

## **NephroCare Health Services (NEPHROPLUS) – Investment BUY Call**

Dear Bajaj Capital Investors,

New Stock Recommendations for BUY on 9 July 2026

CMP -> 640

Buying Range -> 640 to 655

Upside Potential-> 15%

Investment Horizon -> 6 to 9 Months

Target price -> 735

### **1. Investment Rationale – BUY (Medium-Term Horizon: 6–9 Months)**

NephroCare Health Services Limited (NephroPlus) presents an attractive BUY opportunity for a medium-term investment horizon of 6–9 months, supported by its leadership position in the highly underpenetrated dialysis services industry, strong execution capabilities, improving international business mix, expanding operating leverage and robust cash generation. The company has established itself as the world's fifth-largest dialysis network by treatment volume, operating 524 clinics across 335 cities in five countries, while maintaining over 50% market share in India's organized dialysis industry. The investment thesis is underpinned by multiple structural growth drivers, including rising chronic kidney disease (CKD) prevalence, increasing diabetes and hypertension cases, improving healthcare reimbursement mechanisms, greater insurance penetration, government-backed dialysis programs, continued expansion of organized dialysis networks and increasing contribution from higher-priced international markets. Management continues to remain singularly focused on the dialysis ecosystem, believing that the addressable market remains sufficiently large to deliver sustainable long-term growth without diversifying into unrelated healthcare verticals. FY26 demonstrated the scalability of the business model as adjusted PAT grew significantly faster than revenue, validating the company's operating leverage-led earnings model. Looking ahead, earnings growth over the next 2–4 quarters is expected to be driven by continued same-clinic growth, higher utilization across recently added clinics, brownfield acquisitions, expansion in international operations, improved treatment volumes and gradual operating leverage from the significant capacity investments undertaken over the last few years.

### **2. Business Overview, Operating Model and Business Segments**

NephroPlus is a pure-play dialysis healthcare platform providing end-to-end renal care solutions through a highly scalable and asset-light operating model. Unlike diversified hospital chains, the company has consciously adopted a single-specialty strategy, allowing it to develop deep clinical expertise, standardized treatment protocols and superior operational efficiencies. Its business primarily comprises hemodialysis services, delivered through multiple formats including captured hospital-based dialysis centers (shop-in-shop model), government Public-Private Partnership (PPP) centers, standalone dialysis clinics, home hemodialysis, dialysis-on-call, dialysis-on-wheels and brownfield as well as greenfield clinic formats. The company generates recurring revenues from chronic dialysis patients requiring approximately three dialysis sessions every week, resulting in high treatment visibility, stable patient retention and predictable cash flows. Nearly 52% of clinics operate under revenue-sharing arrangements, where hospital partners provide infrastructure while NephroPlus manages clinical operations, significantly reducing upfront capital requirements and improving return ratios. The company currently operates 272 captive hospital clinics, 182 PPP centers and 70 standalone clinics, thereby maintaining a diversified operating model across private hospitals, government healthcare systems and independent dialysis centers. Its services cater primarily to patients suffering from End Stage Renal Disease (ESRD) arising from chronic kidney disease, diabetes, hypertension and other renal disorders. Since dialysis is a life-sustaining recurring therapy rather than an elective medical procedure, the business enjoys high demand visibility, low cyclicity and superior patient stickiness compared with several other healthcare service segments.

### **3. Industry Opportunity, Structural Tailwinds and Future Growth Drivers**

The long-term industry outlook remains highly favourable, driven by a combination of demographic, epidemiological and healthcare policy trends. According to management, India currently has nearly 12.4 crore people suffering from Chronic Kidney Disease (CKD); however, only around 7% are diagnosed, while merely approximately 3 lakh patients currently receive dialysis treatment against an estimated 42 lakh patients suffering from ESRD. Management expects the dialysis patient base in India to grow to nearly 5.2 lakh patients by 2029, implying an annual growth rate of around 13%, supported by increasing disease awareness, expanding healthcare infrastructure, improving affordability and wider government reimbursement schemes. Beyond India, NephroPlus is strategically expanding into Philippines, Uzbekistan, Nepal and Saudi Arabia, where dialysis reimbursement levels are significantly higher than India, creating an attractive long-term earnings opportunity. Management believes international markets will increasingly contribute a larger share of revenues due to superior pricing, better reimbursement structures and fragmented competitive landscapes that offer meaningful acquisition opportunities. Additionally, secular growth drivers such as increasing diabetes prevalence, rising hypertension incidence, ageing populations, urbanization and improving healthcare access continue to expand the addressable dialysis market globally. Simultaneously, governments and private healthcare providers are increasingly partnering with organized dialysis operators to improve accessibility, affordability and treatment quality, accelerating the industry's transition from fragmented hospital-based dialysis units towards professionally managed dialysis networks. These structural tailwinds, combined with NephroPlus' leadership position, standardized clinical protocols, asset-light expansion model and demonstrated acquisition integration capabilities, provide a strong foundation for sustained double-digit growth over the medium and long term.

### **4. Q4FY26 & FY26 Financial Performance – Strong Earnings Momentum Driven by Operating Leverage**

NephroPlus delivered another year of robust operational and financial performance during FY26, reinforcing management's execution capabilities and validating the scalability of its dialysis-focused business model. Revenue from operations increased 32.2% YoY to INR 998.8 crore, driven by a healthy increase in treatment volumes, expansion of clinic network, higher international contribution and favourable pricing mix. The company served 36,981 active dialysis guests, up 11.8% YoY, while dialysis treatments increased 16.6% YoY to 38.45 lakh sessions, reflecting improving utilization levels and higher treatment frequency. Revenue per treatment (RPT) improved 13.3% YoY to INR 2,598, primarily supported by a higher contribution from international markets, favourable foreign exchange movements and the full-year impact of the Philippines price revision implemented during FY25. Adjusted EBITDA grew 37.6% YoY to INR 238.2 crore, while adjusted EBITDA margin expanded by approximately 100 basis points to 23.8%, demonstrating healthy operating leverage despite continued investments in technology, international expansion and organizational capabilities. More importantly, adjusted PAT increased 74.6% YoY to INR 128.3 crore, significantly outpacing revenue growth, with adjusted PAT margin expanding to 12.8%. Management specifically highlighted that earnings growth substantially exceeded revenue growth because of the inherent operating leverage embedded within the business model. During Q4FY26, revenue grew 21.2% YoY to INR 265.6 crore, while adjusted PAT increased 27.4% YoY to INR 35 crore. Although reported adjusted EBITDA margin moderated to 20.9%, this was entirely attributable to a one-time Expected Credit Loss (ECL) provision of INR 10 crore relating to legacy receivables. Excluding this exceptional provision, management indicated that quarterly EBITDA margin would have been approximately 25%, slightly higher than its historical operating range, indicating that the core operating performance remained healthy.

## **5. Balance Sheet Strength, Cash Flow Performance, Capital Allocation and Improving Return Ratios**

NephroPlus continues to maintain a strong financial position, supported by disciplined capital allocation, healthy operating cash generation and improving return metrics despite undertaking aggressive expansion initiatives. During FY26, the company generated operating cash flow of approximately INR 233 crore, while reporting free cash flow of around INR 68 crore after undertaking significant capital expenditure, reflecting the inherently cash-generative nature of its recurring dialysis business. The quality of earnings remains particularly strong, with Cash Flow from Operations (CFO) consistently ranging between 80% and 115% of operating profit, 200% to 300% of reported PAT and 70% to 105% of EBITDA over the past three financial years, highlighting robust cash conversion and limited earnings quality concerns. Working capital management also improved materially, with working capital days declining from 92 days to 83 days, while trade receivable days reduced from 130 days to 116 days, led primarily by better collections from the Philippines operations. The company ended FY26 with nearly INR 500 crore of cash and liquid investments on the balance sheet, providing substantial financial flexibility to pursue acquisitions, greenfield expansion and international growth opportunities without placing undue stress on leverage. Capital efficiency also improved despite accelerated investments, with pre-tax ROCE increasing to 22.8% from 19.9% in FY25. Additionally, debt levels reduced significantly following the IPO proceeds, resulting in a stronger balance sheet with improved financial resilience. Management has reiterated that future capital deployment will continue to prioritize ROCE-accretive opportunities, ensuring that growth remains profitable rather than merely expansionary.

## **6. Operating Leverage, Capacity Expansion and Margin Improvement Opportunity Over the Next 2–4 Quarters**

One of the most compelling aspects of the NephroPlus investment thesis is the significant operating leverage that is expected to continue playing out over the next 2–4 quarters as recently commissioned clinics mature and utilization levels improve. Dialysis is inherently a high fixed-cost healthcare delivery model, where clinic infrastructure, dialysis machines, clinical manpower and operating costs are largely fixed, while incremental patient treatments contribute disproportionately to profitability once a clinic reaches optimal utilization. Management has repeatedly described dialysis as a "fixed-capacity business similar to airlines," where earnings expand meaningfully as utilization increases within an existing infrastructure base. During FY26, NephroPlus invested approximately INR 165 crore of capital expenditure, nearly 50% higher than FY25, with investments broadly split between India and the Philippines, alongside selective investments in Uzbekistan. These investments have expanded treatment capacity, strengthened international operations and created the foundation for future earnings growth. As the recently added clinics continue to ramp up patient volumes, fixed operating costs are expected to be absorbed over a larger treatment base, supporting further expansion in EBITDA margins. In addition, the increasing contribution from international markets—which represented approximately \*\*42% of revenue drivers compared with 32% a year earlier—\*\*should continue improving blended realizations because reimbursement rates in markets such as the Philippines, Uzbekistan and Saudi Arabia are several multiples higher than India. Brownfield acquisitions are expected to contribute more rapidly than greenfield clinics, as acquired clinics typically achieve operational integration and profitability within three to four months, compared with nearly one year for greenfield facilities. Additional operational efficiencies are likely to emerge from centralized procurement, greater scale in consumables sourcing, increasing contract manufacturing, standardized treatment protocols, AI-led operational optimization, cloud-based technology platforms and improving procurement efficiencies. Consequently, the combination of improving capacity utilization, favourable geographical mix, higher international realizations, procurement efficiencies and increasing operating scale provides a strong foundation for further operating margin expansion over the coming quarters, making operating leverage one of the key earnings drivers for FY27.

## **7. International Expansion, Acquisitions and Future Growth Opportunities**

NephroPlus continues to execute a well-defined international expansion strategy, which is expected to remain one of the most important earnings drivers over the next several quarters. Management has identified same-clinic growth, clinic additions within existing geographies and strategic acquisitions/new geography expansion as the company's three primary growth engines. Among these, same-clinic growth provides the highest visibility due to the recurring nature of dialysis treatments, while acquisitions and new geography expansion provide incremental upside. International revenue contribution has increased steadily from 12% in FY23 to 42% in FY26, highlighting the successful execution of the company's global diversification strategy. The Philippines remains the largest overseas growth engine, where NephroPlus now operates 44 clinics and completed eight acquisitions comprising eleven clinics during FY26, further consolidating its position in a highly fragmented market with nearly 900 dialysis centres, of which approximately 550–600 remain unorganized. The company continues to pursue a disciplined acquisition strategy supported by a dedicated business development team, standardized integration processes and centralized procurement, enabling acquired clinics to achieve operational breakeven within three to four months, substantially faster than greenfield projects. In Uzbekistan, two new clinics were commissioned during FY26 under a PPP framework, while Saudi Arabia has entered its commercialization phase with the first clinic at Riyadh Hospital expected to commence operations shortly. Management also expects the large Ministry of Health and Ministry of Defence dialysis tender in Saudi Arabia to progress from the Expression of Interest (EOI) stage towards the Request for Proposal (RFP) stage over the next two quarters, which could materially strengthen the company's international order pipeline. Consequently, near-term growth over the next 2–4 quarters is expected to be supported by higher utilization across recently acquired clinics, continued consolidation in the Philippines, expansion of PPP projects in Uzbekistan and gradual commercialization of Saudi operations. These initiatives, combined with higher reimbursement levels in international markets, should continue enhancing both revenue growth and profitability.

## **8. High-Margin Business Opportunities, Digital Transformation and Competitive Advantages**

A key differentiating factor for NephroPlus is its ability to consistently improve profitability through a combination of premium international business mix, standardized operating protocols, technology-led efficiencies and centralized procurement. While India continues to remain the largest contributor by treatment volume, the company's international operations generate significantly superior realizations because dialysis reimbursement rates in countries such as the Philippines, Uzbekistan and Saudi Arabia are multiple times higher than India, making international expansion one of the highest-margin growth opportunities. Management expects future realization growth to be driven primarily through this favourable geographical mix rather than frequent price increases, as major tariff revisions are generally infrequent across dialysis markets. Alongside this, NephroPlus is undertaking an extensive digital transformation aimed at enhancing clinical outcomes and operating efficiency. The company has deployed Reformmed.AI, becoming what management describes as the first global dialysis network to integrate Artificial Intelligence into its core operations, with the platform already implemented across 50 clinics and planned to be expanded throughout the network. AI is expected to improve patient monitoring, optimize resource allocation, strengthen predictive clinical interventions and enhance operational productivity. Simultaneously, proprietary digital platforms such as RenAssure, cloud-enabled clinical systems, centralized procurement, private-label consumables, contract manufacturing and advanced biomedical maintenance programs are expected to reduce operating costs and improve supply chain efficiency. The company also benefits from a strong clinical ecosystem supported by standardized evidence-based treatment protocols, in-house technician training through Enpidia, research publications, internationally accredited quality systems and a deeply embedded patient-centric culture. These capabilities create meaningful competitive advantages that are difficult to replicate, strengthen patient retention, improve clinical outcomes and provide a sustainable foundation for long-term margin expansion.

## **9. Management Guidance, Near-Term Growth Visibility and Business Outlook (Next 2–4 Quarters)**

Management remains highly confident regarding the long-term structural opportunity while maintaining a disciplined and conservative guidance philosophy. Rather than providing annual earnings guidance, the company has reiterated its confidence in delivering a sustainable 15–20% revenue CAGR over the next three to four years, supported by strong demand visibility and multiple growth drivers across existing and new markets. Over the next 2–4 quarters, revenue growth is expected to be driven primarily by increasing utilization across existing clinics, continued same-centre treatment growth, additional brownfield acquisitions, selective greenfield expansion, improving contribution from international markets and commencement of operations in Saudi Arabia. India is expected to continue benefiting from increasing organized dialysis penetration, greater insurance coverage, rising government healthcare spending and gradual migration from hospital-based dialysis towards standalone dialysis centres, as hospital infrastructure constraints encourage specialized network operators. Internationally, the Philippines is expected to remain the largest contributor to incremental earnings through ongoing consolidation opportunities, while Uzbekistan should continue delivering attractive returns through government-backed PPP projects. Saudi Arabia represents a strategic long-term growth opportunity, with the first operational clinic expected to serve as a demonstration site ahead of participation in larger government tenders. Management also continues to invest in information technology, global procurement capabilities, supply chain optimization, business development teams and international leadership to create a scalable global dialysis platform. Collectively, these investments are expected to enhance productivity, improve procurement efficiencies, increase treatment capacity utilization and support further operating leverage. Consequently, earnings growth during the coming quarters is expected to remain driven by a combination of volume growth, improving geographical mix, higher clinic utilization, acquisition-led expansion and continued operating efficiency improvements, positioning NephroPlus favourably to sustain profitable double-digit growth over the medium term.

## **10. Key Risks, Near-Term Headwinds and Factors to Monitor**

Despite the company's favourable long-term outlook, investors should closely monitor several near-term risks that could temporarily affect earnings momentum over the next few quarters. One of the key concerns remains the timing of international expansion, particularly in Saudi Arabia, where the business continues to be in the investment phase. While management expects the first Riyadh clinic to commence operations shortly and the Ministry of Health and Ministry of Defence dialysis tender to progress to the Request for Proposal (RFP) stage within the next couple of quarters, the timing of project awards remains outside the company's control and losses from the Saudi joint venture may continue until operations achieve meaningful scale. Another important monitorable is the renewal of government PPP contracts, particularly in Andhra Pradesh and Uttarakhand, where renewals are subject to government approvals rather than automatic extensions. Although management remains confident regarding long-term relationships with government agencies, renewals cannot be guaranteed. During Q4FY26, the company also recognized a one-time Expected Credit Loss (ECL) provision of INR 10 crore relating to legacy receivables as a prudent accounting measure. While management clarified that this was an exceptional provision intended to eliminate future earnings surprises, receivable collections—particularly from government-funded healthcare programs—remain an area to monitor. In the near term, profitability may also witness temporary pressure from continued investments in information technology, artificial intelligence platforms, international leadership hiring, business development teams, supply chain capabilities and the accounting reclassification of certain repair and maintenance expenses from capital expenditure to operating expenditure. Furthermore, the dialysis business remains dependent on timely availability of nephrologists, trained technicians and successful commissioning of new clinics. Foreign exchange fluctuations may also influence reported profitability given the company's growing international operations. Nevertheless, management believes these investments are strategic in nature and are expected to strengthen long-term scalability, improve operational efficiency and generate superior returns as utilization improves.

## **11. Investment Conclusion – BUY for Medium-Term Horizon of 6–9 Months**

We maintain a BUY recommendation on NephroCare Health Services Limited (NephroPlus) with a medium-term investment horizon of 6–9 months, as the company combines strong structural industry tailwinds with an increasingly scalable, asset-light and cash-generative business model. The investment thesis is supported by leadership in the organized dialysis industry, robust recurring revenue characteristics, expanding international operations, disciplined capital allocation, improving return ratios and visible operating leverage. Management continues to execute a focused strategy centred exclusively on dialysis services, while leveraging standardized clinical protocols, technology-led efficiencies, artificial intelligence, centralized procurement and disciplined acquisitions to strengthen competitive positioning across multiple geographies. The next 2–4 quarters are expected to witness continued earnings momentum driven by higher utilization of recently commissioned clinics, increasing contribution from higher-margin international operations, integration of acquired clinics in the Philippines, expansion of government-backed PPP projects, commencement of Saudi operations and further benefits from centralized procurement and digital transformation initiatives. Importantly, the substantial INR 165 crore capital expenditure undertaken during FY26 has laid the foundation for future capacity utilization improvements, while the company's high operating leverage should enable EBITDA margins and profitability to expand at a faster pace than revenue as treatment volumes continue to increase. Strong operating cash flows, improving working capital efficiency, rising ROCE, a healthy cash balance of approximately INR 500 crore and disciplined capital deployment further strengthen the investment case. In addition, secular industry drivers—including the rising burden of chronic kidney disease, diabetes and hypertension, increasing healthcare awareness, growing insurance penetration, expanding government reimbursement programs, higher adoption of organized dialysis networks and increasing participation of both public and private healthcare providers—provide a favourable backdrop for sustained long-term demand. Although investors should monitor execution risks associated with Saudi expansion, PPP renewals and continued investment spending, the company's strong execution track record, proven acquisition integration capabilities, improving international business mix and scalable operating platform position it favourably to deliver superior earnings growth over the medium term. Accordingly, NephroPlus remains well placed to benefit from both structural healthcare demand and company-specific operating leverage, making it an attractive BUY candidate for medium-term investors seeking exposure to India's evolving specialty healthcare services sector.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team