

# Global health Ltd. (Medanta)

Price Band – 319-336

Global Health Ltd. which operates and manages hospitals under the “Medanta” brand, is coming up with an IPO to raise around Rs. 2,200cr, which opens on 3rd Nov. and closes on 7th Nov. 2022. The price band is Rs. 319 - 336 per share. Global Health is one of the largest private multi-speciality tertiary care providers operating in the North and East regions of India, with key specialties of cardiology and cardiac science, neurosciences, oncology, digestive and hepatobiliary sciences, orthopaedics, liver transplant, and kidney and urology, according to CRISIL Report. Under the “Medanta” brand, the group have a network of four hospitals currently in operation (Gurugram, Indore, Ranchi and Lucknow), a hospital which is under construction with an operational outpatient facility (Patna), and one hospital (Noida) planned for development.

## Founded by Dr. Naresh Trehan

Global Health was founded by Dr. Naresh Trehan, a world-renowned cardiovascular and cardiothoracic surgeon. He has been awarded the prestigious Padma Bhushan and the Padma Shri, the third and fourth-highest civilian awards in India, and the BC Roy award, in recognition of his distinguished contribution to medicine.

## Large-scale hospitals with world-class infrastructure

The greenfield hospital at Gurugram has been designed with a focus on creating a safe and efficient environment for patient treatment. It was designed to comply with JCI requirements and encompassing all major medical specialties under one roof. The Gurugram hospital has a built-up structure of more than 2.0 million sq. ft. with 40 operating rooms, and installed bed capacity of 1,391 including 280 ICUs beds. In Lucknow, the company have over 1.3 million sq. ft. designed with installed bed capacity of over 900, while Patna is expected to have approximately 1 million sq. ft. designed to accommodate over 500 beds and currently have an installed bed capacity of 300 beds.

## Track record of strong operational and financial performance

Global health have grown its hospitals with 2,176 installed beds across five cities as at March 31, 2021. It has consistently delivered strong operational and financial performance through strong patient volumes, cost efficiency and diversified revenue streams across medical specialties. Over the years of service to patients, the dedication has helped in enhancing the “Medanta” brand.

## Enhance clinical capabilities and improve operating efficiencies

A key component of the growth strategy is enhancing clinical capabilities and improving operating efficiencies. Global health plans to improve occupancy rates and equipment utilization at its hospitals by continuing to maintain and recruit new medical professionals of high calibre in specified fields and focus on clinical excellence. It also plan to reduce the average length of stay in hospitals (ALOS) by continuing to improve the clinical practices and use of technology.

## Features of the IPO:

The IPO is a combination of fresh issue and OFS portion. Global Health will not receive any proceeds from the OFS portion. Of the fresh issue net proceeds, Rs. 375cr will be invested in its subsidiaries, which in turn will utilize the fund for the prepayment/repayment of debt. Residual funds will be used for general corporate purposes.

One of the selling investors i.e. Anant Investments (an affiliate of Carlyle Group) held 25.66% stake in the company. On 20th Oct. 2022, it entered into a share purchase agreement to offload 1.434cr shares (representing 5.66% of the pre-IPO equity share capital) at Rs. 336 per share to RJ Corp Ltd. (one of the existing investor in Global Health with 3.95% stake); and to two new investors i.e. SBI Mutual Fund and Novo Holdings A/S.

## Conclusion:

Amid advantage of regional dominance, operational efficiency, Global Health has demonstrated one of the best financial performances among peers. It has the highest level ARPOB level amongst the peers. Hence, based on current performance, **we assign SUBSCRIBE for listing gain**. At higher price band, Global Health is demanding an EV/EBITDA multiple of 18.8x, which is lower than the peer average. Thus, the IPO is attractively priced.

## Key financials and operating metrics

In Rs Mn	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	PAT (%)	EPS	ROE (%)	ROCE(%)
<b>FY20</b>	15,004	3	2,305	15.4	363	1.6	1.4	2.7	3.5
<b>FY21</b>	14,467	-3.6	2,229	15.4	288	1.3	1.1	2.1	3.3
<b>FY22</b>	21,666	49.8	4,898	22.6	1,962	4.0	7.7	12.1	14.0

Source: Company, SMIFS research estimates



Rating: **SUBSCRIBE**

## Issue Details

Issue Opens	3 <sup>rd</sup> Nov 2022
Issue Closes	7 <sup>th</sup> Nov 2022
Issue Size (Rs Mn)	(21,193 – 22,056)
Fresh Issue (Rs Mn)	5,000
Price Band (Rs)	319-336
No. of shares on Offer (In Mn)	65,640 - 66,430
QIB (%)	50%
Retail (%)	35%
Minimum lot size (no. of shares)	44
Application money Rs.	14,784 per lot
MCAP at higher price band	Rs. 90,110 Mn
Enterprise value at higher price band	Rs. 92,160 Mn

Source: Company, SMIFS research

## Shareholding pattern (%)

	Pre Issue	Post Issue
Promoter	35.0%	33.1%
Public/others	65.0%	66.9%

Source: Company

## Dhara Patwa

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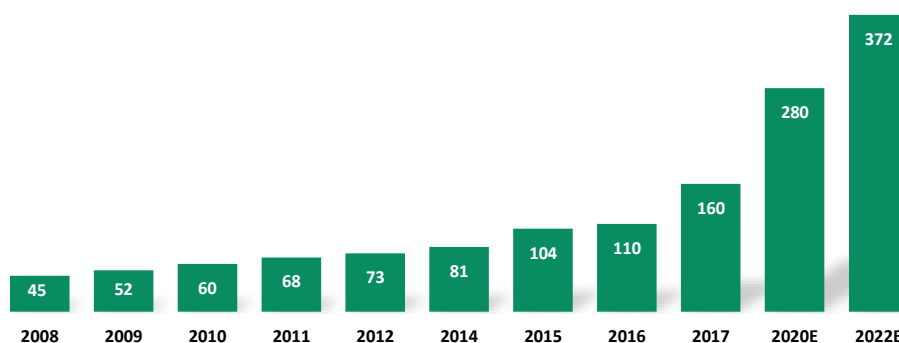
## Awanish Chandra

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## Industry Overview

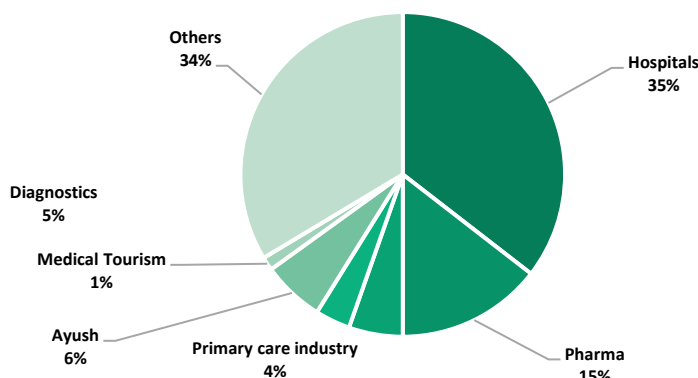
The Indian healthcare industry for FY22 is estimated at USD 372 billion of which hospitals carve out the majority share, i.e., about 35%, contributing about USD 132 billion. This is followed by domestic pharmaceuticals contributing about 15% i.e. USD 54 billion and the remaining is shared by diagnostics, medical equipment and insurance. A potential upside is also expected from Covid-19 treatments, especially for hospitals where occupancies were typically on the lower side. Within the overall healthcare delivery market, the in-patient department (“IPD”) is expected to account for nearly 70% (in value terms), while the balance is to be catered by the out-patient department (“OPD”). Though in terms of volumes, OPD volumes outweigh IPD volumes, with the latter contributes the bulk of the revenues to healthcare facilities.

### Indian Healthcare sector in USD bn



Source: IBEF

### Indian Healthcare industry



Source: IBEF

### Healthcare delivery industry to grow 15-17% over next four years

With renewed impetus from PMJAY and government focus shifting onto healthcare sector, the healthcare delivery market is expected to grow at 15-17% CAGR and reach Rs 7.67 trillion in fiscal 2025.

Over the last four years, major hospital chains have added supply (approximately 70% of their incremental supply during the period) in tier II and III locations, to create a referral network into their main centre by tapping into the underserved creamy tier II areas.

The government is also expected to augment this via a scheme in the pipeline (PM Atma Nirbhar Swasth Bharat) for strengthening primary, secondary & tertiary healthcare 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.

As per IRDAI, health insurance coverage has risen from 17% in FY12 to 36% in FY20. Also, with the PMJAY scheme and other growth drivers, insurance coverage in India is expected to increase to 46% by FY25. Therefore, a likely increase in the health insurance market will drive demand for healthcare services

## Medical tourism has gained momentum in India

India is emerging as a major medical tourist destination, given the relatively low cost of surgery and critical care in the country.

Most key medical procedures are performed at cheaper rates in India vis-à-vis developed and some developing countries. India is also an attractive destination due to its presence of technologically advanced hospitals with specialised doctors and facilities.

**As per the Ministry of Tourism, of the total foreign tourist arrivals in India, the proportion of medical tourists grew from 2.2% (0.11mn tourists) in 2009 to 6.4% (0.6mn) in 2019.** The government has also constituted a National Medical and Wellness Tourism Board which will provide financial assistance of Rs 6,00,000 to medical tourism service providers under market development assistance (MDA) to develop medical tourism in India.

Ailments in \$	US	Korea	Singapore	Thailand	India
Hip replacement	50,000	14,120	12,000	7,879	7,000
Knee replacement	50,000	19,800	13,000	12,297	6,200
Heart Bypass	1,44,000	27,900	18,500	15,121	5,200
Angioplasty	57,000	15,200	13,000	3,788	3,300
Heart Valve replacement	1,70,000	43,500	12,500	21,212	5,500
Dental Implant	2,800	4,200	1,500	3,636	1,000

Source: Industry report, SMIFS Research

## About the company

Global Health Ltd (“Medanta”) is one of the largest private multi-speciality tertiary care providers operating in the North and East regions of India, with key specialties of cardiology and cardiac science, neurosciences, oncology, digestive and hepatobiliary sciences, orthopaedics, liver transplant, and kidney and urology. Under the “Medanta” brand, they have a network of 5 hospitals currently in operation (Gurugram, Indore, Ranchi, Lucknow, and Patna), and 1 hospital (Noida), which is under construction. As of June 30, 2022, they provide healthcare services in over 30 medical specialties and engages over 1,300 doctors led by highly experienced department heads and, spanning an area of 4.7 million sq. ft., their operational hospitals have 2,467 installed beds.

Medanda was founded by Dr. Naresh Trehan, a world-renowned cardiovascular and cardiothoracic surgeon. He has been awarded the prestigious Padma Bhushan and the Padma Shri, the 3rd and 4th highest civilian awards in India, and the BC Roy award, in recognition of his distinguished contribution to medicine. Dr. Trehan is the driving force behind the hospitals. Medanta strive to deliver world-class healthcare by establishing institutes of excellence that integrate medical care, teaching and research all while providing affordable medical services to patients. Their hospital at Gurugram was ranked as the best private hospital in India for 3 consecutive years in 2020, 2021 and 2022, and was the only Indian private hospital to be featured in the list of Top-200 global hospitals in 2021 and was featured in the list of Top-250 global hospitals in 2022 by Newsweek. Their hospital at Gurugram was also featured in the list of world’s best specialized hospitals for cardiology and neurology in 2022 and the list of world’s best specialized hospitals for cardiology in 2021 by Newsweek and was awarded the ‘Best Multi-Speciality Hospital – National’ at the ‘Economic Times Healthcare Awards 2021’ and ranked as the best multispecialty private hospital in North India by ‘The Week’ in 2021.

The outpatient department facility of their Patna hospital was launched in 2020 and the in-patient department facility of the Patna hospital was inaugurated in October 2021 and commenced operations during Fiscal 2022. **As of June 30, 2022, the Patna hospital had 228 installed beds and is designed to accommodate over 500 beds.**

Additionally, they have a hospital in Noida, which is under construction and intended to commence operation during Fiscal 2025 with an expected installed capacity of 300 beds. **They also operate 6 multi-specialty clinics at DLF Cybercity Gurugram, Delhi Airport, south Delhi, Darbhanga, Patna and Subhash Chowk Gurugram.**

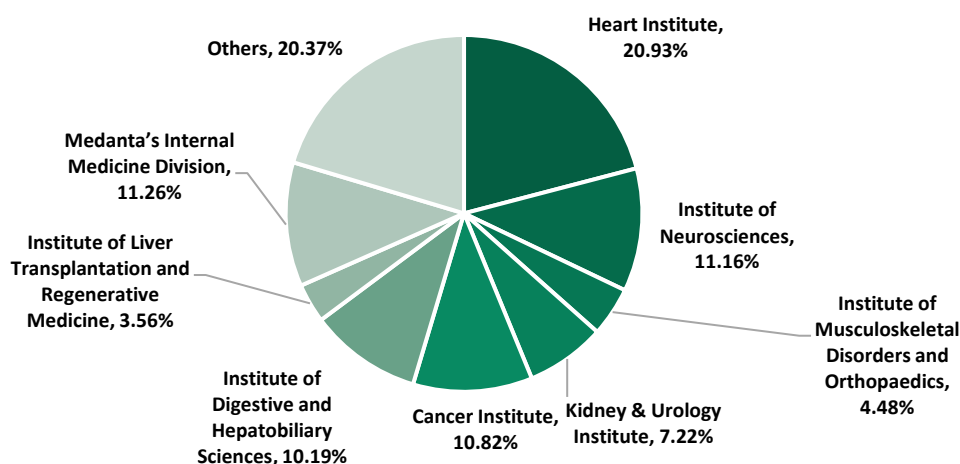
**As at March 31, 2020, Medanta had 2,141 installed beds, which grew to 2,467 installed beds as at June 30, 2022, representing a growth of 15.23%. Upon operation of their Noida hospital, Medanta expects the number of total installed beds to exceed 3,500 at the end of Fiscal 2025, which will cater to domestic and international patients as part of their strategy to capitalize on medical tourism.**

## Key Financials and operational information

Particulars	2020	2021	2022
Facility build-up area (in million sq. ft.)	3.7	3.7	4.7
Bed capacity/installed beds	2,141	2,176	2,404
Operational beds	1,517	1,579	1,779
Total occupied bed	832	814	1,076
Average occupancy levels (%)	55%	52%	61%
Number of operating theatres	65	65	69
Number of ICU beds	489	494	504
Income from healthcare services (in ₹ Mn)	14,806	14,178	21,004
Average revenue per occupied bed (ARPOB) (in ₹)	50,166	47,731	54,547
Average length of stays in hospitals (ALOS)	3.5	3.9	3.8
OPD volumes	1,305,559	1,101,780	1,971,260
IPD volumes	83,901	76,450	102,359
Revenue from outpatient pharmacy business (in ₹ Mn)	-	115	536

Source: Company, SMIFS Research

## Breakup by Specialty type



Source: Company, SMIFS Research

## Pre IPO Fund raising history

Investor	Shareholding in %	Year of Investment	Acquisition Cost in Rs Cr	Number of Shares held in (Mn)	Avg cost of acquisition per share
Anant investments (Carlyle Group)	25.6%	2013	960	65	139
Temasek Holdings	18.0%	2015	700	43	162
Sunil Sachdeva (jointly with Suman Sachdeva)	13.4%	NA	68	34	2.0

Source: Company, SMIFS Research

**Note:** As on the date of this Draft Red Herring Prospectus, Anant Investments holds 65,000,000 Equity Shares and 466,954 CCPS. The 466,954 CCPS held by Anant Investments will convert into a minimum of five Equity Shares or up to a maximum of 2,334,770 Equity Shares as per the terms of the CCPS. Accordingly, the average cost of acquisition per Equity Share by Anant Investments will be recomputed prior to filing of the Red Herring Prospectus with the Registrar of Companies.

Global Health is well supported by prominent institutional investors like The Carlyle Group and Temasek Group, each having a stake of around 25.66% and 18.95% in the company. Promoter group had 35.03% stake. On 20th Oct. 2022, Anant Investments (an affiliate of Carlyle Group) entered into a share purchase agreement to offload 1.434cr shares (representing 5.66% of the pre-IPO equity share capital) at Rs. 336 per share to RJ Corp Ltd. (one of the existing investor in Global Health with 3.95% stake); and to two new investors i.e. SBI Mutual Fund and Novo Holdings A/S. Pursuant to the agreement, Anant Investments' pre-IPO stake in Global Health will come down to 20%, while RJ Corp Ltd.'s stake will increase to 5.83%. SBI Mutual Fund and Novo Holdings A/S each will have 1.89% stake in the company. **Through this IPO, Anant Investments (i.e. The Carlyle Group) will fully offload its residual stake in Global Health**

## Peer Comparison for Major Hospital Players (FY22)

In Rs Mn	EV	Mcap	Revenue	EBITDA	EBITDA margin	ROCE	EV/EBITDA
Apollo Hospitals Enterprises	681,235	652,804	146,626	21,851	14.9%	14.6%	30.9
Fortis Healthcare Ltd	216,827	20,814	42,636	8,364	19.6%	7.2%	18.1
Global Health Ltd (Medanta)	92,160	90,110	21,666	4898	22.6%	14.0%	18.8
Healthcare Global Enterprises	47,491	40,465	13,357	1,759	13.2%	4.6%	17.6
Max Healthcare Institute	441,853	438,391	7,020	1,229	17.50%	8.8%	40.3
Narayana Hrudayalaya	165,027	160,587	37,013	6535	17.7%	20.0%	22.2
Shalby Ltd	15,849	15,170	6,989	1,199	17.2%	9.5%	10.8

Source: Company, SMIFS Research

Medanta is a multi-specialty hospital and it faces competition in all of their main business areas. They compete with government-owned hospitals, other private hospitals such as **Fortis, Apollo Hospitals and Max Healthcare, Amrita Hospital** and smaller clinics, hospitals owned or operated by non-profit and charitable organizations and hospitals affiliated with medical colleges. They will also have to compete with any future healthcare facilities located in the regions in which they operate. An increase in competition could result in downward pressure on prices, lower demand for their services, reduced margins, an inability to take advantage of new business opportunities and a loss of market share.

### Peer Revenue Mix for Major Hospital Players (FY22)

in %	Cardiac	Orthopaedics	Oncology	Renal	Gastro	Others
Apollo Hospitals Enterprises	21%	10%	11%	12%	6%	40%
Fortis Healthcare Ltd	14%	4%	8%	6%	4%	64%
Global Health Ltd (Medanta)	21%	5%	11%	7%	10%	46%
Healthcare Global Enterprises	0%	0%	88%	0%	0%	12%
Narayana Hrudayalaya	31%	3%	14%	10%	13%	29%
Shalby Ltd	8%	37%	9%	0%	0%	46%

Source: Company, SMIFS Research

### Conclusion

Amid advantage of regional dominance, operational efficiency, Global Health has demonstrated one of the best financial performances among peers. It has the highest level ARPOB level amongst the peers. Hence, based on current performance, we assign **SUBSCRIBE** for listing gain. At higher price band, Global Health is demanding an EV/EBITDA multiple of 18.8x, which is lower than the peer average. Thus the IPO is attractively priced.

## Financial Statements

Income Statement – Pre IPO				
YE March (Rs mn)	FY19	FY20	FY21	FY22
Revenue from operations	14,558	15,004	14,467	21,666
Cost of materials consumed	(3,249)	(3,248)	(3,409)	(5,082)
Purchases of stock-in-trade	0	0	(127)	(375)
Changes in inventories	0	0	50	28
<b>Gross profit</b>	<b>11,309</b>	<b>11,756</b>	<b>10,982</b>	<b>16,237</b>
Employee benefits expense	(5,411)	(5,388)	(4,663)	(5,680)
Impairment losses on financial assets	(180)	(111)	(63)	(33)
Other expenses	(4,041)	(4,391)	(4,342)	(6,018)
<b>EBITDA</b>	<b>1,677</b>	<b>1,866</b>	<b>1,914</b>	<b>4,505</b>
Depreciation and amortization expense	(1,016)	(1,150)	(1,232)	(1,297)
EBIT	661	716	682	3,208
Finance costs	(331)	(515)	(672)	(795)
Other income	502	438	314	392
Share of loss in joint venture	0	0	0	0
<b>PBT</b>	<b>832</b>	<b>639</b>	<b>325</b>	<b>2,806</b>
Tax expenses	(319)	(275)	(37)	(844)
<b>Reported PAT</b>	<b>513</b>	<b>363</b>	<b>288</b>	<b>1,962</b>

Source: Company, SMIFS research estimates

Key Ratios				
YE March	FY19	FY20	FY21	FY22
<b>Growth Ratios (%)</b>				
Revenue	NA	3.1%	-3.6%	49.8%
Gross Profit	NA	4.0%	-6.6%	47.8%
EBITDA	NA	11.3%	2.6%	135.3%
Adjusted PAT	29.2%	20.7%	581.1%	29.2%
<b>Margin Ratios (%)</b>				
Gross Margin	77.7%	78.4%	75.9%	74.9%
EBITDA	11.5%	12.4%	13.2%	20.8%
Adjusted PAT	3.5%	2.4%	2.0%	9.1%
<b>Return Ratios (%)</b>				
ROE	4.0%	2.7%	2.1%	12.1%
ROCE	3.5%	3.5%	3.3%	14.0%
<b>Turnover Ratios (days)</b>				
Inventory days	26.2	34.7	41	31.3
Debtor days	41.2	38.1	35.7	26.4
Payable days	142.1	144.5	137.3	89.4
Cash conversion cycle	74.7	71.7	60.7	31.6
Fixed asset turnover ratio (x)	0.8	0.7	0.7	1
Total asset turnover ratio (x)	0.6	0.6	0.5	0.7
<b>Solvency Ratio (x)</b>				
Current ratio (x)	1.7	1.4	1.5	2.3
Quick ratio (x)	1.6	1.3	1.4	2.2
Debt to equity (x)	0.7	0.8	0.7	0.8
Net debt to EBITDA (x)	3.5	4.2	3.8	1.6

Source: Company, SMIFS research estimates

Balance Sheet				
YE March (Rs mn)	FY19	FY20	FY21	FY22
<b>Sources of funds</b>				
Equity share capital	491	493	496	506
Instruments entirely equity in nature	325	325	325	0
Other equity	12,139	12,677	13,003	15,654
Non-current borrowings	5,137	6,219	6,446	8,379
Non-current lease liabilities	0	0	0	2,357
Other non-current financial liabilities	2,421	2,703	2,507	98
Non-current provisions	290	361	423	511
Net deferred tax liabilities	289	81	0	0
Other non-current liabilities	354	391	363	458
Current lease liabilities	311	367	361	354
Other current financial liabilities	741	1,116	903	976
Trade payables	1,265	1,307	1,316	1,343
Current provisions	424	189	277	193
Other current liabilities	112	433	522	627
<b>Total liabilities</b>	<b>24,300</b>	<b>26,663</b>	<b>26,941</b>	<b>31,455</b>
<b>Assets</b>				
Property, plant and equipment	8,586	13,205	12,595	14,385
Intangible assets	14	85	72	63
Right-of-use assets	3,337	3,741	3,489	3,311
Capital work-in-progress	6,663	3,817	4,638	4,393
Non-current investments	0	0	1	1
Non-current loans	73	0	0	0
Other non-current financial assets	16	317	270	199
Net deferred tax assets	3	0	257	278
Net income tax assets	595	660	471	595
Other non-current assets	127	52	126	114
Inventories	233	385	398	534
Trade receivables	1,642	1,492	1,336	1,802
Cash and cash equivalents	2,665	2,501	2,893	5,118
Current loans	8	0	0	0
Other current financial assets	259	342	318	516
Other current assets	80	66	77	148
<b>Total assets</b>	<b>24,300</b>	<b>26,663</b>	<b>26,941</b>	<b>31,455</b>

Source: Company, SMIFS research estimates

Cash Flow				
YE March (Rs mn)	FY19	FY20	FY21	FY22
Cash flow before working capital changes	2,302	2,292	2,216	4,761
Working capital changes	29	21	366	(668)
<b>Cash flow from operating activities</b>	<b>1,656</b>	<b>1,751</b>	<b>2,418</b>	<b>3,113</b>
Purchase of fixed assets and CWIP	(2,997)	(1,883)	(1,457)	(2,745)
<b>Cash flow from investing activities</b>	<b>(2,488)</b>	<b>(871)</b>	<b>(2,392)</b>	<b>(4,209)</b>
<b>Cash flow from financing activities</b>	<b>970</b>	<b>(9)</b>	<b>(807)</b>	<b>1,596</b>
<b>Net cash flow</b>	<b>138</b>	<b>871</b>	<b>(781)</b>	<b>500</b>
Opening balance of cash	466	605	1,476	695
<b>Closing balance of cash</b>	<b>605</b>	<b>1,476</b>	<b>695</b>	<b>1,194</b>

Source: Company, SMIFS research estimates

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Analyst holding in stock: **NO**

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