

VALUATION MULTIPLE SERIES INDUSTRY FOCUS - HEALTHCARE 1ST EDITION

August 2023



☎ 011-43192000

✉ rnm@rnm.in

🌐 www.rnmcapitaladvisors.com

Methodology for Estimating Valuation Multiples

This Report’s goal is to explain how the business valuation, financial performance, and corresponding valuation multiples for companies operating in the Healthcare Industry have changed over time.

The market bases its future growth projections & prospects, business valuation, and associated valuation multiples for enterprises on past financial performance.

The Healthcare industry in India comprises of hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance, and medical equipment. The industry is growing at a tremendous pace owing to its strengthening coverage, services and increasing expenditure by the public as well as private players.

The Indian healthcare sector is expected to record a three-fold rise, growing at a CAGR of 16% between 2017–23 to reach INR 10,835.16 billion in 2023 from INR 5,074.31 billion in 2017. By FY24, Indian healthcare infrastructure is expected to reach INR 28,654 billion. This sector has become one of the largest contributors to the Indian economy in terms of revenue, employment and innovation. The National Digital Health Blueprint is expected to unlock the potential economic value of over INR 16,426 billion for the healthcare industry in India in the next decade. The digital healthcare market has seen a rapid increase in value, from INR 116.61 billion in 2018 to an estimated INR 485.43 billion by 2024, with a CAGR of 27.41% during the period. Telemedicine, one of the fastest-growing segments in India, is expected to reach INR 443.6 billion by 2025 with a CAGR of 31%. India is also home to the world's largest health insurance scheme, Ayushman Bharat, funded by the government. The Ayush sector has witnessed remarkable growth from INR 246.39 billion in 2014 to INR 1,858 billion in 2025.

Source: Invest India National Investment Promotion & Facilitation Agency

We have identified Healthcare as the key sector, with value creation flowing to and from related sectors, that has a significant influence on the overall Gross Domestic Output of India. Further, we have identified 05 companies (“Representative Companies”) that fairly represents the technical dynamics of the Healthcare Industry.

As a part of this research, we have derived cash operating margin (EBITDA Margin) and net profit margin (PAT Margin) for Representative Companies in Healthcare Industry. Along with various other multiples:- Enterprise Value to Sales, Enterprise Value to EBITDA, P/E Ratio, P/B Ratio, etc.



This Report is providing the information of the Representative Companies, namely:



Apollo Hospitals is a leading healthcare provider in India, known for its quality medical care and cutting-edge technology. Established in 1983 by Dr. Prathap C. Reddy, the hospital has grown to become one of the largest healthcare networks in Asia with over 70 hospitals across India and several other countries. The hospital chain has a total bed capacity of over 12,000 beds, and employs more than 100,000 healthcare professionals, including over 8,000 doctors. With state-of-the-art facilities, Apollo Hospitals performs over 200,000 surgeries and handles over 15 million patients every year, making it one of the most trusted and preferred healthcare destinations for people around the world.



Fortis Healthcare is a healthcare provider based in India that was founded in 2001. The company operates a network of hospitals, diagnostic centers, and day-care facilities across India, as well as in Dubai and Mauritius. Fortis Healthcare has a total bed capacity of over 10,000 beds and employs more than 20,000 healthcare professionals, including over 4,000 doctors. With a focus on providing high-quality medical care, the company performs over 500,000 surgeries annually and handles over 2.5 million patients each year. Fortis Healthcare delivers patient-centric care and is one of the most trusted & respected healthcare providers in India.



Narayana Hrudayalaya is a leading healthcare provider in India, it was founded in 2001 by Dr. Devi Shetty. The hospital chain has since expanded to become one of the largest healthcare networks in India with over 30 hospitals and healthcare facilities across the country. Narayana Hrudayalaya has a total bed capacity of over 6,500 beds and employs more than 14,000 healthcare professionals including over 2,500 doctors. With a focus on providing affordable healthcare, Narayana Hrudayalaya performs over 100,000 surgeries annually, making it one of the busiest hospitals in India. The hospital chain is one of the high-quality medical care and advanced technology centre, and is a trusted healthcare destination for patients around the world.



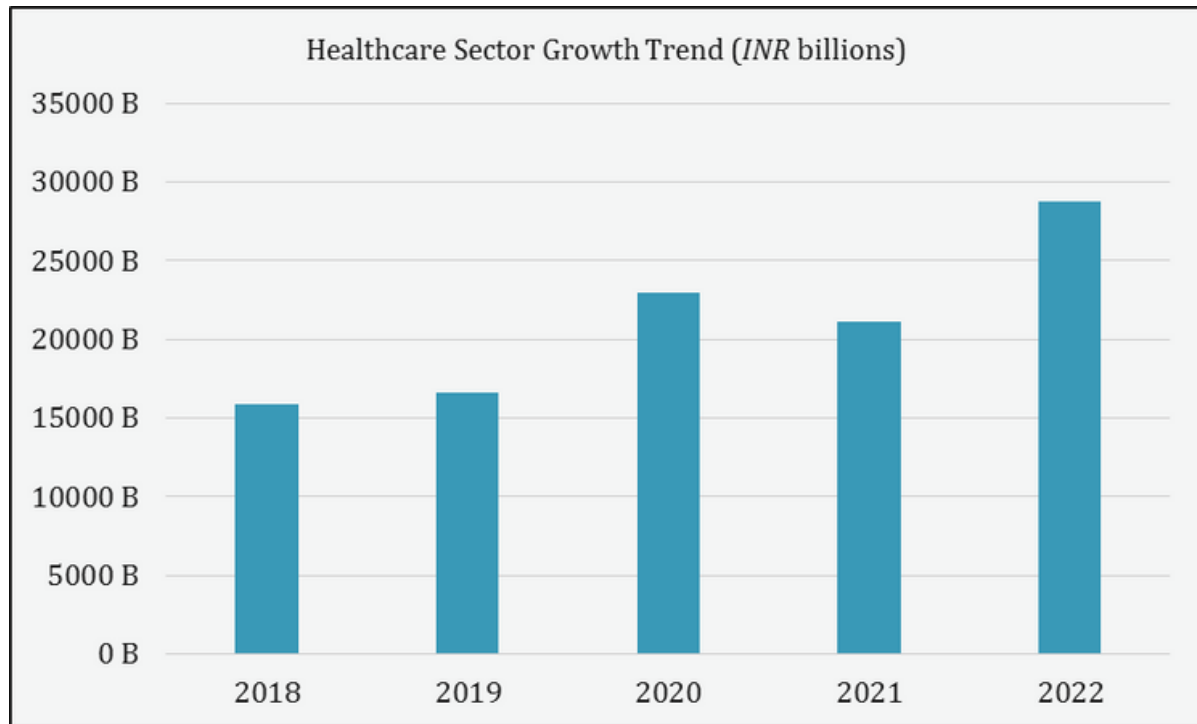
Dr. Lal Pathlabs is one of the largest diagnostic chains in India, providing a wide range of laboratory testing services. It was founded in 1949 by Dr. S.K. Lal, and has since grown to operate over 200 diagnostic centers and labs across India. Dr. Lal Pathlabs employs over 5,000 professionals, including a team of highly qualified and experienced doctors & technicians. Dr. Lal Pathlabs is committed to delivering accurate and reliable diagnostic testing services to patients and healthcare providers. It uses advanced technology and equipment to ensure the highest level of precision.



Aster DM Healthcare is a leading healthcare provider in the Middle East and India, established in 1987 by Dr. Azad Moopen. The company operates a network of hospitals, clinics, pharmacies, and diagnostic centers across the UAE, Oman, Saudi Arabia, Qatar, Bahrain, and India. Aster DM Healthcare has a total bed capacity of over 4,500 beds and employs around 22,000 healthcare professionals, including over 1,300 doctors. The company performs over 200,000 surgeries annually and handles over 14 million patients each year. Aster DM Healthcare is committed to providing high-quality medical care and innovative healthcare solutions to its patients, and has been recognized for its excellence in the industry.

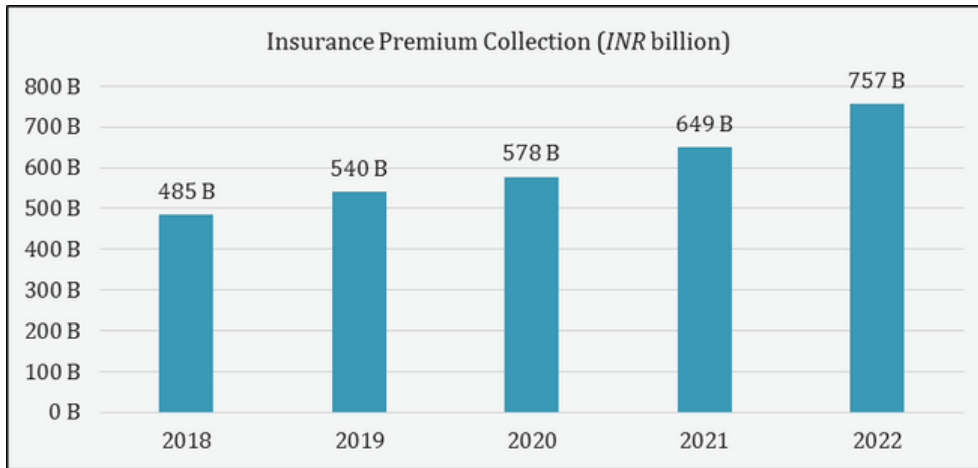


Growth trend of Healthcare Industry during the past 5 years

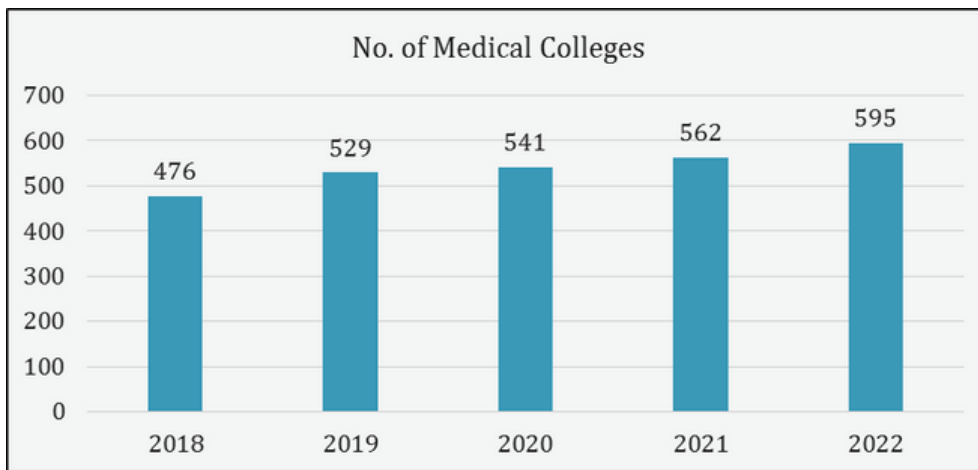


The Healthcare industry has grown tremendously from FY18 - FY22 with a CAGR of 16% and is one of the largest contributors to the Indian economy in terms of revenue and employment.

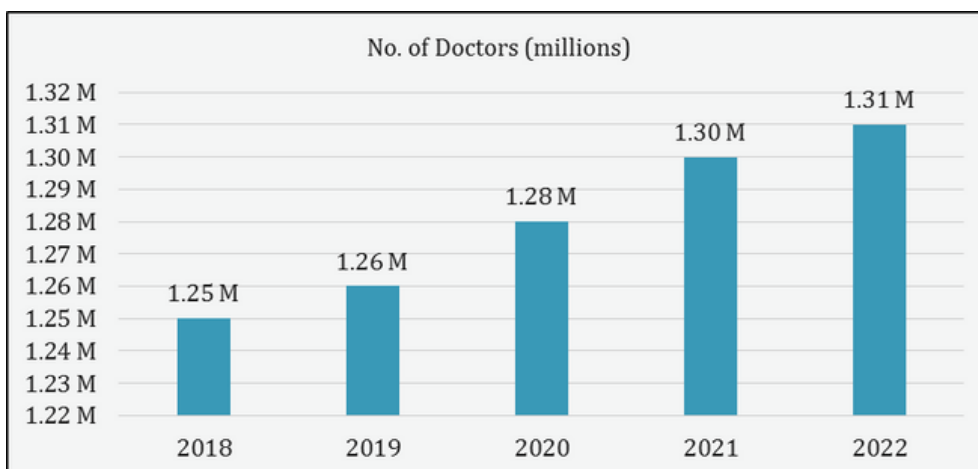
- The hospital industry in India, accounts for 80% of the total healthcare market, and is witnessing a huge investor demand from both global as well as domestic investors.
- The Indian health-tech industry's value is estimated at INR 650.65 billion in 2025. Healthcare sector in India is expected to reach a size of INR 15,427 billion by 2030.
- The diagnostics market is expected to grow at a CAGR of 20.4% and is expected to reach INR 3,218 billion in 2025.
- The Telemedicine market is one of the maximum potential e-Health segments of India, which is expected to touch INR 443.6 billion by 2025, growing at a compounded annual growth rate (CAGR) of 31%.
- Indian medical tourism market was valued at INR 678.26 billion in 2023 and is expected to reach INR 1,101 billion by 2026.
- Over the next 10 years, National Digital Health Blueprint can unlock the incremental economic value of over INR 16,426 billion for the healthcare industry in India.



- Total Insurance Premium Collection for the Healthcare Industry grew from INR 485 billion in FY18 to INR 757 billion in FY22 with a CAGR of 12%.



- Total No. of Medical colleges in India are 595, with an increment of 119 colleges over the last 5 years.



- Total No. of Doctors have increased from 1.25 million to 1.31 million in FY18 & FY22, respectively, with a CAGR of 1.2%.

Financial Performance of Representative Companies

Revenue

Revenue is the money generated from normal business operations, calculated as the average sales price times the number of units sold.

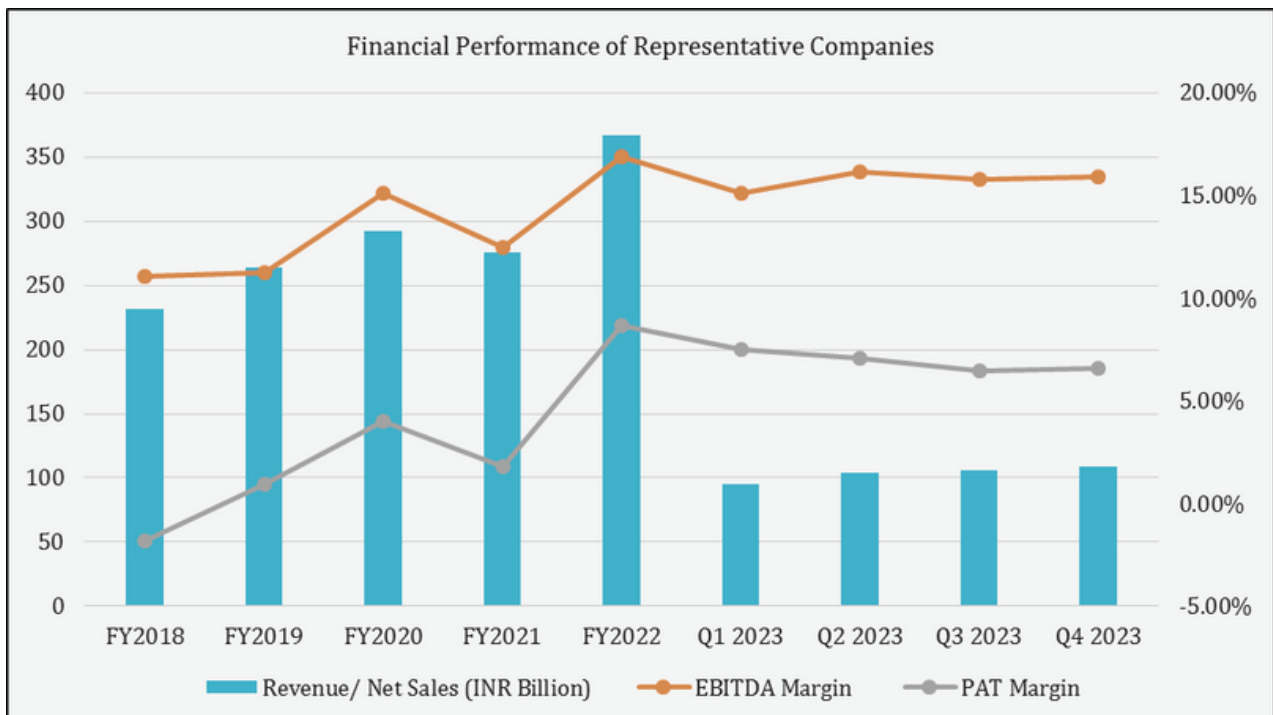
EBITDA Margin

EBITDA margin is a profitability ratio that measures how much earnings a company is generating before interest, taxes, depreciation, and amortization, as a percentage of revenue.

EBITDA Margin = EBITDA / Revenue. It is also referred to as 'Cash Operating margin'.

PAT Margin

Profit After Tax refers to the amount that remains after a company has paid off all of its operating and non-operating expenses, interest and taxes. PAT Margin = PAT/Revenue.



Source: Moneycontrol

- The healthcare industry shows a growing trend for revenue & registers growth at 12.21% over the last 5 years i.e FY18 to FY22.
- Whereas, there has been rapid growth in the last 4 quarters of FY23 at approx. 4.82%.
- The EBITDA margin is constantly increasing from 11.03% to 15.10% in FY18 to FY20 and falls to 12.49% in FY21 due to Covid-19 outburst but further, rises to 16.90% in FY22.
- During the past 4 quarters with the increase in sales from Q1 to Q4 of FY23, the EBITDA margin starts to stabilize after Q1 and reaches 16.15% in Q2 but decreases marginally to 15.93% in Q4.
- The PAT margin shows an increasing trend from -1.82% to 4.03% in FY18 to FY20 respectively, falling back to 1.80% in FY21 and surpasses all levels in FY22 by recording 8.64%. Further, it shows a falling trend from 7.48% to 6.57% in Q1 to Q4 of FY23.



Analysis of Healthcare Industry's FY23

The Healthcare Industry reported a turnover of INR 36.138 billion during last fiscal, recording a growth of 19 per cent over 2021- 22, supported by strong occupancy and higher Average Revenue Per Occupied bed (ARPOB).

Average length of stay (ALOS) in H1 FY23 at 3.6 days, reached pre-covid levels, backed by faster throughput of patients, which is also supported by technological advancements.

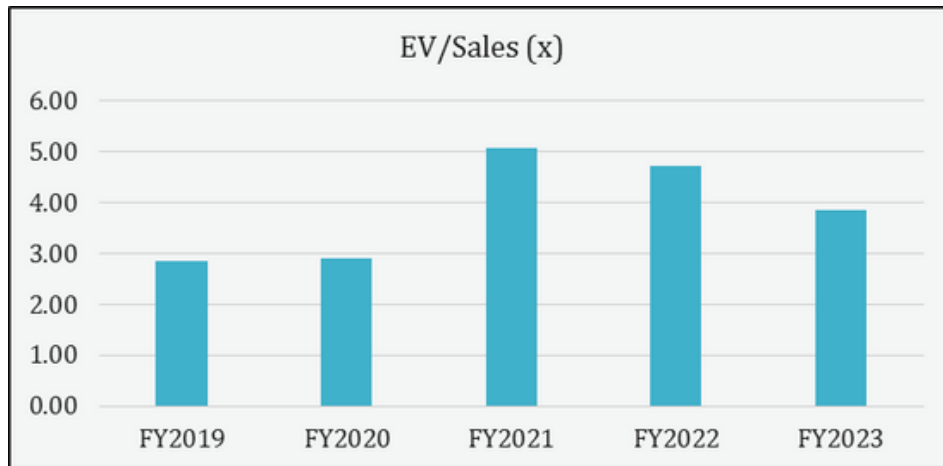
During Q2 FY23, had a relatively higher patient flow for viral diseases led to occupancy expanding to 67.5 per cent from 61.7 per cent in Q1 FY23. However, ARPOB slightly moderated on a sequential basis due to lower realisation from the viral diseases' patients.



Multiples - Healthcare

EV/Sales

Enterprise value-to-sales (EV/sales) is a financial valuation measure that compares the enterprise value (EV) of a company to its annual sales. The EV/sales multiple gives a quantifiable metric of how to value a company based on its sales while taking account of both the company's equity and debt.

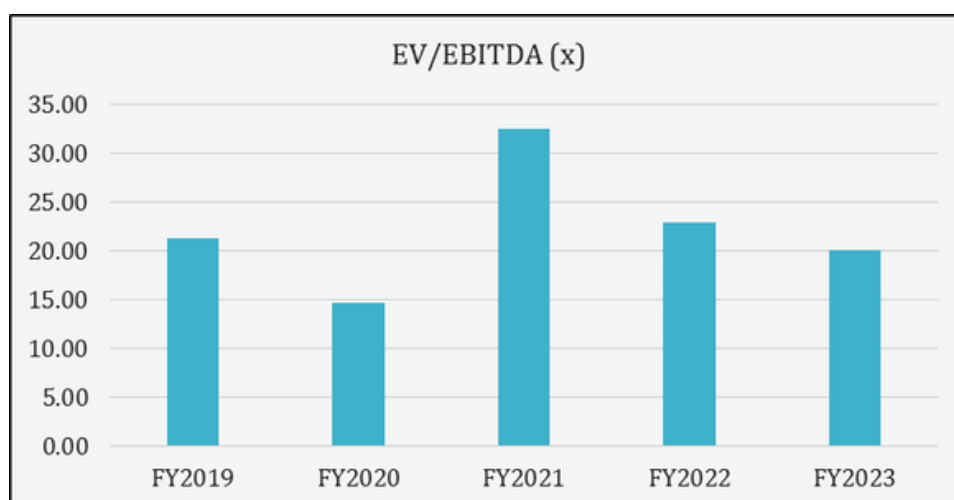


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	2.86	2.91	5.07	4.73	3.86

EV/Sales rises sharply from 2.86x to 5.07x in FY19 to FY21 respectively, & register the highest level after which it decreases, marginally, to 4.73x in FY22 and further decreases to 3.86x in FY23.

EV/EBITDA (x)

The EV/EBITDA multiple is used to project the Enterprise Value (EV) of a company in terms of the EBITDA.

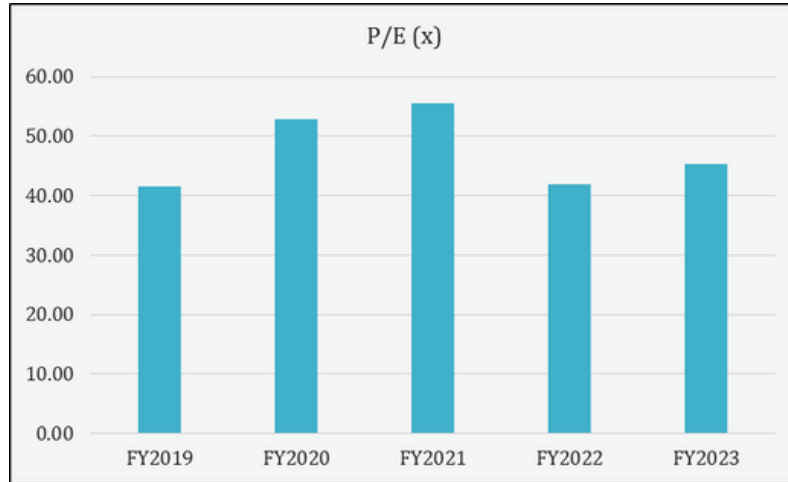


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/EBITDA (x)	21.39	14.71	32.55	22.93	20.05

EV/EBITDA decreases from 21.39x to 14.71x in FY19 to FY20 respectively, going forward it shows a sharp rise to 32.55x in FY21 surpassing FY19 levels and further, falls to 22.93x in FY22 and again falls marginally to 20.05 in FY23.

P/E (x)

The price-to-earnings ratio measures the company's current share price relative to its earnings per share (EPS). P/E ratios are used to determine the relative value of a company's shares.

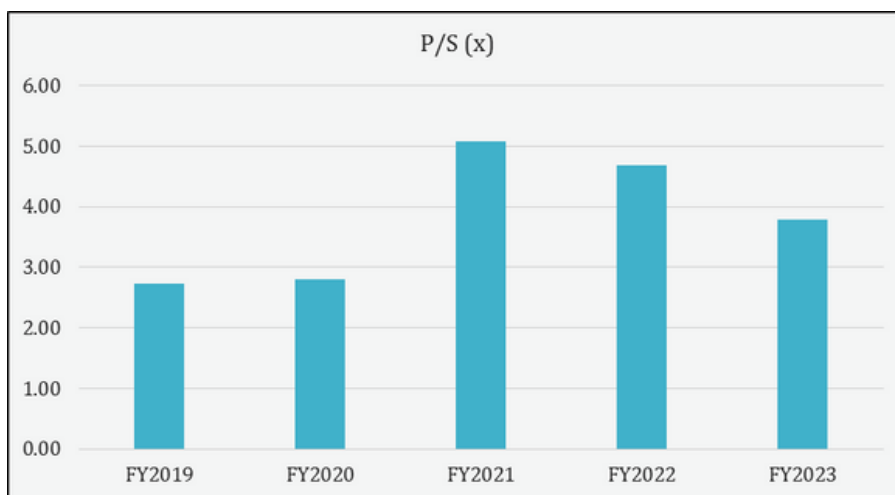


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
P/E (x)	41.57	52.85	55.48	41.92	45.29

P/E begins rise from 41.57x in FY19 and reaches 55.48x in FY21 which is the highest recorded P/E (x) in the last 5 years, further it decreases to 41.92x in FY22 and then it increases in FY23 registering 45.29x.

P/S

The P/S ratio shows a company's market capitalization divided by the company's sales for the previous 12 months. It is a measure of the value investors are receiving from a company's stock by indicating how much equity is required to generate \$1 of revenue.

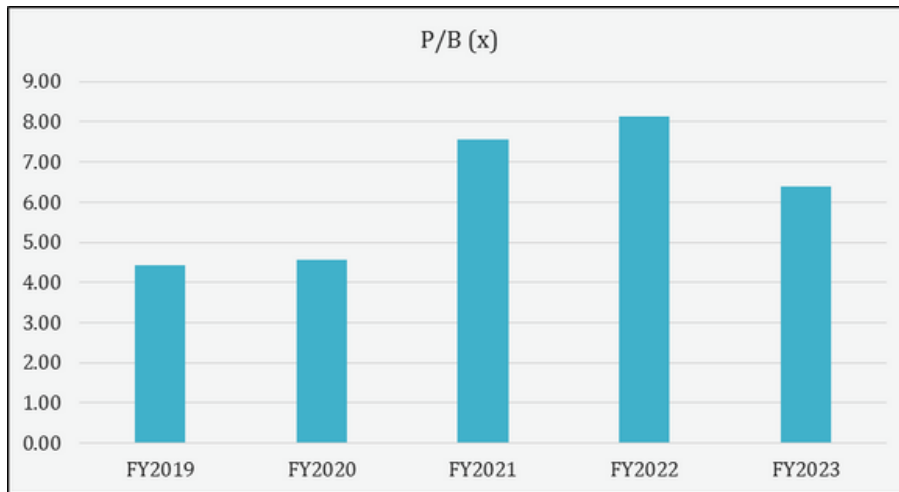


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
P/S (x)	2.72	2.80	5.08	4.68	3.78

P/S rises from 2.72x to 5.08x in FY19 to FY21 respectively, going forward it shows a negative trend and falls, registering 4.68x in FY22 with further again falls to 3.78x in FY23.

P/B (X)

Price-to-book ratio compares a firm's market capitalization to its book value and is usually used to locate undervalued companies. This multiple is calculated by dividing the company's current stock price per share by its book value per share (BVPS).



Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
P/B (x)	4.44	4.57	7.55	8.14	6.40

P/B shows a marginal rising trend from 4.44x to 4.57x in FY19 to FY20 respectively, further it rises and surpasses FY19 levels recording a 8.14x in FY22, but falls to 6.40x in FY23.



About RNM Capital Advisors

RNM Capital Advisors (“RNM”), erstwhile known as RNM & Associates, is an associate firm of RN Marwah & Co. LLP, Chartered Accountants.

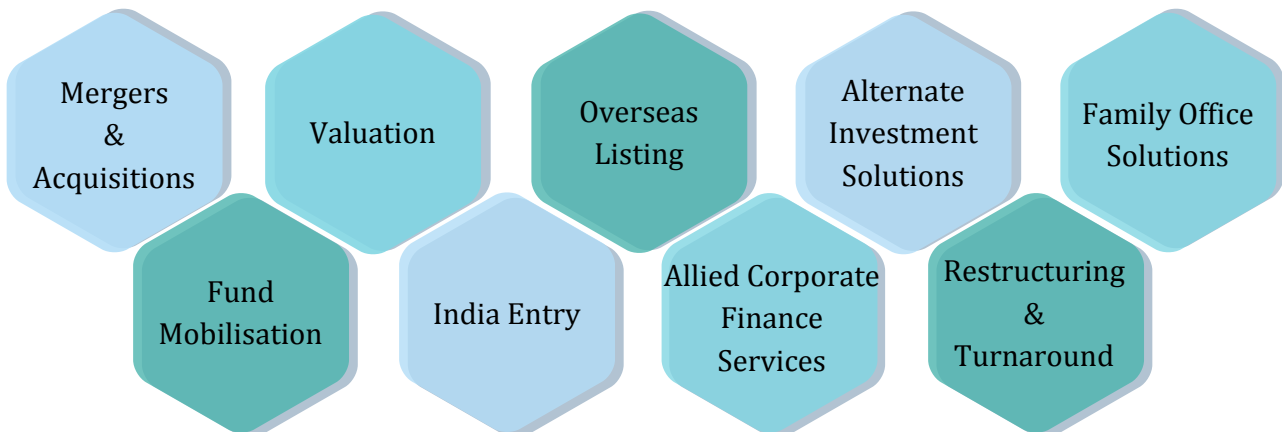
Established in year 2009, RNM is a mid-market focused boutique investment banking firm with head office in Janpath, Connaught Place, New Delhi. RNM Capital also operates from its branch office in Bangalore and Gurugram.

RNM provides advisory services to its leading clients across sectors and geographies in area of mergers & acquisitions, joint ventures/ collaborations, fund mobilization, restructuring & turnaround, valuations, due diligence, India entry, other allied corporate finance matters, family office solutions and alternate investment solutions. RNM boasts strong direct access to Promoters of Indian Corporates across sectors.

RNM Capital is strongly placed for execution of complex cross border deals across sectors as supported by its membership of GENEVA CAPITAL GROUP (GCG) as well as other international M&A networks' access to member firms of GENEVA GROUP INTERNATIONAL (GGI).

RNM's has strong relationship with most of the active PE/VC Funds, Banks, NBFCs and Financial Institutions and experience of closing multiple fund raise assignments under most challenging situations.

Our Services



CONTACT US



Raghu Marwah
Managing Partner

Email: raghu.m@rnm.in
 Office: +91 11 43192000
 Hand phone: +91 9810121340



Varun Verma, CFA
Executive Director

Email:
 varun.v@rnmcapitaladvisors.com
 Office: +91 11 43192000
 Hand phone: +91 9953500174



Akshyit Kapoor
Corporate Finance Analyst

Email:
 akshyit.k@rnmcapitaladvisors.com
 Office: +91 11 43192000
 Hand phone: +91 9818287979

GENERAL DISCLAIMER & CONFIDENTIALITY

This material has been prepared by RNM Capital Advisors (“RNM”) for informational purposes only and nothing in this material shall constitute an offer or an invitation to enter into any transaction, or an offer by RNM to provide any service or offer to purchase or acquire any share in any company or any interest, nor shall it form the basis of any contract for the sale of an interest in any business. Until necessary internal approvals have been received and until a definitive agreement is executed and delivered, RNM shall not owe obligations of any kind whatsoever (other than those relating to confidentiality) to the recipient(s) with respect to any of this material.

The information and opinions expressed in this material are based either on publicly available information or on information obtained by RNM. RNM has not independently verified the information, and make no representation or warranty as to its reliability, accuracy and completeness. RNM assumes no responsibility under any circumstances for any loss or damage suffered as a result of any error, omission or inadequacy in this material. Furthermore, the information and opinions contained in this material may change without prior notice, and may be affected by changes due to factors, including, but not limited to, shifts in the market environment, and amendments in accounting, taxation and other applicable laws, rules and regulations. Any historical investment results of any person or entity described in this material are not indicative of the future performance. Any hypothetical illustrations, forecasts and estimates contained in this material are forward looking statements and are based upon assumptions. The assumptions presented herein are strictly hypothetical and no representation is made that any forward statement will be achieved or will prove to be correct. This material does not suggest nor specify all possible risks. Changes to assumptions may have a material impact on forward looking statements. RNM assumes no duty to update any forward looking statement.

The ultimate decision to use the information and opinions expressed in this material and/or on whether to enter into any transaction should be made based on the sole judgment of each individual recipient of this material. It is recommended that each individual recipient of this material consult with its legal, investment, accounting, tax and other professional advisers in order to make an independent determination of the suitability, risks and consequences before such decision is made. The information and opinions contained herein are not and do not purport to be appraisals of the assets, stock or the business of any company and this material does not constitute any advice on the part of RNM.

The information in this material is confidential and intended only for the recipient. Copyright of this report solely and exclusively belongs to RNM and regardless of the purpose, any reproduction, disclosure, distribution or dissemination of this material in any shape or form without the prior written consent of RNM is strictly prohibited. RNM hereby excludes, to the fullest extent permissible by law, all liability under any applicable laws howsoever arising in connection with the use of this material by the recipient. RNM and its affiliates, connected companies, employees or clients may take the other side of any order given by the recipient of this material, enter into transactions contrary to any recommendations contained in this material or seek financial or advisory services for the entities mentioned in this material.