

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: Healthcare</b>	<b>Price Band (Rs): 382 – 402</b>
<b>27<sup>th</sup> January 2025</b>	<b>Subscribe for Long Term</b>

## Dr. Agarwal's Health Care Ltd.

### Company Overview:

**Dr. Agarwal's Health Care Ltd** provides a comprehensive range of eye care services, including cataract, refractive and other surgeries; consultations, diagnoses and non-surgical treatments. The company also sell optical, contact lenses and accessories, and eye care related pharmaceutical products. The company has a market share of approximately 25% of the total eye care service chain market in India during the Financial Year 2024. Dr. Amar Agarwal, the current chairman, has more than 35 years of clinical experience in the eye care services industry.

### Key Highlights:

**1. Largest eye care service provider in India with a trusted brand:** The company is India's largest eye care service chain by revenue. It has a market share of ~25% of the total eye care service chain market in India as it has generated ~1.7 times the revenue from operations of the second-largest eye care service chain in India for FY24. As of Sept'24, the company has 193 facilities in India spanning across 14 states and 4 union territories, and 16 facilities spread across nine countries in Africa.

**2. End-to-end, comprehensive eye care service offering:** The company provides an end-to-end eye care services which cater to all ophthalmic needs of patients. The services include cataract surgeries, refractive treatments, other surgeries along with consultations, clinical investigations and non-surgical treatment etc. The company endeavours to offer a standardized level of experience to patients across all facilities by streamlining the systems and operating protocols.

**3. Scalable, asset-light, hub-and-spoke operating model:** The company's centres operate on a "hub-and-spoke" model which supports high patient volumes and yields economies of scale and thus allowing greater accessibility and choice to patients. The company follows asset light model as out of total 193 facilities, as of Sep'24, 192 are on lease which enables it commit minimal upfront investments. As of Sept'24, it's network includes 28 "hubs" (which are Tertiary Facilities, including three COEs) and 165 "spokes" (comprising 53 Primary Facilities and 112 Secondary Facilities). COEs stands for center of excellences.

**4. Proven clinical excellence backed by strong clinical board:** The company has a clinical board to ensure standardisation of clinical protocols, products, and processes across the network. The clinical board is overseen by its international advisory team and internal specialty expert team, which provide strategic direction and oversight across operations. Additionally, it has Quality control committee, Education committee, Drug and medical devices committee, Research and development committee to further to standardization the services.

**Valuation:** Dr. Agarwal's Health Care Ltd is valued at FY24/H1FY25 (Annualized) EV/EBITDA multiple of 33.9x/27.7x respectively at upper end of price band on post issue capital. The company in its previous 2 years has reported 38%/41%/48% CAGR in Revenue/EBITDA/PAT to Rs 1,332 cr/ Rs 362 cr/ Rs 95 cr respectively. While comparing the stock with its close peers, the issue appears to be fairly priced on valuation and financial parameters. We recommend investors to subscribe to the issue at CUT-OFF price for long term investment horizon.

Issue Details	
Date of Opening	29 <sup>th</sup> January 2025
Date of Closing	31 <sup>st</sup> January 2025
Price Band (Rs)	382 - 402
Offer for sale (shares)	6,78,42,284 (Rs 2,727 cr @ upper price band)
Fresh Issue (Rs cr)	300.0
Issue Size (Rs cr)	2,892 – 3,027
No. of shares	7,56,95,687 – 7,53,04,971
Face Value (Rs)	1
Post Issue Market Cap (Rs cr)	12,082 – 12,698
BRLMs	Kotak Mahindra Capital, Morgan Stanley India, Jefferies India, Motilal Oswal Investment Advisors
Registrar	KFin Technologies Limited
Bid Lot	35 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	<b>Estimated utilization from net proceeds (Rs cr)</b>
Repayment/prepayment, in part or full, of certain of borrowings	195.0
General Corporate Purposes**	-*
<b>Total proceeds from fresh issue</b>	<b>300.0</b>

*\*The amount to be utilised for general corporate purposes and towards unidentified inorganic acquisition shall not, in aggregate, exceed 35% of the Gross Proceeds, out of which the amounts to be utilised towards either of (1) general corporate purposes, or (2) unidentified inorganic acquisitions will not exceed 25% of the Gross Proceeds.*

*\*\*To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC.*

Shareholding Pattern		
<b>Pre-Issue</b>	<b>No. of Shares</b>	<b>%</b>
Promoter & Promoter Group	11,63,59,650	37.7
Public & Others	19,20,57,510	62.3
<b>Total</b>	<b>30,84,17,160</b>	<b>100.0</b>

Post Issue @Lower Price Band		
	<b>No. of Shares</b>	<b>%</b>
Promoter & Promoter Group	10,27,42,748	32.5
Public & Others	21,35,27,815	67.5
<b>Total</b>	<b>31,62,70,563</b>	<b>100.0</b>

Post Issue @Upper Price Band		
	<b>No. of Shares</b>	<b>%</b>
Promoter & Promoter Group	10,27,42,748	32.5
Public & Others	21,31,37,099	67.5
<b>Total</b>	<b>31,58,79,847</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Particulars (Rs cr)	FY22	FY23	FY24	1HFY25
Revenue from operation	696.1	1,018.0	1,332.2	820.1
EBITDA	182.1	270.3	362.3	210.6
PAT	43.2	103.2	95.1	39.6
EBITDA Margin (%)	26.2	26.6	27.2	25.7
Net Profit Margin (%)	6.2	10.1	7.1	4.8
RoE (%)	20.3	24.5	9.7	2.8
RoCE (%)	20.3	20.9	17.4	6.4
P/E (x)*	286.4	119.8	130.1	312.5

Source: RHP, SSL Research

\*Pre-issue based on upper price band

Key Metrics	FY22	FY23	FY24	1HFY25
Revenue from Emerging Facilities* (Rs cr)	98.3	141.0	310.6	234.9
Revenue from Mature Facilities^ (Rs cr)	594.8	872.4	1018.1	583.5
Number of Emerging Facilities	30.0	44.0	87.0	113.0
Number of Mature Facilities	76.0	92.0	93.0	96.0
Total Number of Facilities in India	91.0	121.0	165.0	193.0
Total Number of Facilities (including international)	106.0	136.0	180.0	209.0
Number of Doctors	403.0	549.0	667.0	737.0
Number of Patient Served	10,93,164	15,95,137	21,28,655	11,53,398
Number of Cataract Surgeries performed	86,485	1,29,103	1,67,587	1,04,591
Number of refractive surgeries performed	4,732	7,417	11,112	6,805
Number of other surgeries performed #	24,077	34,060	41,824	29,391

\*Emerging Facilities are defined as Facilities which have (i) been operational for fewer than three years from the date of commencement of operations; or (ii) have been acquired and operated by us for a period of less than three years

^Mature Facilities are defined as Facilities which have (i) been operational for more than three years from the date of commencement of operations; or (ii) have been acquired and operated by us for a period of more than three years.

#Other surgeries include surgical services in relation to retinal treatments, corneal transplantation and pinhole pupilloplasty, oculoplasty and other treatments and surgeries.

## Risk Factors

- **Retention of qualified and experienced doctors is a big risk:** The success of business depends significantly on ability to recruit and retain sufficient numbers of trained and skilled doctors and medical staff. The patients may choose any of the facilities based on the reputations of individual doctors. If company fails to retain such doctors, it can affect business and cash flow. As of FY24, the attrition rate is 10.3% (Percentage of doctors who ceased to work with company against total number of doctors).
- **Brand and reputation are key in a hospital business:** The brand and reputation, particularly for ensuring successful patient outcomes, are critical to success and the growth of the business. Any reputational damage will directly affect the business, cash flow and financial conditions of the company.
- **Geographical concentration:** A significant majority of its facilities are located in the states of Tamil Nadu (in particular, Chennai), Maharashtra and Karnataka. These three states put together comprised of ~62% of total facilities. Any adverse developments in relation to these Facilities could adversely affect business, financial condition, results of operations and cash flows.
- **The company exposed to legal claims and regulatory actions arising from the provision of healthcare services:** The company exposed to the risk of legal claims, criminal actions, and regulatory actions arising out of the medical services provided by the company. It is also subject of complaints from patients who are dissatisfied with the quality and cost of healthcare services. Any such instances may have an adverse effect on business, financial condition, results of operations, cash flows, reputation and prospects of the company.

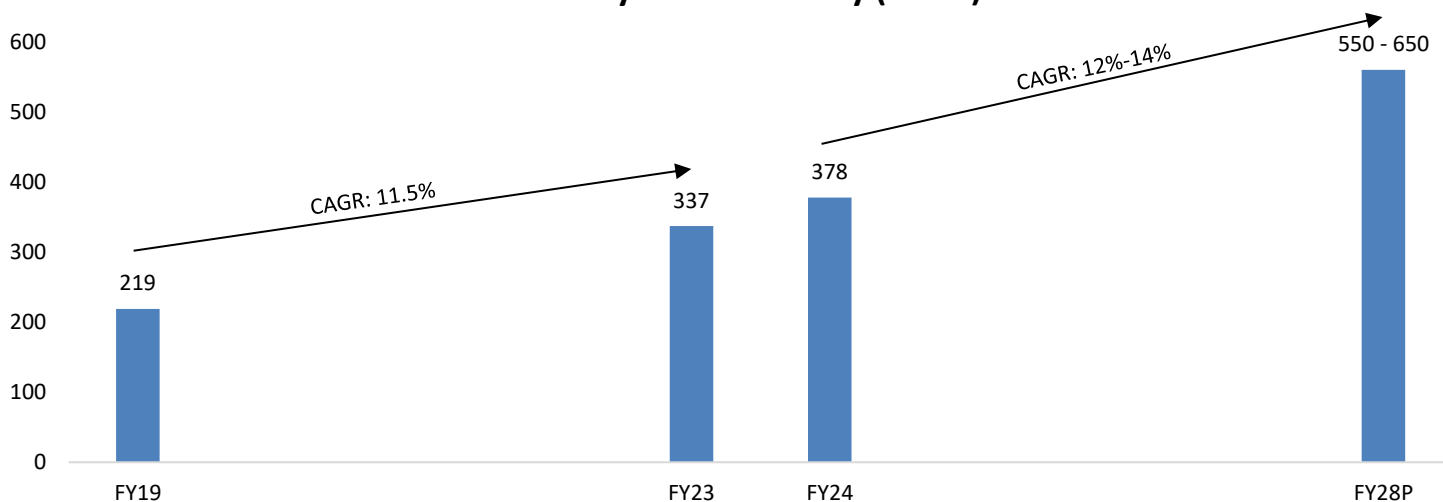
## Growth Strategy

- To continue organic expansion of networks in India
- Strengthen brand equity with community, patients, and doctors across India
- Undertake opportunistic acquisitions and restructuring to scale operations, leveraging on experience of inorganic growth and integration
- Focus on improving profitability and Facility-level growth and enhancing operational efficiencies
- Attracting and retaining qualified doctors

## Industry Overview

**Indian eye care industry is expected to grow at CAGR of 12%-14% between FY24-FY28P:** According to IAPB, India has the highest number of visually impaired people in the world as nearly 1 out of every 5 individuals in India face vision loss disorder. There is a high burden across eye related ailments and diseases in India with increasing need for medical intervention. Because of high prevalence of eye disorder in India population, eye care is an integral part of the Indian health care system. This market includes surgical and non-surgical treatments for patients suffering from various eye disorders. The eye care market in India has grown at CAGR of 11.5% between FY19 and FY24 to reach the value of Rs 378 bn in FY24 and it is further expected to reach Rs 550 bn/Rs 650 bn in FY28P, growing at the CAGR of 12%/14% between FY24 and FY28P.

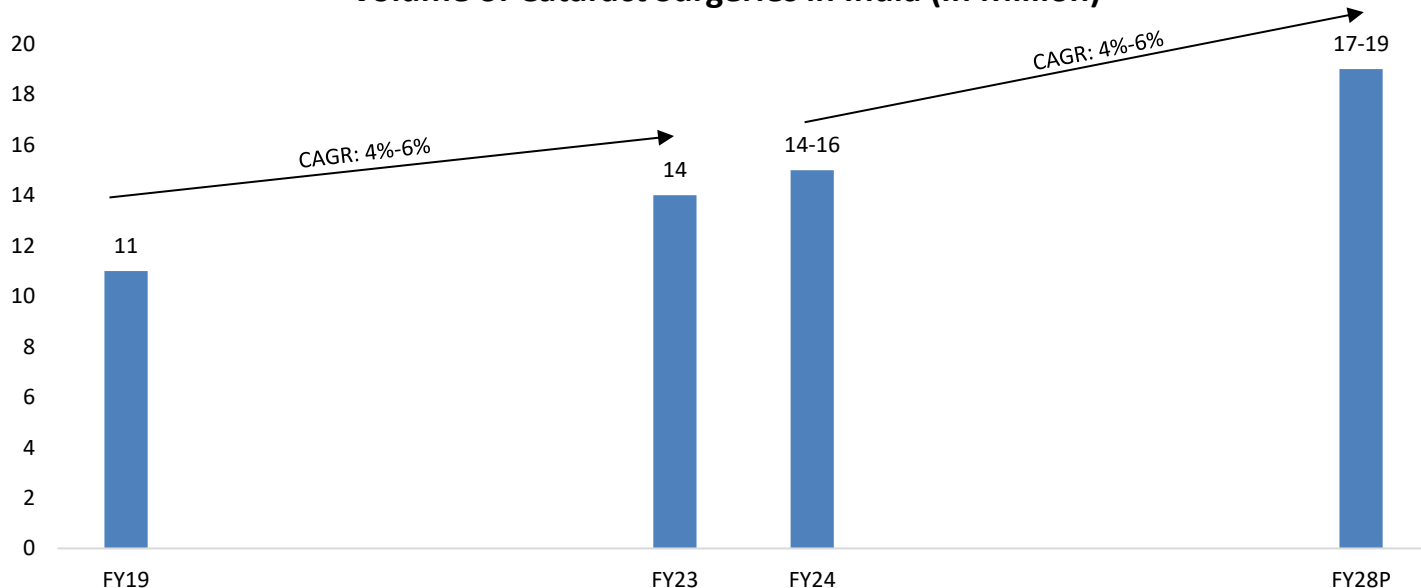
**Indian Eye Care Industry (Rs bn)**



Source: RHP, SSL Research

**Volume of Cataract surgery is expected to grow at a CAGR of 4%-6% between FY24–FY28P:** The total volume of cataract surgeries in India grew at a CAGR of 4-6% between FY19 to FY24 to reach 14-16 mn in FY24. Going forward, the volume of the cataract surgery in India is projected to grow at a similar 4-6% CAGR between FY24 and FY28 to reach the surgery volume of approximately 17-19 mn in FY28P.

**Volume of Cataract Surgeries in India (In Million)**



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT				
(Rs cr)	FY22	FY23	FY24	1HFY25
<b>Revenue from Operations</b>	<b>696</b>	<b>1,018</b>	<b>1,332</b>	<b>820</b>
<b>YoY growth (%)</b>	-	46.2%	30.9%	-
Cost Of Revenues (incl. Stock Adj.)	160	234	301	185
<b>Gross Profit</b>	<b>536</b>	<b>784</b>	<b>1,031</b>	<b>635</b>
<b>Gross margins (%)</b>	<b>77.0%</b>	<b>77.0%</b>	<b>77.4%</b>	<b>77.4%</b>
Employee Cost	140	190	243	156
Other Operating Expenses	214	323	426	269
<b>EBITDA</b>	<b>182</b>	<b>270</b>	<b>362</b>	<b>211</b>
<b>EBITDA margins (%)</b>	<b>26.2%</b>	<b>26.6%</b>	<b>27.2%</b>	<b>25.7%</b>
Other Income	18	14	44	18
Interest Exp.	45	72	96	55
Depreciation	98	128	170	113
<b>PBT</b>	<b>57</b>	<b>84</b>	<b>141</b>	<b>60</b>
Exceptional item/Extraordinary item	-	-	-	-
Tax	14	-20	46	21
<b>PAT</b>	<b>43</b>	<b>103</b>	<b>95</b>	<b>40</b>
<b>PAT margin (%)</b>	<b>6.2%</b>	<b>10.1%</b>	<b>7.1%</b>	<b>4.8%</b>
<b>EPS (Rs)</b>	<b>1.4</b>	<b>3.4</b>	<b>3.1</b>	<b>1.3</b>

BALANCE SHEET				
(Rs cr)	FY22	FY23	FY24	1HFY25
<b>Assets</b>				
Net Block	208	343	498	590
Capital WIP	28	98	114	122
Intangible Assets	0	0	0	0
Intangible Assets under development	0	2	4	5
Right of use assets	306	460	522	592
Other Non-current Assets	256	612	855	1,364
<b>Current Assets</b>				
Current Investment	0	34	471	324
Inventories	33	36	52	69
Trade receivables	57	76	97	111
Cash and Bank Balances	117	149	125	179
Other Current Assets	21	16	14	36
<b>Total Current Assets</b>	<b>227</b>	<b>310</b>	<b>759</b>	<b>719</b>
<b>Current Liabilities &amp; Provisions</b>				
Trade payables	89	101	133	174
Other current liabilities	52	102	133	135
Short-term provisions	2	3	3	3
<b>Total Current Liabilities</b>	<b>143</b>	<b>206</b>	<b>269</b>	<b>313</b>
<b>Net Current Assets</b>	<b>85</b>	<b>105</b>	<b>490</b>	<b>406</b>
<b>Total Assets</b>	<b>883</b>	<b>1,620</b>	<b>2,484</b>	<b>3,081</b>
<b>Liabilities</b>				
Share Capital	7	8	9	31
Reserves and Surplus	206	622	1,330	1,474
<b>Total Shareholders' Funds</b>	<b>212</b>	<b>630</b>	<b>1,339</b>	<b>1,504</b>
Minority Interest	21	30	40	54
<b>Total Debt</b>	<b>290</b>	<b>356</b>	<b>388</b>	<b>374</b>
Long Term Provisions	7	10	14	17
Lease Liabilities	343	501	579	661
Other Long-Term Liabilities	8	90	123	468
Net Deferred Tax Liability	1	2	2	3
<b>Total Liabilities</b>	<b>883</b>	<b>1,620</b>	<b>2,484</b>	<b>3,081</b>

Cash Flow (Rs cr)	FY22	FY23	FY24	1HFY25
Cash flow from Operating Activities	164	233	346	202
Cash flow from Investing Activities	(155)	(509)	(914)	(444)
Cash flow from Financing Activities	35	303	553	297
Free Cash Flow	94	77	115	75

RATIOS			
	FY22	FY23	FY24
<b>Profitability</b>			
Return on Assets (%)	4.2	7.2	4.2
Return on Capital Employed (%)	20.3	20.9	17.4
Return on Equity (%)	20.3	24.5	9.7
<b>Margin Analysis</b>			
Gross Margin (%)	77.0	77.0	77.4
EBITDA Margin (%)	26.2	26.6	27.2
Net Profit Margin (%)	6.2	10.1	7.1
<b>Short-Term Liquidity</b>			
Current Ratio (x)	1.3	1.2	2.4
Quick Ratio (x)	1.1	1.1	2.2
Avg. Days Sales Outstanding	30	24	24
Avg. Days Inventory Outstanding	17	12	12
Avg. Days Payables	47	34	32
Fixed asset turnover (x)	3.3	3.7	3.2
Debt-service coverage (x)	0.3	0.4	0.5
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	1.4	0.6	0.3
Interest Coverage Ratio (x)	2.3	2.2	2.5
<b>Valuation Ratios</b>			
EV/EBITDA (x)	68.8	46.4	33.6
P/E (x)	286.4	119.8	130.1
P/B (x)	58.2	19.6	9.2
EV/Sales (x)	18.0	12.3	9.1

Source: RHP, SSL Research

## Peer Comparison – FY24

Particulars (Rs cr)	Dr. Agarwal's Health Care Limited	Apollo Hospitals Enterprises Ltd.	Max Healthcare Institute Ltd.	Fortis Healthcare Ltd.	Global Health Ltd.	Narayana Hrudayalaya Ltd.	Krishna Institute of Medical Services Ltd.	Aster DM Health Care Ltd.	Rainbow Children's Medicare Ltd.
CMP	402.0	6,745.0	1,055.0	616.0	1,047.0	1,305.0	605.0	496.0	1,447.0
Sales	1,332.2	19,059.0	5,406.0	6,893.0	3,275.0	5,018.0	2,498.0	3,699.0	1,297.0
EBITDA	362.3	2,394.0	1,492.0	1,268.0	799.0	1,173.0	648.0	575.0	432.0
Net Profit	95.1	935.0	1,058.0	645.0	478.0	790.0	336.0	212.0	218.0
Mkt Cap.	12,698.4	97,128.0	1,02,546.0	46,508.0	28,164.3	26,622.0	24,200.0	24,800.0	14,759.4
Enterprise Value	12,268.2	99,356.0	1,02,597.0	46,768.0	27,408.3	27,650.0	25,198.0	25,356.0	14,749.4
EBITDA Margin (%)	27.2	12.6	27.6	18.4	24.4	23.4	25.9	15.5	33.3
Net Profit Margin (%)	7.1	4.9	19.6	9.4	14.6	15.7	13.5	5.7	16.8
P/E (x)	133.6	103.9	96.9	72.1	58.9	33.7	72.0	117.0	67.7
EV/EBITDA (x)	33.9	41.5	68.8	36.9	34.3	23.6	38.9	44.1	34.1
RoE (%)	9.7	13.3	13.4	7.9	17.9	31.4	17.6	3.13	18.2
RoCE (%)	17.4	15.1	16.0	10.3	19.3	26.5	16.9	4.48	19.1
EV/Sales (x)	9.2	5.2	19.0	6.8	8.4	5.5	10.1	6.9	11.4

For Dr. Agarwal's Health Care Limited the Market cap, PE(x), and EV/EBITDA (x), EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band based on FY24 earnings.

CMP as on 24<sup>th</sup> January, 2025.

Source: RHP, SSL Research

**SBICAP Securities Limited**

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