YATHARTH HOSPITAL AND TRAUMA CARE SERVICES LIMITED

IPO Note

Date: 25.07.2023

Yatharth Hospital and Trauma care services is the eighth and 10th largest private hospital in the National Capital Region of Delhi in terms of no of beds in Fiscal 2023. They have bed capacity of 1405 beds out of that 394 beds are engaged for critical care. Prices of the hospitals are ~20% cheaper than peers to make their brand known among people. They have expansion plans near parts of Uttar Pradesh and Delhi. They have reported robust financial performance across the major parameters. Revenue and Profit after tax has increased by 51% and 83% in terms of 2 year CAGR.

This issue is available at P/EPS of 29.73x, which is lower as compared to peer competitors. This cannot be apple-to-apple comparison, as this hospital is mainly concentrated in Delhi and they are emerging as multi speciality hospital among renowned peers. They have recently introduced kidney transplantation, bone marrow transplantation and oncology department. These speciality services will add cost to the hospital in medium to long term, hence margins could see pressure. Majorly, their revenue contributes majorly 34% from government deals which can stretch the debtor days and margin as well. Hence, we recommend to subscribe the issue for Listing gains.

YATHARTH SUPER SPECIALITY HOSPITALS GET BETTER

Issue details

Price Band (Rs in per share)	285-300
Issue size (Rs in Crore)	676.72-686.55
Fresh Issue size (Rs in Crore)	490.00
OFS Issue size (Rs in Crore)	186.72-196.55
Issue open date	26-07-2023
Issue close date	28-07-2023
Tentative date of Allotment	02-08-2023
Tentative date of Listing	07-08-2023
Total number of shares (lakhs)	237.45-228.85
No. of shares for QIBs (50%) (lakhs)	118.72-114.43
No. of shares for NII (15%) (lakhs)	35.62-34.33
No. of shares for retail investors (35%) (lakhs)	83.11-80.10
Minimum order quantity	50
Face value (in Rs)	10
Amount for retail investors (1 lot)	14250-15000
Maximum number of shares for Retail investors at lower Band	700(14 Lots)
Maximum number of shares for Retail investors at upper band	650(13 lots)
Maximum amount for retail investors at lower Band- upper band (in Rs)	199500-195000
Exchanges to be listed on	BSE, NSE

About the Company:

Yatharth hospital and trauma care services Ltd hospital (i.e., Noida Extension Hospital and Greater Noida) are the eighth and 10th largest private hospital in the National Capital Region of Delhi ("Delhi NCR"), respectively, in terms of number of beds in Fiscal 2023 (Source: CRISIL Report). As of the date of this Red Herring Prospectus, they operate three super specialty hospitals located in Delhi NCR, i.e., at Noida, Greater Noida and Noida Extension, Uttar Pradesh. Further, they acquired a 305-bedded multi-speciality hospital in Orchha, Madhya Pradesh near Jhansi, Uttar Pradesh ("Jhansi-Orchha") which commenced commercial operations in from April 10, 2022, and is one of the largest hospital in JhansiOrchha-Gwalior region in terms of number of beds (Source: CRISIL Report). With this acquisition, their total bed capacity has increased to 1,405 beds as of the date of this Red Herring Prospectus. In addition, their critical care program comprises 394 critical care beds, as of March 31 2023.

RESEARCH ANALYST

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A route to making money online

Promoters

Ajay Kumar Tyagi and Kapil Kumar

Objective of the Offer

- Repayment/ prepayment, in full or part, of certain borrowings availed by the Company.
- Repayment/ prepayment, in full or part, of certain borrowings availed by the Subsidiaries, namely, AKS Medical & Research Centre Private Limited and Ramraja Multispeciality Hospital & Trauma Centre Private Limited.
- Funding capital expenditure expenses of the Company for two hospitals, namely, Noida Hospital and Greater Noida Hospital.
- Funding capital expenditure expenses of the Subsidiaries, AKS and Ramraja, for respective hospitals operated by them.
- Funding inorganic growth initiatives through acquisitions and other strategic initiatives.
- Offer for sale for 6551690 shares held by promoter group selling shareholder

Financials

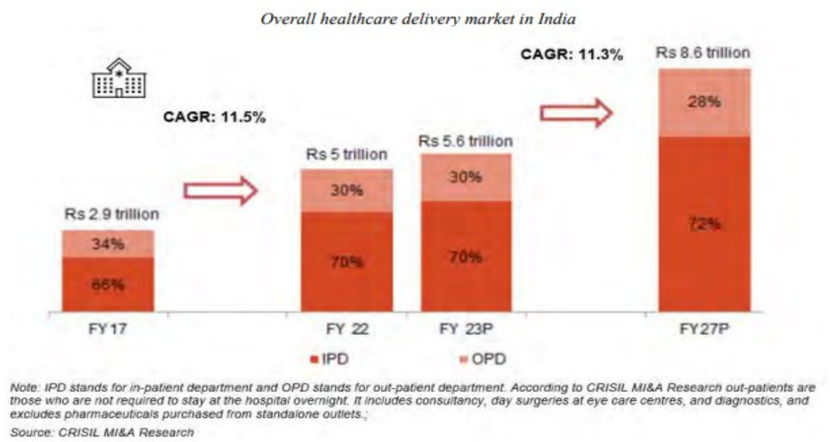
Brief Financials			
Particulars (Rs. Cr)*	**FY23**	**FY22**	**FY21**
Share Capital	65.51	65.51	16.37
Net Worth	182.96	116.88	72.45
Revenue	520.29	400.93	228.67
EBIDTA	133.76	110.81	67.01
EBIDTA Margin (%)	25.71%	27.64%	29.30%
Net Profit	65.76	44.16	19.58
Basic EPS	10.09	6.78	2.77
Net Asset Value (Rs)	27.93	17.84	11.06
P/E#	29.73	NA	NA
P/B #	10.74	NA	NA

*Source: RHP # Calculated at the upper price band, * Restated summary*

Industry Review:

GLOBAL ECONOMIC OVERVIEW
Indian healthcare delivery market poised for robust growth in the medium term

Breaching pre-Covid level in Fiscal 2-22, CRISIL estimates the Indian healthcare delivery industry to post healthy approximately 11.3% CAGR between Fiscals 2023 and 2027, driven by long term structural factors, strong fundamentals, increasing affordability and potential of the Ayushman Bharat scheme.



The Indian Healthcare Delivery Industry Estimated to Have Grown to Approximately ₹ 5.6 trillion in Fiscal 2023 CRISIL estimates the Indian healthcare delivery market to have reached approximately ₹ 5.6 trillion in value terms by end of Fiscal 2023, with growth being contributed by stabilisation of regular treatments, surgeries and OPD amid minimization of disruption due to the pandemic and expansion of ARPOB for the sector. A potential upside is also expected from picking up of high realisation medical tourism as international travel restrictions are relaxed. Within the overall healthcare delivery market, the in-patient department is expected to account for nearly 70% (in value terms), while the balance is to be catered by the out-patient department. As opposed to Fiscal 2022, when government investment growth in the sector reduced on the high base of fiscal 2021 to combat the pandemic, the private sector complemented the role of the government in Fiscal 2022 in the second wave, which was an upside especially for hospitals where occupancies were typically on the lower side.

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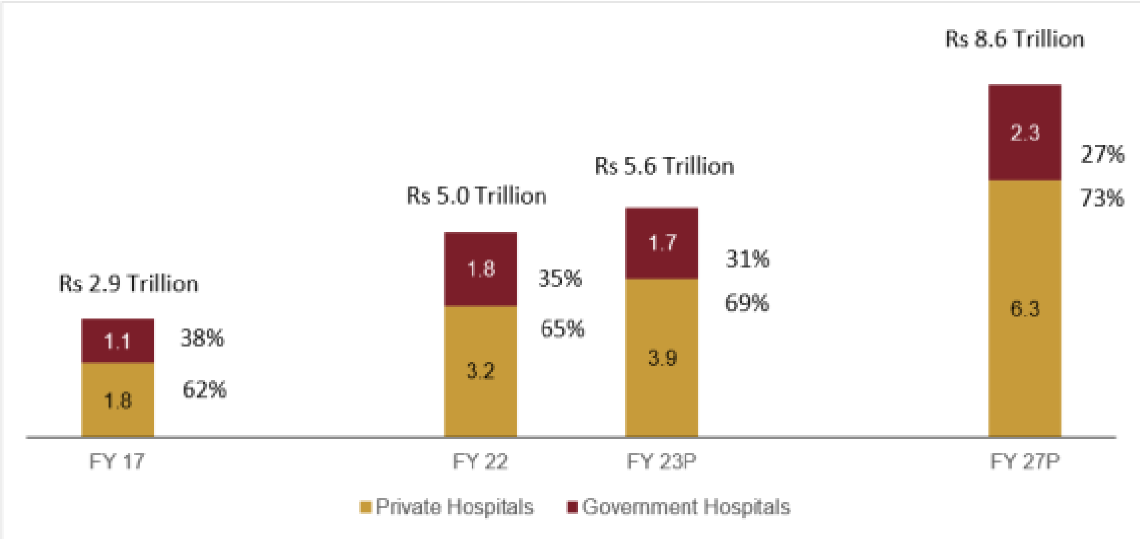
Share of treatments in value terms (government hospitals versus private hospitals/clinics)



Source: CRISIL MI&A Research; P: Projected

Growth was driven in Fiscal 2022 by low base and the pent-up demand from deferred treatments due to Covid waves. Healthcare Delivery Industry to Grow approximately 11.3% Over the Next Four Years With long term structural factors supporting growth, renewed impetus from PMJAY and government focus shifting onto healthcare sector, the healthcare delivery market is expected to grow at approximately 11.3% compounded annual growth rate and reach ₹ 8.6 trillion in Fiscal 2027. From Fiscal 2018 to Fiscal 2022, major hospital chains have added supply (approximately 2% to 3% of their incremental supply during the period). The supply was largely affected during the Covid period as from fiscal 2020 to Fiscal 2022, major hospital chains supply declined by approximately 1-2%. The government had also converted many hospitals into full time COVID-19 treatment centres during this time. The government is also expected to augment this via the Ayushman Bharat scheme which aims to create 1,50,000 Health and Wellness centers (approximately 1,54,338 HWC's created until December 2022) for strengthening primary and secondary infrastructure in the country. The other contributors to the demand are more structural in nature, like, increase in lifestyle-related ailments, increasing medical tourism, rising incomes and changing demography. In India, healthcare services are provided by the government and private players, and these entities provide both IPD and OPD services. However, the provision of healthcare services in India is skewed towards the private players (both for IPD and OPD). This is mainly due to the lack of healthcare spending by the government and high burden on the existing state health infrastructure. The share of treatments (in value terms) by the private players is expected to increase from 62% in Fiscal 2017 to nearly 73% in Fiscal 2027, the share only witnessing a slight dip in Fiscal 2021. The skew is more towards the private players owing to the expansion plans of private players being centered on it, further buttressed by increasing reliance on private facilities till government infrastructure is properly put in place.

Competitive Strengths

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

Hospitals (i.e., Noida Extension Hospital and Greater Noida) are the eighth and 10th largest private hospital in the National Capital Region of Delhi ("Delhi NCR"), respectively, in terms of number of beds in Fiscal 2023 (Source: CRISIL Report). They believe use of compassionate patient care, technology, and experienced medical practitioners enable them to offer patients comprehensive patient care services with individualized attention. Advanced facilities coupled with diverse specialisations and tailored best practices, differentiate them from regional competitors. Given market position in the expanding medical industry and growing medical tourism in the Delhi NCR region, they believe there are opportunities to build more hospitals in existing and new markets as well as enhance local community presence.

The table below reflects the revenue derived from key service segments stated as a percentage of total revenue from operations, for the periods indicated based on service segments.

Particulars	Fiscal					
	2021		2022		2023	
	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)
Medicine	1,286.76	56.27%	2,008.19	50.08%	1,636.73	31.46%
– COVID-19	739.58	32.34%	851.20	21.23%	0.00	0.00%
– Non-COVID-19	547.19	23.93%	1,157.00	28.85%	1,636.73	31.46%
Orthopedics & spine & rheumatology	108.47	4.74%	231.66	5.78%	295.18	5.67%
Nephrology & urology	143.44	6.27%	252.03	6.29%	472.75	9.09%
Neurosciences	185.60	8.12%	310.75	7.75%	508.74	9.78%
General surgery	148.91	6.51%	260.59	6.50%	442.19	8.50%
Cardiology	163.30	7.14%	266.74	6.65%	508.86	9.78%
Pediatrics	61.01	2.67%	147.96	3.69%	264.93	5.09%
Gynecology	71.51	3.13%	127.78	3.19%	230.35	4.43%
Gastroenterology	29.50	1.29%	83.34	2.08%	157.82	3.03%
Pulmonology	25.34	1.11%	113.43	2.83%	241.72	4.65%
Others*	62.89	2.75%	206.90	5.16%	443.66	8.53%
Total	**2,286.74**	**100.00%**	**4,009.37**	**100.00%**	**5,202.93**	**100.00%**

Notes
** Others comprises all other specialties.*

Advanced and high-end medical equipment and technology

Hospitals are equipped with machines and devices with sophisticated technology. Hospitals are designed to assist practitioners in providing timely, efficient and quality healthcare. They also equip hospitals with advanced medical technology and equipment and diagnostic instruments with the aim of providing patients with accurate diagnoses and effective treatments. In addition, all of hospitals are accredited by the NABH while hospitals located at Greater Noida and Noida Extension are accredited by NABL. They continuously strive to introduce cutting-edge medical technology and state-of-the-art equipment and facilities across each aspect of healthcare services, from outpatient to in-patient. They also have a well-equipped laboratory in all operating hospitals for diagnostic services in haematology, biochemistry, microbiology, molecular biology and histopathology. Some of diagnostic equipment include: Catheterization Laboratory ("Cath Lab"). comprehensive cardiac department is equipped with an advanced Cath Lab;

- Computerized Tomography scan ("CT scan"). 128 Slice CT scan* with multiple organ perfusion for more accurate imaging;

- Magnetic resonance imaging ("MRI"). 1.5 Tesla whole-body MRI with optical digital broadband and embedded express coil technology for minimal patient repositioning and advanced non-contrast MR Angiography for covering wider range scan of the human body;

Record of accomplishment of stable operating and financial performance and growth

EBITDA has grown at a CAGR of 41.29% from ₹ 670.11 million in Fiscal 2021 to ₹ 1,337.65 million in Fiscal 2023. Net profit increased from ₹ 195.88 million in Fiscal 2021 to ₹ 441.62 million in Fiscal 2022, which further increased to ₹ 657.68 million in Fiscal 2023. Net worth has increased from ₹ 724.55 million as at March 31, 2021 to ₹ 1,829.64 million as at March 31, 2023. They recorded an operating margin of 25.71% in Fiscal 2023. Absolute revenue from OPD increased from ₹ 226.60 million in Fiscal 2021 to ₹ 683.93 million in Fiscal 2023. Revenue per OPD patient was ₹ 1,669.22 in Fiscal 2021, which increased to ₹ 2,074.01 in Fiscal 2023. Number of operational beds, which increased from 864 in Fiscal 2021 to 1,405 beds in Fiscal 2023 at CAGR of 27.52%, and the occupancy rate of beds, increased from 41.63% in Fiscal 2021 to 49.97% in Fiscal 2022. In Fiscal 2023, bed occupancy rate was 45.33% as the Jhansi-Orchha hospital commenced commercial operations in Fiscal 2023 with effect from April 10, 2022 and had a low occupancy rate. While they invest a significant amount of capital expenditure in creating and increasing bed capacity and opening new hospitals, they strive to incur lower capital expenditure by making optimal use of the available area in hospitals and working better with equipment suppliers. They have acquired land on a long-term leasehold basis and a building civil structure on own, which has helped them to keep capital expenditure per operational bed lower. Gross capital expenditure per operational bed in Fiscal 2021, 2022 and 2023, was ₹ 3.91 million, ₹ 3.72 million, and ₹ 3.07 million. They believe that low capital expenditure per operational bed has allowed them to arrange finances better and commence operations with little delay, thereby reducing the time to pay back bor-

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Risk Factors

High fixed costs, which can adversely affect profitability

They operate in an industry with high fixed costs, and fixed costs have had, and will continue to have, an adverse impact on results of operations. Some of key expenses include cost of materials consumed, employee benefits expenses, finance costs, depreciation and amortization expenses and other expenses. The following table depicts key expenses as a percentage of revenue from operations for Fiscal 2021, 2022 and 2023.

Particular	Fiscal					
	2021		2022		2023	
	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)
Cost of materials consumed	463.18	20.26%	813.28	20.28%	929.35	17.86%
Employee benefits expense	466.88	20.42%	804.68	20.07%	919.30	17.67%
Finance cost	188.44	8.24%	214.86	5.36%	213.87	4.11%
Depreciation and amortization expenses	205.60	8.99%	278.68	6.95%	275.07	5.29%
Other expenses	686.56	30.02%	1,283.29	32.01%	2,016.63	38.76%
Total expenses	**2,010.66**	**87.93%**	**3,394.80**	**84.67%**	**4,354.22**	**83.69%**

These fixed costs do not significantly vary depending on revenue generated, and they cannot assure you that the levels of fixed costs will decrease in the future. Furthermore, if they experience an increase in fixed costs and are unable to grow revenue in line with fixed costs, or if they are unable to pass cost increases to payers, profitability would be severely impacted, particularly during a period of economic decline or in the event of a reduction in revenues, which could have an adverse effect on business, financial condition, cash flows and results of operations.

Fresh Issue is earmarked for Jhansi-Orchha Hospital, which was non-operational since Fiscal 2020 until Fiscal 2022 and incurred losses in Fiscal 2023

Company acquired Ramraja vide share purchase agreement dated February 18, 2022, and prior to the acquisition, it was non-operational since Fiscal 2020. Subsequently, Ramraja commenced its operations on April 10, 2022 and currently operates Jhansi-Orchha Hospital. In Fiscal 2023, Ramraja incurred losses aggregating to ₹ (86.25) million.

Company proposes to utilise the Net Proceeds from the Fresh Issue for the following objects related to Ramraja:

Particulars	Amount which will be financed from Net Proceeds (₹ in million)	% of Net Proceeds from the Fresh Issue*
Repayment/ prepayment, in full or part, of certain borrowings availed of by our Subsidiary, Ramraja	500.00	[•]%
Funding capital expenditure expenses of our Subsidiary, Ramraja, for Jhansi-Orchha Hospital	446.90	[•]%
Total	**946.90**	**[•]%**

** To be updated in the Prospectus.*

Failure of successful integration of acquisitions or investments

They completed the acquisition of Ramraja, the entity that owns a multispecialty hospital in Orchha, Madhya Pradesh, which is one of the largest hospital in Jhansi-Orchha-Gwalior region in terms of number of beds (Source: CRISIL Report). There can be no assurance that they will be able to successfully integrate acquisition or anticipate and overcome the challenges arising from acquisition and investment. For instance, Ramraja became subsidiary on February 18, 2022 and prior to the acquisition, it was non-operational since Fiscal 2020, and considered a non-performing asset. Pursuant to the acquisition of Ramraja by Company, Ramraja paid outstanding loans of LICHFL and the current borrowing of Ramraja from all of its lenders is a standard account. Subsidiary, Ramraja, which commenced operations on April 10, 2022, has substantial negative net worth and as of March 31, 2023, the net worth was ₹ (438.60) million. Accordingly, this may have an impact on consolidated financial statements. Further, the negative net worth of Ramraja may impact ability to obtain adequate funding for operations

Peer Comparison

Company	Total Income (in crs)	FV	EPS	NAV	P/E*	P/B*	RoNW (%)
Yatharth Hospital and Trauma Care Services Limited	523.10	10	10.09	27.93	29.73	10.74	35.95%
Apollo Hospitals Enterprise Limited	16702.79	10	56.97	431.02	91.24	12.06	13.22%
Fortis Healthcare Limited	6359.35	5	7.80	95.93	42.99	3.50	8.13%
Narayana Hrudalaya Limited	4590.21	10	29.85	104.30	34.47	9.87	28.44%
Max Healthcare Institute Limited	4701.84	10	11.36	76.32	53.79	8.01	14.89%
Krishna Institute of Medical Sciences Limited	2223.55	10	42.03	208.62	45.56	9.18	20.14%
Healthcare Global Enterprises Limited	1707.62	10	2.11	61.86	151.66	5.17	3.41%
Global Health Limited	2759.16	2	12.58	90.54	56.60	7.86	13.43%
**P/E & P/B ratio based on closing market price as on July 07th, 2023, At the upper price band of IPO, financial details consolidated audited results as on FY23*							

OUR VIEWS

Yatharth Hospital and Trauma care services is the eighth and 10th largest private hospital in the National Capital Region of Delhi in terms of no of beds in Fiscal 2023. They have bed capacity of 1405 beds out of that 394 beds are engaged for critical care. Prices of the hospitals are ~20% cheaper than peers to make their brand known among people. They have expansion plans near parts of Uttar Pradesh and Delhi. They have reported robust financial performance across the major parameters. Revenue and Profit after tax has increased by 51% and 83% in terms of 2 year CAGR.

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Analyst Certification

We/I, Sankita V, MBA, Mcom Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

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