

Aster DM Healthcare

India | Healthcare | Result Update



Margin expectations reset

3 February 2025

Aster DM Healthcare (ASTERDM IN) reported Q3FY25 below our estimates – revenue, EBITDA and PAT missed by 6%, 21% and 30%, respectively. The sharp improvement in occupancy and margin, witnessed in Q2, got partly reversed in Q3, causing the shortfall in revenue and profit vs our estimates. Kerala cluster performance was lackluster with occupancy down 550bp YoY and revenue down 2% YoY. Karnataka & Maharashtra and Andhra Pradesh & Telangana clusters continue to post robust growth. The proposed merger process with Quality Care India (QCIL) is progressing well; closure timeline remains Q3FY26. Management did not provide additional colour on the combined entity financials. We cut our core EPS in the range of 5-7% during FY25-26E; we retain **Accumulate** with TP unchanged at 521.

Temporary weakness in the Kerala cluster: Revenue in the Kerala cluster was down 2% YoY and 7% QoQ; EBITDA was up by a mere 4.2% YoY and down 12% QoQ. Management highlighted seasonal issues, such as the extension of viral diseases season into Q3 in the last financial year. We believe this weak growth is temporary; we project high single-digit to low double-digit sustainable growth ahead. Addition of Aster Capital at Thiruvananthapuram would bolster growth in FY27.

Other clusters continue to report robust growth: Karnataka / Maharashtra cluster delivered 29% revenue and 51% EBITDA growth, in line with our expectations. Occupancy came in a bit lower but was offset by superior average revenue per operating bed (ARPOB) growth. Andhra Pradesh / Telangana cluster continues its post operational improvement – revenue grew 15% and EBITDA 42% YoY. We expect both clusters to continue to deliver teen growth in the near term. Addition of 159 beds (Block D) at the Aster Whitefield hospital and the addition of Woman & Child Hospital at Hyderabad would drive growth in these clusters in FY26.

Margin expectations reset: ASTERDM EBITDA margin had expanded ~900bp YoY in Q2FY25 to 20.2%, led by structural initiatives undertaken by management. The dip in EBITDA margin in Q3 to 18% (excluding exceptional item) dampened our forward expectations but is still a major step-up from low mid-teen levels of FY25. We slightly lower our forward margin expectations accordingly.

QCIL merger on track: The company recently signed definitive agreements to merge with QCIL, a prominent unlisted firm in the hospitals space, with Blackstone and TPG as controlling shareholders. It runs 26 healthcare centers with 5,150+ beds across Kerala, Telangana and Bangladesh. Management says the process is progressing and expects completion in Q3FY26. We are not building in the deal into our forward estimates at this stage; we await clarity on the detailed financials.

Retain Accumulate with a TP of INR 521: We cut our core EPS in the range of 5-7% FY25-26E as we lower our margin estimates. ASTERDM trades at 63.3x FY26E core PE and 29.1x FY26E EV/EBITDA (pre-IndAS). We retain **Accumulate** with a TP of INR 521 based on 71x (from 68x) FY27E core P/E or 27.7x (from 27.9x) FY27E EV/EBITDA (pre-IndAS). Increased competition in the space and adverse government regulations are key risks.

Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	119,329	36,989	42,488	47,569	54,479
YoY (%)	16.4	(69.0)	14.9	12.0	14.5
EBITDA (INR mn)	15,653	5,780	8,295	9,693	11,196
EBITDA margin (%)	13.1	15.6	19.5	20.4	20.6
Adj PAT (INR mn)	3,554	1,096	2,736	3,550	4,252
YoY (%)	(25.7)	(69.2)	149.6	29.8	19.8
Fully DEPS (INR)	7.1	2.2	5.5	7.1	8.5
RoE (%)	9.5	2.7	7.5	10.3	11.3
RoCE (%)	11.8	5.0	10.2	13.7	15.1
P/E (x)	62.2	201.8	80.8	62.3	52.0
EV/EBITDA (x)	21.6	47.8	34.0	28.7	24.9

Note: Pricing as on 3 February 2025; Source: Company, Elara Securities Estimate

Rating: **Accumulate**

Target Price: **INR 521**

Upside : **11%**

CMP: **INR 469**

As on 3 February 2025

Key data

Bloomberg	ASTERDM IN
Reuters Code	ATRD.NS
Shares outstanding (mn)	500
Market cap (INR bn/USD mn)	234/2685
Enterprise Value (INR bn/USD mn)	239/2745
Avg daily volume 3M (INR mn/USD mn)	657/8
52 week high/low	535/310
Free float (%)	-

Note: as on 3 February 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Promoter	41.9	41.9	41.9	41.9
% Pledged	98.9	98.9	98.9	98.9
FII	33.5	27.1	23.9	22.6
DII	13.7	16.4	20.9	23.1
Others	10.9	14.7	13.4	12.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(3.9)	(5.5)	6.9
Aster DM Healthcare	5.3	25.9	42.0
NSE Midcap	(6.2)	(8.5)	9.3
NSE Smallcap	(11.6)	(11.6)	2.1

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	119,329	36,989	42,488	47,569	54,479
EBITDA	15,653	5,780	8,295	9,693	11,196
Add:- Non operating Income	783	249	1,520	1,520	1,520
OPBITDA	16,435	6,028	9,814	11,213	12,716
Less :- Depreciation & Amortization	7,804	2,200	2,482	2,714	3,156
EBIT	8,631	3,828	7,332	8,499	9,560
Less:- Interest Expenses	3,292	1,103	1,219	1,240	1,341
PBT	5,339	2,725	6,114	7,259	8,219
Less :- Taxes	596	565	1,888	2,170	2,374
Add/Less: - Extra-ordinaries	-	69	50,475	-	-
Add/Less: - Minority Interest	(494)	(867)	(439)	(475)	(513)
Reported PAT	4,249	1,362	54,261	4,615	5,332
Adjusted PAT	3,554	1,096	2,736	3,550	4,252
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholder's Equity	44,481	45,598	39,478	41,620	43,942
Minority Interests	4,124	4,703	5,143	5,617	6,130
Borrowings	22,875	6,693	6,247	6,141	6,009
Other Non-current Liabilities	47,455	118,332	5,965	6,186	6,510
Total Liabilities	118,934	175,326	56,832	59,564	62,591
Net Fixed Assets	78,036	30,500	36,010	41,732	47,556
Intangibles and Goodwill	15,278	2,955	2,955	2,955	2,955
Investments	683	137	137	137	137
Cash and Cash Equivalents	4,398	1,160	13,238	10,090	7,136
Net Working Capital	14,940	(96)	819	978	1,135
Other Non-current Assets	5,600	140,671	3,671	3,671	3,671
Total Assets	118,934	175,326	56,832	59,564	62,591
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	13,008	13,479	4,354	5,286	6,259
Add/Less : Working Capital Changes	879	(16,713)	(757)	62	168
Operating Cash Flow	13,886	(3,234)	3,597	5,348	6,427
Less:- Capex	(8,390)	(7,587)	(7,000)	(7,350)	(7,718)
Free Cash Flow	5,496	(10,821)	(3,403)	(2,002)	(1,290)
Financing Cash Flow	(3,656)	8,937	(59,467)	(1,147)	(1,663)
Investing Cash Flow	(1,305)	(1,354)	74,949	-	-
Net change in Cash	536	(3,239)	12,079	(3,149)	(2,953)
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	16.4	-69.0	14.9	12.0	14.5
EBITDA Growth	5.5	(63.1)	43.5	16.9	15.5
PAT Growth	(25.7)	(69.2)	149.6	29.8	19.8
EBITDA Margin	13.1	15.6	19.5	20.4	20.6
Net Margin	3.0	3.0	6.4	7.5	7.8
Return & Liquidity Ratios					
Net Debt/Equity (x)	0.38	0.11	(0.16)	(0.08)	(0.02)
ROE (%)	9.5	2.7	7.5	10.3	11.3
ROCE (%)	11.8	5.0	10.2	13.7	15.1
Per Share data & Valuation Ratios					
Diluted EPS (INR)	7.1	2.2	5.5	7.1	8.5
EPS Growth (%)	(25.7)	(69.2)	149.6	29.8	19.8
DPS (INR)	-	120.0	4.0	5.0	6.0
P/E (x)	62.2	201.8	80.8	62.3	52.0
EV/EBITDA (x)	21.6	47.8	34.0	28.7	24.9
EV/Sales (x)	1.9	6.1	5.4	4.8	4.2
Price/Book (x)	2.0	1.3	4.1	3.9	3.7
Dividend Yield (%)	-	25.6	0.9	1.1	1.3

Note: Pricing as on 3 February 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q3FY25	Q3FY24	YoY(%)	Q2FY25	QoQ (%)	FY25	FY24	YoY(%)
Net Sales	10,498	37,106	(71.7)	10,864	(3.4)	42,488	36,989	14.9
Gross Profit	8,028	26,389	(69.6)	8,490	(5.4)	32,802	27,830	17.9
Gross Margins (%)	76.5	71.1	535.4	78.1	(167.0)	77.2	75.2	196.5
EBITDA	1,892	5,641	(66.5)	2,197	(13.9)	8,295	5,780	43.5
EBITDA Margins (%)	18.0	15.2	281.7	20.2	(220.5)	19.5	15.6	389.8
Other Income	330	80	315.0	352	(6.4)	1,520	249	511.5
Interest	308	986	(68.8)	315	(2.2)	1,219	1,103	10.5
Depreciation	622	2,315	(73.1)	623	(0.1)	2,482	2,200	12.8
PBT	1,292	2,419	(46.6)	1,613	(19.9)	6,114	2,725	124.3
Tax	375	242	54.7	529	(29.1)	1,888	565	234.2
Tax Rate (%)	29.0	10.0	1,899.9	32.8	(378.1)	30.9	20.7	1,015.3
PAT	917	2,177	(57.9)	1,084	(15.4)	4,225	2,160	95.6
Minority Interest	(112)	(385)	(70.9)	(115)	(2.9)	(439)	(867)	(49.3)
PAT	805	1,792	(55.1)	968	(16.9)	3,786	1,293	192.8
Adjusted Net Income	805	1,792	(55.1)	968	(16.9)	3,786	1,293	192.8
NPM (%)	7.7	4.8	283.9	8.9	(124.5)	8.9	3.5	541.5

Source: Company, Elara Securities Research

Conference call highlights

Operational and financial performance

- ▶ Total revenue grew by 10.0% YoY but declined by 3.4% QoQ, reaching INR 10.9bn
- ▶ Overall EBITDA increased by 24.7% YoY but dropped 13.9% QoQ to INR 1.9 bn
- ▶ EBITDA margin expanded by 210bp YoY but shrank by 220bp QoQ, settling at 18.0%
- ▶ Adjusted PAT for continuing operations surged 127.8% YoY but fell 16.9% QoQ to INR 805mn
- ▶ Revenue from the India Hospital business rose 10.4% YoY but declined 4.8% QoQ to INR 9.1bn in Q3FY25, with EBITDA at INR 2,200mn and a margin of 22%
- ▶ India labs and pharmacy revenue increased by 5.4% YoY and 14.7% QoQ, reaching INR 780mn in Q3FY25. EBITDA for this segment stood at INR 30mn, with a margin of 4%
- ▶ Overall ARPOB was INR 45,500 in Q3FY25, up from INR 39,800 in Q3FY24 and INR 43,000 in Q2FY25
- ▶ Overall occupancy stood at 63% in Q3FY25 compared to 70% in Q3FY24 and 72% in Q2FY25
- ▶ Average length of stay (ALOS) remains at 3.2 in Q3FY25, vs 3.4 in Q3FY24 and 3.2 in Q2FY25
- ▶ Net cash stood at ~INR 10.1bn as on Q3FY25

Kerala cluster

- ▶ The Kerala cluster's revenue declined by 1.9% YoY and 6.4% QoQ to INR 5.2bn in Q3FY25. This drop was primarily due to the flu season ending in Q2 instead of Q3, as it did last year. Additionally, a reduction in international patient revenue from the GCC contributed to the decline
- ▶ EBITDA for the Kerala cluster stood at INR 1,230mn, with an EBITDA margin of 23.5% for the quarter
- ▶ ARPOB for the Kerala cluster increased to INR 42,400, up from INR 38,300 in Q3FY24 and INR 40,600 in Q2FY25
- ▶ Occupancy in the Kerala cluster declined to 68% compared to 80% in Q3FY24 and 79% in Q2FY25, largely due to the shift in the flu season. However, management expects improvement in occupancy in January 2025
- ▶ The addition of 250 beds in the Kerala cluster during 9MFY25 also contributed to the occupancy decline, as the number of operational beds increased

- ▶ A leadership change occurred in this cluster, and new management is likely to focus on improving occupancy and revenue

Karnataka and Maharashtra cluster

- ▶ Revenue increased by 29.2% YoY but declined 2.5% QoQ, reaching INR 3.6 bn in Q3FY25
- ▶ EBITDA stood at INR 800mn, with an EBITDA margin of 22.5% for the quarter.
- ▶ ARPOB rose to INR 63,000, up from INR 52,400 in Q3FY24 and INR 57,600 in Q2FY25
- ▶ EBITDA was INR 170mn, with an EBITDA margin of 13.9% during the quarter.
- ▶ Occupancy declined to 60%, compared to 65% in Q3FY24 and 68% in Q2FY25
- ▶ Aster Whitefield's D Block is set to add 150 beds by June 2025
- ▶ Growth in this cluster is primarily driven by Aster Whitefield Bengaluru, followed by Aster RV and Aster Aadhar Kolhapur
- ▶ The upcoming competition is not likely to impact Aster significantly, as demand continues to outpace supply in the cluster
- ▶ The merger will further strengthen Aster's leadership position in Kerala, with a key focus on stabilizing ARPOB in this cluster

Andhra and Telangana

- ▶ Revenue grew by 15.2% YoY but declined 3.2% QoQ, reaching INR 1.2 bn in Q3FY25
- ▶ ARPOB increased to INR 30,000, up from INR 27,500 in Q3FY24 and INR 29,000 in Q2FY25
- ▶ Occupancy stood at 55%, compared to 52% in Q3FY24 and 59% in Q2FY25
- ▶ Aster W&C Hyderabad, a 300-bed facility, is likely to become operational in FY26

Guidance

- ▶ The company has received shareholder approval for its merger with quality care and has submitted applications to the Competition Commission and stock exchanges for approval
- ▶ During the quarter, the company successfully added 100 beds to its flagship hospital, Aster Medcity
- ▶ Aster plans to expand capacity by 1,700 beds, aiming to reach more than 6,800 beds by FY27
- ▶ The payor mix improved, with the insurance segment contributing 30%, up 300bp YoY, in 9MFY25
- ▶ The company is prioritizing the expansion of oncology within its specialty mix
- ▶ Capital expenditure for 9MFY25 stood at INR 2,380mn, with 65% allocated to capacity expansion
- ▶ A 1% increase in material cost and a shift in case mix in Q3FY25 contributed to the decline in margins during the quarter
- ▶ The company will implement efficiency measures to enhance margin, targeting an overall EBITDA margin of 21% by 1-2 years and 24% for the hospital segment within 1-2 years
- ▶ The pharmacy segment experienced subdued performance due to a strategic shift in sourcing
- ▶ The company aims to achieve breakeven in the pharmacy segment by Q4FY26, with some underperforming pharmacies closing during the quarter; however, the total number of pharmacies will remain above 200
- ▶ Total rental cost, including variable rent, for FY25 is likely to be in the range of INR 1,200-1,250mn

Exhibit 1: Valuation based on core earnings

	FY23	FY24	FY25E	FY26E	FY27E
Core EPS (INR)	7.1	2.2	5.5	7.1	8.5
Core EPS growth (%)	(25.7)	(69.2)	149.6	29.8	19.8
Cash per share (INR)	8.8	2.3	26.5	20.2	14.3
Current core P/E (x)	66.6	216.0	86.5	66.7	55.7
Core ROIC (%)	12.5	5.3	10.4	18.5	18.6

Source: Company, Elara Securities Estimate

Exhibit 2: Rolling forward EV/EBITDA is currently trading at 22.3x

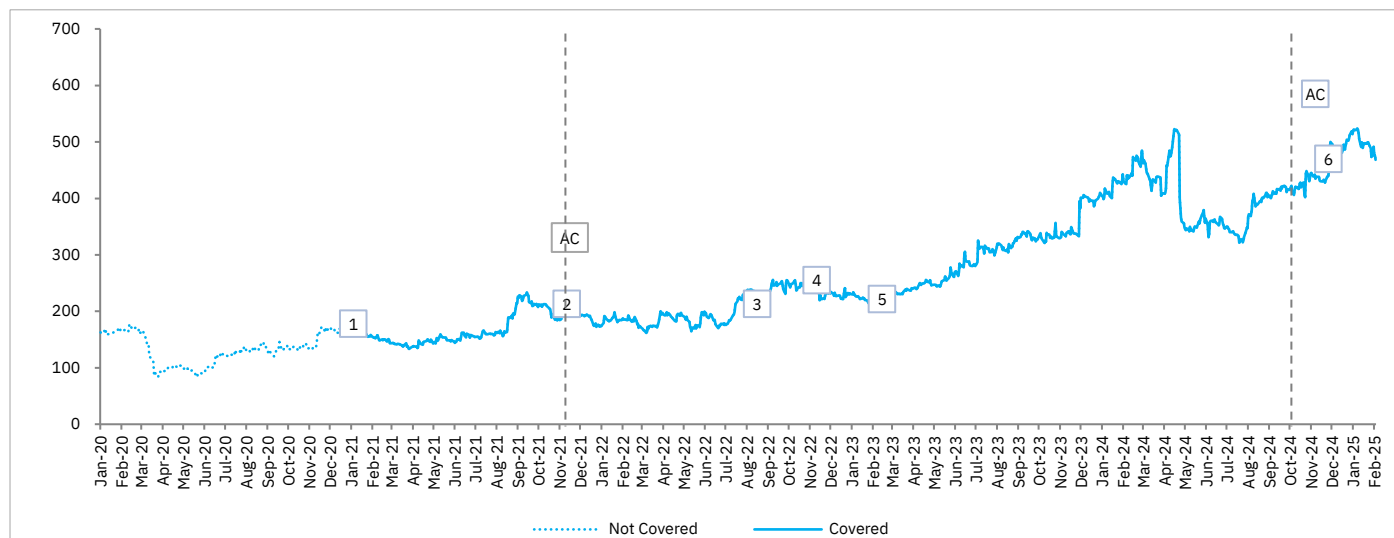

Source: Bloomberg, Company, Elara Securities Research

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	43,547	48,702	55,709	42,488	47,569	54,479	(2.4)	(2.3)	(2.2)
EBITDA	8,618	9,835	11,115	8,295	9,693	11,196	(3.8)	(1.4)	0.7
PAT	2,947	3,629	4,163	2,736	3,550	4,252	(7.2)	(2.2)	2.1
EPS (INR)	5.9	7.3	8.3	5.5	7.1	8.5	(7.2)	(2.2)	2.1

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	1-Jan-2021	Buy	INR 240	INR 167
2	12-Nov-2021	Buy	INR 285	INR 208
3	16-Aug-2022	Buy	INR 260	INR 203
4	11-Nov-2022	Accumulate	INR 280	INR 249
5	14-Feb-2023	Buy	INR 280	INR 212
6	26-Nov-2024*	Accumulate	INR 521	INR 439

*AC = Analyst change

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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