7/1.4x of their annual capex requirements and given their largely net cash balance sheets, we believe these 3 players remain best-placed to fund the large capacity expansions



Source: Company, IIFL Research

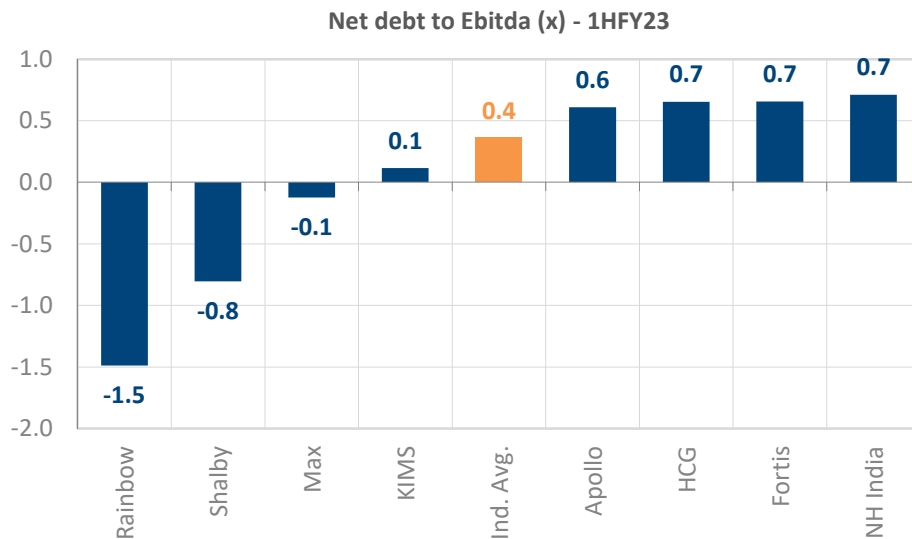
As the drag from new capacities on consol. financials will be significantly lower than it used to be in the past, we believe the hospital sector's margins and return ratios will broadly sustain (despite large capacity expansions), which will be aided by further improvement in occupancies of existing hospitals and ARPOB growth driven by rationalization of the institutional business and increase in international patient volumes.

Figure 16: We believe most of the companies will be able to fund the capacity expansions largely through internal accruals as OCF generation for the sector will be ~1.7x of the annual capex spends

Beds capacity (no.)	FY23ii	FY27ii	Incremental beds	% Expansion	Capex pa (Rs bn)	OCF pa (Rs bn)	OCF/Capex (x)	Current Net debt (Rs bn)
Apollo	8,578	10,578	2,000	23%	13.0	19-23	1.6	12.3
Fortis	3,979	5,284	1,305	33%	4.5	8-10	2.0	5.7
Max Healthcare	3,412	6,012	2,600	76%	9.4	12-14	1.4	-1.9
Narayana (India, ex-Cayman)	6,075				5.0	6-7	1.3	4.5
KIMS	4,015	5,640	1,625	40%	3.5	6-7	1.9	0.6
HCG*	2,053	2,273	220	11%	0.8	2-2.5	2.4	2.0
Rainbow	1,670	2,535	865	52%	1.8	3-4	1.7	-4.9
Shalby	2,112	2,533	421	20%	1.0	1-1.5	1.3	-1.2

Source: Company, IIFL Research; Note: * = HCG's capacity expansion plans are over FY23-25

Figure 17: Balance sheet and leverage position of all the hospital players has significantly improved over the past few years, with the sector's Net Debt-to-Ebitda declining from ~3.8x in FY18 to ~0.4x in 1HFY23



Source: Company, IIFL Research

We prefer Apollo & Fortis among large-cap stocks and KIMS & Narayana among mid-caps; recommend adding Rainbow on corrections

Consensus expectations factor-in ~15% Ebitda Cagr for large-cap hospitals (Apollo, Max and Fortis) and ~20% Ebitda Cagr for mid/small-cap hospitals (Narayana, KIMS, Rainbow, HCG and Shalby) over FY22-25ii. Given Apollo's hospital business and Fortis are trading at ~21x and ~17x FY24 EV/Ebitda vs. Max at ~24x, we find relative value in Apollo and Fortis among large-cap stocks.

Among mid-cap stocks, KIMS (adjusted for minority interest) and Narayana are trading at reasonable valuations of ~18x and ~16x FY24 EV/Ebitda. We prefer both KIMS and Narayana from the mid-cap space. We continue to like Rainbow's differentiated model of complex childcare and recommend adding the stock on corrections.

Below we highlight our key investment thesis on Apollo, KIMS and Rainbow.

Apollo Hospitals – 2QFY23 review

Apollo's execution in the hospitals business continues to remain strong, with mgmt. targeting to improve occupancies to ~70% (vs. ~64% in 1HFY23) and further expand hospital business margins by ~100-150bps over next 18 months. Additionally, with plans to add 500-600 new offline pharmacy stores p.a. and target to grow Apollo 24/7's GMV from USD180mn in FY23ii to USD1bn over the next 3-4 years, we expect HealthCo's revenue to grow strongly at 25% Cagr over FY22-25ii. We expect Apollo's growth momentum to sustain across all verticals, thereby leading to ~16/17% revenue/Ebitda Cagr for the company over FY22-25ii. Maintain BUY with a TP of Rs5,150.

KIMS Hospitals – 2QFY23 review

KIMS Hospitals – Nagpur hospital visit

KIMS Hospitals – NDR update

KIMS' differentiated, unique model of affordable pricing and doctor equity participation has driven high patient occupancies and allowed it to create a profitable hospital business model in both tier-1 & tier-2/3 markets. With occupancies on existing capacity expected to further improve from ~63% to ~70-75% and incremental capacity addition of 1600 beds (40% of existing capacity) over the next 4-5 years, we expect KIMS to deliver ~21/17% revenue/Ebitda Cagr over FY22-25ii. Near-term margin expansion will be further driven by scale-up in acquired Sunshine/Kingsway hospitals' margins from 18/10% currently to 20-25% over the next 12 months. Maintain BUY with a TP of Rs1,700.

Rainbow Hospitals – 2QFY23 review

Rainbow Hospitals – Initiating Coverage

With one-third of Rainbow's bed capacity allocated to critical care ICU beds and its full-time 24/7 doctor engagement model has allowed Rainbow to create strong moats and clinical excellence in managing complex tertiary/quaternary pediatric cases which account for ~40% of company's revenue. Rainbow's asset-light, hub-and-spoke model of expansion has driven its success in the Hyderabad market and it plans to replicate the same in other markets (Bangalore, Chennai, Delhi) by expanding bed capacity by ~70% (1,000 beds) over FY22-27ii. We believe this will drive strong growth momentum of ~19/22% Ebitda/EPS Cagr over FY22-27ii, with Rainbow's industry-leading return ratios (RoIC post-tax) sustaining at ~40%. Maintain BUY with a TP of Rs850.

Figure 18: Given Ebitda growth expectations of ~15/20% Cagr for large/mid-cap hospitals over FY22-25ii and current valuations, we find relative value in Apollo/Fortis among large-cap stocks and KIMS/Narayana among mid-cap stocks. We continue to like Rainbow's differentiated model of complex childcare and recommend adding the stock on corrections

Bloomberg / IIFL Estimates	FY22	FY23ii	FY24ii	FY25ii	FY22-25ii Cagr
Consol. Revenue (Rs mn)					
Apollo*	146,626	167,419	197,759	231,382	16%
Fortis	56,386	63,654	71,983	77,998	11%
Max Healthcare	51,710	58,169	64,947	76,630	14%
Narayana	37,013	42,676	47,589	53,927	13%
KIMS*	16,508	22,466	25,790	29,411	21%
HCG	13,948	16,425	18,105	20,767	14%
Rainbow*	9,738	10,916	13,194	15,810	18%
Shalby	6,989	8,047	9,329	11,594	18%
Consol. Ebitda (Rs mn)					
Apollo (ex-24/7 losses)*	24,087	27,400	31,952	37,326	16%
Fortis	10,690	11,442	13,528	15,305	13%
Max Healthcare	13,440	15,687	17,801	20,651	15%
Narayana	6,558	8,513	9,859	11,455	20%
KIMS*	5,123	5,990	7,094	8,143	17%
HCG	2,350	3,013	3,584	4,270	22%
Rainbow*	2,449	3,086	3,562	4,111	19%
Shalby	1,199	1,558	1,899	2,342	25%
EV/Ebitda (x)					
Apollo (ex-24/7 losses)*	29.0	25.5	21.9	18.7	
Fortis	21.0	19.6	16.6	14.7	
Max Healthcare	31.2	26.7	23.5	20.3	
Narayana	24.3	18.7	16.1	13.9	
KIMS*	23.2	19.8	16.7	14.6	
HCG	19.1	14.9	12.5	10.5	
Rainbow*	30.8	24.5	21.2	18.4	
Shalby	11.9	9.2	7.5	6.1	

Source: Company, IIFL Research; Note: *IIFL estimates for Apollo, KIMS and Rainbow; Bloomberg estimates for other companies

Figure 19: With most hospital players focused on consolidating their bed capacities over the past 5 years, the Ebitda margins (median) for the 8 listed hospital players expanded ~800bps from ~15% in FY17 to ~23% in 1HFY23...

Financial Metrics	FY17	FY18	FY19	FY20	FY21	FY22	1HFY23	FY17-23ii Cagr
Revenue (Rs mn)								
Apollo (hospital segment only)	39,438	45,157	51,426	57,298	50,022	79,891	42,879	14%
Fortis (hospital segment only)	37,122	36,830	35,269	37,535	31,240	42,642	24,893	5%
Max Healthcare	16,083	17,291	35,990	40,230	36,010	51,710	28,620	24%
Narayana (India)	18,782	22,040	24,798	26,940	20,706	29,655	17,626	11%
KIMS	5,671	6,637	9,180	11,226	13,299	16,508	10,596	25%
HCG	7,001	8,288	9,787	10,956	10,135	13,978	8,281	15%
Rainbow	3,267	4,059	5,428	7,194	6,500	9,738	5,502	22%
Shalby	3,224	3,803	4,624	4,839	4,187	6,472	3,550	14%
Total of 8 players	130,588	144,105	176,503	196,218	172,099	250,593	141,947	14%
Ebitda (Rs mn)								
Apollo	7,122	7,598	9,205	9,970	6,087	17,155	10,128	19%
Fortis	1,727	2,349	1,205	4,501	2,294	6,571	4,299	31%
Max Healthcare	1,403	1,133	3,480	5,900	6,090	13,440	7,680	49%
Narayana (India)	2,463	2,200	2,370	3,395	199	3,581	3,194	17%
KIMS	1,158	1,330	1,565	2,332	3,672	5,123	2,815	30%
HCG	1,050	1,169	1,252	1,722	1,266	2,380	1,566	20%
Rainbow	487	657	1,075	1,503	1,095	2,449	1,636	37%
Shalby	722	790	824	815	861	1,300	775	14%
Total of 8 players	16,133	17,225	20,976	30,137	21,565	51,999	32,092	26%
Ebitda Margins (%)								
Apollo	18.1%	16.8%	17.9%	17.4%	12.2%	21.5%	23.6%	556 bps
Fortis	4.7%	6.4%	3.4%	12.0%	7.3%	15.4%	17.3%	1262 bps
Max Healthcare	8.7%	6.5%	9.7%	14.7%	16.9%	26.0%	26.8%	1811 bps
Narayana (India)	13.1%	10.0%	9.6%	12.6%	1.0%	12.1%	18.1%	501 bps
KIMS	20.4%	20.0%	17.0%	20.8%	27.6%	31.0%	26.6%	614 bps
HCG	15.0%	14.1%	12.8%	15.7%	12.5%	17.0%	18.9%	391 bps
Rainbow	14.9%	16.2%	19.8%	20.9%	16.9%	25.1%	29.7%	1482 bps
Shalby	22.4%	20.8%	17.8%	16.8%	20.6%	20.1%	21.8%	-57 bps
Median of 8 players	15.0%	15.1%	14.9%	16.3%	14.7%	20.8%	22.7%	777 bps
Total of 8 players	12.4%	12.0%	11.9%	15.4%	12.5%	20.8%	22.6%	1025 bps

Source: Company, IIFL Research

Figure 20: ...while the sector's RoIC (pre-tax, ex-cash, ex-goodwill) improved ~1,800bps, from ~7% to ~25% over this period. Improvement in margins and returns profile has driven a rerating for the sector

	FY17	FY18	FY19	FY20	FY21	FY22	1HFY23	FY17-23ii Cagr
Net debt-to-Ebitda (x)								
Apollo	3.38	3.88	3.54	3.06	1.87	0.64	0.61	
Fortis	7.41	5.98	8.08	2.23	3.70	0.84	0.66	
Max Healthcare	6.06	7.85	2.84	1.25	0.44	0.17	(0.12)	
Narayana (India)	0.37	2.14	1.86	1.10	16.68	0.71	0.71	
KIMS	2.35	5.20	1.78	1.18	(0.04)	(0.06)	0.12	
HCG	3.10	3.71	5.09	3.97	3.40	0.88	0.65	
Rainbow		0.17	(0.25)	(0.33)	(0.52)	(0.68)	(1.49)	
Shalby	4.28	(0.03)	(0.19)	(0.49)	(1.05)	(1.19)	(0.80)	
Median of 8 players	3.38	3.80	2.35	1.21	1.15	0.40	0.36	
RoIC (pre-tax, ex-cash, ex-goodwill) (%)								
Apollo	7%	7%	10%	15%	9%	25%	22%	1456 bps
Fortis	3%	4%	2%	6%	3%	9%	12%	906 bps
Max Healthcare	3%	1%	10%	9%	16%	34%	37%	3387 bps
Narayana (India)	15%	9%	9%	14%	-7%	16%	29%	1354 bps
KIMS	14%	16%	15%	19%	33%	37%	30%	1586 bps
HCG	6%	5%	4%	2%	-3%	9%	17%	1027 bps
Rainbow		20%	25%	36%	24%	53%	57%	3642 bps
Shalby	10%	8%	6%	6%	7%	13%	15%	486 bps
Median of 8 players	7%	7%	9%	11%	8%	20%	25%	1817 bps
Gross block (Rs mn)								
Apollo	54,218	57,183	60,916	61,148	64,011	69,588	69,588	
Fortis	31,848	32,335	50,971	45,779	47,703	51,598	52,801	
Max Healthcare	21,373	21,789	22,720	30,933	36,371	45,403	45,710	
Narayana (India)	12,379	17,952	18,515	21,111	21,402	24,061	26,924	
KIMS	7,170	7,833	9,136	10,183	11,052	12,446	17,251	
HCG	7,125	8,608	10,388	12,822	13,067	14,999	14,680	
Rainbow		3,875	4,558	4,638	5,622	6,324	6,553	
Shalby	3,290	6,799	7,545	7,652	7,830	7,858	7,686	

Source: Company, IIFL Research

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BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

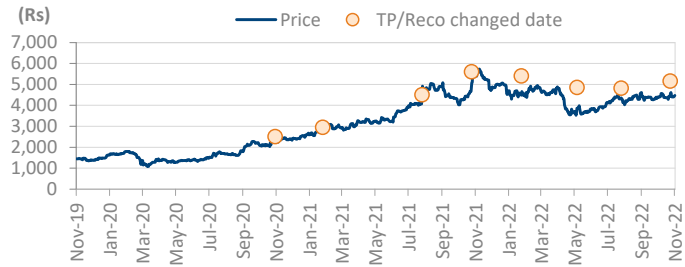
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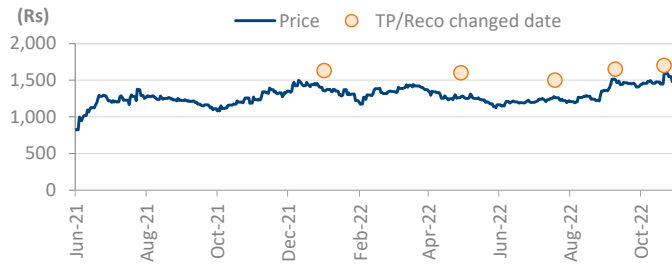
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Apollo Hospitals: 3 year price and rating history



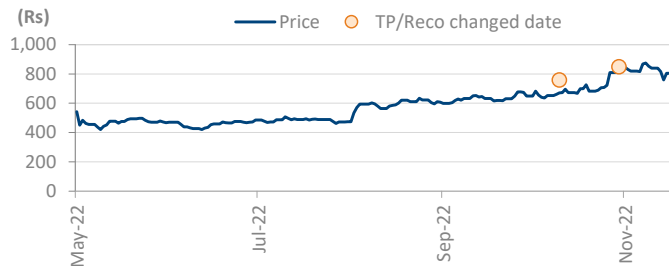
Date	Close price (Rs)	Target price (Rs)	Rating
14 Nov 2022	4421	5150	BUY
16 Aug 2022	4313	4815	BUY
27 May 2022	3663	4850	BUY
14 Feb 2022	4515	5400	BUY
15 Nov 2021	4670	5600	BUY
16 Aug 2021	4064	4500	ADD
15 Feb 2021	2745	2950	ADD
20 Nov 2020	2298	2500	ADD
18 Nov 2019	1397	1540	ADD

KIMS: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
14 Nov 2022	1448	1700	BUY
03 Oct 2022	1460	1650	BUY
12 Aug 2022	1257	1500	BUY
23 May 2022	1262	1600	BUY
25 Jan 2022	1361	1630	BUY

Rainbow Hospitals: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
07 Nov 2022	809	850	BUY
18 Oct 2022	660	760	BUY