GPT Healthcare Ltd.

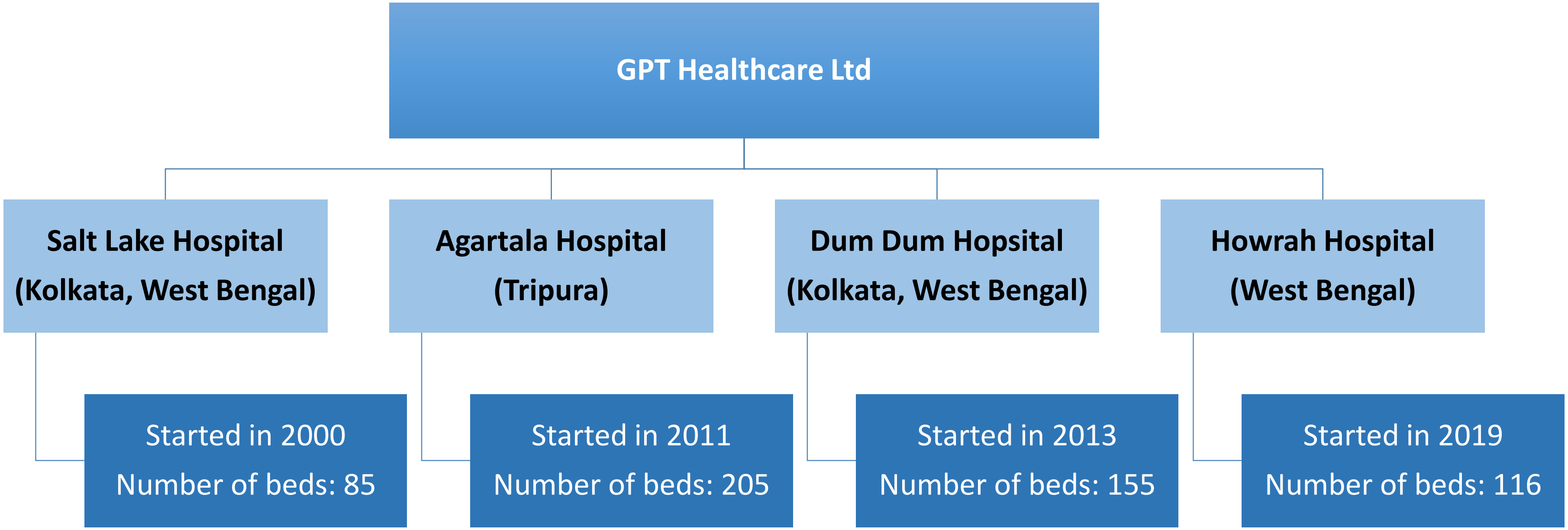
CMP: Rs. 175| TP: Rs. 307| Upside: 75%

1st April, 2024

GPT Healthcare Ltd is a key healthcare player in Eastern India. It operates a chain of mid-sized full service hospitals under the 'ILS Hospitals' brand and provide integrated healthcare services, with a focus on secondary and tertiary care. As on Dec'23, it operates four multispecialty hospitals in Dum Dum, Salt Lake and Howrah in West Bengal and Agartala in Tripura. The combined capacity of these hospitals is 561 beds.

It is mainly present in three cities of Eastern market which is a relatively under penetrated healthcare market. It offers a comprehensive range of healthcare services spans over 35 specialties and super specialties.

GPT Healthcare Limited - Hospitals



Source: NBRR, Company Reports

Investment Rationale

Expected improvement in occupancies of Agartala and Howrah hospitals to drive the overall business growth

GPT has its two hospitals with lower occupancy at Agartala and Howrah which were started in the year 2011 and 2019, respectively, with 205 / 116 beds. Average bed occupancy at Agartala and Howrah Hospitals' stood at 53% & 45% respectively as on Dec'23 which is expected to improve up to ~70% over the next 2-3 years. The same is expected to drive overall topline as well as operational efficiency of these hospitals. We expect substantial improvement in Howrah hospital operating margins from 2.6% in FY23 to ~20% over the next 2-3 years.

Below are the key operating metrics along with our estimates for each hospital.

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E
Agartala (Started in 2011)						
No of Bed	205	205	205	205	205	205
Occupancy (%)	41.6%	49.3%	45.0%	54.5%	63.0%	70.0%
ARPOB (Rs.)	24,425	28,739	30,488	29,039	31,071	32,625
Total Revenue (Rs. Cr)	76.1	106.1	102.6	118.4	146.5	170.9
EBITDA (Rs. Cr)	22.0	32.0	25.2	31.0	39.5	47.8
EBITDA Margin (%)	28.9%	30.2%	24.5%	26.1%	27.0%	28.0%
Howrah (Started in 2019)						
No of Bed	116	116	116	116	116	116
Occupancy (%)	51.5%	37.4%	39.1%	45.8%	56.0%	65.0%
ARPOB (Rs.)	15,917	28,667	23,279	26,818	28,159	29,567
Total Revenue (Rs. Cr)	34.7	42.6	38.6	52.00	66.77	81.37
EBITDA (Rs. Cr)	4.9	3.8	1.0	5.4	10.0	16.3
EBITDA Margin (%)	14.1%	8.9%	2.6%	10.4%	15.0%	20.0%

Source: NBRR, Company Reports

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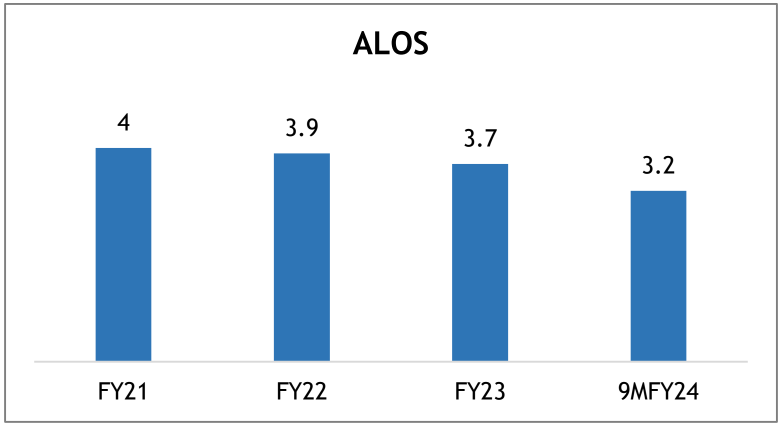
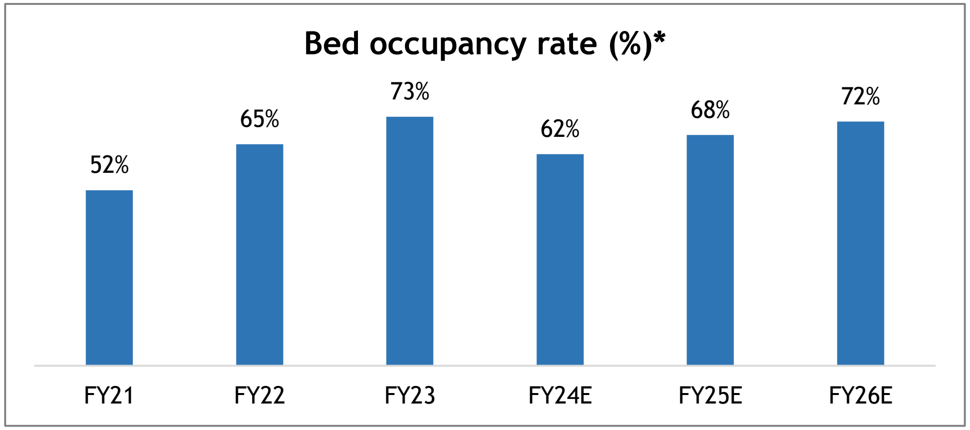
Focus on operational efficiencies of Salt Lake hospital to drive long term growth

GPT healthcare has opened its first hospital at Salt Lake, Kolkata in the year 2000 with only 8 beds which has now expanded up to 85 beds as on Dec'23. The management has focused on reducing hospital's Average Length of Stay (ALOS) by introducing robotic surgery during the recent past as it is a matured hospital and it has been able to reduce it from 4.0 as on Mar'21 to 3.2 as on Dec'23. The same has improved hospitals' efficiency in terms of additional available space to occupy increased number of patients and in return to improve Average Revenue Per Occupied Bed (ARPOB). As on Dec'23, Average Bed Occupancy stands at 62% (vs 73% as on Mar'23). We expect the hospital to achieve ~72% occupancy with gradual increase in its ARPOB of Rs. 35,000 by FY25E. Accordingly, gradual growth is expected to be delivered in terms of topline and operating margins. We expect revenue from Salt Lake Hospital to grow at ~9% between FY23-26E and EBITDA margin to improve up to 26% by FY26E from 25% in 9MFY24.





Source: NBRR, Company Reports

*Bed Occupancy rate of H1FY23 and 9MFY24 stood at 72.3% / 62.0%, respectively.

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Agartala Hospital; Elevating Excellence - Unleashing Potential:

Agartala, a tier III city lacks sufficient number of hospitals. There are only 15 hospitals in Agartala (Tripura) and 2,180 hospital beds. There is a room for players to improve healthcare infrastructure in the city. Usually, tier 1 cities have more tertiary and quaternary care centres, which is near-absent in smaller towns and rural areas.

GPT's ILS Hospital at Agartala, a 205-bedded multispecialty tertiary care hospital, is the only NABH accredited hospital in Agartala and one among eleven valid accredited hospitals in north-east region as of 2023. This hospital has added couple of incremental services in the last 2 years where it added services such as Medical and surgical Oncology and also planning to add Oncology Radiation Centre in near term.

Kolkata and Northeast cities such as Agartala in Tripura are well placed to capture volumes from adjoining state and even Bangladesh.

Agartala Hospital's average bed occupancy has improved from 44.9% as on Mar'23 to 53% as on Dec'23 on account of increasing demand for hospital services in Tripura coupled with new services added in recent past.

Further, GPT has a strategy to expand newer services within its Agartala Hospital. It continues to assess its existing machinery and equipment based on utilization levels, age and competitive positioning and invest in medical technology in order to offer high quality healthcare services to its patients and to expand and improve their range of healthcare services. It intends to upgrade its medical equipment like MRI and CT scan. Also, it aims to purchase equipment like neurosurgical microscope and arthroscope sets, which are expected to contribute significantly towards the range and quality of services they provide.

Lower dependency on government schemes

It has a negligible dependence on government schemes when compared with industry peers. Company's revenue contribution from patients availing government schemes is in the range of 1-4% over the last 2 years. As such, debtor days are under control and company enjoys negative working capital

Payor Mix (FY23)	Cash	TPA and Insurance	Others (Government)
GPT Healthcare	62%	32%	5%
Jupiter LifeLine Hospital	45%	53%	1%
Yatharth Hospital	36%	27%	37%
Fortis Healthcare	36%	35%	28%
Krishna Institute of Medical	54%	26%	20%

Source: NBRR, Company Reports

Cost standardization concerns worries private hospitals amid supreme court order, expects minimal impact

As per the public interest litigation filed by an NGO, Supreme court has given the government a month to fix standard rates for different medical procedures while raising concerns over the wide variation in medical treatment costs between government and private healthcare facilities. It expects the similar rates of Central Government Health Scheme (CGHS) to be applied across all private hospitals. According to industry experts, the difference between CGHS and private hospitals' rates may range from 20% to 60%. While this directive for standardization of rate may turnout negative for the hospital industry, it is still at an early stage of discussion. The implementation of this move has many challenges, as rates similar to CGHS may lead to substantial drop in hospital's profitability that may impact overall hospital operations, as a result, quality of services may also get impacted. We anticipate minimal impact of this development amid challenges in concrete implementation. However, this situation presents a potential buying opportunity due to sector-wide price weakness.

Even if we expect implementation to certain extent, GPT will be least impacted as West Bangal and Tripura has not adopted CGHS where it has its presence. Also, the ARPOB of the GPT healthcare is much lower which is at ~Rs. 30000 compared to bigger hospitals' ARPOB at ~Rs. 60000.

Lower attrition rate improves operational efficiency

GPT's employee attrition rate has reduced over the years from 33% in FY21 to 18% in FY23 and 8.5% for H1FY24. Similarly, attrition rate for doctors and nurses has come down from 16.3% / 44.2% in FY21 to 11.8% / 22.5% in FY23. This is lower when compared with the industry and indicates improved operational efficiencies of GPT's hospitals.

Attrition rate (%)	Doctors			Nurses			Other Professionals		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
GPT	16.4%	6.9%	11.8%	44.2%	32.2%	22.5%	33.2%	24.7%	18.1%
Jupiter	3.4%	5.1%	1.9%	26.6%	31.8%	28.0%	15.2%	19.7%	20.6%
Yatharth	65.1%	54.4%	46.6%	69.9%	85.4%	74.0%	26.6%	31.8%	28.0%

Source: NBRR, Company Reports

Long term growth expected from expansion through hospitals at Raipur and Ranchi

GPT healthcare operates mid-sized hospitals that enables it to invest low capex per bed when compared with other secondary care hospitals in India. The mid-sized hospital strategy is expected to be implemented in its proposed hospitals at Ranchi (Jharkhand) and Raipur (Chhattisgarh) which are proposed to be on asset light basis. As the company has signed a MoU and entered into a long term lease agreement with an aggregate capex of ~Rs. 110cr for both these locations, where the investment in land and building construction would be borne by the owner and the developer of the lands in return for periodic rent payments. It proposes to incur capital expenditure only on medical equipment and necessary furniture and fixtures, resulting in a capital-efficient structure that should provide a higher return on capital.

The management suggests commissioning of Raipur hospital in FY25 while Ranchi hospital is expected to commission in FY26. On account of lower capex of both these projects, it enables it to achieve break even level sooner than expected. The same is expected to improve its ROCE over the long term. With this expansion, company's bed capacity is expected to increase from 561 as on Sep'23 to 853 by FY26E.

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Valuation

GPT Healthcare Ltd is a key regional player in Eastern India which provides healthcare services over the last 2 decades. It has grown its bed capacity from 8 beds in 2000 to 561 beds as on Dec'23 with average occupancy at 59.7%. Overall capacity is expected to grow up to 853 beds by FY26E. We expect near-term growth in Revenue and profitability will be driven by increase in occupancies at its existing hospitals while long-term growth is outlined through expansion of hospitals at Raipur and Ranchi which will contribute to overall business from FY26 onwards. Further, GPT healthcare will be a debt free company post reduction of borrowings by Rs. 30 cr through its funding from fresh issue.

We expect company's topline to grow at 16-17% CAGR with bottomline growth at ~26% CAGR between FY23-26E. ROE is expected to be at 20% levels in FY25. The stock is currently trading at 16.7x to 9MFY24 annualized EBITDA which is at discount when compared with industry peer. We expect re-rating at 20x EV/EBITDA to FY26E EBITDA and arrive at a target of Rs.307/share with an upside of 75% over next 18-24 months.

Peer Comparison based on 9MFY24 Financials

Figures in Rs Cr

Particulars (9MFY24)	Revenue	EBITDA	EBITDA Margin	PAT	EPS	P/E	EV/EBITDA	ROE
GPT Healthcare	301	65	21.5%	35	4.26	30.5	16.7	21.9%
Jupiter LifeLine	779	176	22.6%	131	22.16	40.5	32.1	15.1%
Yatharth	493	133	27.1%	76	10.54	29.8	18.5	12.6%
Artemis Medicare	653	95	14.5%	35	2.52	50.7	20.2	11.0%

Financials	Revenue	Growth	EBITDA	Margin	PAT	Growth	EPS	PE	EV/EBITDA	ROE
FY22	337	39%	74	22%	42	98%	5.08	34.3x	20.2x	26.3%
FY23	361	7%	74	21%	39	-6%	4.75	36.6x	20.1x	18.3%
FY24E	403	12%	88	22%	50	29%	6.15	28.1x	15.7x	18.1%
FY25E	467	16%	106	23%	67	33%	8.16	21.2x	13.1x	20.9%
FY26E	572	22%	123	22%	78	16%	9.45	18.3x	11.1x	20.7%

Source: NBRR, Company Reports

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