



UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

KOVAI MEDICAL CENTER & HOSPITAL	BSE CODE: 523323 NSE CODE: KOVAI
Industry: Hospital & Medical Services	CMP: Rs. 115.70 (27/10/2011)
Market Cap: 126.6 (Crores)	Target Price: Rs. 245
Date: October 27, 2011	Time Period: 12 – 18 months



Saral Gyan Capital Services
www.saralgyan.in
An Independent Equity Research Firm

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1. Company Background



Kovai Medical Center and Hospital

Kovai Medical Center and Hospital is 700-bed multi-disciplinary super-specialty hospital located in the NH 47, opposite to Airport, Coimbatore. The hospital has more than 50 medical disciplines managed by highly qualified and trained full time medical specialists providing round the clock service. Over 1000 in patients and out patients are treated every day at the hospital.

KMCH is equipped with state-of-the art medical equipments such as MRI, 64 slice Volume CT Scanner, 4D Ultra Sound Scanner, Flat panel Cath Lab, Cardiac Electro-physiology Lab, Bone mineral Densitometer, Mammography, Laser equipments, Video endoscope, Operating Microscope, Auto analyzer, Computer Assisted Navigation for hip and knee replacements, ESWL for the removal of urinary stones etc.

KMCH is located on an 20 acres plot in a serene, clean and hygienic atmosphere. It has a very good ambience. The hospital is equipped with 11 operation theatres, and Super speciality procedures like Open heart surgeries and other Cardiac surgeries, Kidney transplants, Knee replacements, Hip replacements and Complex Neuro surgeries are done regularly at the hospital. Angiograms, Angioplasties, Stenting (Sirolimus stent - A drug eluted stent which has no relapse rate) are being done with good success rate. The hospital also has an excellent facility for providing Emergency and trauma care for treating various emergencies such as Cardiac arrests, Road Traffic Accidents (RTA), Snake bites, severe burn injuries, poisonous case, stab injuries and mass casualties.

KMCH is the only center in south India which has introduced a new technique known as GDC coils and clipping of Brain Aneurysms. KMCH has made a breakthrough in the treatment of Stroke Management and Uterine Fibroids with the latest technique in Interventional procedures. The state-of-the-art Fertility Center at KMCH is well equipped to do the Assisted Conception program like IVF, ICSI to the International standards. Most advanced treatment techniques are adopted here.

KMCH is recognized for organ transplant programmes by the Government of Tamil Nadu. Several Kidney transplants and corneal transplants from live donors and cadavers have been done. KMCH is also recognized by the Tamil Nadu Government to do Heart and Lung transplants.

KMCH has specialized clinics like Asthma clinic, Diabetic clinic, Slim clinic, Pain clinic, De-addiction clinic, Painless labour clinic, Andrology clinic, Diet clinic etc., Various specialized procedures like Chemoembolisation, stenting, fallopian tube recanalisation, Chemotherapy, Blood component therapy, Arthroscopic surgeries, Laparoscopic and Thoroscopic surgeries are regularly done at the hospital. The hospital has a separate department for artificial limb manufacture.



KMCH is very actively involved in Preventive Health Checkup Programmes. There are 18 preventive health check up programmes such as Executive Master Health Checkup plus, Premium Master Health Check Up, Executive Master Health Checkup, Master Health Check up, Senior Citizens Health Checkup, Cancer Screening, Paediatric Health checkup etc., Hospital regularly conducts Free Medical camps both at the

hospital and rural areas in association with service organizations. Concessions are offered for the treatment and procedures at the hospital for camp patients. Health education programmes are conducted with the help of KMCH doctors in various schools, colleges and industrial establishments on a regular basis.

KMCH has one of the best Emergency-Trauma Care Center network in the region with highly qualified and experienced Trauma team, which operates round the clock and comprises of Orthopaedic Surgeons, Neuro Surgeons, General surgeons, Cardiovascular and Thoracic surgeons and Plastic surgeons. KMCH in collaboration with the Rotary clubs of Coimbatore and Erode have 5 Trauma Care Centres which are equipped with Wire-less telephone and mobile phone facilities on the Avanashi Road starting from Gandhipuram to Perundurai. In order to ensure immediate transportation of the patient from the accident spot, KMCH has an emergency control room facility which operates round the clock to coordinate all Trauma Care Centers established by KMCH.

There are three satellite centers attached to KMCH:



KMCH City Center



KMCH Erode Speciality Hospital



KMCH Erode Center

City Center (Ram Nagar)

Erode Speciality Hospital (100 bed)

Erode Center (100 bed) with both in-patient and out patient facilities.

It has a rural health center at Veerampalayam to serve the rural community and the under privileged.

Hospital is recognized for Diplomate of National Board (Post Graduate Programmes) in departments like General surgery, Anaesthesiology, Cardiology, Cardiothoracic surgery and Obstetrics & Gynaecology. Hospital is recognized for training doctors in AFRCs programme in General Surgery.

State of the art Cancer treatment facility at KMCH



The state of the art cancer treatment center at the Kovai Medical Center & Hospital is headed by Dr.V.Kannan, a highly reputed radiation oncology specialist in India. He was the chief of radiation oncology services at Hinduja Hospital in Mumbai. Dr Kannan has now taken charge as Director of the KMCH Comprehensive Cancer Center.

KMCH comprehensive cancer center offers radiotherapy, chemotherapy and surgeries for the Cancer patients. It will be of international standard of care in terms of investigations and modern treatments including Radiotherapy.

The new facility is equipped with the latest Linear Accelerator the "Varian Trilogy with Rapid Arch" offering therapies like SRS, Image Guided Radiation Therapy, Intensity Modulated Radiation Therapy besides routine Radiation therapy. These Radiotherapy facilities at the cancer center of KMCH will match the best in the world that will have provision to perform 4 dimensional CT scan which accurately assess respiratory problems and movement of tumours in order to plan treatment of patients.

This advanced radiotherapy system is geared towards offering stereotactic radiotherapy and radio surgery. With this technique we can give radical treatment to small lung, brain and liver tumours in single sitting or in 3-5 fractions. In lung cancer patients who are not willing or not able to have surgery due to anaesthetic risks, this would be an equally efficacious alternative.

This Linear accelerator based stereotactic radiotherapy system is a very accurate system and delivers treatment in a shorter time compared to other systems. The center also have an HDR (high dose brachytherapy system). This will be used for intracavitary

brachytherapy in gynaecological cancer. It will also help us deliver intraluminal brachytherapy for esophageal and endobronchial tumours. This can be adapted to offer Prostate brachytherapy and accelerated partial breast radiation in the future.

KMCH will be having a dedicated new hospital for cancer treatment with all facilities. This would include a suite for day care chemotherapy where patients receive chemotherapy and targeted treatment in a relaxed atmosphere.

The KMCH Comprehensive Cancer Center has the most up to date technology and highly skilled professionals. The hospital will also provide accommodation with transport to the patients and their attendants who come from neighboring districts and other states at a very subsidized cost. This added facility would give the patients a sense of security and confidence. This facility is already built and available immediately.

All patients will be treated with standardized international protocols. Cancer patients undergo a totally new experience in the way they are cared and treated with dignity, compassion and empathy. Cancer does not mean the end of life and the ultimate goal of KMCH is to see that the patients make a new beginning and turn a new leaf of life.

2. Recent Developments

Expansion Plan will increase Revenue & Profitability in FY 2012-13

In the year 2011 KMCH has invested Rs 200 Cr for expansion plans, equipment and providing specialty services. As per the planned expansion by the next year, it will start medical college so as to provide all paramedical courses for post graduation programmes. With the above plan under implementation the loan book has grown to Rs 192 Cr up by 78% on comparison to last year impacting profit margins of the company.

There will be significant rise in revenue and profitability once KMCH turns into a full-fledged medical college & hospital with all medical facilities available inside one campus.

Health Insurance – Another Key Factor for Growth

Insurance service is a potential area for growth with regard to healthcare services. In South India, Tamil Nadu has done well in this area and is on second position, next to Andhra Pradesh. In terms of insurance, both private insurance and government funded insurance schemes have shown rapid growth. Each year, there is 20-30% growth in private insurance claims. The insurance scheme has made a positive impact and effectively reduced the cost of healthcare services. Currently 20-25% of revenue is reported from the Insurance segment which is expected to go around 40-45% in coming years.

3. Financial Performance

Kovai Medical Center & Hospital net profit rises 200.00% in the June 2011 quarter

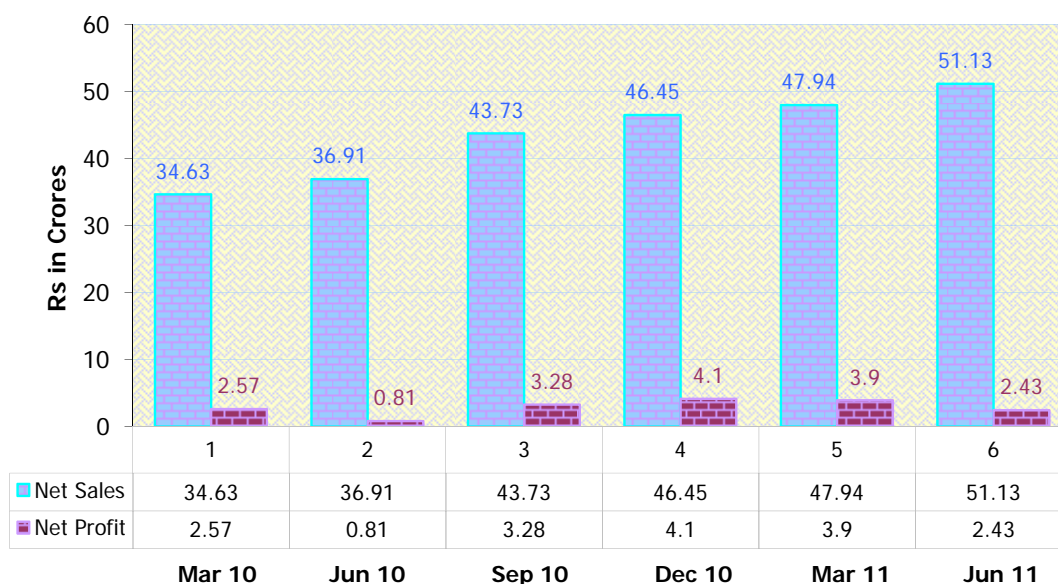
Net profit of Kovai Medical Center & Hospital rose 200.00% to Rs 2.43 crore in the quarter ended June 2011 as against Rs 0.81 crore during the previous quarter ended June 2010. Sales rose 38.53% to Rs 51.13 crore in the quarter ended June 2011 as against Rs 36.91 crore during the previous quarter ended June 2010

Kovai Medical Center & Hospital net profit rises 51.75% in the March 2011 quarter

Net profit of Kovai Medical Center & Hospital rose 51.75% to Rs 3.90 crore in the quarter ended March 2011 as against Rs 2.57 crore during the previous quarter ended March 2010. Sales rose 38.43% to Rs 47.94 crore in the quarter ended March 2011 as against Rs 34.63 crore during the previous quarter ended March 2010.

For the audited full year, net profit rose 4.40% to Rs 12.10 crore in the year ended March 2011 as against Rs 11.59 crore during the previous year ended March 2010. Sales rose 34.27% to Rs 174.64 crore in the year ended March 2011 as against Rs 130.07 crore during the previous year ended March 2010.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings:

Particulars (Rs. In Crores)	Sep '10	Dec '10	Mar '11	Jun '11	Sep '11 E	Dec '11 E
Audited / Unaudited	UA	UA	UA	UA	UA	UA
Sales Turnover	43.73	46.45	47.94	51.13	54.67	58.19
Other Income	0.24	0.26	0.26	0.12	0.16	0.26
Total Income	43.98	46.71	48.2	51.25	54.83	58.35
Total Expenses	33.92	35.96	37.63	41.4	43.27	44.87
Operating Profit	9.81	10.49	10.31	9.73	11.40	13.32
Total Extraordinary Inc/Exp	--	--	--	--	--	--
Tax On Extraordinary Items	--	--	--	--	--	--
Net Extra Ordinary Inc/Exp	--	--	--	--	--	--
Gross Profit	10.05	10.75	10.57	9.85	11.56	13.58
Interest	3.37	2.72	2.19	3.68	3.98	4.15
PBDT	6.68	8.02	8.38	6.17	7.58	9.43
Depreciation	1.61	1.61	1.93	2.6	2.41	2.52
Depreciation On Assets	--	--	--	--	--	--
PBT	5.07	6.41	6.45	3.57	5.17	6.91
Tax	1.79	2.31	2.55	1.14	1.84	2.68
Net Profit	3.28	4.1	3.9	2.43	3.33	4.23
Prior Years Income/Expenses	--	--	--	--	--	--
Earnings Per Share	3	3.75	3.57	2.22	3.04	3.87
Equity	10.94	10.94	10.94	10.94	10.94	10.94
Reserves	--	--	--	--	--	--
Face Value	10	10	10	10	10	10
% of Public Share Holdings	53.89	53.65	53.41	52.54	--	--

Expected Earnings for 2nd and 3rd Qtr FY 2011-12:

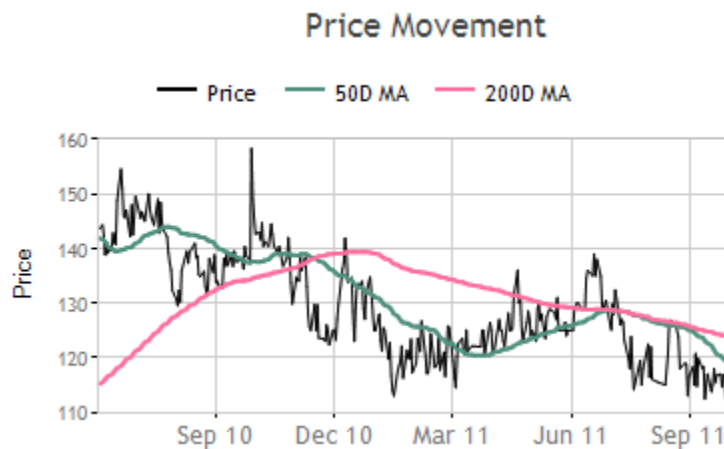
KMCH revenues are expected to improve significantly in next FY 2012-13, we believe company top line will increase in next 2 quarters but profit margins may see some pressure considering higher interest rates on existing loan.

Another positive factor is open market purchase of shares by promoters in last few quarters. Public share holding is decreased by 1.35% from 53.89% to 52.54% in last one year.

4. Charts & Graphs

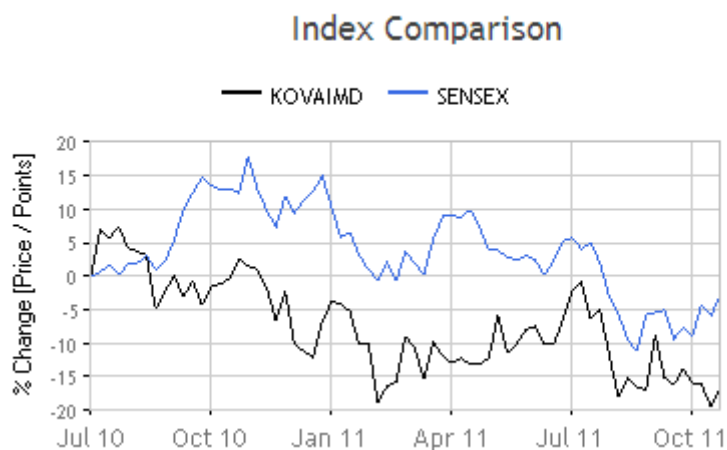
i) Share Price Moving Average:

KMCH is currently trading below its 200 days price moving average and is having first support at 109 followed by strong support at Rs 90.

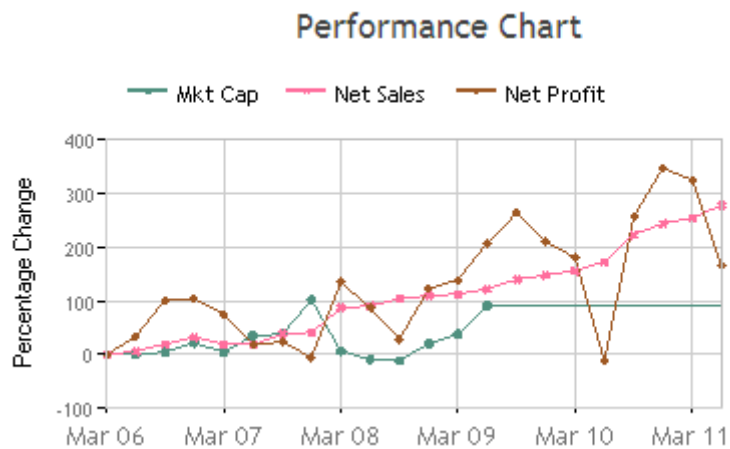


ii) Comparative Graph:

KMCH has outperformed Sensex giving returns of 186.74% in last three year. In last one year, KMCH has underperformed giving returns of -27% against Sensex returns of -14.5%

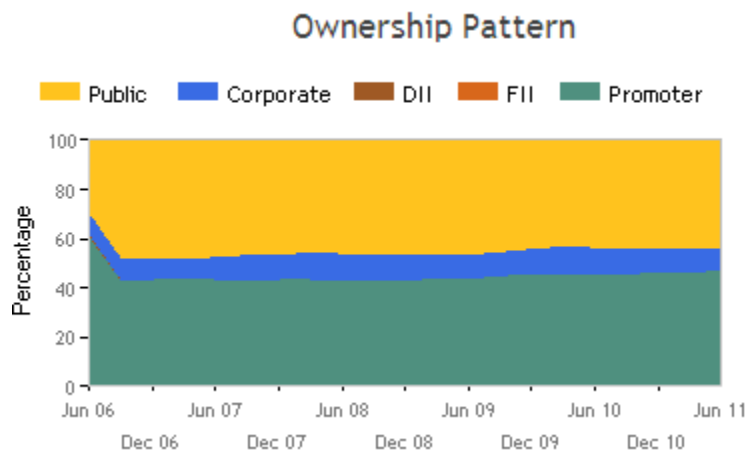


iii) Performance Chart:



iv) Share holding Pattern:

Promoters share holding is 47.46%. Promoters have been continuously making open market purchase since last one year. During last one year, promoters have increased their stake by more than 1%.



5. Peer Group Comparison

PEER GROUP	Kovai Medical	Indraprastha Medical	Poly Medicure	Fortis Malar	Regency Hospital
CMP	115.70	37.15	285	35.25	41.05
52 W H/L	165.35/109.6	48/30.20	337/234	41.95/28.4	75/40.25
Market Cap	126	338	313	64	38
Results (in Crores)	Jun-2011	Jun-2011	Jun-2011	Jun-2011	Jun-2011
Sales	51.13	126.28	46.10	24.46	13.38
PAT	2.43	6.99	5.33	2.51	0.81
Equity	10.94	91.67	11.01	18.61	9.36
EPS	12.54	3.26	20.03	3.85	2.72
P/E	9.23	11.33	14.23	9.01	15.09

KMCH is trading at a single digit PE of 9.23 on historic earnings and looks attractive among its peer group in hospital industry.

6. Key Concerns / Risks

- Delay in execution of expansion plans can adversely impact the revenue and net profit margins of the company.
- Any major change in technology for treatment of severe illness / disease can impact company's bottom line due to new investments made to provide best healthcare services.

7. Sector Outlook

The Indian healthcare sector is predicted to reach US\$ 280 billion by 2020, contributing an expected Gross Domestic Product (GDP) spend of 8 per cent by 2012 from 5.5 per cent in 2009, according to a report by an industry body. Growing population, increasing lifestyle related health issues, cheaper treatment costs, thrust in medical tourism, improving health insurance penetration, increasing disposable income, government initiatives and focus on Public Private Partnership (PPP) models are some of the driving factors for the growth of healthcare sector in India.

Some of the key players in the Indian healthcare industry who are helping in making the sector buyout include Apollo Hospitals Enterprise Ltd., Fortis Healthcare Ltd, Max Hospitals and Aravind Eye Hospitals.

Challenges and Opportunities

Owing to the fact that the healthcare sector is one of the largest service sector industries in India with an estimated revenue of US\$ 35 billion, the industry has also emerged as one of the most challenging sectors as well.

- India would require another 1.75 million beds by the end of 2025 to reach a ratio of two beds per 1000 population.
- An additional 0.7 million doctors are needed to reach a doctor population ratio of 1:1000 by 2025.
- Although the health insurance sector is projected to grow to US\$3.8 billion, the health insurance penetration rate still has a lot more scope to grow with only 2 per cent of the total population being insured at present.

The government recognised the significant challenges and potential in the sector and provided priority status to healthcare in the Eleventh Five Year Plan. Further, the sector is expected to witness added growth through a well-defined partnership between the government and the private sector.

Government initiatives in the public health sector have recorded some noteworthy successes over time with focus on investments related to better medical infrastructure, rural health facilities etc.

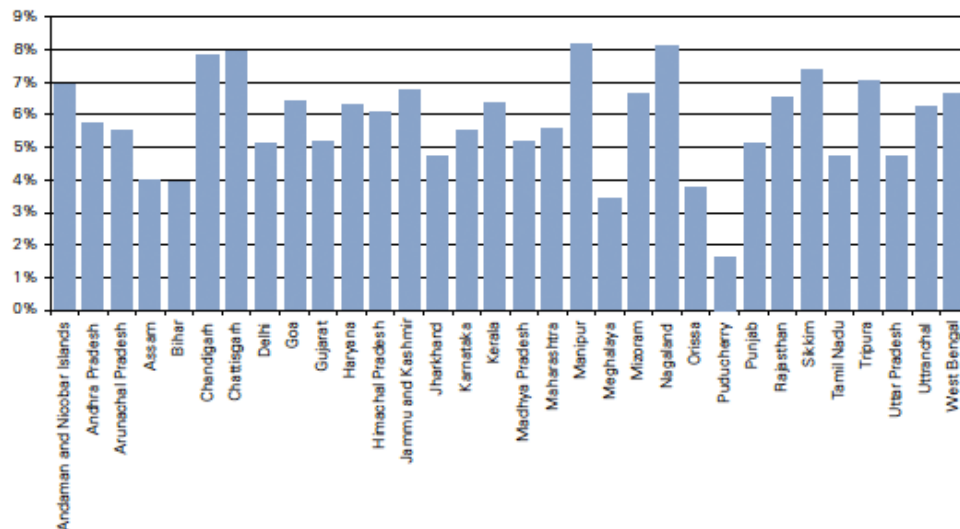
Government Policies

- 100 per cent FDI is permitted for health and medical services under the automatic route.
- The National Rural Health Mission (NHRM) had allocated US\$ 10.15 billion for the upgradation and capacity enhancement of healthcare facilities.

Moreover, in order to meet revised cost of construction, in March 2010 the Government allocated an additional US\$ 1.23 billion for six upcoming AIIMS-like institutes and upgradation of 13 existing Government Medical Colleges.

Meanwhile, the total healthcare infrastructure expenditure is expected to reach US\$ 14.2 billion in 2013, registering an increase of 50 per cent as compared to the 2006 figure, according to a report by KPMG.

Average annual growth rate forecast in healthcare infrastructure expenditure 2009–2013



Source: Global Infrastructure: Trend Monitor Indian Healthcare Edition: Outlook 2009–2013, KPMG

Major Investments

The sector is undergoing significant changes driven by the continuing phase of rapid economic growth, with emerging markets, such as medical device manufacturers and diagnostic chains attracting increasing amounts of investments.

Cumulative FDI inflow (April 2000 to February 2011)

Sector	FDI inflow (US\$ million)
Hospital and diagnostic centres	998.11
Medical and surgical appliances	387.52
Drugs and pharmaceuticals	1,882.30

Source: Department of Industrial Policy & Promotion (DIPP)

- Hospitals chain Apollo Hospitals Enterprise Ltd plans to invest around US\$ 204.04 million- US\$ 226.70 million over the next two years.

- Wockhardt Hospitals plans to invest up to US\$ 158.32 million to double its bed capacity to 2,000 by 2013.
- Hospitals chain Fortis Healthcare plans to invest US\$ 146.81 million and add 2,100 new beds.
- The BCG Group plans to build a multidisciplinary health facility, BCG Health square in Palarivattam in Kochi, Kerala, by August 2011. The company's long-term plan is to set a 750,000 sq ft health village with an estimated cost of US\$ 88.91 million.
- GE Healthcare will invest US\$ 50 million to set up more facilities for developing diagnostic services.
- Manipal Hospitals plans to invest US\$ 45.23 million in the next three years to double its capacity to 8,000 beds.

PPP Model

Private healthcare is emerging as one of the fastest growing sectors in India, with hospital chains exploring the markets in metros and tier II cities, private players seeking accreditation and developing new healthcare models. Further, the private and public sectors across various states such as Gujarat and Uttarakhand have launched innovative initiatives to attract PPP investments into healthcare.

While the government is exploring potential to establish state-funded healthcare insurance schemes for supporting healthcare delivery for the poorer sections of the population, the corporate segment is catering to the growing need of the general public for quality care. Thus, through a sustainable partnership, development and delivery of low cost, affordable, basic healthcare services, PPP models may help in improving the infrastructure and healthcare provision in the country.

Key Developments

- Rural healthcare sector in the country is also witnessing an upsurge. The rural health sector has added around 15,000 health sub-centres and 28,000 nurses and midwives during the last five years, according to the Rural Health Survey Report 2009, released by the Ministry of Health. The number of primary health centres has increased by 84 per cent, taking the number to 20,107, according to the report.
- Indian health insurance market represents one the fastest growing and second largest non-life insurance segment in the country, according to a report by research firm RNCOS. The health insurance premium is expected to grow at a Compound Annual Growth rate (CAGR) of over 25 per cent for the period spanning from 2009-10 to 2013-14, according to the report.

- India's share in the global medical tourism industry is predicted to be around 3 per cent by the end of 2013, according to a report 'Booming Medical Tourism in India' by research firm RNCOS, released in December 2010. The sector is expected to generate around US\$ 3 billion in revenues by 2013, with the number of medical tourists to grow at a CAGR of over 19 per cent during 2011-2013 to reach 1.3 million by 2013.
- Indian medical technology industry is expected to reach US\$ 14 billion by 2020 from US\$ 2.7 billion in 2008, according to a report by PwC and an industry body.
- The country's first healthcare Special Economic Zone (SEZ), Frontier Mediville, is being set up by Frontier Lifeline Hospital at Elavoor, near Chennai.
- Major healthcare players such as Fortis and Apollo are expanding to tier-II and tier-III cities, along with urban cities, due to substantial demand for high-quality and specialty healthcare services in these cities.
- Healthcare majors such as Apollo, Max Healthcare and Manipal Group are targeting new segments such as primary care and diagnostics. Demographics, health awareness and increasing capacity to spend are the key drivers of the preventive healthcare segment in India.
- Computer-based bio-surveillance projects generating data about diseases and creating databases on healthcare in rural areas are gaining popularity in India with various organisations such as Narayana Hrudayalaya and the Mazumdar Shaw Cancer Centre entering into this sector.

8. Saral Gyan Recommendation

i) With Investment of Rs 200 Crore for expansion plans, equipment and providing specialty services, KMCH management is looking aggressive and more focused to achieve new milestones going forward. KMCH offers best treatment using modern facilities and new technologies in south region which distinguish KMCH from other hospitals.

ii) As per the planned expansion by the next year, KMCH will start medical college so as to provide all paramedical courses for post graduation programmes. This will not only add revenues but also improves the profit margins of the company.

iii) The Management holds 47.46% (June 2011 - Increased holding by 1.35% during last one year) equity in the company and is continuously increasing its stake at current valuations which gives confidence of growth prospects in coming quarters.

iv) Stock is available at low valuations, currently trading at a P/E ratio of 9, whereas peer stocks trade at a double digit PE multiple. Moreover, visibility of increased earnings in FY 2012-13 make KMCH a good buy at current market price for investors who can hold it for period of 18-24 months.

v) On operating profits KMCH has out performed its performance for the quarter ended March 2011. EBITDA witnessed a growth of 33% on yoy basis and 42% for full year 2011. Margins for the March quarter witnessed the highest ever at 21.6% vs 18.6% when compared for the same quarter last year. On consolidated basis EBITDA margins stood at 21.2% vs 20%. KMCH's profitability witnessed pressure mainly due to higher than expected interest cost from Rs 4.84 Crore in 2010 to Rs 11.11 Crore in 2011.

vi) At current market price of Rs 115.70, dividend yield works out to be 1.08%. On equity of Rs. 10.94 crore the estimated annualized EPS for FY 2011-12 & FY 2012-13 works out to Rs. 13.7 and Rs. 18.5 respectively. Book value per share is Rs. 46.38 and at CMP of Rs. 115.70, stock price to book value is 2.49. Currently, the scrip is trading at 8.5X FY 2011-12 and 6.5X FY 2012-13 estimated earnings which seem to be cheap in healthcare space.

Considering growth potential of Indian Hospital Industry, attractive valuations of KMPH and its expansion plans, Saral Gyan Team recommends **"BUY" for **Kovai Medical Center and Hospital** for a target price of Rs. 245 over a period of 18-24 months.**

Buying Strategy:

- 60% at current market price of 115.70
- 40% at price range of 97-102 (If stock price falls during market correction)

9. Disclaimer

Important Notice: Saral Gyan Capital Services is an Independent Equity Research Company.

Disclosure: The author of this article does not hold shares in the recommended company.

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