HOLD

CMP: **INR 1,732** Target Price: **INR 1,820** ▲ 5%

ICICI Securities

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10 March 2025

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Inventurus Knowledge Solutions

Technology

From good to great

IKS Health (IKS) is a Platform as a Service (PaaS) company that caters to US' healthcare provider segment. It focusses on outsourcing the routine chores of physicians. IKS' platform has 16 key features, spanning across chores in a physician's value chain, bundled into: 1) admin offerings; and 2) clinical offerings. With strong financial credentials (industry-leading growth/margin /RoE), synergistic large acquisition (Aquity) and US healthcare industry-led tailwinds in its favour, the delta for IKS lies in the cross-selling-led potential arising from the ~800 customers added via the Aquity acquisition. We model FY25–28E revenue/EPS CAGRs of 20%/34%. While we like IKS business for its superior financial performance, technology prowess and attractive large scale opportunity; valuations at 33x FY27E P/E are rich. We recommend **HOLD** with TP of 1,820 (based on 35x FY27 EPS).

Performance benchmarking – among industry's finest

IKS' USD revenue has grown at a CAGR of 22%/46% over FY22–24 on organic/reported basis (5-month Aquity consolidation in FY24). IKS has showcased a highly profitable business that is buttressed by its offshore delivery and superior technology stack. Its organic EBITDA margin of 34% (FY24) is industry-leading and FY24 reported EBITDA margin of 28.6% is only second to Tata Elxsi. IKS' organic business' EBITDA/employee is ~56% higher than the average for India-listed BPO players (Firstsource/Sagility/eClerx), validating its superior technology platform. IKS' FY24 RoE of 37% is unrivalled in the industry.

All-encompassing offerings

IKS offers 16 key features catering to administrative activities, chores and repetitive tasks under two umbrellas – 1) Admin: consists of 7 of the 16; and 2) Clinical: bundles the other 9. Its offerings span RCM, coding, scribe/transcription, clinical services and value-based care – addressable market is pegged at USD 225bn with a CY24–28 CAGR of 7.8%. The company's integrated platform is a strong differentiating factor for IKS, setting it apart from peers and accruing higher profitability to the company.

Cross selling is the key

With a mammoth acquisition of Aquity under its belt (valued at USD221.4mn, implying 2.12 EV/FY24 sales), cross selling to the newly acquired 804 customers is the key to unlocking higher growth. IKS aims to reduce the total client count from Aquity to ~500, retaining only enterprise scale clients. Aquity brings in: 1) accolated virtual scribe and transcription solutions; and 2) large data sets to train the upcoming AI-led offerings. Key risks are M&A synergy delay and adverse disruption from AI.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	18,179	26,809	32,811	39,401
EBITDA	5,203	7,629	10,012	12,419
EBITDA Margin (%)	28.6	28.5	30.5	31.5
Net Profit	3,705	4,769	6,528	8,633
EPS (INR)	22.1	28.7	39.2	51.9
EPS % Chg YoY	22.2	29.4	36.9	32.2
P/E (x)	78.2	60.4	44.2	33.4
EV/EBITDA (x)	57.5	38.5	28.6	22.3
RoCE (%)	27.7	24.3	28.5	30.1
RoE (%)	37.3	34.2	33.3	31.7

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Market Data

Market Cap (INR)	297bn
Market Cap (USD)	3,419mn
Bloomberg Code	IKS IN
Reuters Code	INUV.BO
52-week Range (INR)	2,190 /1,476
Free Float (%)	10.0
ADTV-3M (mn) (USD)	0.0

Price Performance (%)	3m	6m	12m
Absolute	0.0	0.0	0.0
Relative to Sensex	0.0	0.0	0.0

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

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Note: Primary source of the sector data is company RHP.

Investment thesis

1. Large structural opportunity

5.8% CAGR expected for US healthcare between CY19–27; shall likely be a tailwind for healthcare tech companies catering to the geography.

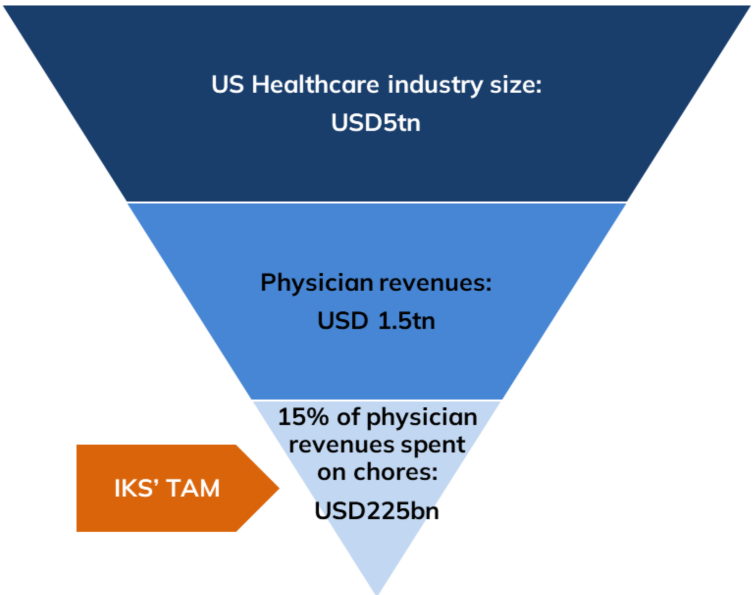
US healthcare's TAM is USD 225bn – close to the size of the Indian IT services industry.

Multiple sectoral tailwinds in place: Within US healthcare, there are multiple sectoral tailwinds such as an exponential rise in health data, shift towards value-based care, rising medical costs in US, widening demand-supply gap of healthcare professionals, increased consolidation in the industry, increase in healthcare consumerism, non-traditional competition in healthcare and focus on health equity.

Put together, these form a natural moat for healthcare technology companies. US, with a GDP of USD 28trn in FY24, spends 17.6% of its GDP on healthcare (in FY23). This is expected to reach 18.4% by FY27. US healthcare is expected to grow by 5.8% CAGR between CY19–27 (source: RHP). This will likely be a tailwind for healthcare tech companies catering to the geography.

USD225bn TAM for IKS; outsourcing growing at a robust pace of ~12%: US healthcare's total addressable market (TAM) is USD 225bn (close to the size of Indian IT services industry) (source: RHP). Within the USD 225bn TAM, outsourced segment worth USD 30bn is at just 13% of TAM, and shall be growing at 12% rate (vs. the industry growth rate of 7.8%) (source: RHP).

Exhibit 1: IKS' TAM close to* the size of Indian IT Services industry



Source: I-Sec Research, Company. *Indian IT services exports of USD 224.4bn in FY25, as per NASSCOM.

2. Comprehensive, integrated one-stop platform; diversified offerings

*IKS offers a comprehensive one-stop platform offering an **integrated solution** instead of multiple point solutions, a key strength of business.*

IKS' comprehensive enablement platform caters to the needs of a wide spectrum of healthcare organisations, across the breadth of the **outpatient and inpatient** care value chain under a single platform. Healthcare facilities incur huge costs in vendor management processes such as searching for and evaluating vendors, signing large and complex contracts, establishing information technology connectivity, compliance reviews, and contract administration, among others.

A fragmented platform also leads to a lack of accountability across the patient journey, where healthcare organisations also perform the role of the system integrator, leading to sub-optimal or inaccurate outcomes. IKS offers a comprehensive one-stop platform offering an **integrated solution** instead of multiple point solutions, a key strength of its business.

While there are organisations that offer standalone services such as revenue cycle management, transcription and coding in the same sector, IKS offers diversified and unique healthcare solutions spanning the healthcare value chain in US, Canada and Australia markets. Its platform provides offerings ranging from revenue optimisation to clinical support solutions, to digital health solutions and helps assimilate or migrate EHR (Electronic Health Record) systems. IKS aims to be among the top-3 globally across all solutions that it offers.

IKS' proprietary technology solutions include – EVE, Optimix, Stacks, AssuRx, Dasboard, Scribble. Additionally, the company has RPA-led solutions, namely QTranscribe/Medico-Legal, QDocprep, QScribe Assist, QCode.

IKS' proprietary technology solutions include –

- **IKS EVE**: A multi-channel patient access and patient engagement solution that streamlines and automates various 'front-end' activities in the patient flow, such as patient scheduling, insurance verification and eligibility verification, prior authorisation, and patient liability estimation.
- **Optimix**: Proprietary workflow management platform for revenue optimisation, which helps clients optimise their payouts from insurance companies and patients, while minimising the cost of billing, collecting, posting, appealing, and reporting those claims. It allocates inventory using intelligent rules-based algorithms, monitors the status of tasks in real-time, and tracks the lifecycle of a claim and provides proactive alerts to avoid cash leakage on high-risk inventory, reduce the age of accounts receivables, and improve financial outcomes.
- **IKS Stacks**: Proprietary platform that leverages OCR, NLP and proprietary algorithms to scan, identify and abstract relevant data from incoming clinical documents. The platform is able to aggregate incoming documents, both electronic and physical/e-faxes, identify document types and patient demographics for indexing documents in the EHR, and abstract the most relevant data points in discrete data fields in the EHR. This ensures that physicians have the right data in the right place at the right time, without having to sort through electronic paper files such as '.pdfs' or physical paper.
- **IKS AssuRx**: This is the company's proprietary engine for ensuring that incoming prescription renewal requests are aggregated and processed through a clinically-rigorous rules engine, which covers a large number of non-controlled substances. The engine applies general quality and safety checks, as well as drug-class specific checks, to determine the outcome of each prescription renewal request and aggregates the outcomes for reference by the physician or the practice. This reduces the time spent by physicians in managing prescription renewal requests, while ensuring that renewal requests are processed through a clinically-vetted and standardised protocol across all practices, reducing the risk of variance.

- **Dashboard**: Dashboard is a cloud-based performance tracking, decision assist, analytics and business intelligence platform. Its data visualisation capabilities allow users to track and view key performance indicators compared to historical periods or industry standards based on predefined metrics customised for each organisational function and level, create custom alerts for when a key performance indicator exceeds a benchmark, use predictive analytics to forecast future cash-flows, and simulate outcomes through prescriptive analytics techniques.
- **IKS Scribble**: A combination of automation, artificial intelligence (AI), and human intervention to facilitate the creation of medical notes for the physicians. Scribble is IKS' synchronous and asynchronous virtual scribe solution that uses a combination of trained physician expertise and technology to deliver detailed, accurate, comprehensive, and clinically relevant documentation for IKs' clients.

In addition, the company has RPA (robotic process automation)-led solutions, namely *QTranscribe / Medico-Legal, QDocprep, QScribe Assist and QCode.*

Less overlap with other players in the segment

Other peers have limited range of services compared to IKS in the technology enabled healthcare provider segment. IKS' extensive range of offerings on its integrated platform sets IKS apart from peers and creates competitive strength. IKS' integrated platform reduces vendor management costs for clients, increases economies of scale, enables synergy between services and offers high accountability.

Exhibit 1: Wide set of high coverage offerings vs. peers

	R1	Augmendix	Health Catalyst	CareCloud	IKS
Number of employees	29,650	1,430	1,300	3,600	13,266
Revenue Cycle Management					
Patient Access Solutions	High	Low	High	High	High
Denials Management	High	Low	High	High	High
Billing and Collections	High	Low	High	High	High
Contract Administration	High	Low	High	High	High
Interim HIM Management	Low	Low	Low	Low	High
Coding					
Medical Coding	High	Low	High	High	High
Scribe and Medical Transcription					
Virtual Scribing	Low	High	Low	Low	High
Medical Transcription	High	High	Low	Low	High
Clinical Services					
Referral Management	Low	Low	Low	High	High
Medication Renewal	Low	Low	High	Low	High
Medico Legal Document Prep	Low	Low	Low	Low	High
Utilization Management	High	Low	High	Low	High
Value based care					
HCC Coding	High	Low	High	Low	High
Clinical Chart Review	Low	Low	High	High	High
Population Health Management	Low	Low	High	High	High

Legend: Low coverage / High Coverage

Source: Company data, I-Sec research

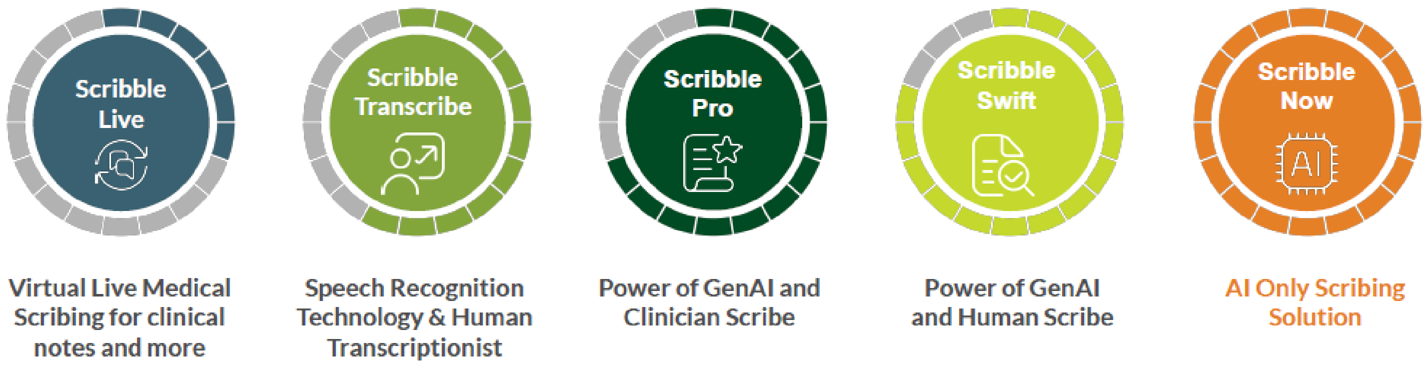
Systematic and consistent platform enhancement

IKS' proprietary platform has evolved over the last decade and a half, through systematic and consistent investments for R&D. Besides its product engineering team , IKS collaborates with clients for product innovation. Solutions such as IKS' prescription refill and discharge summary are outcomes of the company's collaborative client partnership for innovation. The company is co-developing with customers to offer 2–3 more features/tasks, which shall be rolled out in the coming 12–18 months. IKS has recently launched Scribble Now – an upgraded version of its transcription offering - Scribble. Scribble Now is a fully autonomous GenAI and NLP-enabled offering for documentation.

IKS' product development roadmap includes: 1) IKS Claims; 2) Daily Huddle Summary; 3) Pre-emptive Order Entry; 3) Medication Reconciliation; 4) Medication Adherence Solution; 5) Utilisation Management Solution; 6) Care Co-ordination; and 7) Autonomous Coding.

IKS is also infusing AI into its features, leading to 20–35% automation and even 70–85% automation in some cases such as clinical documentation. With Agentic AI, more autonomy and automation elements are expected to be there in the features.

Exhibit 2: New variants of IKS' transcription solutions



Source: Company data, I-Sec research

Move from 'human-led tech-enabled' model to 'tech-led human-enabled' model

Leaning on move from a 'human-led tech-enabled' model to a 'tech-led human-enabled' model.

Its employees' roles also evolved from a 'worker' role to an 'audit' role.

Inclusion of COLA (indexed to US inflation), value sharing in contracts – expected to help boost non-linearity between revenue and headcount growth.

Unifying Data Platform ingests data from separate sources, aggregates, cleans and normalises it before connecting to various business applications and data visualisation layers

IKS' solutions for clients often move from a 'human-led tech-enabled' model at the start of the company's engagement, which relies on manual work and limited use of technology, to a 'tech-led human-enabled' model, which relies more on automation and has limited manual work required. Its employees' roles also evolved from a 'worker' role to an 'audit' role reviewing the work performed by the automated system and primarily involved in managing exceptions and complex cases. IKS has invested in building technology solutions that automate clients' financial and clinical processes.

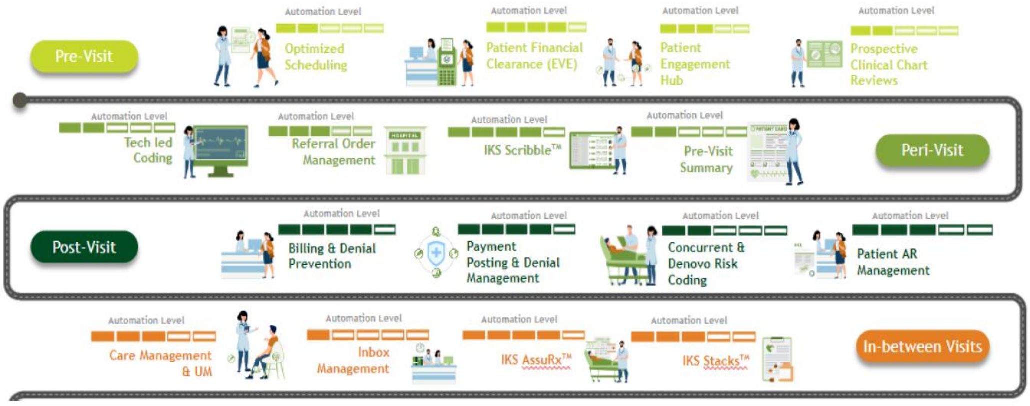
Leveraging disruptive technologies to create sustained value

IKS has gained experience in leveraging next-generation technologies that provide solutions for digital evolution, transformation and automation. With time, IKS has created complementary technologies across clients' financial, operational, and clinical value chains to enhance outcomes.

Further, IKS offers added capabilities and flexibility via its Unifying Data Platform, which ingests data from separate data sources, aggregates, cleans and normalises it before connecting to various business applications and data visualisation layers. IKS consolidates data from disparate systems using standardised data nomenclature and governance measures to build a 'data lake' that yields improved data quality and integrity, and the IKS dashboard generates insights customised for each organisation/user, with extensive reporting capabilities.

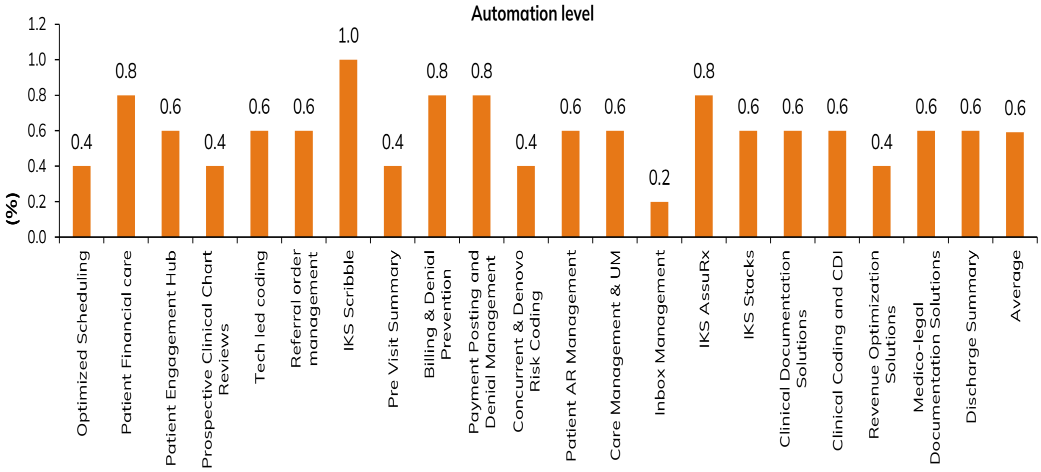
High level of automation in features should lead to non-linearity in revenue growth. Apart from automation, IKS' inclusion of COLA (indexed to US inflation), value sharing in contracts should help boost non-linearity between revenue and headcount growth.

Exhibit 3: Extent of automation in 16 of IKS' platform offerings



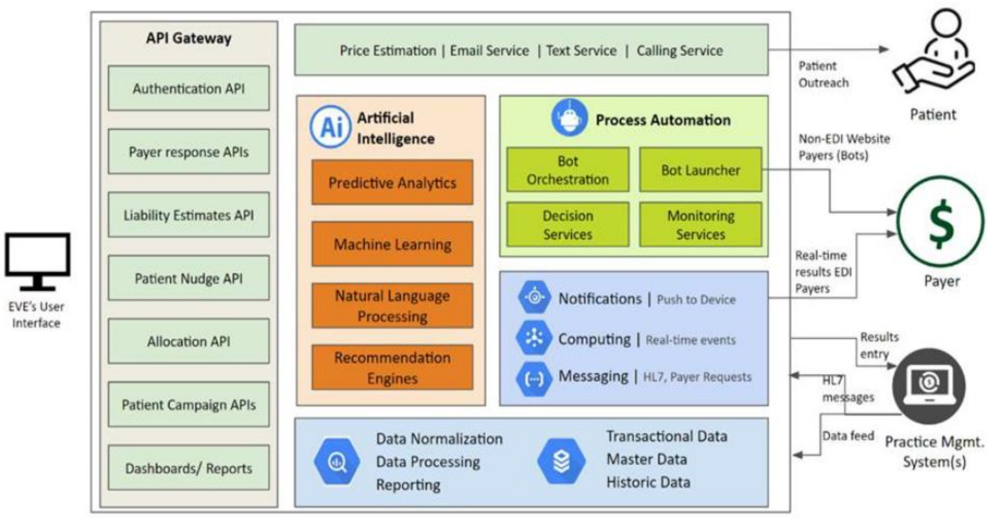
Source: Company data, I-Sec research

Exhibit 4: Average automation level in features at ~59%



Source: Company data, I-Sec research

Exhibit 5: IKS EVE – the autonomous interaction enablement platform



Source: Company data, I-Sec research

3. Strategic relations with marquee large enterprise clientele; high touch engagement model

IKS' clientele includes medical centres and healthcare systems, multi-specialty and single-specialty medical groups, ancillary healthcare organisations, value enablers, and other outpatient healthcare delivery organisations. The company's client portfolio expanded from 45 clients in FY22 to 49 in FY23. Pursuant to IKS' acquisition of Aquity, it had 853 clients in FY24. Moreover, its comprehensive technology solution platform forges client stickiness. Clients with more than five years vintage with IKS accounted for 60.41%/63.4%/66.14% of revenues for FY22/FY23/FY24. Some of its key clients include major US healthcare names **(Exhibit: 6).**

Exhibit 6: Key clients

Source: I-Sec research, Company data

The share of revenue from clients with more than five years of vintage has grown from 60.41% in FY22 to 66.14% in FY24.

High-touch engagement creating cross-selling opportunities; solution bundling with: 1) client success leaders; 2) operational leadership; 3) executive sponsor; 4) leadership team; and 5) account delivery leader collaborating to create a high-touch client engagement model, IKS is on track to achieve industry-leading growth.

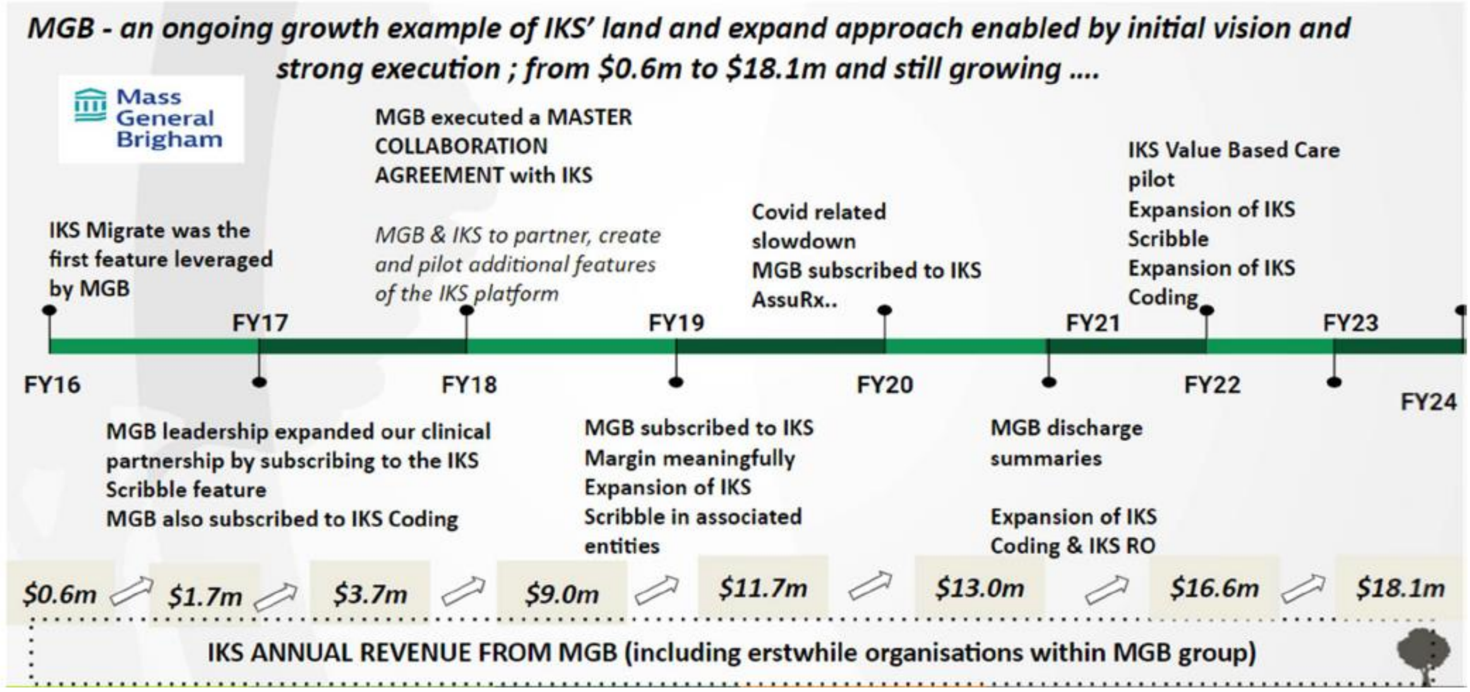
The company has a successful cross-selling track record. The share of revenue from clients with more than five years of vintage has grown from 60.41% in FY22 to 66.14% in FY24. IKS' revenue from clients who avail two–four solutions has grown at its fastest pace of 35.81% CAGR FY22-24.

Case study of high touch engagement

Mass General Brigham Inc (MGB) – land and expand approach implemented

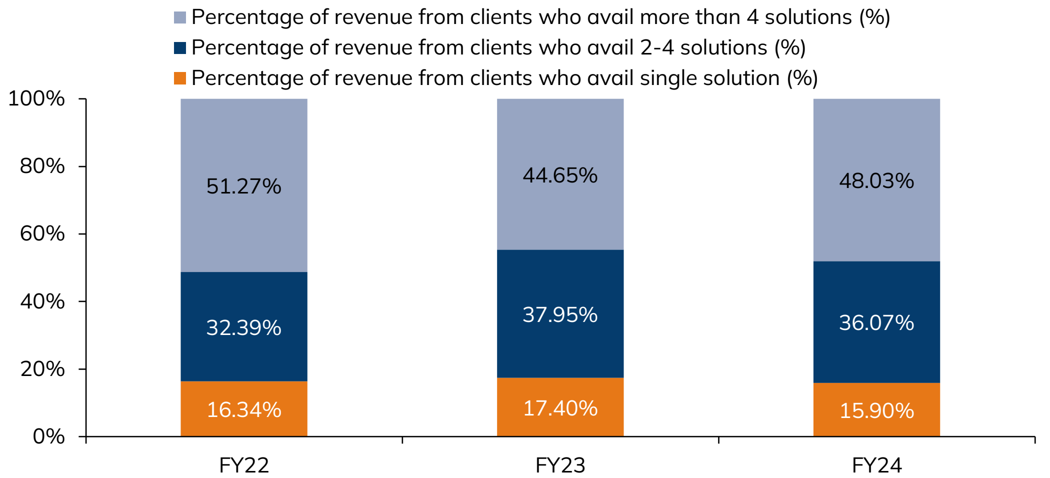
IKS has been able to grow the MGB account, its largest client, from USD 0.6mn in FY16 to USD 18.1mn+ in FY24 through upselling its features. IKS started with the first feature of IKS Migrate, eventually upselling other platform features i.e. IKS Margin, Scribble, value-based care and IKS Coding with potential for more.

Exhibit 7: Client mining led by 'land and expand' approach



Source: I-Sec research, Company data

Exhibit 8: IKS' revenue from clients who avail 2–4 solutions has grown at its fastest pace of 35.81% CAGR for FY22-24



Source: Company data, I-Sec research

***Better wallet share**: The customer has to pick at least one bundle and then, can cherry pick; resulting in better wallet share than selling single-point solutions.*

IKS maximises its revenue from existing clients through a **'land and expand' approach.** For each new client the company acquires, it seeks to understand the specific requirements and provide solutions for those aspects such as revenue optimisation or clinical documentation, among others. IKS subsequently expands its footprint within those clients by continuously seeking opportunities to cross-sell and up-sell other offerings from the company's larger provider enablement platform, especially for large enterprise clients with greater employee count, geographical spread, net worth and annual revenue.

Another approach that is helping IKS is **solution bundling.** The company offers the 16 key features of the platform in two bundles: 1) clinical; and 2) admin. The clinical bundle has nine features and admin has seven. The customer has to pick at least one bundle and then, can cherry pick among the remaining, resulting in better wallet share than selling single-point solutions.

IKS to target enterprise clients, large healthcare organisations that help leverage the economies of scale, offer greater revenue growth opportunity and allowances for IKS' platform.

Focus on large healthcare organisations: As of 31 Mar'24, IKS served 853 US-based healthcare organisations, including health systems, academic medical centres, multi-specialty medical groups, single-specialty medical groups, ancillary healthcare organisations and other outpatient healthcare delivery organisations. IKS aims to target a number of enterprise clients, typically large healthcare organisations with a substantial pool of employed physicians and other physicians, that

- leverage the economies of scale, as the cost of acquiring and servicing large and mid-sized clients as a percentage of revenue generated is lower;
- offer greater opportunity for revenue growth from large clients, and enable increased demand for IKS' solutions; and
- possess greater capital allowances for IKS' platform, as well as a higher willingness and ability to purchase value-added solutions.

IKS intends to strategically focus its sales efforts on identified prospects from health systems, academic medical centres, private equity-funded roll-ups, and other consolidators.

With its Aquity acquisition too, IKS aims to keep only the clients with a potential to be large enterprise clients.

Focus on large deals: The company puts >USD 10mn deals in the large-deal category and is aligning its sales force to bag more such multi-year large deals (e.g. Palomar Health). IKS uses the 'land and expand' approach to gain wallet share after landing a client and prefers concept-based proactive selling rather than going through RFP route.

Exhibit 9: Large deals in Q3FY25

Deals	Client	Description	Notes
Q3FY25	Palomar Health	Transformation that would enable a wide-range of clinical, operational and financial benefits in the delivery of ambulatory services	1) Deal tenor: 15 years 2) IKS full platform deployment (all 16 solutions) 3) USD16.5mn upfront savings promised and paid as advance to client
Q3FY25	Radiology Partner	Care enablement platform deal. Co-creating solution with client which, upon success, would be taken to market	
Q3FY25	Western Washington Medical Group	Starting from RCM offering, shall be extended to other offerings eventually	

Source: I-Sec research, Company data

Long-tail rationalisation: Aquity added its 804 clients to IKS' 49 clients. Post acquisition, IKS aims to bring the total client list to ~500 by removing the long tail of small and inconsequential clients. The company wants to have laser focus on these 500 clients.

4. Sustainable and scalable business model

IKS has adopted a sustainable and scalable engagement model that allows greater flexibility and cost-savings in the implementation and integration of its solutions across various organisational sizes and scale.

IKS' business model enables clients to hire new physicians, open new clinics, or acquire new medical groups, banking on IKS' capabilities to support their expansion needs in a seamless plug-and-play manner.

Its business model enables clients to hire new physicians, open new clinics, or acquire new medical groups, with the assurance that IKS has the capabilities to support their expansion needs in a seamless plug-and-play manner. This allows its clients to focus on growing their business, rather than investing capital or deploying management bandwidth to meet internal administrative, clinical and technological needs.

Exhibit 10: Pricing methodology

Source: Company data, I-Sec research

IKS' revenue is shaped by outcomes it delivers, transaction volumes and monthly fees.

Non-linear and annuity revenues: IKS' revenue is based on: 1) the outcomes it delivers – illustratively, revenue cycle fees would be a certain percentage of payments that IKS help its clients collect; 2) the volume of transactions IKS handles, such as a predetermined amount based on per prescription refill that company process, per medical chart that it codes, per page of clinical charts that it abstracts into the EHR, among others; and 3) monthly fees, such as a predetermined amount per month per physician for IKS' clinical documentation service. This pricing strategy aims to grow IKS' revenue in line with its clients' business.

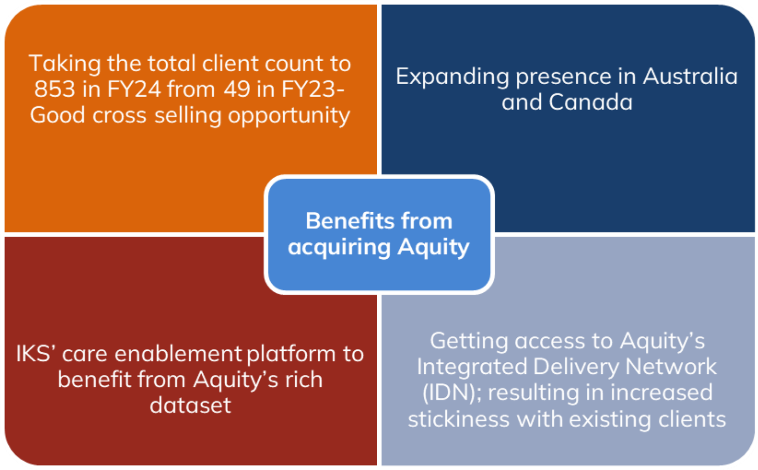
5. Synergistic acquisition – Aquity

IKS made a significant move in Oct'23 by acquiring Aquity Solutions – a move that not only expanded its capabilities, but also solidified its position in both inpatient and outpatient care sectors with 800+ clients. Aquity offers medical transcription, scribe and coding services and medico-lingual documentation. This strategic acquisition has given birth to stronger entity in healthcare technology, now operating under IKS' banner. With a combined annual revenue of USD 220mn and a global workforce of 13,241 professionals as of Mar'24, the new entity serves an impressive 150,000 clinicians across major US healthcare institutions. Aquity had a client base of 804 as of FY24.

IKS acquired Aquity for a consideration of INR 16,740mn. The company paid INR 16,113.45mn in cash and the remaining INR 627.24mn in promissory notes. IKS financed this acquisition through a combination of internal accruals and external borrowings.

At the core of this merger lies IKS' enhanced Care Enablement Platform. By integrating Aquity's rich data sets, the platform has gained new depths in its AI capabilities. This advanced system tackles the dual challenges of administrative burdens and clinical complexities, seamlessly integrating with existing EHR systems to empower clinicians in their daily practices. The acquisition was valued at an EV/EBITDA multiple of 9-12x. Integrating Aquity and IKS into a single platform is a key strategic focus area for the company.

Exhibit 11: Aquity acquisition – key benefits



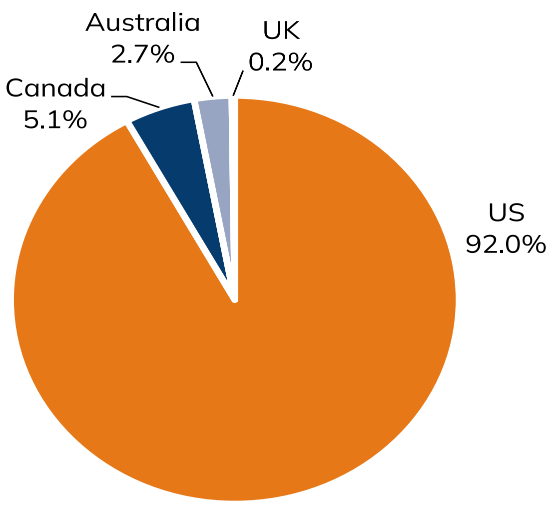
Source: I-Sec research, Company data

Exhibit 12: Aquity's geography-wise offerings

Aquity Australia	Aquity Canada	Aquity India
Medical transcription	Medical transcription	Clinical Documentation Services Provider
Medical Coding	Medical Coding	Medical transcription services
Virtual Medical Scribing Solution	Virtual Medical Scribing Solution	IT enabled services in nature of quality assurance
Sscribe Related Services and Technology	Sscribe Related Services and Technology	Back Office Support Services
		IT Support Services
		Record Management
		Medical Coding Services
		Scrive Services

Source: I-Sec research, Company data

Exhibit 13: Aquity's geography mix – concentrated in US and Canada



Source: I-Sec research, Company data

Exhibit 14: Aquity financials – negative EBITDA margin with high employee and other expenses

INR mn	For Aquity from Apr'23 to Oct'23	FY24
Revenue	7890	13423
Employee benefit expenses	6349	10062
Gross profit	1541	3361
Gross margin, %	***19.5%***	***25.0%***
Changes in inventories of stock in trade	2	10
Other Expenses	1822	2719
EBITDA	-283	632
EBITDA margin, %	***-3.6%***	***4.7%***
Depreciation	122	202
EBIT	-405	430
EBIT margin, %	***-5.1%***	***3.2%***
Finance cost	477	485
Other income	33	44
PBT	-849	-11
Exceptional items		860
Tax	-422	-188
PAT	-426	-683
PAT margin, %	***-5.4%***	***-5.1%***

Source: I-Sec research, Company data

Financials

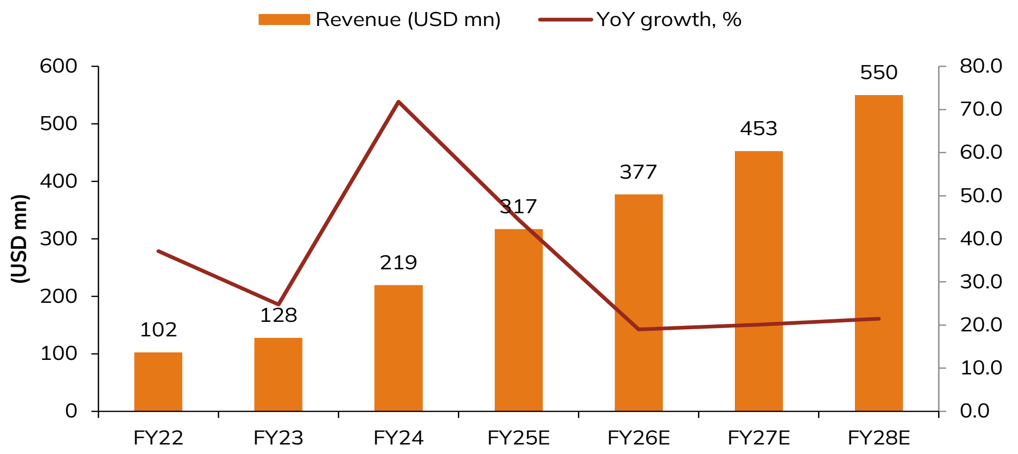
Healthy topline growth track record; estimate 20% revenue CAGR over FY25–28

IKS' USD revenue has grown at a CAGR of 22% and 46% over FY22–24 on organic and reported basis (5-month Aquity consolidation in FY24). In INR terms, organic and reported revenue grew at 29% and 54% CAGR, respectively, over the same period (supported by INR depreciation vs. USD). Growth was broad-based across clients. USD revenue from top 5/10 clients grew at a CAGRs 14.4%/17.2% over FY22–24 vs. a 94.8% CAGR for non-top-10 accounts (buoyed by Aquity acquisition, which brought in 800+ clients). In its organic business, revenue growth was across solution groups as revenue from clients availing single, 2–4 and 4+ solutions grew at FY22–24 CAGRs of 20.5%, 28.9% and 18.2%, respectively (in USD terms). Notably revenue per client availing 2–4 solutions increased at its fastest pace at 25.2% CAGR over FY22–24.

We forecast IKS' USD revenue to grow at a 20% CAGR over FY25–28E, akin to its past organic growth trend. This forecast hinges on continued momentum in IKS' native business coupled with cross sell synergy from Aquity. FY25 is a year for transition, as the company prunes tail accounts in Aquity, calibrates execution to increase offshore delivery mix (for Aquity business) and absorbs termination of a large client (which contributed ~4% of FY24 revenue). FY26 will likely have a strong start supported by the ramp up of the three large deals announced in Q3FY25 (notably Palomar deal) and absence of growth headwinds as its account-pruning initiative largely concludes.

FY26 will likely have a strong start supported by the ramp up of the three large deals announced in Q3FY25 (notably Palomar deal) and absence of growth headwind as account pruning initiative concludes.

Exhibit 15: IKS' USD revenue grew at 46% FY22–24 CAGR (22% CAGR organically)



Source: I-Sec research, Company data

Exhibit 16: IKS' growth is broad-based across client base

Revenue in USD mn	FY22	FY23	FY24	CAGR FY22-24
Top 5	46.3	56.0	60.5	
Top 10	69.8	85.7	95.8	
Non - top 10	32.6	42.0	123.6	
YoY % (Revenue in USD mn)				
Top 5		21%	8%	14.4%
Top 10		23%	12%	17.2%
Non - top 10		29%	194%	94.8%

Source: Company data, I-Sec research

Exhibit 17: Revenue growth is broad-based across solution groups as well

% of revenue	FY22	FY23	FY24	CAGR FY22-24
Clients who avail single solution	16.3%	17.4%	15.9%	
Clients who avail 2-4 solutions	32.4%	38.0%	36.1%	
Clients who avail more than 4 solutions	51.3%	44.7%	48.0%	
Revenue in USD mn				
Clients who avail single solution	16.7	22.2	24.3	
Clients who avail 2-4 solutions	33.2	48.5	55.1	
Clients who avail more than 4 solutions	52.5	57.0	73.3	
YoY, %				
Clients who avail single solution		32.9%	9.2%	20.5%
Clients who avail 2-4 solutions		46.2%	13.6%	28.9%
Clients who avail more than 4 solutions		8.7%	28.6%	18.2%
Revenue per client (USD mn/client)				
Clients who avail single solution	1.0	1.2	1.5	20.5%
Clients who avail 2-4 solutions	2.0	2.9	3.1	25.2%
Clients who avail more than 4 solutions	4.4	4.4	4.9	5.7%

Source: Company data, I-Sec research. Above data is for organic business.

Industry-high EBITDA margins have more headroom

FY22/FY23 EBITDA margins at 38.9%/37.9%; FY24 EBITDA margins, at 28.6%, were weighed down by lower profitability at Aquity. Management aims for mid-30s adjusted EBITDA margins

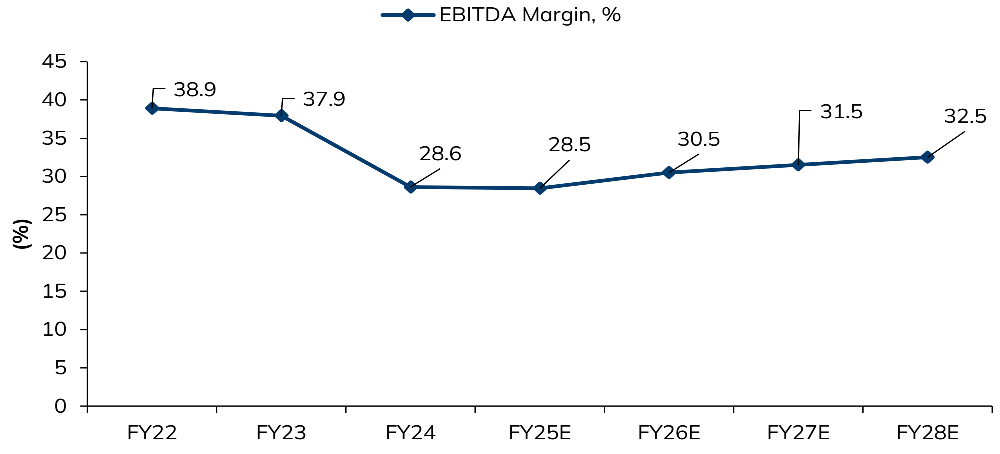
IKS has a highly profitable business supported by offshore delivery and superior technology stack. It reported EBITDA margins of 38.9%/37.9% in FY22/FY23; in FY24, EBITDA margins were at 28.6%, weighed down by lower profitability at Aquity (consolidated for five months in FY24).

Elimination of duplicate costs, leveraging global delivery model and exit from sub-scale low margin accounts are underway in FY25

We forecast a gradual increase in IKS' EBITDA margins to 32.5% in FY28, from 28.5% in FY25, as strategic initiatives to improve Aquity's profitability yields results. Elimination of duplicate costs, leveraging global delivery model and exit from sub-scale low margin accounts are underway in FY25, as IKS plans profitability improvement for Aquity. Management aims for mid-30s adjusted EBITDA margins (including other income and excluding ESOP cost) for steady state business (post Aquity transformation).

In its organic business, IKS' EBITDA per employee is ~56% higher than average for India listed BPO players (namely Firstsource, Sagility and eClerx) validating IKS' superior technology platform. Moreover, the company's organic EBITDA margin of 34% (FY24) is highest in industry and its FY24 reported EBITDA margin of 28.6% is second-highest, following Tata Elxsi.

Exhibit 18: EBITDA margin to improve to 32.5% by FY28E with Aquity's transformation



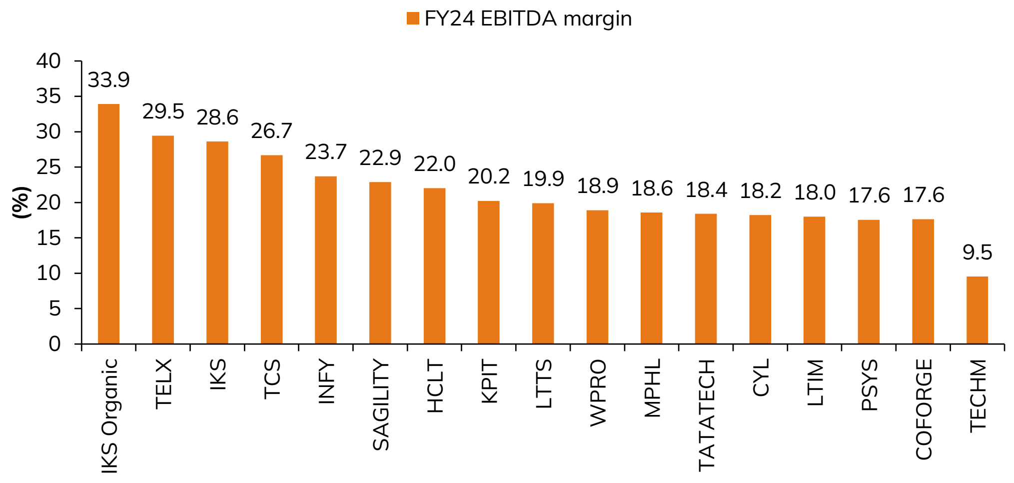
Source: I-Sec research, Company data

Exhibit 19: IKS' superior technology stack yields higher EBITDA per employee (in organic business)

Company Name	FY24 EBITDA (INR mn)	No of employees	EBITDA/ employee (INR)	EBITDA/ employee (USD)
Eclerx	7,749	17,354	4,46,543	5,354
Firstsource	9,564	27,940	3,42,305	4,104
Sagility	11,160	34,841	3,20,323	3,841
Average				**4,433**
IKS Health (for FY23)	3,913	6,802	5,75,279	6,898
IKS Health (FY24 – including Aquity)	4,919	13,000	3,78,385	4,537

Source: Company data, Bloomberg, I-Sec research. Calculated using INR/USD exchange rate of INR 83.4/USD for FY24.

Exhibit 20: Industry-leading EBITDA margin

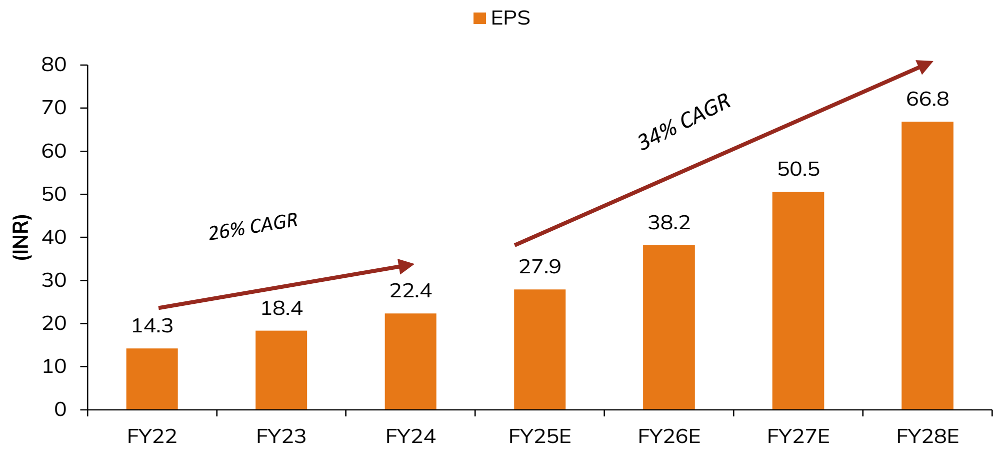


Source: I-Sec research, Company data

We forecast 34% EPS CAGR over FY25–28

We forecast acceleration in IKS' EPS growth compared to its recent trajectory, supported by: 1) operating margin improvement; and 2) reducing interest and depreciation burden. We estimate IKS' EPS to grow at a 34% CAGR over FY25–28 (to INR 66.8) vs. a 26% CAGR over FY22–24. This EPS growth is on back of a 27% EBITDA CAGR coupled with reduction in interest cost (as IKS repays debt) and reducing depreciation and amortisation intensity.

Exhibit 21: EPS growth supported by operating margin improvement and reducing interest and depreciation burden

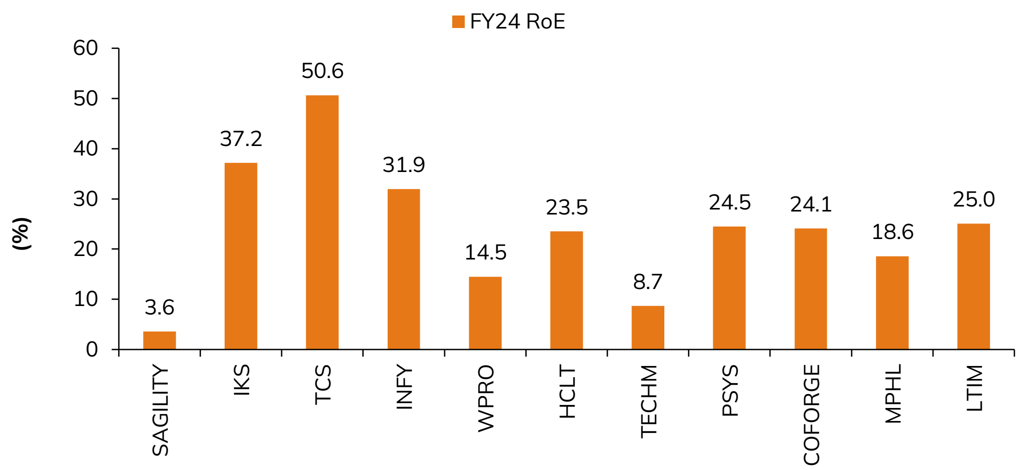


Source: I-Sec research, Company data

Healthy RoE; debt pay off by FY27

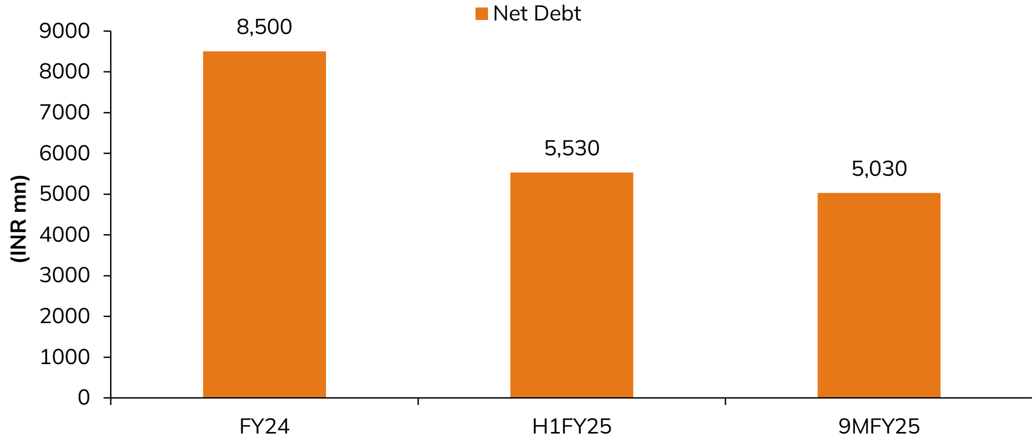
IKS' FY24 RoE, at 37.3%, is the third-highest in the industry (next to only TCS and LTIM). IKS has very healthy cash conversion metrics with average OCF/EBITDA and OCF/PAT ratios of 64%/84%, respectively, over FY22–24. We note that cash conversion ratios declined in FY24 owing to Aquity consolidation. IKS had zero debt prior to FY24. At end-FY24, the company had INR 11,934mn worth of debt (long-term borrowings of INR: 8,123mn; current borrowings of INR: 3,811mn) taken for financing Aquity acquisition. IKS plans to pay off debt by FY27. While the company has paid dividend in the past, currently, management is prioritising debt repayment and business investments.

Exhibit 22: RoE among industry leaders



Source: I-Sec research, Company data

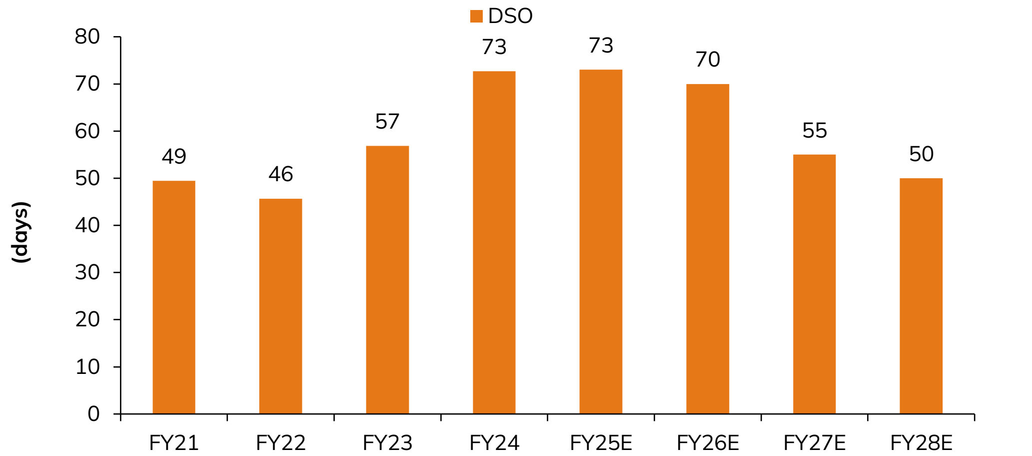
Exhibit 23: Paring net debt systemically



Source: I-Sec research, Company data

The company saw its DSO shoot up to 73 days in FY24 from 57 days in FY23, due to payment terms of Aquity. DSO is expected to remain elevated in the near term and expected to reach a comfortable range of ~50–55 days in the long term.

Exhibit 24: DSO shot up for IKS post Aquity acquisition



Source: I-Sec research, Company data

Operating metrics show steady improvement

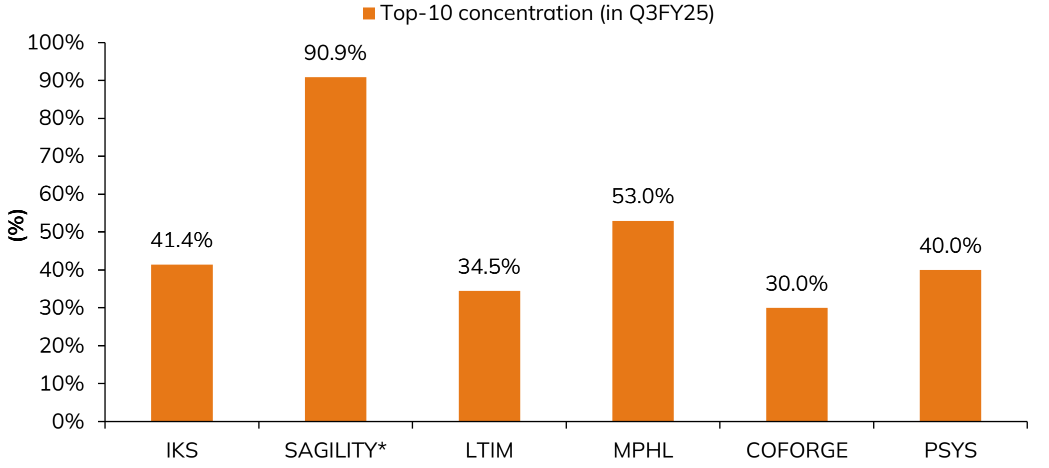
IKS has seen a sharp rise in its number of clients from 49 in FY23 to 853 in FY24 following Aquity acquisition. But, the company aims to bring it down to 500 focus clients and trim the client base with low growth, low margin potential. Its FY24 top-10 client is comparable to Indian IT mid-cap plays **(Exhibit: 27).** We note that **Aquity-led revenue scale up has helped** IKS reduce its top-10 client concentration, from 68% in FY22 to 44% in FY24. DSO has shot up post Aquity, but the company aims to bring it to 50–55 days levels. The share of repeat business has also risen steadily for IKS, implying client stickiness.

Exhibit 25: Client metrics – top-10 client concentration reducing

Particulars	As of and for the year ended March 31,		
	2022	2023	2024
Revenue from operations (INR mn)	7,636	10,313	18,179
Revenue from top 10 clients (INR mn)	5,205	6,919	7,939
Revenue from top 10 clients as a percentage of revenue from operations (%)	68%	67%	44%
Revenue per client- top 10 (INR mn)	520	692	794

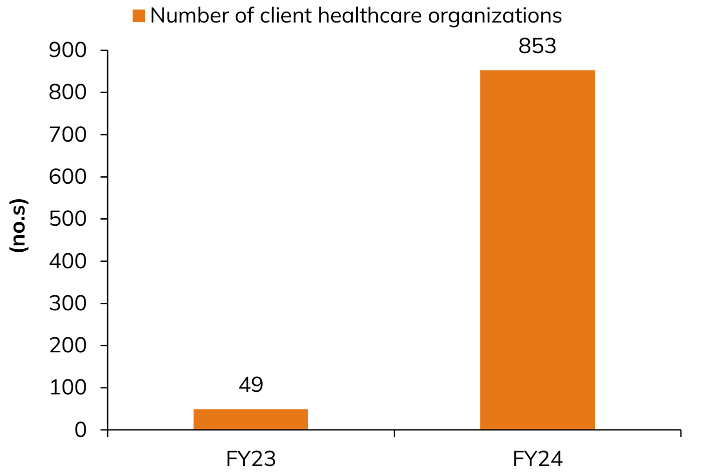
Source: Company data, I-Sec research

Exhibit 26: IKS' top-10 client concentration in-line with IT Services mid-cap plays



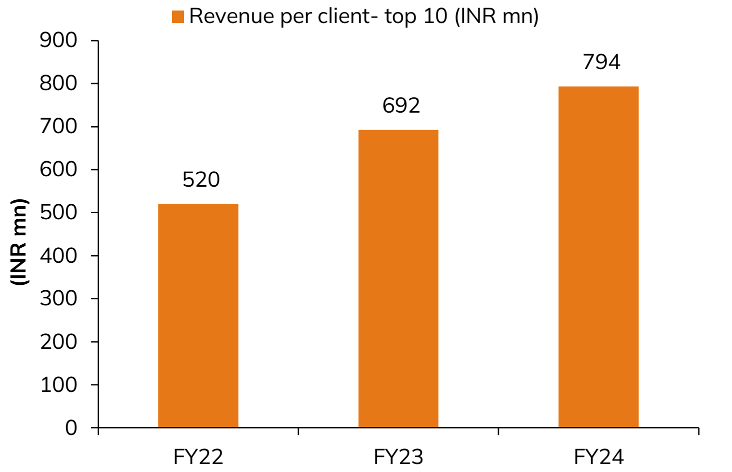
Source: Company data, I-Sec research |*: for FY24

Exhibit 27: Client count shoots up on Aquity acquisition



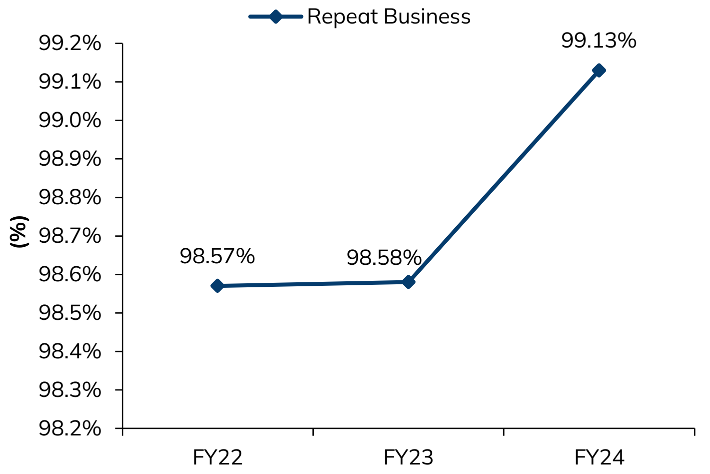
Source: Company data, I-Sec research

Exhibit 28: Revenue per client has increased consistently with increase in wallet share



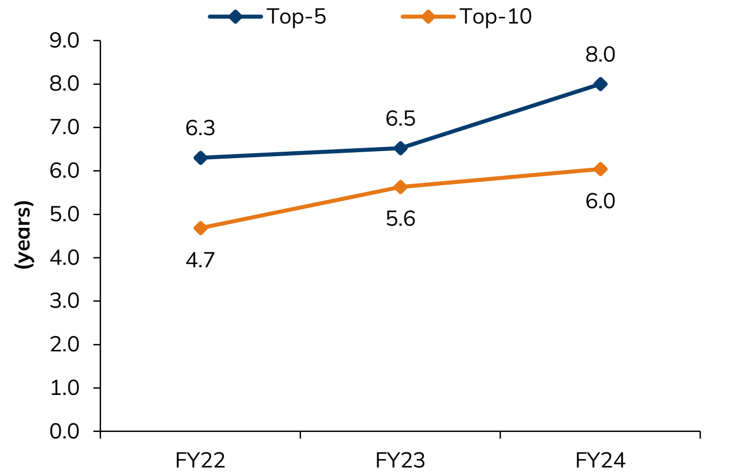
Source: Company data, I-Sec research

Exhibit 29: Sticky nature of the business drives high repeat revenue



Source: Company data, I-Sec research

Exhibit 30: Increasing vintage of top-5/10 clients implying high retention



Source: Company data, I-Sec research

Valuation and recommendation

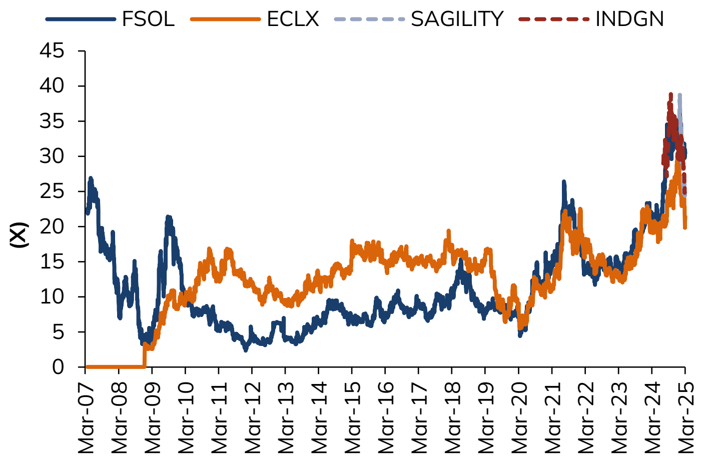
We like IKS given both structural and company-led factors that play out in its favour, namely superior financial performance, technology prowess and attractive large-scale opportunity.

At CMP of INR 1,732, IKS trades at a ~30% premium to its IPO price (of INR 1,329) and has limited trading history since its listing in Dec'24. IKS does not have a like-to-like listed comparable peer. Other US-listed health-tech peers, namely R1 RCM, Health Catalyst, Cloud Care and Augmendix offer point solutions compared to integrated platform offerings by IKS. Nonetheless, all these US-listed peers are loss making, resulting in a lack of comparable P/E references. (R1 RCM likely to be acquired by TowerBrook and CD&R for USD 8.9bn in Aug'24).

Comparison with India-listed BPO players needs adjustments for considerations, such as IKS' superior financial performance and one-vertical exposure. IKS' superior financial track record and higher profitability supported by its proprietary tech platform merit a valuation premium over its India-listed BPO peers. Moreover, discount for vertical concentration is remains inconclusive when we examine industry peers (namely KPIT vs. LTTS for vertical diversification) to assess how Street accounts valuation discount or premium for such peculiarities. Contrary to academic narrative, Street assigns no decisive discount for one-vertical exposure, as auto vertical focused KPIT trades at a 15% premium over a diversified LTTS.

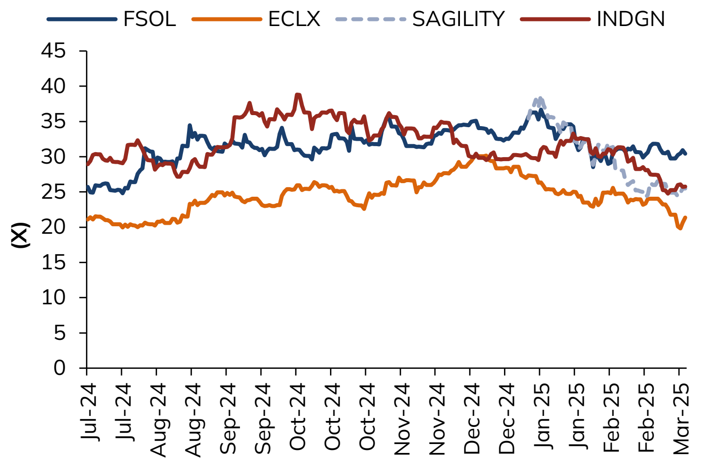
We assign a 35x target P/E multiple for IKS, implying an ~35% premium over I-Sec's target multiple for Sagility or ~100% premium over Firstsource's 5-year average P/E. With a 35x one-year forward PE on FY27E EPS of INR 52, our target price works out to INR 1,820, implying 5% potential return. We initiate coverage with a **HOLD** recommendation. We reckon that the cross-sell synergy from the Aquity acquisition is a key monitorable for IKS in FY26. Large scale is a difficult-to-achieve character in the healthcare provider technology market, partly due to the fragmented client base. Successful cross-sell synergy from the Aquity acquisition would validate rapid scalability for IKS and may add to valuation premium.

Exhibit 31: Closest peers' one-year forward PE – long-term



Source: I-Sec research, Bloomberg

Exhibit 32: Closest peers' one-year forward PE – short-term



Source: I-Sec research, Bloomberg

Exhibit 33: Peers set 5-year average PE

Companies	5-year average PE (x)
FSOL	17.8
ECLX	16.2
SAGILITY	30.8
INDGN	31.9
Group average	**24.2**

Source: I-Sec research, Bloomberg.

Key risks

- Slow ramp-up of cross selling to Aquity customers.
- Near-term slowdown from tail account rationalisation.
- No clear traction in healthcare vertical growth for IT services.
- Slow turnaround of Aquity profitability.
- Insourcing by top clients.

Peer comparison

GeBBS: It is a leading solution provider, delivering comprehensive solutions that enhance the entire billing process for healthcare providers. The company's RCM platform primarily helps achieve objectives like: optimising claims management, minimising denials and boosting cashflow. This competes primarily with the RCM offering of IKS Health and Sagility.

Sagility: It is a recently listed (Dec'24) health-tech provider in US, catering primarily to the payer space in US healthcare and is one of the closest peers of IKS Health in terms of its RCM, transcription and medical coding offerings, along with GeBBS.

Exhibit 34: IKS vs. Sagility

Parameters	IKS	Sagility
FY24 USD revenue (in mn)	220	573
FY24 USD revenue growth, %	71.8	10.5
FY24 EBITDA margin, %	28.7	22.9
FY24 YoY EBITDA margin expansion	-923	-146
Top-10 client concentration, %	44 (853 clients post Aquity)	91
No. of clients	49	44
FY24 RoE, %	37.3	3.5
Top US payers	More provider led portfolio	Sagility works with top-6 of the top-10 US payers (post Broadpath acquisition)
Portfolio nature	Provider-led	Payer-led
Repeat customers' revenue	99.13% (revenue)	NA
Vintage of top clients	7-10 years	17 years
No. of clinically trained employees	2,612 (as on Sep'24)	2,000 (as on Sep'24)
Total No. of employees (as on FY24)	13,241	34,841
Physician as % of total employees	19.3 (for Q3FY25)	5.2 (in Q2FY25)

Source: I-Sec research, Company data

R1 RCM: This company revenue growth/margin profile is like Sagility's. However, it lags peers in terms of profitability with negative net profit margin, low revenue growth and margin predictability, and has been recently taken private by multiple acquirers.

Indegene: It is a tech-ops company operating in the US life sciences domain catering to pharmaceutical companies that gained traction during Covid-19 and have been marred with client-specific issues post-pandemic. It has high single-digit to low teens revenue growth, mid-level margins vs. peers, high client concentration, similar to peers operating in the US healthcare space.

Single-vertical peers

Of the above, **IKS, Sagility** and **Indegene** are the closest peers in the listed space, given their: 1) single-vertical focus; and 2) single-geography focus.

A few common features across these companies are as follows:

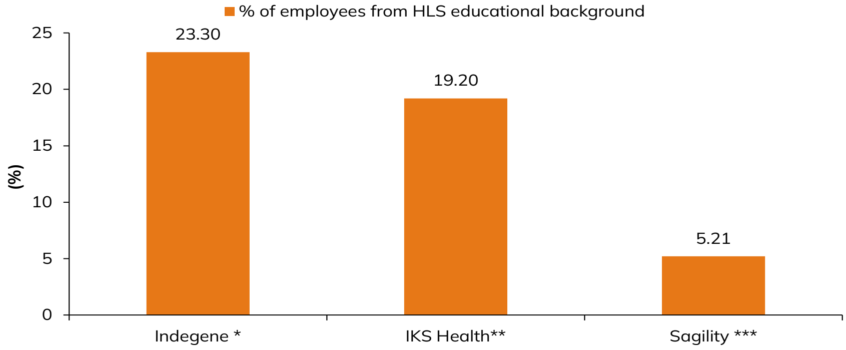
- Sticky business with long client tenures and low attrition, similar to ER&D business.
- Have fewer clients vs. more diversified peers such as eClerx. One of their key focus areas is mining these clients and up/cross-selling their offerings.
- Gained traction post-Covid-19 with increased demand for outsourcing in healthcare and life-sciences during the period.
- Use the 'land and expand' sales strategy.
- A good breadth of offerings vs. peers.
- High client concentration as US healthcare and life-sciences industry is consolidated by nature.
- Have high degree of recurring revenues.
- 5–23% of their employees are from healthcare and life-sciences related educational background.

Exhibit 35: Peer comparison

Companies	Revenue FY25E (USD)	Revenue CAGR FY24-26E	EBITDA % FY25E	Net Income FY25E	EV/EBITDA			EPS			P/E		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sagility	666	20%	24%	14%	18.4	14.6	12.2	1.7	1.9	2.3	25.1	22.9	19.1
IKS Health	317	31%	28%	18%	39.3	29.3	22.7	27.9	38.2	50.5	62.0	45.3	34.3
India mid-cap IT													
LTIM	4397	7%	18%	13%	20.2	17.0	14.5	158.8	187.2	217.6	29.7	25.2	21.7
PSYS	1363	18%	18%	11%	39.7	31.3	25.5	89.9	113.4	139.5	58.7	46.5	37.8
MPHL	1630	7%	18%	12%	15.9	13.8	12.1	89.7	102.9	118.3	25.6	22.3	19.4
Coforge	1406	26%	17%	9%	25.9	19.6	16.3	139.8	209.9	257.2	55.1	36.7	30.0
India Business Services													
Firstsource	922	20%	15%	8%	21.0	16.8	14.1	8.8	11.9	14.5	39.9	29.6	24.2
eClerx	385	12%	27%	18%	15.0	12.3	10.4	110.9	131.8	153.6	25.1	21.1	18.1
India Healthcare Specialist													
Indegene	325	NA	NA	NA	20.7	17.1	14.3	16.5	20.7	24.3	32.5	25.8	22.0
US Peers													
Accenture	68740	6%	19%	12%	16.1	14.8	13.4	12.8	14.0	15.5	26.7	24.4	22.1
Cognizant	20615	5%	18%	12%	10.3	9.4	8.3	5.0	5.4	5.8	16.8	15.6	14.4
WNS	1266	3%	26%	17%	10.7	10.3	9.8	4.5	4.7	5.3	12.5	12.1	10.7
EXLS	2055	12%	22%	15%	16.5	14.3	12.5	1.9	2.1	2.5	24.9	21.8	19.0
Teleperformance	11678	7%	21%	9%	4.5	4.0	3.5	17.3	19.1	20.3	5.9	5.4	5.1
R1	2937	13%	24%	0%				0.4	0.4				
Augmedix													
Health Catalyst	335	9%	8%	6%	4.9	8.6		0.3	0.4	0.7	15.8	10.7	6.3
CareCloud	106	NA	21%	9%	6.6	7.1		0.9	1.3		2.2	1.7	

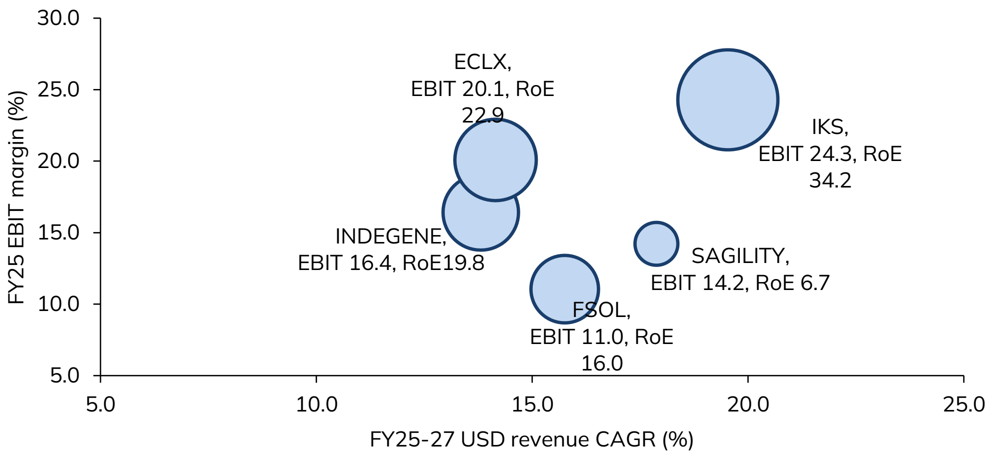
Source: I-Sec research, Bloomberg

Exhibit 36: % of clinically trained employees for the closest peer set



Source: I-Sec research, Company data |*, **: For Q3FY25; ***: Q2FY25

Exhibit 37: Peer comparison: IKS Health in the leader's quadrant



Source: I-Sec research, Company data, Bloomberg | size of the bubble represents RoE

Annexure

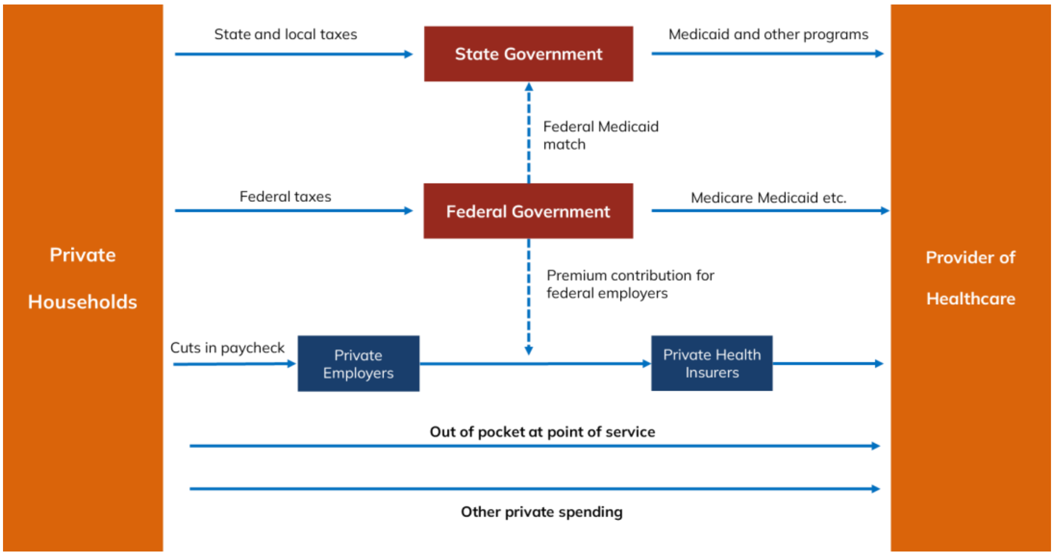
Industry overview: Multiple sectoral tailwinds in place

US healthcare system's structure

US' healthcare system can be defined as a mixed system and does not provide universal coverage – where publicly-financed government health coverage (Medicaid, Medicare, Veterans' healthcare, Children's Health Insurance Program, etc.) coexists with privately-financed (private health insurance, employer-funded, union plans, and so on) market coverage. Market provision of coverage and out-of-pocket payments, as a means of financing and providing healthcare, are prevalent (source- RHP).

Sumarily, US' healthcare system is a mix of private and public, for-profit and non-profit insurers and healthcare providers. (source- RHP).

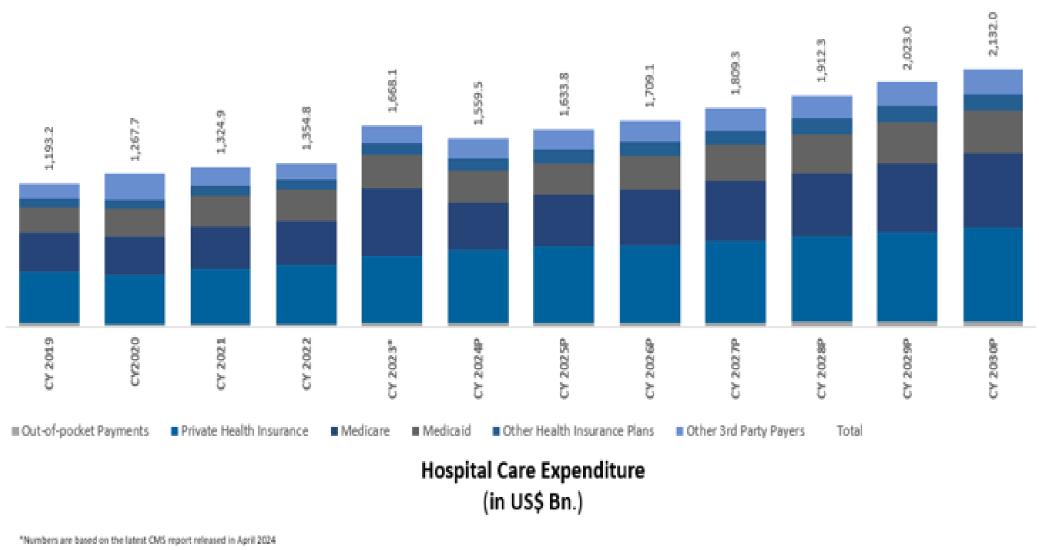
Exhibit 38: US healthcare system's structure



Source: I-Sec research, Company data

Most employers purchase health insurance plans for their workers and their dependents from health insurance companies.

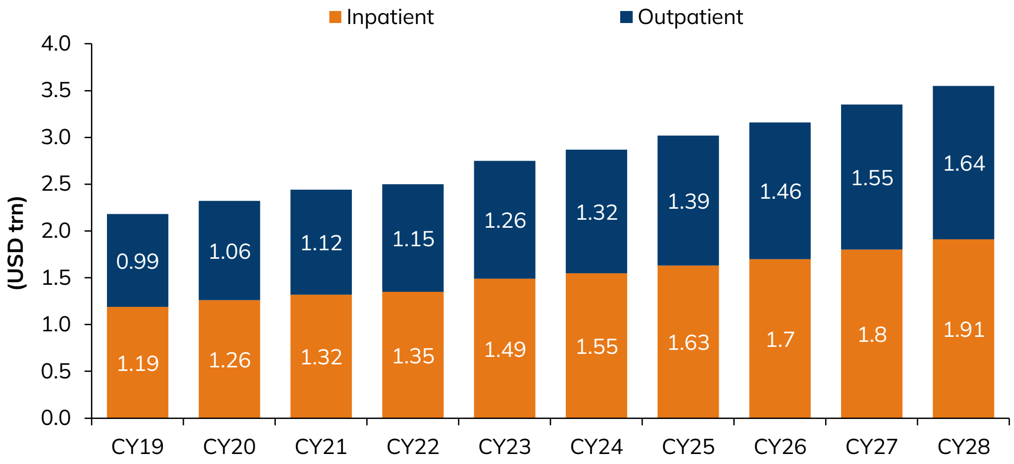
Exhibit 39: US Healthcare – hospital expenditures breakup



Source: I-Sec research, Company data

Inpatient care is characterised by hospital stays for intensive and critical medical attention, contrasts with the outpatient segment, emphasising outpatient services for more cost-effective and flexible healthcare. Outpatient is expected to grow at a 5.77% CAGR for CY19–28 and inpatient is expected to grow at a 5.38% CAGR for the period (source: RHP).

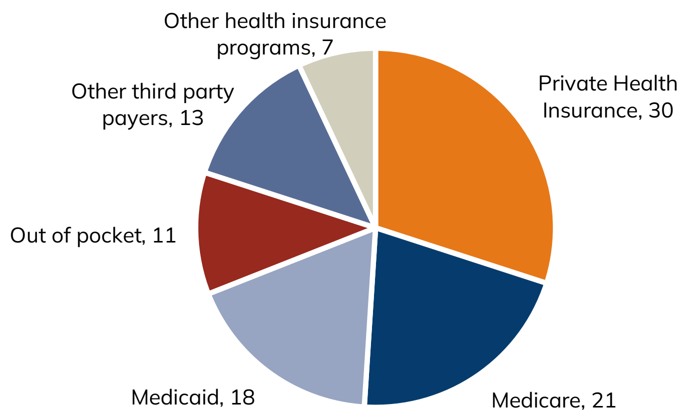
Exhibit 40: Key segments of US healthcare



Source: I-Sec research, Company data

Private health insurance forms the largest share (30%) of total health Insurance funding.

Exhibit 41: US health insurance spending breakup; private health insurance forms 30% of major funding sources



Source: I-Sec research, Company data

Exhibit 42: Healthcare/life sciences vertical QoQ growth for IT services – a mixed bag

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
TCS	3.8	2.6	1.4	-1.1	1.0	1.1	2.9	-3.4	-4.5
INFY	6.9	0.5	1.7	10.4	-3.7	-6.0	3.3	3.8	5.1
WPRO	4.5	2.3	-1.3	1.7	7.1	1.5	-2.2	-1.2	5.9
HCLT	6.3	3.9	-0.9	1.3	-3.5	2.7	-4.5	3.1	-2.2
TECHM				-0.2	4.6	-5.8	7.9	-1.8	2.1
LTIM	-5.1	-2.2	5.0	3.2	0.8	4.8	-7.9	6.1	-0.5
PSYS	2.9	4.4	-2.7	7.0	16.4	14.8	16.5	9.6	4.3
ACN	3.7	0.8	8.0	0.1	3.3	-1.3	5.4	2.8	5.5
CTSH	1.5	0.5	0.5	-2.4	-0.6	1.4	3.2	3.6	1.8

Source: I-Sec research, Company data

Business overview

Business synopsis

Addressing the chore to enhance the core

IKS provides solutions that address the 'chores' of healthcare delivery enterprises, and enables them to focus on the 'core' of healthcare (which is patient experience), by taking over chores that are necessary to manage their business. It handles and automates the paperwork so the physicians and staff can focus on patient experience and care. 50% or more of the physicians' time is spent in doing non-core, process led, administrative work, non-value-added work, non-discretionary tasks and IKS offers solutions to automate and efficiently streamline these tasks.

IKS is a health tech provider with care enablement platform offerings (across inpatient and out-patient segments), particularly covering the US provider space. It offers services through a blend of technology and human capital. It has a workforce of 12,405 full-time employees, including 3,111 clinically trained employees. It has garnered 853 clients by FY24 with 99.13% of its revenue from repeat business.

Growth prospects of the company are supported by structural tailwinds: 1) US spending on healthcare is the largest portion of its GDP and in the world; and 2) health spending in US is expected to grow at a CAGR of 5.3% between CY19–28. The company's strengths include: 1) strong margins – EBIT margin at 25.4% in FY24; 2) synergistic acquisition of AQuity – expanding IKS' capabilities in inpatient, outpatient care sector and gaining more depth in AI capabilities; and 3) investment in Sift Healthcare – adding decision support solutions to the portfolio.

Employee locations: The company has its salesforce present in US, Canada and Australia and does delivery through personnel based in India and US.

Some key clients: As on Sep'24, IKS had 778 clients, which included major providers such as Texas Health Care PLLC, Mass General Brigham Inc., and The GI Alliance Management. Recent key additions to the list include marquee names like: Palomar Health, Radiology Partners and Western Washington Medical Group.

Revenue streams for healthcare technology solutions provider

IKS has strategically directed its focus on enhancing its technology-enabled offerings for healthcare providers by **concentrating on five distinct areas**. Each of these areas is designed to address specific aspects of healthcare delivery, enabling it to deliver tailored solutions that enhance efficiency, improve patient outcomes, and streamline administrative processes within the healthcare system. RCM revenue stream accounts for the highest share of overall market.

- **Clinical services:** Comprising a share of 32%, clinical services solutions serve as essential tools for clinical decision-making and care coordination. They encompass activities such as diagnostic support, treatment planning, and seamless communication among healthcare professionals.

- **Revenue cycle management (RCM):** RCM is the financial process in healthcare that involves managing claims, payments, and revenue generation, ensuring the efficient flow of funds from patient to provider. It currently holds 46% market share and is projected to grow at a 5% CAGR over the next five years, until 2028.

- **Scribe and medical transcription solutions:** Scribe Solutions, with a 5% market share and a 6% CAGR from 2023 to 2028, enables physicians to focus more on patient care, reducing their time and effort spent on documentation.

- **Value-based care (VBC):** Comprising 15% of the market share, value-based care is gaining traction among healthcare providers, exhibiting the highest CAGR of 21%, indicating its rapid adoption.

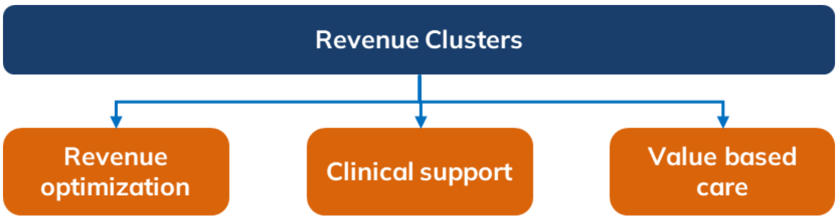
- **Coding:** It involves methodical processes to accurately code medical procedures and diagnoses, optimising billing, compliance, and data management. Coding services solutions market is experiencing stagnation, growing at a sluggish CAGR of 0.5%, resulting in the market size remaining virtually unchanged at around USD 5bn in 2028.

Adding all the above streams, addressable market for IKS is expected to grow by 7.8% CAGR over CY23–28. Outsourcing growth potential is highest for RCM at 13% CY23-28 CAGR. From current TAM of USD 222bn, there is significant headroom and market opportunity for IKS to grow.

Offerings and revenue clusters

IKS currently offers 16 features, which have been grouped into 2 key bundles: 1) admin and 2) clinical, which are also classified into 3 revenue clusters as follows: 1) Revenue optimisation 2) clinical support 3) value-based care. All the three clusters are seeing secular growth.

Exhibit 43: Bundling of offerings into 3 revenue clusters



Source: I-Sec research, Company data

Pre-visit stage related offerings

1) **Optimised scheduling:** This offering provides centralised patient scheduling services to clients, so that patients can see their preferred physicians more swiftly and conveniently (including through online self-scheduling options), and clients can: 1) maximise their visit volumes (and reduce revenue loss through non-optimal scheduling); 2) address staffing shortages and staff turnover issues; and 3) reduce their operating expenses.

2) **Patient financial clearance:** This offering performs tasks such as appointment clearance, eligibility verification, benefits verification, liability estimation and prior authorisation.

3) **Patient engagement hub:** IKS EVE is a multi-channel offering of IKS which aids in patient access and engagement solution. It streamlines and automates the various 'front end' activities i.e. patient shceduling.

4) **Prospective clinical chart reviews:** As part of the routine risk and quality optimisation solutions, IKS conducts a clinical chart review through its team of trained physicians who perform a comprehensive review of two years of medical records for the patient, including primary care physician visit notes, discharge summaries from the hospital, consultation notes from specialist physicians, radiology reports from imaging centres, physical therapy notes, and other relevant medical records. Through this chart review, diagnosticians identify additional disease conditions that may be inferred from the patient's medical record.

<u>**Pre-visit**</u>

5) **Pre-visit summary:** Pre-Visit Summary offers clinically-synthesised information about the patient at the point-of-care level to optimise visit workflows and increase the efficiency on physician visits, enable physicians to provide targeted medical care, reduce delays in the process of medical care and plug potential gaps in diagnosis to create a better patient experience.

6) **IKS Scribble:** IKS leverages a combination of automation, AI, and human intervention to facilitate the creation of medical notes for the physicians. Scribble is a synchronous and asynchronous virtual scribe solution that uses a combination of trained physician expertise and technology to deliver detailed, accurate, comprehensive, and clinically relevant documentation for company's clients. This proprietary technology platform has several components: Scribble tablet, Cloud based workflow tool, Intelligent note creation.

7) **Referral order management:** IKS' referral order management offering aims to help clients ensure that their patients are scheduled with the right specialists or facilities for follow-up care, so that the relevant physician can take care of the patient in a timely manner.

8) **Tech-led coding:** IKS provides clinical coding for inpatient and outpatient care to ensure that physician enterprises are able to complete clinical coding efficiently. IKS' Denovo coding solutions is where coding is done directly without the physician's involvement.

<u>**Post-visit**</u>

9) **Concurrent and Denovo Risk Coding:** Here IKS directly codes the chart without physician involvement. This significantly reduces administrative effort for the end-users. IKS is directly responsible for ensuring compliant and accurate coding, and it has gained experience in eliminating under-coding or overcoding.

10) **Patient AR management, 11) payment posting and denial management, 12) billing and denial prevention**

IKS takes responsibility of 'back office' revenue cycle functions such as: payment posting, denial management, accounts receivables follow up. This enables the clients to efficiently obtain payments from insurance companies and patients. By deploying its team of revenue cycle specialists who use its proprietary technology tools, the company is able to focus on improving clients' financial metrics such as cash to net revenue ratio, write-offs from insurance and patients, and accounts receivable days.

<u>**In between visits**</u>

13) **IKS Stacks:** Clients typically receive by fax or mail large volumes of paper medical records from external entities that are not electronically connected to their EHR, including discharge summaries from hospitals, consult notes from specialist physicians, radiology reports from external imaging centres, physical therapy notes from the therapist, medical records from the orthotist or prosthetist, or any other medical records from external healthcare organisations that are not connected with the client's electronic network. IKS has developed a proprietary document management and clinical data abstraction tool that uses OCR technology and AI/ML to help the team to classify scanned documents into different types of medical records and copy-paste or type that information into the relevant discrete sections within the EHR system.

14) **IKS AssuRx:** Company's proprietary AssuRx software platform is used by the team of trained physicians and pharmacists to deliver a centralised, standardised and expedited process for prescription refills. Instead of traditionally requiring the refills

to be painstakingly set up and validated by the nurse in the EHR system and signed-off by the attending physician, AssuRx enables each refill to be digitally and automatically set up and validated in accordance with the clinical protocols defined for specific drug categories, which reduces medication prescription errors, minimises duplicate refills, reduces rework for nurses and physicians, and increases the efficiency for medical prescription and collections.

15) **Inbox management:** This AI-led offering helps physicians and nurses filter through innumerable emails in their mailbox and aids in framing an appropriate response to the important emails.

16) **Care management and utilisation management:** This offering helps clients execute the right clinical intervention for patients and takes away the more routine administrative aspects of the work from clients' nurses and medical assistants so they can focus on patient-facing functions.

Pricing

The revenue is based on:

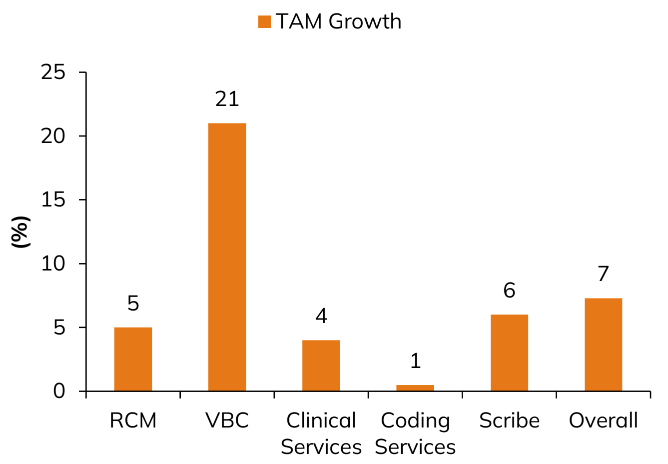
1) **outcomes** – revenue cycle fees would be a certain percentage of payments that IKS helps clients collect,

2) **volume of transactions,** such as a predetermined amount based on per prescription refill that process, per medical chart that IKS code, per page of clinical charts that IKS abstract into the EHR, among others; and

3) **monthly fees,** such as a predetermined amount per month per physician for IKS' clinical documentation service

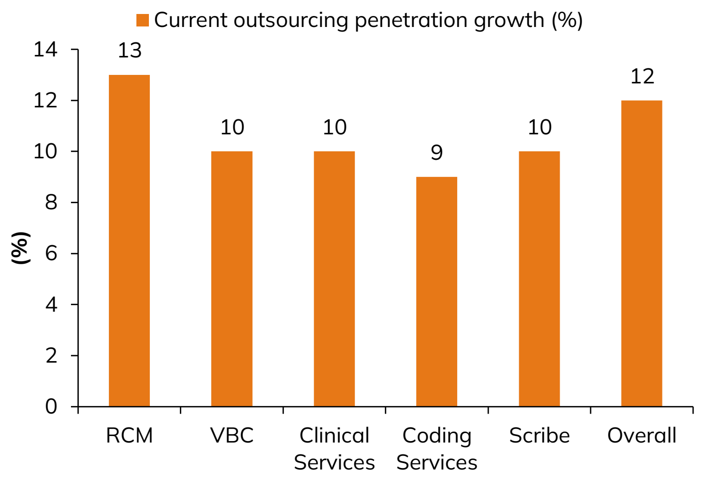
The company aims to maximise the outcome-based pricing in its portfolio.

Exhibit 44: TAM CY23-28 CAGR across streams



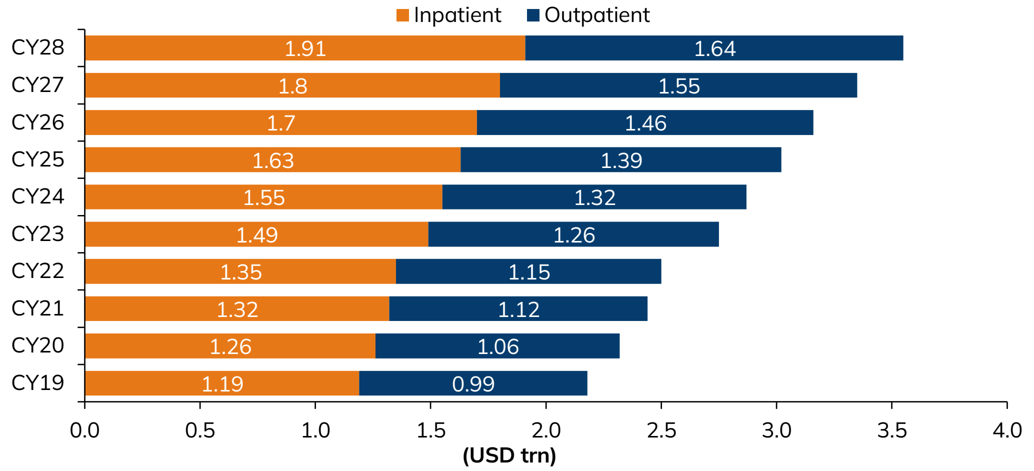
Source: I-Sec research, Company data

Exhibit 45: Outsourcing CY23-28 CAGR across streams



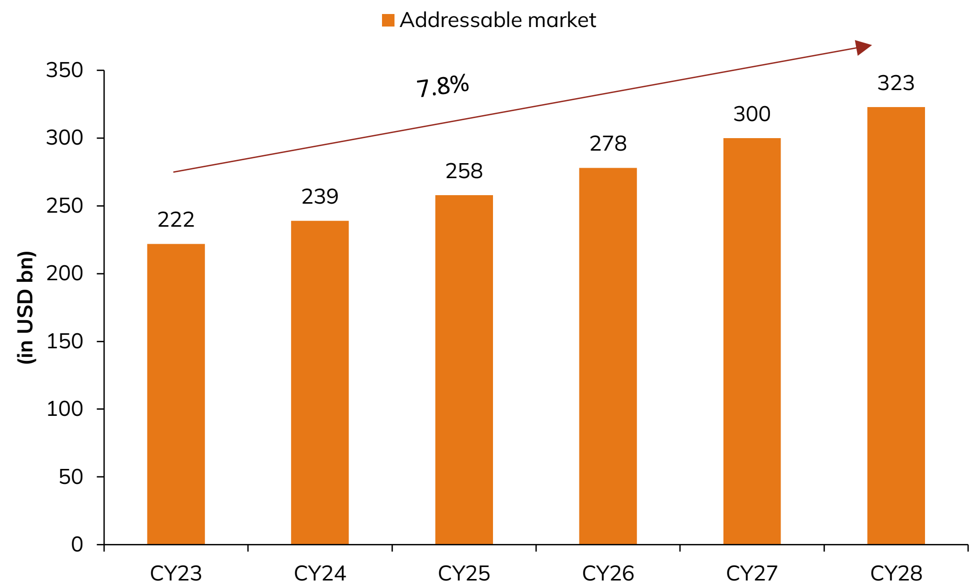
Source: I-Sec research, Company data

Exhibit 46: Inpatient and Outpatient spending CY23-28 CAGR of 5.38%/ 5.77%; Overall CAGR at 5.56%



Source: I-Sec research, Company data

Exhibit 47: TAM growth for IKS Health at 7.8% CY23-28 CAGR



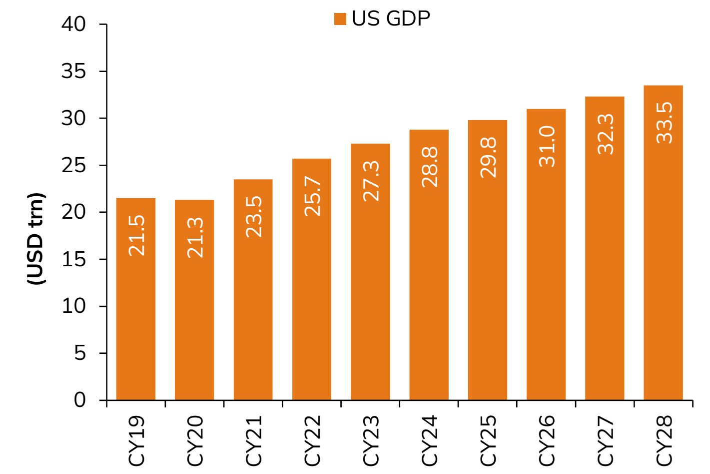
Source: I-Sec research, Company data

Industry tailwinds

US GDP growth strong

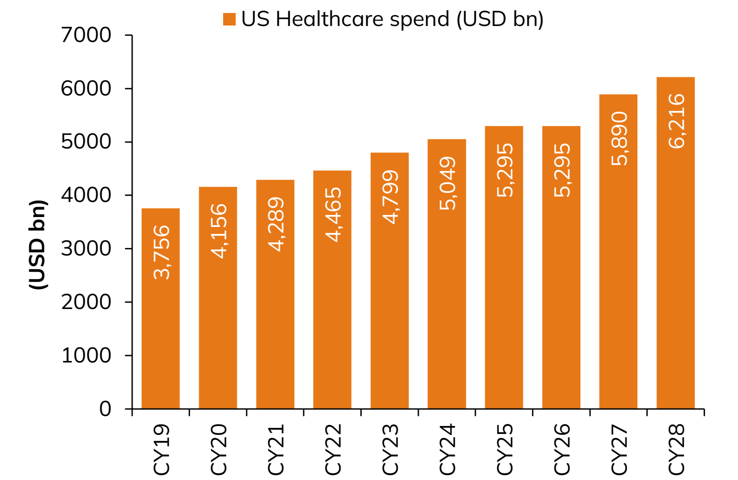
As per IMF, US GDP is expected to grow at a CAGR of 4.2% from CY24 to CY28. US has remained one of the top economies in the world with a per capita GDP of USD 80,980 in 2023. The economy saw a robust rebound in the post-pandemic years of 2021 and 2022 with growth rates of 10.7% and 9.1%, respectively, before stabilising at 6.3% in 2023. US has 26.1% share of global GDP and shall account for 25.3% of world GDP by 2028. US Healthcare expenditure forms 17% of GDP and is expected to grow at a 5.3% CAGR between CY23–28.

Exhibit 48: US GDP growth strong...



Source: I-Sec research, RHP

Exhibit 49: .. out of which healthcare spending to continue to grow



Source: I-Sec research, RHP

US national health expenditure on the rise

Megatrends shaping the US healthcare market

US economy is at the forefront of technology in many industries, but it faces rising threats in the form of economic inequality, rising healthcare and social safety net costs, and deteriorating infrastructure (source: RHP).

Exponential rise in health data: Everything is now being digitised through new devices, apps, and monitoring technologies, which are tracking, analysing, and storing massive amounts of data. Health data doubles every three to four years (source: RHP).

Shift towards value-based care: Value-based care focuses on patient outcomes, quality, and cost-effectiveness in healthcare. It is projected to constitute 50% of Medicaid contracts by 2025, marking a shift from the traditional fee-for-service model, where patients paid for individual services (source: RHP). A study by McKinsey found that investment in value-based care jumped four times from 2019 to 2021. In a survey conducted by HCP LAN in 2023, nearly 25% of the payments came from value-based imbuement model.

Rising medical costs in US: US leads the global charts with the highest per capita healthcare spending, reaching USD 12,555 in 2022. This is significantly ahead of Switzerland (USD 8,049), Germany (USD 8,011), Norway (USD 7,771), and Austria (USD 7,275). The primary drivers behind these elevated healthcare costs include physicians' salaries, pharmaceutical expenses, and administrative overhead.

Widening supply-demand gap of healthcare professionals*:* WHO predicts a global shortage of 12.9mn healthcare professionals by 2035. This aligns with 2021 OECD data highlighting a substantial healthcare gap in the US, where only 2.7 physicians are available for every 1,000 patients. The Association of American Medical Colleges predicts a physician shortage of 23,000, with states like Florida, Texas, California, Georgia, Missouri, Ohio, and Alabama facing the most pronounced shortfalls.

Shrinking margins: Widespread labour shortages and ongoing supply chain challenges continued to drive up year-over-year adjusted expenses. Health systems are looking to bridge the gap through technological changes.

Increasing consolidation in the industry: Increasing number of hospitals and other healthcare facilities/organisations are looking to consolidate operationally to provide greater access and expertise to patients, and to improve overall costs by combining finances. Changes of ownership have been much more common in nursing homes than hospitals over the past six years.

Increase in health care consumerism: Healthcare providers and organisations are rethinking their business models and making extensive changes across consumer touch points. This comes with the promise of easy online scheduling, digital doctor-patient communication tools, and secure online access to medical records and bill-pay capabilities. Staffing includes skilled specialists and promotion includes brand-positive messaging dedicated to enhancing the consumer experience.

Non-traditional competition in health care: The traditional outpatient environment is facing increased pressures from retail health clinics like Walmart and other non-traditional competitors such as Amazon and companies in the Provider Enablement Tech Solutions space. Mobile apps are offering real-time video chats for on-demand and at-home healthcare services. Market disruptors like CityMD, Teladoc, etc., direct-to-consumer tactics of pharmaceutical companies and product/device manufacturers are now competing for the consumers' discretionary dollar. The quality of marketing has matured, becoming more skilful and sophisticated as healthcare professionals work to differentiate their business from their competitors effectively.

Focus on health equity: Health equity is the absence of avoidable differences among socioeconomic and demographic groups or geographical areas in health status and health outcomes such as disease or mortality; for example, among senior citizens, racial minorities, immigrants, lower-income groups, and rural populations. The pandemic highlighted the impact of social determinants of health on the ability of individuals to avoid infection and access quality care, even though these are by no means a new concept. These health-related social needs lead to gaps in care, especially among at-risk populations. Access to care through stable health insurance coverage can influence prevention and management of chronic diseases. The US government has identified equity as a priority and developed Equity Action Plans for delivering equitable health outcomes.

Key trends in US healthcare

- **Digital transformation:** Healthcare is going through a significant change driven by digital transformation. It is not just about adopting new technologies, but a fundamental shift that redefines how IKS provides patient care and manages operations. This shift towards innovation paves the way for a more connected and data driven healthcare. Technologies such as Internet of Things (IoT)/wearables, blockchain, cloud/analytics, RPA, and AI/Machine Learning (ML) play a significant role in shaping this new era of healthcare. These advancements aim to enhance medical services, making them more efficient and improving the overall healthcare experience for both patients and providers. The key technologies driving the transformation are: AI/ML, Cloud, RPA, IoT/ Wearables, Blockchain.

- **Patient pre-visit**

  - **Dominance of online appointments:** Changing consumer preferences and increasing digitisation has compelled healthcare providers to adopt online booking as more than half of millennials and Gen X'ers say they would switch providers for the ability to book appointments online.

  - **Adoption of automated appointment reminders:** The use of automated appointment reminders, via text or call, enables healthcare facilities to manage patient flow, reduce cancellation, and help in proper staffing of physicians.

  - **Health information systems improving patient referral system:** Health information exchanges let doctors share digital medical records of patients. They have been of key importance in the US healthcare system since the 2009 Health Information Technology for Economic and Clinical Health Act. Exchanges can give big benefits to patients and insurance companies by improving healthcare quality and reducing costs. Joining an exchange leads to 44% to 46% more referrals to and from other members.

- **Diagnostics and treatment, administration and management, post-treatment follow up are the next steps in the journey of healthcare.**

Shareholding pattern

Promoters own 64% of the company post IPO.

Exhibit 50: Shareholding pre and post IPO

No. of shares (in mn)	Pre IPO	Post IPO
Sachin Gupta	29	24
Jhunjhunwala family	90	85
Public	47	58
Employee Trust	5	5

Source: I-Sec research, Company data

Senior Management

Exhibit 51: Key Management Personnel

Name	Designation	Qualification and remarks
Sachin Gupta	Founder and CEO	He holds a Bachelor's degree in Engineering (computer) from the University of Pune. He is also a member of the Young Presidents' Organisation. He has over 16 years of experience in business management. In the past, he has been associated with Seletica Configurators India Private Limited, Majoris Systems Private Limited and Lionbridge Technologies, Inc. and has prior experience in software and business development.
Nithya Balasubramanian	CFO	She holds a Bachelor's degree of Engineering in Electrical and Electronical Engineering from the Birla University of Technology & Science, Rajasthan, and a Post Graduate Diploma in Management from Indian Institute of Management, Bangalore. She has over 16 years of experience in the field of marketing. She has previously worked with McKinsey & Company, Inc., Cipla Limited and Alliance Bernstein Business Services Pvt Ltd. She is responsible for the global financial operations, administration and facilities, ERP, investor relations, and the overall business strategy of the company. She was appointed as the Chief Financial Officer on May 15, 2024.
Sameer Chavan	Company Secretary and Compliance Officer	He holds a Bachelor's degree in Commerce from Kirti College, University of Mumbai, a Bachelor's degree in Law from New Law College, University of Mumbai and a Master's degree in Commerce from the Institute of Distant Education, University of Mumbai. He holds a Certificate of Membership as a Fellow from the Institute of Company Secretaries of India and as a Fellow member of the Chartered Governance Institute UK & Ireland. He has 16 years of experience in secretarial compliance. He has previously worked with Poonawala Fincorp Limited, IndoStar Capital Finance Limited, UFO Moviez India Limited, PAE Limited and Shreyas Relay Systems Limited. He joined the Company on September 29, 2023.
Abhay Kumar Srivastava	CHRO	He holds a bachelor's and master's degree in arts (history) from University of Delhi and master's in personnel management from Symbiosis Institute of Management, Pune. He has over 14 years of experience in the fields of people management, organisational development and talent. He has previously worked with Dr. Reddy's Laboratories Limited, Piramal Enterprises Limited, Cipla Ltd. and Ordnance Factory Board Kolkata. He joined the Company on November 12, 2020. He is responsible for talent management and executive compensation, executive leadership, talent acquisition and corporate communication of IKS Group.
Sameer Arora	Chief Marketing Officer	He holds a Bachelor's degree in Engineering (production branch) from V.J. Technical Institute and a Post Graduate Diploma in Management from Indian Institute of Management, Bangalore. He has over 26 years of experience in the fields of professional services (management and technology consulting, IT and IT enabled services. He has previously worked with Syntel Pvt Ltd. and Accenture India Pvt Ltd. He joined the company on September 22, 2023. He is responsible for business strategy and communication of the company.
Grace Terrell	Chief Medical Officer	She holds a Bachelor's degree in Arts (religion) from the University of North Carolina at Chapel Hill, a Degree of Medicine from Duke University and a Degree of Master of Medical Management from Carnegie Mellon University. She has completed her Residency in Internal Medicine from the Bowman Gray School of Medicine of Wake Forest University and the North Carolina Baptist Hospitals, Incorporated. Further, she has also completed her Residency in Pathology from Duke University.
Shane Hsuing Peng	Chief Clinical Services and Innovation Officer	He holds a Bachelor's degree in Science and a Doctor of Medicine degree from McMaster University. He has been granted certifications in Family Medicine and Special Competence in Emergency Medicine by the College of Family Physicians of Canada. He has been designated as a Certified Independent Medical Examiner by the American Board of Independent Medical Examiners. He has been certified as a Diplomate of the American Board of Family Practice for the period 1998 to 2005.
Peter Limeri	Chief Operating Officer	He holds a Bachelor's degree in Business Administration from Seton Hall University. He was previously associated with PRGX Global Inc. as its Chief Financial Officer and is on the Board of Directors of MAP International, a non-profit organisation.
Vijay Venkatesan	Chief Technology Officer	He is the Executive Vice President and Chief Technology Officer of IKS Inc. He holds a Bachelor's degree of Science in Computer and Information Science and a Master's degree in Business Administration from the University of Michigan. He was previously associated with Sutter Health, Providence Health & Services and Horizon Healthcare Services.

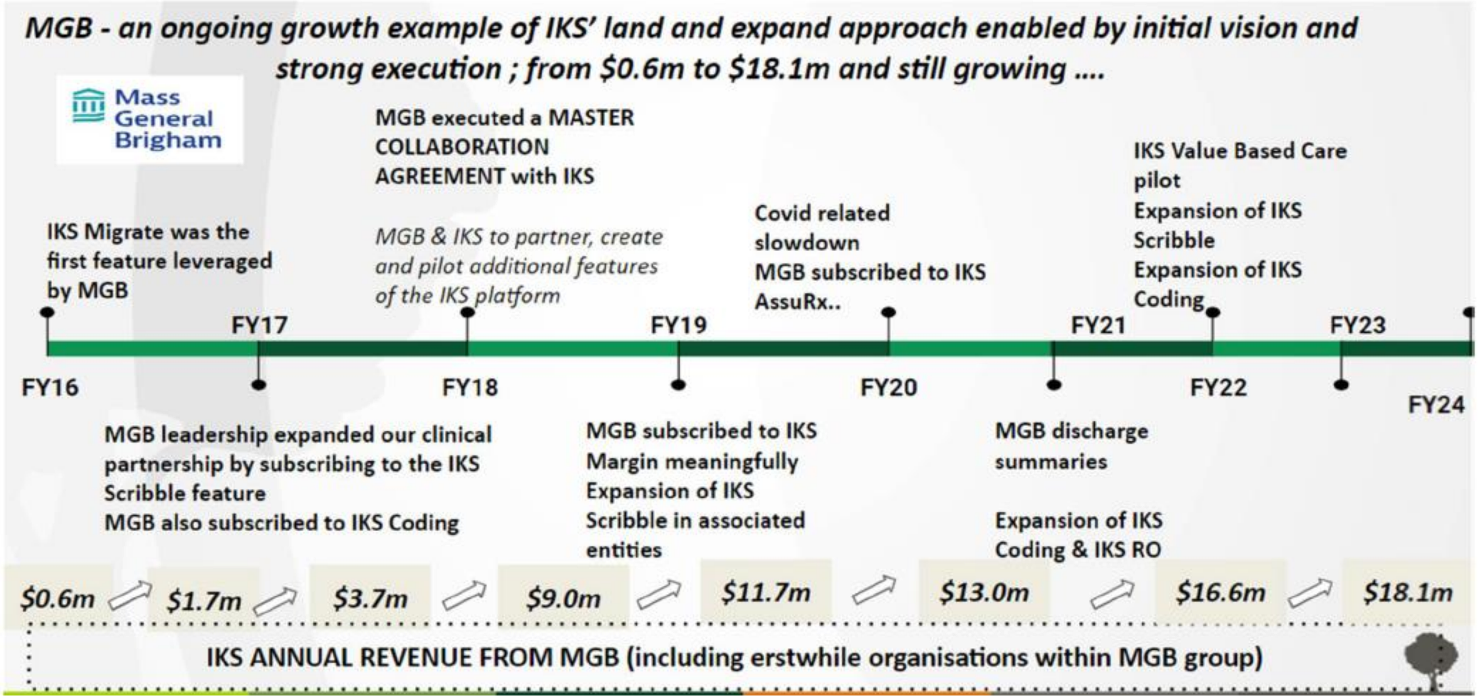
Source: I-Sec research, Company data

Case studies of key clients

Case study 1: MGB – land and expand approach implemented

IKS has been able to grow the MGB account from USD 0.6mn to USD 18.1mn+ through upselling the features. IKS started with the first feature of IKS Migrate, eventually upselling other platform features i.e. IKS Margin, Scribble, Value based care, IKS coding and the journey still continues.

Exhibit 52: Client mining led by 'land and expand' approach



Source: I-Sec research, Company data

Case study 2: JV with radiology partners: A big win

Radiology partners is the largest consolidation of radiology physicians in US with 3,000 radiologist and USD 3.5bn in revenue. IKS is working on creating a virtual radiology model to improve productivity by 25–30%, creating USD 600–700mn worth of benefits per year. When the model is created at a significant scale, the model shall be turned into a JV where both Radiology Partners and IKS would take it to the market together across the US radiology market.

Case study 3: Palomar Health: A unique deal structure

Palomar Health is the most recent (won in Q3FY25) and one of the key deal wins. It is USD 1bn in size and is being offered the full platform offerings of IKS Health. This is in line with IKS' current strategy of full platform penetration. In a unique deal structure, IKS is giving advance of USD 16.5mn upfront to Palomar Health as a guarantee of cost savings that it would be able to provide to Palomar in the 15 years of deal tenure.

Beyond the first USD 16.5mn, the extra gains that follow will be shared with IKS by Palomar, resulting in non-linearity in revenue growth and margin expansion for IKS.

Exhibit 53: Awards and recognition

2024 Black Book Market Surveys
Top Ranked for Clinical Documentation and Medical Coding Services Awards - August 2024

2025 Best in KLAS
for Medical Transcription Services - February 2025

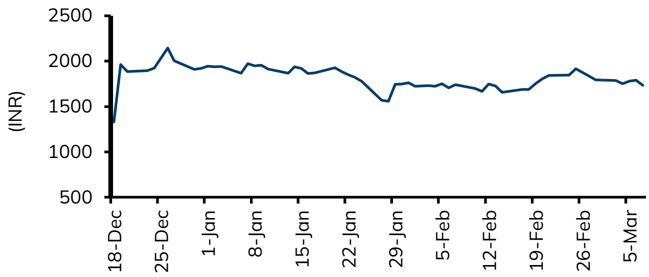
The M&A Advisor: 15th International M&A Awards
Healthcare/ Life sciences deal of the year (>100 MM)
Acquisition of AQuity Solutions by IKS Health - September 2024

Exhibit 54: Shareholding pattern

%	Dec'24
Promoters	63.7
Institutional investors	9.9
MFs and other	1.9
Banks/ FIs	2.2
Insurance Cos.	0.3
FIIs	5.5
Others	26.4

Source: Bloomberg, I-Sec research

Exhibit 55: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 56: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales (USD mn)	**219**	**317**	**377**	**453**
Net Sales (INR. mn)	**18,179**	**26,809**	**32,811**	**39,401**
Operating Expense	13,062	19,180	22,800	26,982
EBITDA	**5,203**	**7,629**	**10,012**	**12,419**
EBITDA Margin (%)	28.6	28.5	30.5	31.5
Depreciation & Amortization	585	1,117	1,188	1,288
EBIT	4,618	6,512	8,824	11,131
Interest expenditure	601	926	825	565
Other Non-operating Income	400	262	265	502
Recurring PBT	**4,417**	**5,998**	**8,264**	**11,068**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	712	1,229	1,735	2,435
PAT	3,705	4,769	6,528	8,633
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**3,705**	**4,769**	**6,528**	**8,633**
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	**3,705**	**4,769**	**6,528**	**8,633**

Source Company data, I-Sec research

Exhibit 57: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	7,467	11,999	16,378	18,889
of which cash & cash eqv.	1,438	3,894	7,379	10,050
Total Current Liabilities & Provisions	3,858	4,865	5,841	6,953
Net Current Assets	**3,609**	**7,134**	**10,537**	**11,936**
Investments	1,954	2,030	2,110	2,193
Net Fixed Assets	521	955	1,662	2,708
ROU Assets	1,041	783	504	181
Capital Work-in-Progress	8	8	8	8
Goodwill	11,683	11,683	11,683	11,683
Other assets	2,499	2,499	2,499	2,499
Deferred Tax Assets	-	-	-	-
Total Assets	**26,418**	**29,562**	**32,841**	**34,414**
Liabilities				
Borrowings	**8,123**	**6,499**	**3,249**	**-**
Deferred Tax Liability	**1,479**	**1,479**	**1,479**	**1,479**
provisions	173	173	173	173
other Liabilities	76	76	76	76
Minority Interest	-	-	-	-
Equity Share Capital	169	169	169	169
Reserves & Surplus*	11,409	16,178	22,707	31,340
Total Net Worth	**11,579**	**16,348**	**22,876**	**31,509**
Total Liabilities	**26,418**	**29,562**	**32,841**	**34,414**

Source Company data, I-Sec research

Exhibit 58: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
CFO before WC changes	5,402	7,378	9,717	12,858
CFO after WC changes	**1,163**	**7,235**	**10,623**	**14,696**
Capital Commitments	(264)	(661)	(984)	(1,379)
Free Cashflow	**1,831**	**5,345**	**7,903**	**10,882**
Other investing cashflow	(13,141)	(338)	(344)	(585)
Cashflow from Investing Activities	**(13,406)**	**(999)**	**(1,329)**	**(1,964)**
Issue of Share Capital	(341)	(926)	(825)	(565)
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Cash flow from Financing Activities	**7,952**	**(2,550)**	**(4,074)**	**(7,625)**
Dividend paid	(1,655)	-	-	-
Others	30	-	-	-
Chg. in Cash & Bank balance	**(3,358)**	**2,456**	**3,485**	**2,672**
Closing cash & balance	1,438	3,894	7,379	10,050

Source Company data, I-Sec research

Exhibit 59: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	22.1	28.7	39.2	51.9
Diluted EPS	22.1	28.7	39.2	51.9
Cash EPS	25.6	35.4	46.4	59.6
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	69.2	98.2	137.5	189.3
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	76.3	47.5	22.4	20.1
EBITDA	33.0	46.6	31.2	24.0
EPS	22.2	29.4	36.9	32.2
Valuation Ratios (x)				
P/E	78.2	60.4	44.2	33.4
P/CEPS	67.5	49.0	37.4	29.1
P/BV	25.0	17.6	12.6	9.1
EV / EBITDA	57.5	38.5	28.6	22.3
P/S	16.0	10.8	8.8	7.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
EBITDA Margins (%)	28.6	28.5	30.5	31.5
EBIT Margins (%)	25.4	24.3	26.9	28.3
Effective Tax Rate (%)	16.1	20.5	21.0	22.0
Net Profit Margins (%)	20.4	17.8	19.9	21.9
Inventory Turnover Days	0.1	0.1	0.1	0.1
Fixed Asset Turnover (x)	49.7	35.9	24.9	18.0
Receivables Days	53	62	66	58
Payables Days	9	8	7	8
Working Capital Days	70	37	36	23
Net Debt / EBITDA (x)	1.7	0.6	(0.2)	(1.0)
Profitability Ratios				
RoCE (%)	27.7	24.3	28.5	30.1
RoIC (%)	19.9	25.4	34.3	44.5
RoNW (%)	37.3	34.2	33.3	31.7

Source Company data, I-Sec research

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