

Global Health | BUY

Lucknow recovery imminent

Since May 2024, MEDANTA's share price has corrected approximately 25% from its all-time high of INR 1,513 per share. This decline is primarily attributed to weaker performance at the Lucknow unit over the past two quarters, with occupancy rates falling to 52% and margins declining to 24.5% in Q1 FY25 for developing hospitals. Despite this short-term setback, we believe the drop in share price is temporary. The Lucknow unit is strategically positioned to serve a larger catchment area, which should support a recovery in occupancy rates in the coming quarters. We anticipate improving metrics for the unit on a QoQ basis. Looking ahead, MEDANTA is poised to achieve a 20% EBITDA CAGR over the next three years, driven by a ramp-up in Lucknow, growth in Patna, and the upcoming unit in Noida. This growth trajectory aligns with that of leading peers. The company is also expected to expand its EBITDA per occupied bed from INR 5.8mn in FY24 to INR 6.8mn in FY27, with a projected ROIC of 26% by FY27. Valuation remains attractive, trading at 21x FY27 EV/EBITDA, ~20% discount to Max Healthcare. As a leader in high-end tertiary and quaternary services and operating as a destination hospital rather than a local one, MEDANTA is well-positioned to withstand potential oversupply issues in micro-markets. Consequently, we maintain a BUY rating with a target price of INR 1,400, implying 24% upside.

- Lucknow recovery imminent but gradual:** Over the past few quarters, developing hospital performance has lagged overall company performance. The company plans to resolve this by improving community outreach and onboarding clinicians to fill in gaps in specialty offerings. At the Lucknow facility occupancy will gradually pick up from 2QFY25, in our view, consequently improving overall margin mix. We foresee the facility becoming a destination facility (like that of the Gurugram facility) for Central and Eastern UP. Medanta's peers such as Apollo and Max operate in the city centre, while Medanta's facility is in the outskirts (upcoming part of town) which make it more accessible to patients travelling from surrounding districts of Eastern UP (Gorakhpur, Varanasi etc.).
- Noida – next key trigger:** The company will commence operations at the Noida facility by 4QFY25/1QFY26. We build in INR 55k ARPOBs and 40% occupancy in the first year of operations. We expect this facility to contribute 5%/4% to revenue and EBITDA in FY27. We believe Noida facility will result in Medanta adding an attractive facility with an EBITDA/bed of INR 7-7.5mn at maturity (Medanta operates at INR 5.8mn at present). The dynamics of Noida are akin to Lucknow and hence can potentially surprise the Street here.
- Indore, Delhi & Mumbai affirm long term trajectory:** MEDANTA's Indore, South Delhi and Mumbai hospitals provide long-term growth visibility. The Indore O&M facility will commercialise in FY27/28. The existing hospital is a leased hospital which has capacity constraints and the company is unable to add specialties. The company plans to gradually shift operations to the newer facility. The South Delhi & Mumbai facilities are located in attractive markets which has population with higher paying capacity but lack quality healthcare options in the region (Mumbai more so than Delhi). The EBITDA/bed of both facilities could be above INR 7.5mn, well above MEDANTA's current INR 5.8mn/bed. In

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	26,942	32,268	36,301	44,239	52,248
Sales Growth (%)	25.1	19.8	12.5	21.9	18.1
EBITDA	6,460	7,991	8,762	10,994	13,893
EBITDA Margin (%)	23.7	24.4	23.8	24.6	26.3
Adjusted Net Profit	3,599	4,781	5,145	6,460	8,482
Diluted EPS (INR)	13.9	17.8	19.2	24.1	31.6
Diluted EPS Growth (%)	79.5	28.2	7.6	25.6	31.3
ROIC (%)	18.8	23.1	20.4	21.7	25.8
ROE (%)	17.8	17.9	16.5	18.0	20.3
P/E (x)	81.1	63.3	58.8	46.8	35.7
P/B (x)	12.0	10.4	9.1	7.9	6.7
EV/EBITDA (x)	46.1	36.9	33.9	26.9	20.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 10/Sep/2024



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,400
Upside/(Downside)	24.1%
Previous Price Target	1,390
Change	0.7%

Key Data – MEDANTA IN

Current Market Price	INR1,128
Market cap (bn)	INR303.0/US\$3.6
Free Float	46%
Shares in issue (mn)	268.2
Diluted share (mn)	268.2
3-mon avg daily val (mn)	INR589.2/US\$7.0
52-week range	1,514/675
Sensex/Nifty	81,921/25,041
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	-0.5	-10.1	62.3
Relative*	-3.2	-19.3	33.0

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

our company update, we highlighted on the promising outlook of Mumbai foray [\(click here\)](#).

- **Valuation:** We expect Revenue/EBITDA/PAT CAGR of 17%/20%/21% over FY24-27. We believe the recovery at Lucknow and ramp-up of Patna facilities are key to growth in the near term while the Noida facility is key to medium term performance. The company's Greenfield led and asset heavy model results in RoIC to be back ended, as utilisation improves we believe it can reach 26% in FY27. MEDANTA's remains attractive valued, trading at 21x FY27 EV/EBITDA, ~20% discount to Max Healthcare. We maintain a BUY rating with a target price of INR 1,400, implying 24% upside.

Exhibit 1. Valuation

Valuation	INR mn
Sep'26 EBITDA	12456
EV/EBITDA	30
Enterprise Value	373682
Less: Net Debt	-1403
Equity Value	375085
No of shares	268
Sep'25 Price Target (rounded off)	1400
CMP	1130
Upside	24%

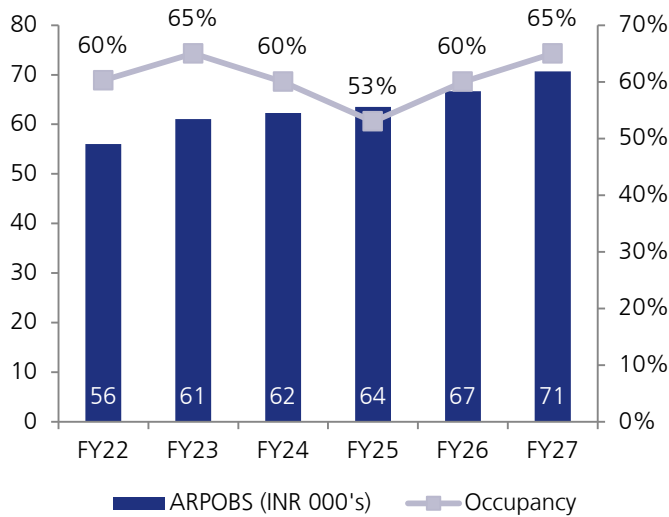
Source: Company, JM Financial

Lucknow recovery imminent but gradual

The Lucknow facility has faced headwinds in the past two quarters due to lower occupancy, management cite increased competitive intensity in the market (Max started operations in 4QFY24). To counter this, MEDANATA has been strengthening its clinical talent by onboarding senior clinicians, investing in equipment and broadening community outreach programs to neighbouring districts of Uttar Pradesh. We believe these measures will result in an uptick in occupancies though will be gradual, likely to recover in a couple of quarters. In our view occupancy levels will pick-up in FY26 and resulting in an improved revenue and EBITDA growth going ahead.

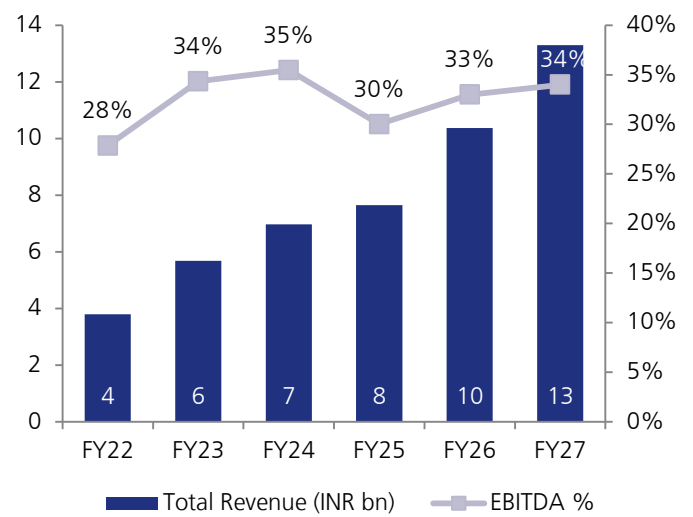
Additionally, the Lucknow hospital will serve as a destination facility, in line with the company's Medicity location, as they increasingly cater to patients from neighbouring districts as opposed to only Lucknow's captive patient pool.

Exhibit 2. Occupancy to pick up from FY26...



Source: Company, JM Financial

Exhibit 3. ... leading to improvement in margins

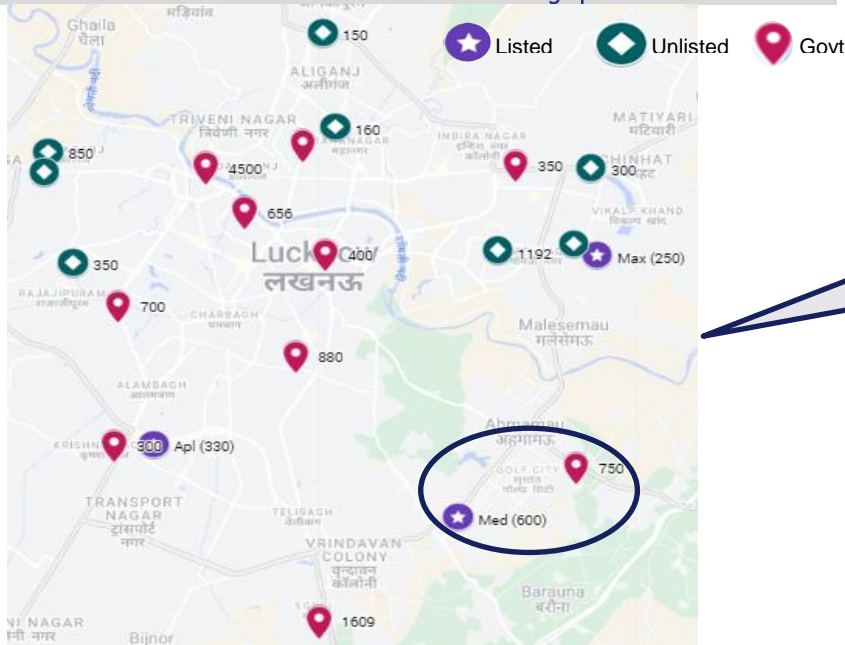


Source: Company, JM Financial

Large populace of Eastern UP provides a lucrative market

Lucknow is one of the emerging cities of the country and serves as a medical hub for surrounding districts, smaller towns of Eastern UP and parts of Nepal apart from its growing captive population. Apollo and Max are located inside the city while Medanta is located on the Shaheed Path (in an upcoming neighbourhood). In terms of announced supply, Lucknow will see 20% bed addition over next 4 to 5 years, this capacity should be absorbed in our view given the large population (8.1mn) in nearby cities of Kanpur, Varanasi, Prayagraj and Gorakhpur. We believe a shift in patient behaviour will shift from smaller standalone facilities and government institutions to large corporate facilities.

Exhibit 4. Lucknow still remains an attractive market- a hub for large parts of UP



Source: Google Maps, JM Financial

Delhi & Mumbai - attractive markets

Both Delhi-NCR and Mumbai are attractive markets from a demand-supply perspective, both have a low bed density with Delhi-NCR at 2.3 and Mumbai at 2.0. Delhi is an attractive market to set up a hospital given high ARPOBs (>60-70k), low bed density (2.3 per 1000 people) and global connectivity. Mumbai, as per our [sector report](#), is the most appealing among the top cities due to (1) Low bed density, (2) Limited announced supply and (3) High share of smaller hospitals. Due to paucity of land in the city, the only options large hospital chains have are: (1) Acquiring existing facilities or O&M with trust-based hospitals (Max and Nanavati) and (2) Opening greenfield projects in outer suburbs or satellite cities such as Thane and Navi Mumbai.

Medanta has been able to secure a parcel of land within a populated locality in the city; this should be seen as a key positive for the ramp-up of the facility.

Exhibit 5. Attractive demand-supply dynamics

Particulars	Delhi NCR	Mumbai
Population (mn)	35.9	21.7
Bed Capacity	82,569	43,900
Private Beds	53,547	22,085
Government Beds	29,022	21,815
Total Bed Density (per 1000 people)	2.3	2.0
Private Bed density (per 1000 people)	1.5	1.0
Larger Hospital Bed Density (per 1000 people)	1.0	0.5
Announced Supply	16,503	2,550
Announced Supply (%/Total)	20%	6%
Hospital Format		
Standalone Hospitals (%)	39%	40%
Hospital Chains (%)	23%	10%
Public Hospital (%)	38%	50%

Source: Industry, JM Financial

Sizing the opportunity

We attempt to size up the opportunity of the South Delhi and Mumbai hospitals by benchmarking them to prominent peers in the respective cities. From the below exhibits we can observe the potential of the two facilities as they mature.

Mumbai being a market with a dearth of quality healthcare should facilitate in ramp-up. The South Delhi facility will contribute upwards of INR 7bn as the facility matures, we believe the facility will commercialise by FY28. We have not built in these numbers into our estimates as of now.

Exhibit 6. Peer comparison in Delhi

Particulars	Peer 1	Peer 2
Revenue (INR bn)	15+	11+
ARPOBs (INR '000s)	75	75
Occupancy	70%+	75%+
Bed capacity	750+	500+

Source: Company, JM Financial

Exhibit 7. Peer comparison in Mumbai

Particulars	Peer 1	Peer 2
Revenue (INR bn)	15	4.5
ARPOBs (INR '000s)	80-85	55-60
Occupancy	70%	70%+
Bed capacity	750	350

Source: Company, JM Financial

New facilities will mature with appealing metrics

MEDANTA's upcoming facilities in Noida (FY26), South Delhi (FY28) and Mumbai (FY28/29) will operate in attractive markets with tailwind of lucrative payor mix, demographics and demand-supply dynamics.

As seen from the exhibit, all three facilities will operate at attractive unit economics upon maturity, in our view. These will operate at levels higher than that of the company (at present) therefore are accretive to overall performance metrics.

Exhibit 8. New facilities will operate at attractive unit economics on maturity

Particulars	Medanta	Noida	South Delhi	Mumbai
ARPOBs (INR '000s)	62	70	90-100	110-120
Bed capacity	2890	550	400	500
Occupancy	62%			
Unit economics				
Revenue/ occupied bed (INR mn)	23.8	25	25-30	35-40
EBITDA / occupied bed (INR mn)	5.8	7-7.5	7.5-8	8-10

Source: Company, JM Financial; Based on JMFe of hospital metrics on maturity

We believe the facility can achieve ARPOBs that are superior to that of its peers thereby delivering ~20% RoI upon maturity (Exhibit 9). Based on our calculations overall capex for the Mumbai project will be INR 12bn, this factors INR 3.5-4bn for land and FSI related costs.

Exhibit 9. Mumbai financial metrics in FY30/31

Particulars	Mumbai
Revenue (INR bn)	14
ARPOBs (INR '000s)	120
EBITDA (INR bn)	3.6
% Margin	25%
PAT (INR bn)	2.4
RoI	20%

Source: Company, JM Financial

Exhibit 10. Snapshot of key metrics

	Max	Fortis (hospitals)	Medanta	KIMS	Aster (Hospital)	Jupiter	GPT
Hospitals (#)	14	21	5	12	18	3	4
Bed Capacity	3984	4500	2823	3975	4867	961	561
Beds/Hospital	285	191	565	331	270	320	140

Case Mix

Oncology	25%	14%	12%	6%	9%	NA	NA
Cardiology	12%	18%	23%	18%	14%	NA	NA
Neurology	9%	9%	11%	11%	11%	NA	NA
Ortho	10%	9%	5%	14%	7%	NA	NA

Payor Mix

Cash	34%	36%	61%	53%	58%	44%	53%
Insurance	39%	35%	24%	27%	27%	55%	40%
Others	27%	29%	15%	20%	15%	1%	7%

Occupancy (%)	78	65	62	54	62	64	59
ARPOBs (INR '000s)	68	53	62	32	40	55	33
ALOS (days)	4.2	4.3	3.2	4.1	3.4	3.9	4

Revenue (INR bn)	68.2	56.9	32.8	25	37	10.7	4
EBITDA (INR bn)	18.7	10.6	8	6.4	5.8	2.4	0.9

Rev/ occupied bed (INR mn)	22	18.9	23.8	13.2	13.9	20.2	12.1
EBITDA/ occupied bed (INR mn)	7.0	3.5	5.8	3.4	2.7	4.5	2.7

EBITDAM	27.5	18.6	24.4	25.6	15.6	22.3	21.9
RoIC	15.5	9.2	23.1	13.5	4.6	22.6	23.4
Net Debt/Equity	0	0	-0.1	0.5	-0.1	-0.3	0

Growth FY24-27							
Revenue	20	14	18	26	16	16	16
EBITDA	20	20	20	27	17	21	16
Beds	20	10	13	17	12	19	15

Source: Company, JM Financial

Exhibit 11. JM Financial hospital coverage

Company	Rating	Mkt Cap (Rs bn)	CMP (Rs)	12M TP (Rs)	(% upside)	EV/EBITDA (x)		PE (x)		ROE (%)	
						FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Max Healthcare Institute	HOLD	854	879	840	-4.4	39.1	32.6	57.7	47.4	14.9	15.8
Fortis Healthcare	BUY	424	561	595	6.1	28.7	23.0	57.7	43.2	9.2	11.2
Global Health	BUY	303	1,128	1,400	24.1	33.9	26.9	58.7	46.7	16.5	18.0
Krishna Institute of Medical Sciences	BUY	211	2,638	2,855	8.2	30.6	22.1	63.1	45.5	16.8	19.4
Aster DM Healthcare	HOLD	205	410	385	-6.1	27.4	21.4	63.2	44.3	7.6	11.1
Jupiter Life Line Hospitals	BUY	88	1,345	1,535	14.1	28.3	23.7	41.3	34.8	16.7	16.8
GPT Healthcare	BUY	15	177	255	43.8	15.0	11.8	23.8	19.5	25.5	26.0

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	26,942	32,268	36,301	44,239	52,248	
Sales Growth	25.1%	19.8%	12.5%	21.9%	18.1%	
Other Operating Income	338	483	512	543	575	
Total Revenue	27,281	32,751	36,813	44,782	52,823	
Cost of Goods Sold/Op. Exp	6,253	7,594	8,651	10,524	12,255	
Personnel Cost	6,343	7,349	8,173	9,852	11,199	
Other Expenses	8,224	9,818	11,228	13,412	15,477	
EBITDA	6,460	7,991	8,762	10,994	13,893	
EBITDA Margin	23.7%	24.4%	23.8%	24.6%	26.3%	
EBITDA Growth	43.4%	23.7%	9.6%	25.5%	26.4%	
Depn. & Amort.	1,499	1,727	1,928	2,182	2,428	
EBIT	4,961	6,263	6,833	8,812	11,465	
Other Income	649	747	836	671	879	
Finance Cost	779	739	717	753	803	
PBT before Excep. & Forex	4,831	6,271	6,952	8,729	11,540	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	4,831	6,271	6,952	8,729	11,540	
Taxes	1,232	1,490	1,808	2,270	3,058	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	3,599	4,781	5,145	6,460	8,482	
Adjusted Net Profit	3,599	4,781	5,145	6,460	8,482	
Net Margin	13.2%	14.6%	14.0%	14.4%	16.1%	
Diluted Share Cap. (mn)	258.9	268.2	268.2	268.2	268.2	
Diluted EPS (INR)	13.9	17.8	19.2	24.1	31.6	
Diluted EPS Growth	79.5%	28.2%	7.6%	25.6%	31.3%	
Total Dividend + Tax	0	0	0	0	0	
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	24,282	29,056	33,396	38,515	45,119	
Share Capital	536	537	537	537	537	
Reserves & Surplus	23,746	28,519	32,859	37,978	44,582	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	8,422	4,193	2,693	1,193	1,193	
Def. Tax Liab. / Assets (-)	-69	-372	-372	-372	-372	
Total - Equity & Liab.	32,635	32,878	35,718	39,336	45,941	
Net Fixed Assets	23,771	26,235	32,556	35,937	37,321	
Gross Fixed Assets	28,279	31,881	41,994	45,756	49,569	
Intangible Assets	52	55	55	55	55	
Less: Depn. & Amort.	7,830	9,565	11,493	13,675	16,103	
Capital WIP	3,270	3,863	2,000	3,800	3,800	
Investments	5,109	7,507	7,507	7,507	7,507	
Current Assets	12,023	8,686	5,958	6,765	12,558	
Inventories	604	669	908	1,104	1,302	
Sundry Debtors	1,942	2,153	3,026	3,681	4,342	
Cash & Bank Balances	7,672	4,246	407	362	5,295	
Loans & Advances	0	0	0	0	0	
Other Current Assets	1,805	1,618	1,618	1,618	1,618	
Current Liab. & Prov.	8,267	9,550	10,304	10,872	11,445	
Current Liabilities	4,999	6,022	6,776	7,344	7,917	
Provisions & Others	3,268	3,528	3,528	3,528	3,528	
Net Current Assets	3,756	-864	-4,346	-4,107	1,113	
Total - Assets	32,635	32,878	35,718	39,337	45,941	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	4,493	6,271	6,952	8,729	11,540	
Depn. & Amort.	1,499	1,727	1,928	2,182	2,428	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCcap.	1,028	-531	-357	-284	-286	
Others	486	429	-119	82	-76	
Taxes Paid	-1,061	-1,775	-1,808	-2,270	-3,058	
Operating Cash Flow	6,445	6,121	6,597	8,440	10,548	
Capex	-2,360	-2,786	-8,250	-5,563	-3,813	
Free Cash Flow	4,085	3,335	-1,653	2,878	6,736	
Inc (-) / Dec in Investments	-1,416	-2,226	0	0	0	
Others	353	603	836	671	879	
Investing Cash Flow	-3,423	-4,408	-7,414	-4,892	-2,934	
Inc / Dec (-) in Capital	4,785	0	0	0	0	
Dividend + Tax thereon	0	0	-805	-1,341	-1,877	
Inc / Dec (-) in Loans	-276	-4,459	-1,500	-1,500	0	
Others	-1,053	-680	-717	-753	-803	
Financing Cash Flow	3,456	-5,139	-3,022	-3,594	-2,680	
Inc / Dec (-) in Cash	6,478	-3,426	-3,839	-45	4,934	
Opening Cash Balance	1,194	7,672	4,246	407	362	
Closing Cash Balance	7,672	4,246	407	362	5,295	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin		13.2%	14.6%	14.0%	14.4%	16.1%
Asset Turnover (x)		0.8	0.9	0.9	1.0	1.1
Leverage Factor (x)		1.6	1.4	1.3	1.2	1.1
RoE		17.8%	17.9%	16.5%	18.0%	20.3%

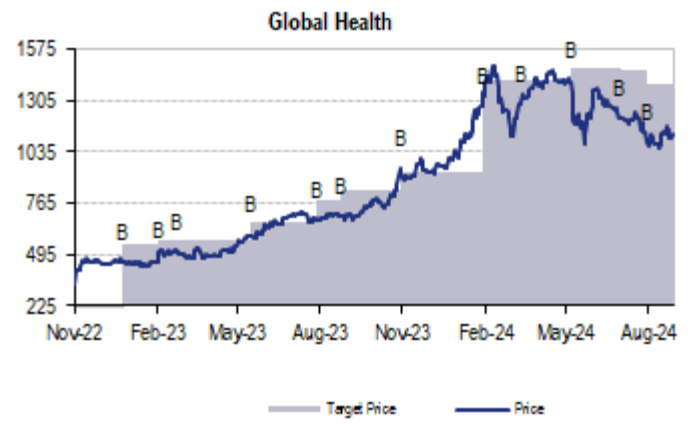
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)		93.8	108.3	124.5	143.6	168.2
ROIC		18.8%	23.1%	20.4%	21.7%	25.8%
ROE		17.8%	17.9%	16.5%	18.0%	20.3%
Net Debt/Equity (x)		-0.2	-0.3	-0.2	-0.2	-0.3
P/E (x)		81.1	63.3	58.8	46.8	35.7
P/B (x)		12.0	10.4	9.1	7.9	6.7
EV/EBITDA (x)		46.1	36.9	33.9	26.9	20.9
EV/Sales (x)		10.9	9.0	8.1	6.6	5.5
Debtor days		26	24	30	30	30
Inventory days		8	7	9	9	9
Creditor days		34	28	34	34	35

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
7-Jan-23	Buy	550	
15-Feb-23	Buy	575	4.5
9-Mar-23	Buy	575	0.0
29-May-23	Buy	665	15.7
12-Aug-23	Buy	780	17.3
6-Sep-23	Buy	835	7.1
12-Nov-23	Buy	930	11.4
11-Feb-24	Buy	1,410	51.6
25-Mar-24	Buy	1,410	0.0
20-May-24	Buy	1,470	4.3
13-Jul-24	Buy	1,465	-0.3
12-Aug-24	Buy	1,390	-5.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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