Date : 29th October, 2012

# REGENCY HOSPITAL LTD.(RHL)

## Stock Performance Details

| | |
|---|---|
| **Current Price** | **: Rs. 49.10**** |
| Face Value | : Rs. 10 per share |
| 52 wk High / Low | : Rs. 57.90 / Rs. 29.60 |
| Total Traded Volumes | : 10,222 shares** |
| Market Cap | : Rs. 46 crore** |
| Sector | : Healthcare Services |
| EPS (FY2012) | : Rs. 2.81 per share |
| P/E (TTM) | : 16.7 (x)^ |
| P/BV (TTM) | : 1.67 (x)^ |
| Financial Year End | : 1st April – 31st March |
| BSE Scrip Name | : RGNYMIS |
| BSE Scrip Code | : 526403 |

***as on 29th October. 2012: ^ as on June 2012*

## Shareholding Details - September 2012

| Particulars | Shareholding | |
|---|---|---|
| | Nos. | (%) |
| Promoter & Promoter Group Holding | 66,55,460 | 71.12 |
| Total Institutional Holdings (FIIs & DIIs) | 53,320 | 0.57 |
| Public Holdings | 26,49,888 | 28.31 |
| **Total** | **93,58,668** | **100.00** |

## Background

- Regency Hospital Ltd (RHL) which was founded in 1995 is based in Kanpur, Uttar Pradesh.

- It provides hospital and diagnostic services and offers services in super specialty areas like cardiac care, cosmetic & plastic surgery, dermatology, endocrinology, ENT & otolaryangology, general surgery, internal medicine, medical and surgical gastroenterology, neonatology & paediatrics, nephrology, neuro sciences, oncology, ophthalmology, orthopaedic surgery, physiotherapy & rehabilitation, psychiatric, pulmonary medicine & sleep medicine, reproductive medicine, and urology, as well as anesthesia, critical care, and pain management.

- It also provides clinical laboratory services in the areas of pathology, biochemistry, microbiology, radio imaging, neurology, cardiology etc as well as critical care ambulance services.

- Additionally, RHL through Regency School of Nursing which was established in 2009 provides education and training programs in Nursing.

## Strategy Focus

- The company has set up 75 bedded Renal Sciences Centre which was expected to be operational by September 2012. For the same, the company has incurred Rs. 225.6 million as expenses. Upon becoming operational, the total bed capacity will increase to 300 beds as against the existing 225 beds.

- During the next 12 months it intends to set up two satellite dialysis centres across the state of Uttar Pradesh. Further, to be able to set up 25 Dialysis Centre across the state of Uttar Pradesh and for the same RHL is in talks with a German based company.

- An MoU with Bengauluru based Healthcare Global Enterprises Pvt. Ltd was entered into by RHL with a purpose of setting up state of art and comprehensive oncology hospital with LINAC, HDR, PET, CT, two (2) Operation Theatre (OT) rooms and other allied facilities at Kanpur.

- The management of the company proposes to issue 10,48,000 shares to the promoters of the company on a preferential basis. Thus funds raised from this preferential issue are to be utilized for funding working capital requirements and also to finance the expansion plans of setting up an oncology hospital.

## Financial Snapshot

| Particulars | Standalone Financials (Rs. In Million) | | |
|---|---|---|---|
| **Income Statement** | **FY12** | **FY11** | **FY10** |
| Net Sales / Income from Operations | 571.0 | 520.5 | 397.2 |
| ***Expenses*** | | | |
| Cost of Raw Material | 104.4 | 92.5 | 0.0 |
| Change in Inventories | -4.70 | -4.10 | 0.0 |
| Power & Electricity Cost | 17.60 | 16.10 | 13 |
| Employee Benefit Expenses | 84.70 | 77.60 | 57.00 |
| Administrative & Other Expenses | 263.0 | 245.7 | 255.3 |
| **EBIDTA** | 106.0 | 92.7 | 71.9 |
| Depreciation & Amortization | 39.2 | 33.7 | 30.2 |
| Finance Costs / Interest Expense | 32.9 | 33.7 | 30.2 |
| Other Income | 5.0 | 1.5 | 3.3 |
| **Profit After Tax (PAT)** | 26.30 | 22.30 | 11.40 |
| **Key Ratios - Income Statement** | | | |
| *EBIDTA Margins (%)* | 18.6 | 17.8 | 18.1 |
| *PAT Margins (%)* | 4.6 | 4.3 | 2.9 |
| **Balance Sheet** | | | |
| Networth | 280.7 | 254.4 | 232.1 |
| Non – Current Liabilities / Loan Funds | 522.2 | 231.9 | 214.3 |
| Non Current Assets / Fixed Assets | 390.6 | 341.0 | 323.0 |
| Inventories | 28.3 | 21.8 | 18.8 |
| Debtors | 120.0 | 75.6 | 63.9 |
| **Key Ratios - Balance Sheet** | | | |
| Debt : Equity (x) | 1.4 | 0.9 | 0.8 |
| Book Value (BV) (in. Rs.) | 30.0 | 27.2 | 24.8 |
| Return on Capital Employed (ROCE) (%) | 11.1 | 12.9 | 11.4 |
| Return on Equity (ROE) (%) | 9.8 | 9.2 | 5.3 |
| Debtors Turnover (x) | 5.8 | 7.4 | 7.3 |
| Inventory Turnover (x) | 22.7 | 25.6 | 23.4 |
| **Valuation Ratios** | | | |
| P/E (x) | 16.1 | 19.0 | 0.0 |
| P/BV (x) | 1.5 | 1.6 | 0.0 |
| EV / EBITDA (x) | 8.3 | 6.8 | 0.0 |

*Source : Capitaline.com; as on year ended 31st March, 2012; Company Annual Report;*

## From the Research Desk of LKW's Gurukshetra.com

- For the period ended 31st March, 2012 the company had treated 12,953 indoor patients in comparison to 12,324 patients treated by RHL in FY2011.

- During the period under review, the company reported revenues of Rs. 571.0 million in FY2012 as compared to Rs. 520.5 million in the previous fiscal on a standalone basis which is an increase of 9.7% on a y-o-y basis. The increase in topline has been attributed to an overall increase in occupancy, number of patients treated and addition of latest medical equipments like MRI in FY2012 that led to the incremental revenues.

- The overall hospital management and patient serving costs have increased and are in line with the increase in topline. The overall operational costs have increased by 9% on a y-o-y basis at Rs. 465.0 million in FY2012 as compared to Rs. 428 million in FY2011. Resultantly, in line with an improved topline growth, the EBIDTA also increased by 14.3% at Rs. 106 million against Rs. 92.7 million in the previous fiscal. Given the defensive nature of the business in which the company operates, the operational performance has been satisfactory. EBIDTA Margins also expanded by 75 basis points to 18.6% in FY2012 as compared t0 17.8% in FY2011.

- While, the PAT also increased by 18% on a y-o-y basis at Rs. 26.3 million for the period under review, the margins have also been in line. However, due to a 16% and 13% rise in depreciation and finance costs, the PAT was lower than expected.

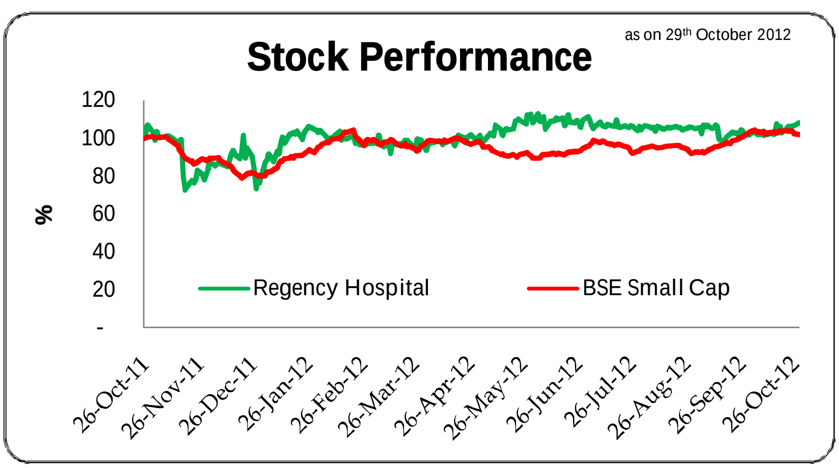
- As the company has plans to expand its business operations and also that it operates in a capital intensive business, there has been a rise in the total debt (short term as well as long term) from Rs. 231.9 million in FY2011 to Rs. 522.2 million in FY2012. Thus the debt to equity ratio too has increased from 0.9(x) to 1.4(x) in FY2012.

- As regards working capital efficiency, both the debtors and inventory turnover ratios have slipped in FY2012 as compared to that in FY2011. The same stood at 5.8(x) and 22.8(x) respectively. This suggests that though the company operates in a defensive segment with satisfactory revenue prospects, its ability to collect its payment from customers has not been impressive, and merits attention over the longer period too.

- During Q1 FY13 ended 30th June 2012, the net sales reported stood at Rs. 160.4 million which witnessed an increase of 19.9% as compared to the corresponding period in the previous year. Resultantly, at the operational level (EBIDTA) and bottomline (PAT) level, the company reported a satisfactory growth of 18% and 22% respectively at Rs. 29.8 million and Rs. 9.9 million.

- While, the company operates in the healthcare service industry, its longer term prospects are expected to be satisfactory given the defensive nature of the business and also on account of the expansion plan as envisaged by the company. However, its ability to manage its working capital cycle, rising competition from local nursing centres and large well established hospitals in the region in which it operates is a concern which merits watching. It is also exposed to risks arising from geographic concentration as its activities are based in Uttar Pradesh. Most importantly, the success of any hospital is dependent on the doctors, nurses and paramedical personnel and in a highly skilled profession, retention is the key to ensure sustained growth.

## Performance on the Bourses



## Peer Comparison

Regency Hospitals operates in an industry which is highly specialized in terms of skills required and is also defensive in nature given that expenses on medical and healthcare are non-discretionary in nature. This industry is also characterized by high margins and dependence on highly skilled professional like doctors, nurses and paramedical people. Also, no industry is devoid of competition and hence, even in healthcare sector, the company may face intense competition from both large well established branded hospitals and local nursing homes. Below is a snapshot of financial performance with some of the peers in the category.

(Rs. in Millions)

| | Standalone Financials | | |
|---|---|---|---|
| **Particulars** | **Regency Hospital** | **Kovai Medical Centre & Hospital** | **Noida Medicare Centre**** |
| Net Sales | 571.0 | 2,223.7 | 551.3 |
| EBIDTA | 106.0 | 437.6 | 132.3 |
| PAT | 26.3 | 119.5 | 24.9 |
| EBIDTA Margins (%) | 18.6 | 19.7 | 24.0 |
| PAT Margins (%) | 4.6 | 5.4 | 4.5 |
| P/E (x)^ | 16.7 | 7.9 | 4.1 |
| P/BV (x)^ | 1.7 | 1.7 | 0.5 |
| Debt : Equity (x) | 1.4 | 3.8 | 0.7 |
| EV / EBIDTA (x)^ | 8.3 | 6.0 | 2.8 |

*Source : Capitaline; ^ TTM as on June 2012; ** year ended December, 2011*

## About the Industry

India is an emerging economy and rapid growth has brought many changes in the lifestyle and disease patterns. Resultantly, the Indian Healthcare industry too has grown. But as regards hospital infrastructure and manpower, India lags behind other emerging economies like China and Brazil. According to the World Health Organization (WHO), in its World Health Statistics Report 2012, India's healthcare industry constituted about 4.2% of GDP in 2009 and the per capital healthcare expenditure stood at USD 124 (on purchasing power parity basis) as against the global median of USD 483.

The Indian Healthcare services comprise of four sub-sectors Hospital, Pharmaceuticals, Diagnostic Centres and Ancillary Services such as Health Insurance, and medical equipments and devices. All of these have witnessed a significant growth over the last few years. Moreover, the Indian Healthcare Industry is well known world over for low cost and clinical excellence which bode well from the longer term growth aspects.

Health Insurance is one of the sectors which is expected to do well going forward as it provides the best of healthcare facilities to individuals at low costs resulting in rise in hospitalization rates. This is because healthcare even today is beyond the reach of a larger population and increased penetration of insurance will result in easy access to the best healthcare facilities at affordable rates.

With an ever increasing population, improved standard of living, higher literacy rate, changing socio-economic characteristics etc the demand for better curative and preventive healthcare facilities is expected to increase.

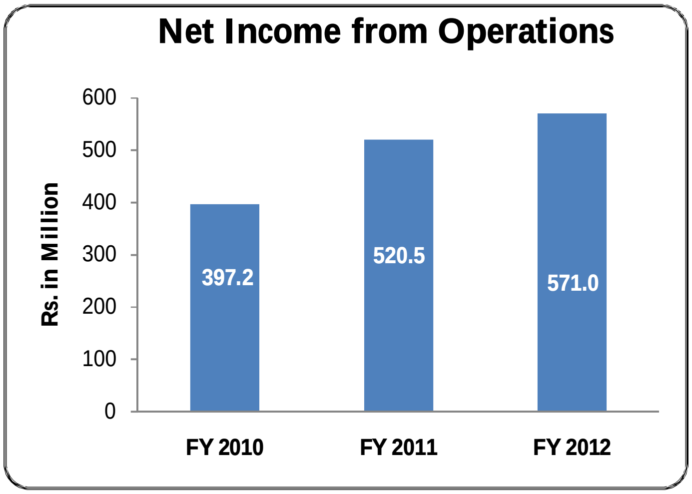
Additionally, rise in income levels, changing demographics dietary patterns resulting in increased incidence of lifestyle related diseases such as diabetes, hyper tension, cardiovascular diseases etc. are likely to drive growth for hospitals offering super speciality care and services.

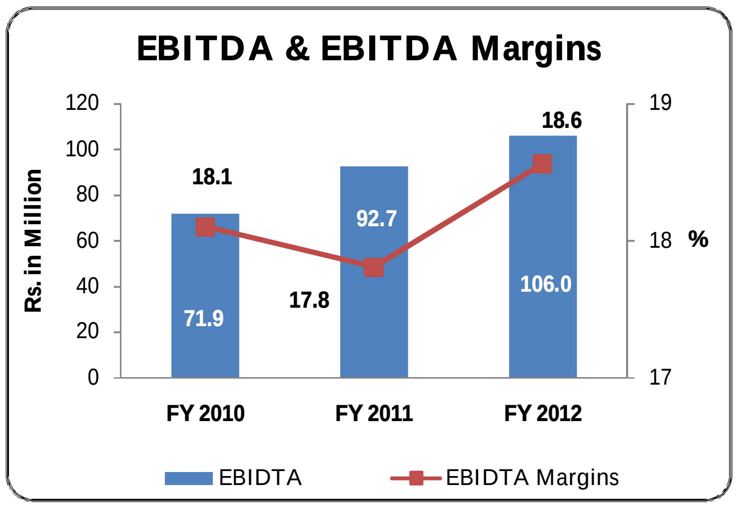
However, changing consumer epidemic profiles, health related issues, frequent product innovations, lack of adequate infrastructural facilities and gap in demand – supply for skilled professionals such as Doctors, nurses and paramedical personnel, technological obsolescence and dependence on imports of expensive medical equipments are certain factors which may impact the performance of companies.

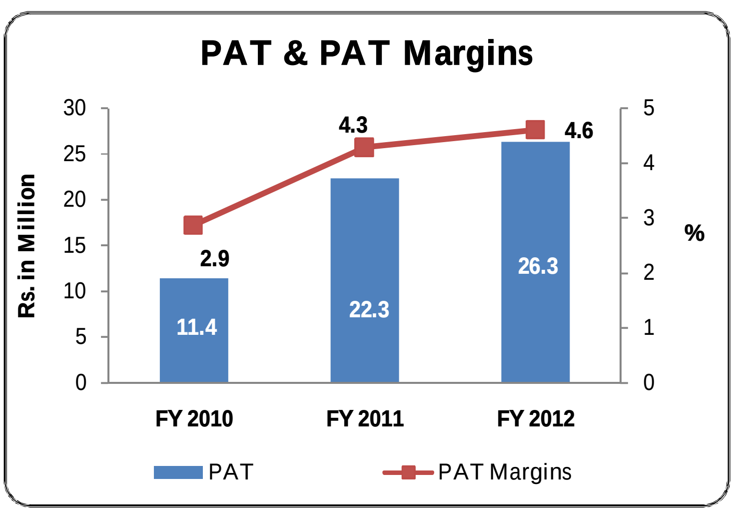
## Outlook

While, the company operates in a highly potent business segment, its ability to maintain its quality standards and de-risk its business model from risks arising out of geographic concentrations, retention of key personnel like Doctors, Nurses and paramedical personnel will be areas that would merit close monitoring. Further, the management's execution capabilities to scale up its business further by introducing new therapeutic areas and expansion of its hospital facilities also need to be looked at from the near to medium term perspective.

## Financial Graphs



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## Disclosure

**Each member of the team involved in the preparation of this report, hereby affirms that there exists no conflict of interest.**

BSE INVESTORS' PROTECTION FUND

The report has been sponsored and published as part of Initiative of BSE's Investors' Protection Fund

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