KPMG

Project Pulse

Durdans Heart Centre (Pvt) Ltd

Valuation Memorandum

September 2024

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25 September 2024

The Board of Directors
Ceylon Hospitals PLC
No. 3
Alfred Place
Colombo 03
Sri Lanka

Attn: Mr. Ajith Tudawe

Dear Sir,

Final report regarding the Valuation of Durdans Heart Centre (Pvt) Ltd

We enclose our final report with regard to the Valuation of Durdans Heart Centre (Pvt) Ltd (“DHC”, the “Company”) for internal decision-making purposes of Ceylon Hospitals PLC (“CHP”, the “Client”).

This report has been prepared on the basis of fieldwork carried out up to 24 September 2024. We have completed the work required to enable us to report fully in accordance with the terms of reference set out in our engagement letter dated 23 September 2024.

We have not undertaken to update our report for events and circumstances arising after that date. In carrying out our work, we have relied upon information provided by the management of CHP. We have not audited or carried out due diligence procedures on the information and therefore we make no representations as to its accuracy and completeness.

Our report is for your information only and should not be quoted or referred to, in whole or in part, without our prior written consent.

The terms of reference for this report, included as part of the Engagement Letter, have been agreed by you and we will not accept responsibility to any other party to whom the report may be shown or who may acquire a copy.

Yours faithfully,

KPMG

Terms of engagement

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- KPMG was appointed by CHP to carryout a Valuation of DHC for internal decision-making purposes (the "Purpose").
- KPMG is to undertake a Valuation of DHC as at 31 March 2024 ("Valuation Date").
- Any decision by the Client regarding the Purpose shall rest solely with the Client.
- The memorandum is prepared on the basis of the sources of information listed in Appendix 1. KPMG has not verified any of the information presented in this memorandum and has relied upon the directors of CHP to provide us with written representation that the information contained in this memorandum is materially accurate and complete, fair in the manner of its portrayal and therefore forms a reliable basis for the Valuation.
- KPMG has given a range of values by providing an independent fair value range of the share, based on a number of methodologies. It will be the Management's prerogative to select a value for the respective purpose. KPMG will not be responsible for the ultimate selection of the value. Any decision by the Client regarding whether or not to proceed with the internal decisions shall rest solely with the Client.
- This memorandum is based on information gathered or provided to KPMG which KPMG has not independently verified. KPMG, nor affiliated partnerships or bodies corporate, nor the directors, shareholders, managers, partners, employees or agents of any of them, makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information contained in the report. All such parties and entities expressly disclaim any and all liability for or based on or relating to any such information contained herein, or errors or omissions from this memorandum or based on or relating to the use of this memorandum.
- Further, the Client agrees to indemnify and hold harmless KPMG, its directors, employees and agents from and against any and all costs, expenses, losses, claims, demands, actions, suits or proceedings paid, incurred or suffered by or made or initiated against them or any of them by any third party arising out of or in connection with this engagement, except to the extent that any such costs, expenses, claims, demands, actions, suits or proceedings arise from our willful default. In any event, our liability would be restricted to a maximum of one time our fees as per our Letter of Engagement.

Disclaimer

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— KPMG's role will be limited to preparation of the reports, on your behalf, and on the basis of information received from you. Suitable wordings and disclaimers describing our role and limiting our liabilities will be included in the Reports.

— We will not be making any recommendations to you. The complete and final control and responsibility of all key decisions, including but not limited to, those concerning the share price will rest with you.

— For the purpose of carrying out this assignment, we will rely largely on inputs and information provided by you and on published and secondary sources of information that we believe to be credible and reliable. We will not be responsible for errors and inaccuracies in the base data supplied to us.

— The procedures we will perform will not constitute an audit and, consequently, no assurance will be expressed.

— We will review the projected financials/information/document from a commercial perspective to assess the impact on the business and will not comment on the appropriateness of or independently verify the assumptions or information provided to us. We will not be expressing any legal or tax opinion on the same.

— Further note that since the strategy and plans relate to the future, actual results are likely to be different from the projected assumptions because events and circumstances may not occur as expected, and the differences may be material. In carrying out the assignment, we will rely extensively on technical, financial and other information made available to us by you and your team and any other person(s) you may nominate to provide information to KPMG with respect to the engagement.

— It is clarified that Commercial and Legal Due Diligence, Feasibility, Formal Opinion on the assumptions underlying the projections, and technical valuation of the assets will not form part of our work.

— Our analytical efforts will be executed on a best efforts basis, being dependent on the availability of data in the public domain and in our databases. KPMG will depend on existing available information on the geographies and markets, which might be in the form of publicly available reports, KPMG's Internal Knowledge Base (firm-wide intranet), etc. All industry and competitor analysis will be carried out based on information available in the secondary domain. While KPMG shall make all necessary efforts to ensure that it will source data only from credible public sources, we cannot possibly verify the accuracy of the same.

— KPMG will not have the responsibility of updating the deliverable after the conclusion of the engagement, or the submission of the final report, unless otherwise agreed through a separate scope of work.

— While undertaking this Engagement, neither KPMG nor any of its members or employees will assume or be required to assume any responsibility for the Management, the sole responsibility of which remains with the Company and its Management. Management of the Company will be responsible for considering the outcomes of the services provided by KPMG and for any actions arising from such services.

Glossary

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AWPLR	Average Weighted Prime Lending Rate
Bn	Billion
CAPEX	Capital expenditure
CBSL	Central Bank of Sri Lanka
Client/CHP/Group	Ceylon Hospitals PLC
DCF	Discounted cash flow
DHC	Durdans Heart Centre (Pvt) Ltd
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EV	Enterprise value
FCFF	Free cash flow to the firm
FYE	Financial year ended
Kd	Cost of Debt
Ke	Cost of Equity
LKR	Sri Lankan Rupee
Management	Management of Ceylon Hospitals PLC
Mn	Million
MRP	Market risk premium
MMM	Market multiple methodology
NAV	Net asset value
PBV	Price to Book value
PPE	Property, plant and equipment
ROU	Right-of-use
Rf	Risk free rate
WACC	Weighted Average Cost of Capital
YoY	Year-on-Year

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1.0

Executive Summary

Overview

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Company overview

- DHC is the Heart Command Centre and Heart Station (Cardiology unit) of Ceylon Hospitals PLC.
- DHC is an 81.16% owned subsidiary of CHP.
- The Heart Station and Centre's infrastructure development commenced in 1997, with Durdans Heart Centre becoming operational in 1999 and initiating cardiac surgeries in 2000.
- DHC provides a range of services including diagnostic tests, surgical treatments, cardiac rehabilitation, and post-operative counseling.
- DHC is renowned for performing the first beating pump surgery in Sri Lanka and has performed the highest number of beating heart surgeries conducted at a private hospital in Sri Lanka.

20,000+
Heart surgeries performed

15+
Beds for heart patients

Financial highlights as at 31st March 2024

LKR 698.1 Mn
Total assets

LKR 1.0 Bn
Total revenue

LKR 11.2 Mn
Profit for the year

Source: Management, Durdans Hospital website, Ceylon Hospitals Annual Report, KPMG analysis

Valuation summary

Valuation summary						
As at 31 March 2024	**Equity value (LKR'000)**			**Value per share (LKR)**		
	Min	**Base**	**Max**	**Min**	**Base**	**Max**
DCF	532,833	539,203	545,995	38.1	38.5	39.0
MMM	510,087	531,558	553,029	36.4	38.0	39.5
NAV	375,670	375,670	375,670	26.8	26.8	26.8
Recommended value	**454,251**	**457,436**	**460,833**	**32.4**	**32.7**	**32.9**

Source: Management, KPMG analysis

- The Valuation has been carried out utilizing the audited financial statements and the business plan as provided by Management.
- A combination of valuation methodologies namely, Discounted Cash Flow Methodology ("DCF"), Market Multiple Methodology ("MMM") and Net Asset Value methodology ("NAV") were considered in arriving at the equity value range.
- Based on the scope of our review and subject to the achievability of Management assumptions, the estimated fair value range of DHC as at the Valuation date is as follows:
  - LKR 0.53 Bn to LKR 0.55 Bn as per the DCF methodology;
  - LKR 0.51 Bn to LKR 0.55 Bn as per the MMM methodology.
  - LKR 0.38 Bn as per the NAV methodology.
- Based on the scope of our review, and subject to the major assumptions and restrictions as set out in the balance of this Report, the estimated equity value of DHC is in the range of LKR 0.38 Bn to LKR 0.55 Bn, with a recommended **average value of LKR 0.46 Bn as at the Valuation Date (approximately LKR 33.0 per share).**

2.0

Methodology and approach

Valuation methodology summary

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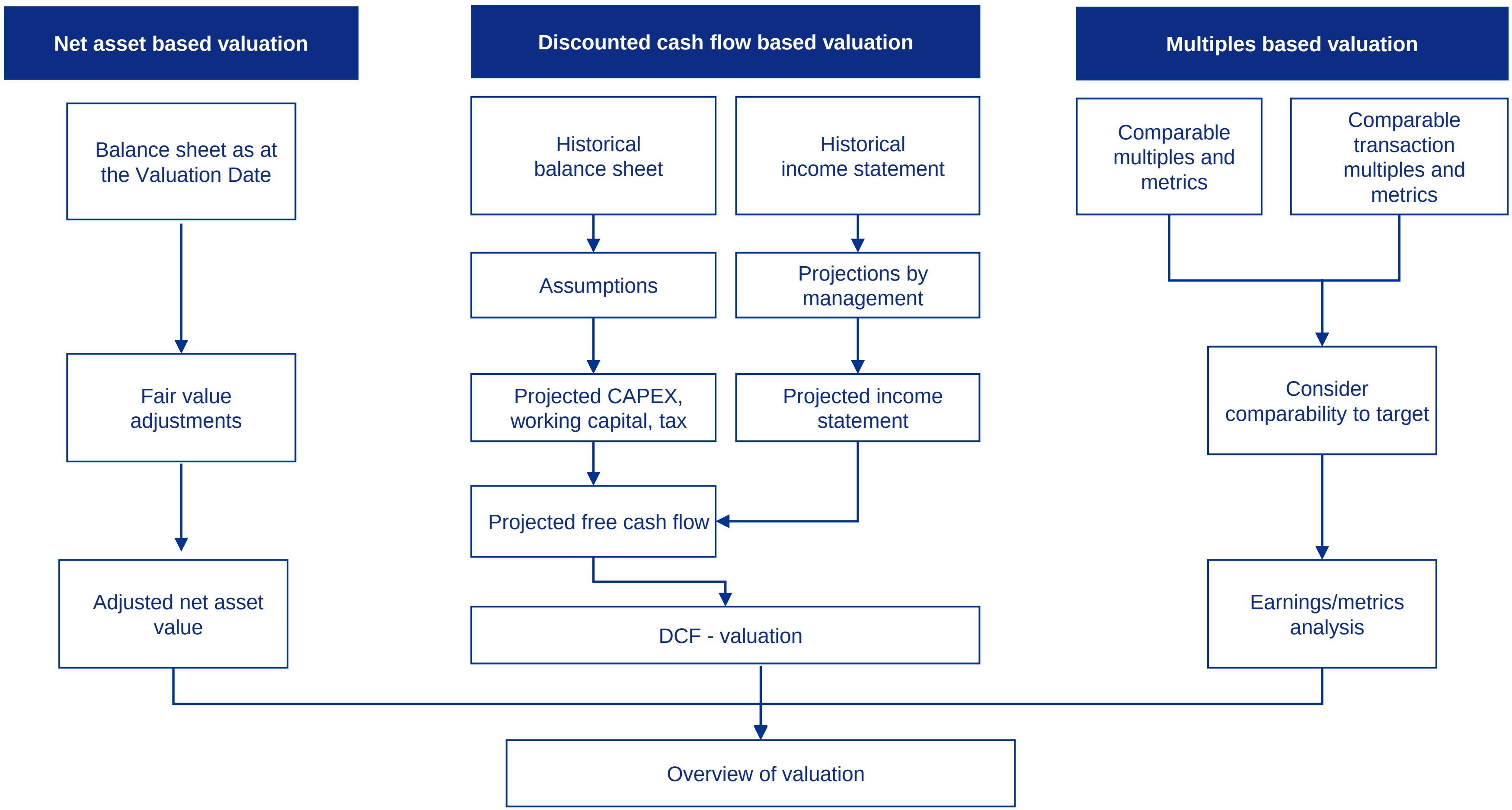

Valuation approach (1/2)

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Basis of valuation

— This Valuation has been prepared on the basis of 'Fair Value' and reviews 100% equity in DHC as at 31 March 2024. The generally accepted definition of 'Fair Value' is the value as applied between a hypothetical willing vendor and a hypothetical willing prudent buyer in an open market and with access to all relevant information.

Valuation methodology

— 'Fair Value' is commonly derived by applying the following methodologies in the Valuation Report:

- Discounted cash flow methodology ("DCF")
- Market multiple methodology ("MMM")
- Net asset value ("NAV")

— Each of these methodologies and their suitability in being applied in the Valuation are discussed hereafter.

Discounted cash flow methodology

— Value is future oriented and accordingly, the theoretically correct manner to assess value is to consider the future earnings potential.

— Under a DCF approach, forecast cash flows are discounted back to the present date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation date to give an overall value for the business reflective of an entire operation cycle for more cyclical industries. Typically, a forecast period of at least five years is required, although this can vary by industry and sector.

— The rate at which the future cash flows are discounted (the "discount rate') should reflect not only the time value of money, but also the risk associated with the business' future operations. The discount rate most generally employed is the Weighted Average Cost of Capital ("WACC"), reflecting an optimal as opposed to the actual financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business.

— In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. The 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity, is a common method. These results would be cross-checked, however, for reasonability to implied exit multiples.

— The rate at which future cash flows are discounted should reflect not only the time value of the cash flows but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible Valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

Valuation approach (2/2)

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Market multiple methodology

— An earnings based approach estimates a sustainable level of future earnings for a business (“maintainable earnings”) and applies an appropriate multiple to those earnings, capitalizing them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT, PAT (PER) and Equity (PBV). Net asset value is determined by marking every asset and liability on (and off) the company’s balance sheet to current market values.

— In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

— An earnings approach is typically used to provide a market cross check to the conclusions reached under a theoretical DCF approach.

Net assets methodology

— Under a net assets approach, total value is based on the sum of net asset value plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

— Net asset value is determined by marking every asset and liability on (and off) the company’s balance sheet to current market values.

— A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the ‘book’ net asset value, to give a price to book multiple, which can then be compared to that of similar transactions or quoted companies.

— A net asset methodology is most applicable for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of businesses (e.g. relative levels of tangible asset backing).

Discount rate computation (1/2)

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Discount rate

— In order to determine the discount rate, we have used the WACC methodology as set out below

WACC **= Ke * (E/(D + E)) + Kd * (1-T) * (D/(D + E))**

Where:

Ke = cost of equity

E = market value of equity

Kd = cost of debt

D = market value of debt

T = corporate taxation rate

Cost of equity (Ke)

— The cost of equity is derived using the Build-up Model as follows:

Ke **= Rf + MRP + alpha**

Where:

Rf **=** the current return on risk-free assets

MRP **=** Market risk premium

Alpha **=** the unsystematic risk associated with the business' specific factors, as applicable

Risk free rate (Rf)

— A nominal risk-free rate of 13.00% is derived by reference to the 10-year treasury bond yield as at 28 March 2024 according to the Central Bank of Sri Lanka.

Beta:

— Beta factor represents the systematic risk associated with the industry, in which the business is involved, comparable to the average market risk. We have extracted betas for our analysis from Prof. Damodaran's sector-wise beta database.

— We have extracted the unlevered beta to capture the industry risk in relation to the market and then adjusted (levered) to reflect the entity's capital structure.

Market risk premium:

— Based on current market conditions in Sri Lanka, we applied a market risk premium of 7.50% in FYE25 and FYE26 and 5.00% thereafter to appropriately reflect the expected return an investor demands to hold equities of average risk over a risk-free investment.

Alpha:

— The alpha factor includes a premium for company size and company specific risk to reflect additional risks associated with the business, industry, forecast, liquidity risk among others. We have used an alpha factor of 2.00%.

Weighted Average Cost of Capital

— In order to determine the discount rate, we have used the WACC methodology as set out below:

WACC **= Ke* (E/(D + E)) + Kd* (1-T) * (D/(D + E))**

Where:

Ke = cost of equity

E = market value of equity

Kd = cost of debt

D = market value of debt

T = corporate taxation rate

Discount rate computation (2/2)

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Weighted average cost of capital	FYE25 Forecast	FYE26 Forecast	FYE27 Forecast	FYE28 Forecast	FYE29 Forecast	Terminal Period
Cost of equity (Ke)						
Risk free rate	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Equity risk premium	7.5%	7.5%	5.0%	5.0%	5.0%	5.0%
Unlevered beta	0.69	0.69	0.69	0.69	0.69	0.69
Relevered beta	0.75	0.75	0.75	0.75	0.75	0.75
Alpha	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Cost of equity	**20.6%**	**20.6%**	**18.7%**	**18.7%**	**18.7%**	**18.7%**
Cost of debt (Kd)						
AWPLR	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
Premium	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Pre tax cost of debt	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%
Corporate tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Cost of debt	**8.5%**	**8.5%**	**8.5%**	**8.5%**	**8.5%**	**8.5%**
Capital structure						
Debt % of the capital structure	11.4%	11.4%	11.4%	11.4%	11.4%	11.4%
Equity % of the capital structure	88.6%	88.6%	88.6%	88.6%	88.6%	88.6%
WACC	**19.2%**	**19.2%**	**17.6%**	**17.6%**	**17.6%**	**17.6%**

Cost of debt

— We have assumed a cost of debt of 8.53% over the forecasted period. This was arrived at by considering the Average Weighted Prime Lending Rate (AWPLR) of 10.69% published by the Central Bank of Sri Lanka as at 28 March 2024.

— A premium of 1.50% was considered based on the terms of the loans obtained by DHC.

Cost of capital

— The appropriate capital structure for the purposes of determining the WACC rate was based on Prof. Damodarans' database for companies operating in the hospitals/healthcare facilities sector.

— The overall WACC for the Valuation has been determined as per the table on the left.

Terminal value and other considerations

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Terminal value (TV)

— At the end of the forecast period, it is assumed that the net profits will continue to grow and hence, the corresponding cash flows generated by the entity will continue indefinitely.

— The most common approach to calculating terminal value is to apply a constant growth model, utilizing the following formula:

  — **FV of terminal value = [FCFF * (1 + g)]/(r-g)**

  — **PV of terminal value = FV of terminal value/[(1+r)^n]**

  (g = growth rate, n= number of years, r = discount rate)

— The results of this approach would then be cross checked for sensibility to the implied exit multiple at that date.

— Adjustments to ‘normalize’ free cash flow also needs to be considered in the terminal year including:

- ongoing capital expenditure versus depreciation and amortization levels.
- ongoing working capital requirements.
- the impact of economic cycles.

Terminal growth rate

— Terminal growth rate of 2.00% has been assumed for the company considering the industry competitiveness and growth of the company.

Other considerations

— The Valuation has been carried out utilizing the audited and non-audited financial statements, and management projections provided by the companies.

— The value based on DCF has been computed based on our analysis whilst reflecting on the current market conditions and referring to management projections, as applicable. The value of the DCF is subject to the achievability of the assumptions considered in the analysis.

3.0

Valuation and interpretation

Discounted cash flow based valuation

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Discounted cash flow - FCFF

For the year ended 31 March LKR'000	FY25 Forecast	FY26 Forecast	FY27 Forecast	FY28 Forecast	FY29 Forecast	Terminal Period
EBIT	9,039	25,723	43,834	64,170	87,548	87,548
Tax	(2,712)	(7,717)	(13,150)	(19,251)	(26,264)	(26,264)
Depreciation and amortization	45,250	46,779	48,918	51,058	52,587	52,587
Capital expenditure	(20,000)	(30,000)	(40,000)	(30,000)	(20,000)	(52,587)
Change in working capital	(18,465)	4,560	4,961	5,354	5,709	5,709
Free cash flow to firm	13,113	39,345	44,564	71,332	99,580	66,993
WACC	19.2%	19.2%	17.6%	17.6%	17.6%	17.6%
Terminal growth						2.0%
Terminal value						439,061
	13,113	39,345	44,564	71,332	99,580	439,061
Discount factor	0.84	0.70	0.60	0.51	0.43	0.43
Discounted cash flow	10,999	27,684	26,672	36,315	43,122	190,132
Enterprise value	**334,925**					
Adjustments:						
Investment in equity accounted investee	1,150					
Other financial assets	297,482					
Net cash and cash equivalents	23,736					
Prepayments	13,640					
Amounts due to related parties	(52,066)					
Interest bearing loans and borrowings	(25,034)					
Retirement benefit liability	(8,612)					
Deferred tax liabilities	(44,813)					
Income tax liabilities	(1,205)					
Equity value	**539,203**					

Source: Management, KPMG analysis

Sensitivity analysis - FCFF

LKR'000		WACC				
		18.06%	**17.81%**	**17.56%**	**17.31%**	**17.06%**
Terminal growth	**2.50%**	540,135	543,254	546,477	549,808	553,254
	2.25%	536,655	539,669	542,780	545,995	549,319
	2.00%	533,284	536,197	**539,203**	542,307	545,514
	1.75%	530,017	532,833	535,738	538,737	541,833
	1.50%	526,848	529,572	532,381	535,279	538,271

Source: Management, KPMG analysis

DCF summary

- Free Cash Flow to Firm ("FCFF") is used to arrive at the indicative business value. FCFF is the cash available to both debt holders and equity holders after reinvestment needs.
- The equity value arrived at under the DCF methodology was based on the forecasts shown in Appendix 3. Refer Appendix 2 for the key assumptions used in deriving the future cash flow.
- DHC is subject to the corporate tax rate applicable for the hospital sector, which stands at 30.00%.
- FCFF was discounted using a WACC of 19.21% in FYE25 and FYE26, and thereafter the WACC decreases to 17.56% over the forecasted period.
- The CAPEX plan provided by Management was factored in during the forecasted period and is expected to remain in line with the historical average.
- The value range based on DCF methodology is from LKR 0.53 Bn to LKR 0.55 Bn, considering ±0.25% around the base WACC and the terminal growth rate as indicated in the table above.

Market multiples methodology

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Valuation summary		
As at 31 March 2024	**KPMG**	
LKR'000	**Low**	**High**
Multiples approach - Comparable companies		
EV/EBITDA	495,552	526,212
P/BV	524,623	579,846
Fair value	**510,087**	**553,029**

Source: KPMG analysis

Comparable company analysis				
As at 31 March 2024	**EV/EBITDA**		**P/BV**	
LKR'000	**Low**	**High**	**Low**	**High**
Peer multiples	9.41x	10.40x	2.00x	2.21x
Discount for lack of comparability	20.0%	20.0%	20.0%	20.0%
Discount for lack of marketability	10.0%	10.0%	10.0%	10.0%
Adjusted multiple	**6.58x**	**7.28x**	**1.40x**	**1.54x**
Financial data				
EBITDA	44,243	44,243		
Book value of equity			375,670	375,670
Enterprise value	**291,275**	**321,935**	**524,623**	**579,846**
Investment in equity accounted investee	1,150	1,150		
Other financial assets	297,482	297,482		
Net cash and cash equivalents	23,736	23,736		
Prepayments	13,640	13,640		
Amounts due to related parties	(52,066)	(52,066)		
Interest bearing loans and borrowings	(25,034)	(25,034)		
Retirement benefit liability	(8,612)	(8,612)		
Deferred tax liabilities	(44,813)	(44,813)		
Income tax liabilities	(1,205)	(1,205)		
Equity value	**495,552**	**526,212**	**524,623**	**579,846**

Source: S&P Capital IQ , Management, KPMG analysis

MMM summary

- We have carried out the fair value calculation using EV/EBITDA multiple and P/BV multiple by applying equal weightages under the MMM methodology.
- Comparable companies and relevant data were extracted from S&P Capital IQ. Listed companies in the Indian Sub-Continent geographic area under the Health Care Providers and Services category were considered as peers (Refer Appendix 4 for the selected list of peers).
- The identified companies were further refined by considering the business description and the asset base.
- A discount for comparability of 20.00% was applied on the selected multiples to account for the difference in operations compared to the comparable companies due to DHC being primarily focused on cardiac related services compared to the peers who had diverse healthcare offerings and a discount for marketability of 10.00% was applied on the selected multiples to account for liquidity purposes.
- EBITDA and the Book Value of Equity as at the valuation date has been considered for the valuation.
- The value range based on MMM methodology is from LKR 0.51 Bn to LKR 0.55 Bn, as of 31 March 2024, considering ±500 basis points change of the peer median multiple.

Net asset based valuation

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Total assets	
As at 31 March 2024	
LKR'000	
Non-current assets	
Property, plant and equipment	217,117
Right-of-use assets	28,580
Investment in equity accounted investee	1,150
Other non-current financial assets	170,639
	417,487
Current assets	
Inventories	61,640
Trade and other receivables	32,005
Prepayments	13,640
Other current financial assets	126,843
Cash and cash equivalents	46,536
	280,664
Total assets	**698,151**

Total liabilities	
As at 31 March 2024	
LKR'000	
Non-current liabilities	
Interest bearing loans and borrowings	19,097
Retirement benefit liability	8,612
Deferred tax liabilities	44,813
	72,522
Current liabilities	
Trade and other payables	220,017
Interest bearing loans and borrowings	28,737
Income tax liabilities	1,205
	249,958
Total liabilities	**322,481**

Net asset value computation	
As at 31 March 2024	
LKR'000	
Total assets	698,151
Total liabilities	322,481
Net asset value	**375,670**

Source: Management, KPMG analysis

Net asset value method

— NAV based on the management accounts as at 31 March 2024 amounted to LKR 0.38 Bn.

4.0

Appendices

4.1

Appendix 1 – Sources of information

Sources of information

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All the following documents and information sources have been considered for this Valuation:

— Annual audited financial statements for the years ended 31 March 2018, 2019, 2020, 2021, 2022, 2023 and 2024.

— Management's business plan for the period of FYE25-FYE29.

— Central Bank of Sri Lanka - https://www.cbsl.gov.lk/

— S&P Capital IQ - https://www.capitaliq.com

— Colombo Stock Exchange - https://www.cse.lk/

— International Monetary Fund - https://www.imf.org/en/Home

4.2

Appendix 2 – Key assumptions

Appendix 02

Key assumptions (1/2)

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Revenue					
Financial period ended LKR	**FYE25 Forecast**	**FYE26 Forecast**	**FYE27 Forecast**	**FYE28 Forecast**	**FYE29 Forecast**
CABG					
No. of cases	336	349	363	378	393
YoY growth %	*-25.5%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Realization per case	1,438,365	1,495,899	1,555,735	1,617,965	1,682,683
YoY growth %	*0.4%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Total CABG revenue	483,290,580	522,727,091	565,381,622	611,516,762	661,416,530
Cathlab					
No. of cases	1,980	2,059	2,142	2,227	2,316
YoY growth %	*-7.7%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Realization per case	240,845	250,479	260,498	270,918	281,755
YoY growth %	*28.4%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Total Cathlab revenue	476,873,393	515,786,261	557,874,420	603,396,973	652,634,166
Channeling					
No. of cases	14,653	15,239	15,849	16,483	17,142
YoY growth %	*-26.5%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Realization per case	1,300	1,352	1,406	1,462	1,521
YoY growth %	*53.5%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Total Channeling revenue	19,048,900	20,603,290	22,284,519	24,102,935	26,069,735
Cardiac Investigate					
No. of cases	27,890	29,006	30,166	31,372	32,627
YoY growth %	*-12.6%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Realization per case	3,296	3,428	3,565	3,707	3,856
YoY growth %	*51.5%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Total Cardiac Investigate revenue	91,922,320	99,423,181	107,536,113	116,311,060	125,802,042
Total revenue	**1,071,135,192**	**1,158,539,824**	**1,253,076,674**	**1,355,327,730**	**1,465,922,473**

Source: Management, KPMG analysis

Revenue

- DHC's revenue is generated from four primary segments : Heart Surgical Operations, Catheterisation Laboratory Tests, Channeling and Cardiac Investigate.
- As per the management, the number of cases are forecasted to decrease by 25.52%, 7.74%, 26.45% and 12.59% in FYE25 compared to the historical average for CABG, Cathlab, Channeling and Cardiac Investigate respectively. However, they are in line with the FYE24 actual number of cases. The number of cases are then forecasted to grow at 4.00% year-on-year until FYE29.
- Additionally, in FYE25, the revenue realization per case is 0.45%, 28.44%, 53.48% and 51.48% higher than the historical average for CABG, Cathlab, Channeling and Cardiac Investigate respectively. The revenue realization per case is then forecasted to grow at 4.00% year-on-year until FYE29.
- The total revenue is forecasted to increase by 5.87% from the actual figure of FYE24 to the forecasted figure of FYE25. Thereafter, it is forecasted to increase by 8.16% year-on-year upto FYE29.
- The revenue assumptions are illustrated in the table on the left.

Key assumptions (2/2)

Gross profit

- The gross profit margin was forecasted to be maintained at approximately 36.00% throughout the forecasted period. This rate is slightly above the 5-year historical gross profit margin of 34.25% and is in line with the peer gross profit margins.

Administration expenses

- Administrative expenses excluding depreciation are assumed to be in line with the business plan shared by the Management for FYE25 and forecasted to increase by 4.00% year-on-year from FYE26 onwards.

Working capital

- The inventory days were assumed to be in line with the three-year historical average figure of 45 days and this was used to forecast the inventory during the forecasted period.
- The trade receivable days were assumed to be in line with the three-year historical average figure of 10 days and this was used to forecast the trade receivables during the forecasted period.
- The trade payable days were assumed to be in line with the three-year historical average figure of 90 days and this was used to forecast the trade payables during the forecasted period.
- The sundry creditors including accrued expenses as at the 31st March 2024 was adjusted through the trade payable days in working capital.

Capital expenditure

- The CAPEX plan provided by Management was incorporated into the forecasted period, which is in line with the historical average.
- The terminal year CAPEX was matched to the terminal year depreciation and considered the same to be the maintenance CAPEX to keep the operations running.

4.3

Appendix 3 – Financial statements

Appendix 03

Statement of comprehensive income

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Statement of profit or loss										
For the year ended 31 March	**FYE20**	**FYE21**	**FYE22**	**FYE23**	**FYE24**	**FYE25**	**FYE26**	**FYE27**	**FYE28**	**FYE29**
LKR'000	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Forecasted**	**Forecasted**	**Forecasted**	**Forecasted**	**Forecasted**
Revenue	809,293	651,790	645,034	932,066	1,011,773	1,071,135	1,158,540	1,253,077	1,355,328	1,465,922
Cost of sales	(513,105)	(433,856)	(456,752)	(594,860)	(648,827)	(686,758)	(742,823)	(803,702)	(869,453)	(939,907)
Gross profit	**296,188**	**217,934**	**188,282**	**337,207**	**362,946**	**384,377**	**415,717**	**449,375**	**485,875**	**526,016**
Other operating income and gains	-	1,550	22,568	4,019	4,992	-	-	-	-	-
Administration expenses	(240,391)	(197,349)	(208,324)	(297,104)	(364,735)	(375,338)	(389,994)	(405,541)	(421,705)	(438,468)
EBIT	**55,796**	**22,136**	**2,526**	**44,122**	**3,204**	**9,039**	**25,723**	**43,834**	**64,170**	**87,548**

Source: Audited financial statements, Management, KPMG analysis

Statement of financial position (1/2)

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Statement of financial position					
As at 31 March	**FYE20**	**FYE21**	**FYE22**	**FYE23**	**FYE24**
LKR'000	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**
Assets					
Non-current assets					
Property, plant and equipment	197,013	191,791	209,174	204,930	217,117
Right-of-use assets	36,141	34,251	32,360	30,470	28,580
Investment in equity accounted investee	1,899	3,874	3,388	14,377	1,150
Other non-current financial assets	113,481	154,551	158,006	165,185	170,639
	348,534	384,467	402,929	414,961	417,487
Current assets					
Inventories	32,324	47,994	60,408	84,925	61,640
Trade and other receivables	87,319	32,425	63,793	28,652	32,005
Prepayments	11,804	10,595	9,811	15,976	13,640
Other current financial assets	229,851	231,175	166,749	193,532	126,843
Cash and cash equivalents	15,985	33,180	63,756	39,453	46,536
	377,282	355,369	364,517	362,539	280,664
Total assets	**725,816**	**739,835**	**767,446**	**777,500**	**698,151**

Source: Audited financial statements

Statement of financial position (2/2)

PRIVATE AND CONFIDENTIAL

Statement of financial position					
As at 31 March **LKR'000**	**FYE20** **Audited**	**FYE21** **Audited**	**FYE22** **Audited**	**FYE23** **Audited**	**FYE24** **Audited**
Equity and liabilities					
Equity					
Stated capital	145,760	145,760	145,760	145,760	145,760
Fair value reserve	62,047	92,157	95,705	102,190	108,908
Retained earnings	154,259	148,100	120,308	144,689	121,002
Total equity	**362,065**	**386,017**	**361,773**	**392,639**	**375,670**
Non-current liabilities					
Interest bearing loans and borrowings	18,600	15,700	19,351	25,034	19,097
Retirement benefit liability	13,280	11,467	9,623	8,606	8,612
Deferred tax liabilities	28,053	18,152	16,231	44,784	44,813
	59,933	45,319	45,205	78,425	72,522
Current liabilities					
Trade and other payables	225,759	199,557	227,189	246,607	220,017
Interest bearing loans and borrowings	64,522	108,517	131,723	53,023	28,737
Income tax liabilities	13,537	426	1,556	6,806	1,205
	303,818	308,499	360,468	306,436	249,958
Total equity and liabilities	**725,816**	**739,835**	**767,446**	**777,500**	**698,151**

Source: Audited financial statements

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Appendix 4 – Peer list

Appendix 04

Peer list

PRIVATE AND CONFIDENTIAL

Peer list

Company name	Country	Market Capitalization 31-Mar-2024	LTM Total Revenue	Total assets	P/BV LTM 31-Mar-2024	EV/EBITDA 31-Mar-2024
Asiri Surgical Hospital PLC (COSE:AMSL.N0000)	Sri Lanka	20.40	22.10	45.10	0.90x	6.10x
Indraprastha Medical Corporation Limited (NSEI:INDRAMEDCO)	India	187.00	153.10	86.10	3.80x	7.60x
The Lanka Hospitals Corporation PLC (COSE:LHCL.N0000)	Sri Lanka	86.30	44.30	54.30	2.10x	10.00x
KMC Speciality Hospitals (India) Limited (BSE:524520)	India	157.60	22.60	31.40	10.40x	29.80x
Thyrocare Technologies Limited (BSE:539871)	India	373.40	70.70	76.70	6.50x	24.50x
GPT Healthcare Limited (NSEI:GPTHEALTH)	India	172.20	47.80	41.10	8.20x	17.50x
Maitreya Medicare Limited (NSEI:MAITREYA)	India	9.60	5.80	5.20	5.30x	8.60x
Chennai Meenakshi Multispeciality Hospital Limited (BSE:523489)	India	3.00	4.50	2.70	140.90x	13.60x
Samorita Hospital Limited (DSE:SAMORITA)	Bangladesh	13.30	3.20	9.10	1.50x	34.50x
Dhanvantri Jeevan Rekha Limited (BSE:531043)	India	1.20	2.50	1.80	1.10x	7.50x
Singhe Hospitals PLC (COSE:SINH.N0000)	Sri Lanka	3.30	4.30	4.50	2.10x	8.00x
Global Longlife Hospital and Research Limited (BSE:543520)	India	4.90	1.60	5.00	0.60x	9.80x
Nidan Laboratories and Healthcare Limited (NSEI:NIDAN)	India	4.50	2.90	9.80	0.50x	9.20x
Sangani Hospitals Limited (NSEI:SANGANI)	India	7.00	1.90	4.20	1.80x	11.20x
Median					**2.10x**	**9.90x**
Low					2.00x	9.41x
High					2.21x	10.40x

Note: Peer multiples have been extracted as of 31 March 2024, High and low was calculated based on a +/-5% on the median.
All figures are in USD Mn unless stated otherwise.
Source: S&P Capital IQ , Management, KPMG analysis

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Appendix 5 – Group share price movement

Appendix 05

Share Price and Volume chart

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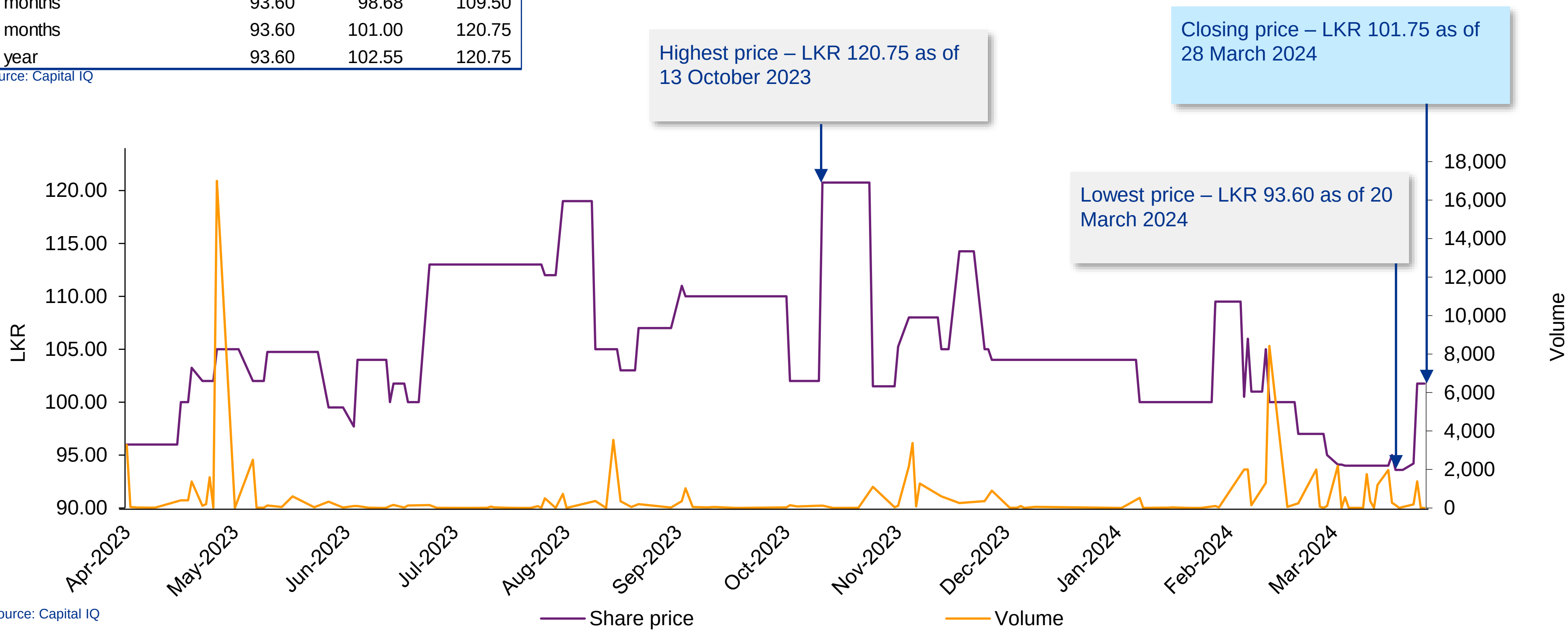
VWAP summary			
LKR	**Low**	**VWAP**	**High**
3 months	93.60	98.68	109.50
6 months	93.60	101.00	120.75
1 year	93.60	102.55	120.75

Source: Capital IQ



Source: Capital IQ

Key point

– Based on the 3 month, 6 month, and 1 year VWAP we note that the per share value of Ceylon Hospitals PLC is in the range of LKR 98.68 to LKR 102.55.

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