

Aster DM Healthcare (ASTERDM) - ADD

RE-INITIATING COVERAGE

Current Market Price (CMP) Rs.649	Fair Value (FV) Rs.725
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Rationale:

- We reinstate coverage of Aster DM with ADD and an FV of Rs725.
- After its imminent merger with Quality Care, Aster DM is expected to report 19%/22% pro forma sales/EBITDA CAGRs over FY26-28E.
- Higher oncology mix, improved payor mix, lower ALOS for QCIL and MVT are expected to drive margin expansion.
- The company plans a calibrated expansion of 4,342 beds until FY30E.
- We believe Aster DM-QCIL combo has a multi-year profitable growth runway ahead.

👍 Positives:

- The performance of Aster DM and QCIL has been on the right track.
- There has been progress in growing the share of CONGO and medical value tourism and ALOS optimization.
- QCIL's EBITDA margins have surged from 16.4% to 23.6%.
- We expect a robust ~19% pro forma EBITDA CAGR over FY26-28E excluding merger synergies.
- Factoring in a 300 bps margin boost due to synergies, we expect a robust 22% pro forma EBITDA CAGR over FY26-28E.

👎 Negatives:

- Any integration-related challenge is a risk to our positive stance given the involvement of multiple stakeholders.
- There will be a marginal impact from the Middle East war and nurses' strike in Kerala.

(EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation; CAGR = Compound Annual Growth Rate; ALOS = Average Length of Stay; QCIL = Quality Care India Limited; MVT = Medical Value Travel; CONGO = Complex Oncology)



The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com). Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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