



Final Conclusion: Medical Insurance and Government Schemes are promoting healthcare awareness. Well-rooted hospitals in Tier-II and Tier-III cities may gain more out of this than the big players. KMCH is better in almost every number indicating growth, productivity and valuation. KMCH was perceived as a premium hospital but 700 bedded KMCH medical college & hospitals (completed in Aug 2019) will mark their entry into low cost affordable segment. Total bed capacity has increased from 1200 to 1900 now; we expect good quarterly numbers to flow. Please go ahead and buy this stock trading @ 800 for 100% upside in next 12-18 months. Keep maximum exposure limited to 6% of your portfolio. It is our monthly stock idea hence we will be tracking it in future.

Let's start with a quote: *"We came from a poor background. So we didn't mind going back. I can sleep on the floor or I can sleep in a castle. We didn't have issues with trying. We thought: We will try our best or we'll go back to the floor. What were we going to lose? It says in the Gita, "What did you bring into this world, that you are afraid of losing?"* - Dr. Nalla G. Palaniswami (Founder and Chairman, KMCH) in his interview with News 7 (Tamil) ([LINK](#))

About Kovai Medical Centre & Hospital (KMCH)

KMCH was promoted in the year 1985 by Dr Nalla G Palaniswami and his wife Dr Thavamani Devi Palaniswami. Currently, three children of the founder couple: Dr. Mohan S Gounder, Dr. Arun N Palaniswami and Dr. Purani P Palaniswami have joined the company. They have taken positions on the board of directors and seem to have active participation in the day to day affairs of the company through the positions like Joint Managing Director and Whole Time Director.

As of Nov 2019, they are operating a multi-specialty hospital with 868 operating beds at Coimbatore equipped with latest tertiary health care facilities. The company also has its satellite centers at Ramnagar, Coimbatore (27 beds), Erode (163 beds), Sulur (92 beds) and Kovilpalayam (121 beds) including beds for ICUs, dialysis ward etc, total 1200 beds capacity. From June 2019, KMCH also started running a medical college with 150 students & 350-bed Medical College Hospital.

Particulars	₹ in Lakhs	
	2018-19	2017-18
Bed Capacity at the end of the Period	1,206	1,200
Operating Beds at the end of the Period	1,128	1,122
Inpatient	66,268	69,736
Outpatient - New & Review	752,102	734,511
Bed Occupancy Rate	69.01%	70.62%
Average Length of Stay	4.29	4.15
Average Revenue per occupied bed	15,240	14,044

What are the triggers?

#1) Construction of 700 bedded medical college teaching hospitals completed in Aug 2019

Based on the construction update provided in annual report AR18 (construction of medical college & hospital is underway) & AR19 (it's nearing completion); we can conclude that the KMCH Medical College & its hospital has started functioning. We also enquired over phone to ensure that new capacity is up & running.

Present Status Annual Report 2017-18

Medical College proposed to be established for an annual student intake of 150 undergraduate students. Construction of 700 Bedded Medical College Teaching Hospital is underway and is slated to complete by end of March 2019. Other infrastructure like Students' Hostel, Staff Quarters are also under construction. The total cost of the Project is put at ₹ 600 Crores and is proposed to be part financed by way of a long term Debt. It is expected that the first intake of students will commence from academic year 2019-20. The Medical College will allow your Company to enter into low cost segment thus making KMCH into a comprehensive healthcare institution and also have an education foray.

Present Status Annual Report 2018-19

KMCH Medical College is proposed to be established will have an annual intake of 150 undergraduate students. Construction of 700 Bedded Medical College Teaching Hospital is nearing completion and is slated to complete by end of August 2019. Other infrastructures like Students' Hostel, Staff Quarters are also nearing completion. Medical Council of India (Regulatory body for conduct of Medical Education in India) have issued Letter of Permission for inducting first batch of students very soon. The Medical College will allow your Company to enter into low cost segment thus making KMCH into a comprehensive healthcare institution and also have an education section.

KMCH had planned to setup up a 700-bed medical college & hospital adjacent to the existing hospital at a total cost of Rs.600 Crore, funded by a term debt of Rs.480 crore and equity of Rs.120 crores.

- KMCH commenced the construction of medical college & hospital during October 2017 and the hospital for medical college with 350 beds (phase – 1) commenced operations from October 2018. Construction of 700 bedded medical college teaching hospitals is completed by Aug 2019 as per AR-19.
- 1st batch of medical college with 150 students (65% of Government Quota and 35% of Management Quota) started from July 2019 with 100% enrolment. This medical college teaching hospital with 700 beds will focus on low cost segment which is growing very fast.
- As on October 31, 2019, KMCH incurred Rs.462.93 crore (77.15%) of cost funded by term loan of Rs.370 crore and rest by accruals. The entire project is expected to be completed by FY21. So, far management has not discussed equity part of the fund raising (if any).

Retail investors use to hold 20.97% during Sept 2016 which is down to 17.14% in Dec 2019. It is clear evident that stocks are moving away from retail investor into strong hand, a good sign of accumulation.

Kovai Medical Center: Expect 100% Upside in 12 Months

February 24, 2020

#2) Q3FY20 numbers (best so far...) shows sign of green shoots

Quarterly Results Standalone Figures in Rs. Crores

	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019
Sales +	132	139	156	150	145	151	152	166	159	165	177	192
Expenses +	103	107	120	119	116	115	124	129	127	130	135	141
Operating Profit	30	32	36	31	30	35	28	37	33	36	41	51
OPM %	22%	23%	23%	21%	20%	23%	18%	22%	20%	22%	23%	26%
Other Income	2	2	2	2	2	2	2	2	2	3	2	3
Interest	3	3	3	3	4	3	3	3	2	3	4	3
Depreciation	6	6	8	8	13	9	9	9	9	10	10	11
Profit before tax	22	24	28	22	15	25	18	27	23	26	29	39
Tax %	36%	35%	36%	35%	33%	36%	35%	36%	34%	23%	44%	37%
Net Profit	14	16	18	15	10	16	11	17	15	20	16	25
EPS in Rs	12.75	14.51	16.18	13.26	9.09	14.70	10.48	15.67	14.07	18.14	14.95	22.75

- During Q3FY20, Kovai Medical has delivered one of the highest Sales, Operating Profit, OPM% & EPS.
- During last 12 quarters, their quarterly earning per share use to be in the range of 10-15 but if you notice, it is up by around 50% in Q3FY20.
- Only new development which can add to enhanced revenue is KMCH medical college & 700 bedded medical hospital which has started.
- **Is it the new norm, only time will tell?**

Construction of 700 bedded KMCH medical college hospital is completed in Aug 2019. So, the total capacity has increased from 1200 beds to 1900 beds. The additional 700 beds will cater to low cost segment hence realization per bed will be lower (may be 30% lower). Sudden spike in sales during Q3 is most likely due to this enhanced capacity, it also indicates that next quarter onward we are going to do EPS of 22 or more. Assuming full year, FY20 estimated EPS of (18.14 + 14.95 + 22.75 + 22 = 77.84); the stock is trading at 10 PE which is quite attractive.

Historically KMCH use to trade in the range of 17-18 PE but now it is available at 11 PE (TTM Earning). During last 5 years stock has never traded in this price range for more than 13% of the total trading days.

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#3) KMCH - Best among peers in almost all the parameters!

Peer comparison	Kovai Medical Center & Hospital Ltd	Apollo Hospitals Enterprise Ltd	Aster DM Healthcare Ltd	Narayana Hrudayalaya Ltd
Market Cap	874.49	25051.34	8634.34	7102.56
Market Cap to Sales	1.26 Lowest	2.31	1.00	2.25
Enterprise Value to EBIT	8.43 Lowest	28.89	18.42	28.00
Book Value	343.07	219.75	59.55	54.35
Stock P/E	11.43 Lowest	78.17	23.14	49.29
Dividend Yield	0.38 Highest	0.33	0.00	0.29
ROCE	17.36 Highest	10.25	11.79	9.34
ROE	19.07 Highest	7.18	12.58	5.59
Sales Growth (3Yrs)	10.49	16.08	14.90	21.03
Face Value	10.00	5.00	10.00	10.00
Promoter holding	50.81	30.80	37.80	63.85

#4) Diversified revenue stream across specializations

The company's total income is spread across various specialities and Neurology and Cardiology continue to remain the major contributors contributing to 22% of the revenue in FY19. None of the specialities contribute to more than 15% of the total revenue and top 5 departments contribute less than 50% to the total sales during FY19. Neurology was the major contributor to the growth of income of KMCH in FY19 followed by Cardiology and Nephrology.

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#5) Strong Liquidity – Liquidity is marked by strong accruals against its repayment obligations and liquid investments in the form of fixed deposit to the tune of Rs.101.4 crore as on March 31, 2019 as against Rs.91.9 crore as on March 31, 2018. These fixed deposits are majorly for a period of 9 months to 1 year. The company has a very short working capital cycle. The payment from patients is done on an immediate basis, while the Insurance companies and corporate pay within 15-20 days. The company also enjoys a credit period of around 15 days from its suppliers. On account of comfortable operating cycle, the company has sparingly used its overdraft facilities with average utilization of 11.86% for the past 12 months ended October 2019.

#6) Stock is available @ lowest valuation in last 5 years

% Days traded below current Price to Earnings		Current Price to Earnings	Average Price to Earnings	Median Price to Earnings
4.7 Potential buy zone	*Based on last 5 years share price of KMCH	11.4	17.6	18.3

Price to Earnings range	Days traded in range	% Days traded in range	Days traded within & below range	% Days traded within & below range
10-12	121	13.2%	121	13.2%
12-13	69	7.5%	190	20.7%
13-16	134	14.6%	324	35.3%
16-19	230	25.1%	554	60.4%
19-20	86	9.4%	640	69.8%
20-22	125	13.6%	765	83.4%
22-23	97	10.6%	862	94.0%
23-26	55	6.0%	917	100.0%

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