

Apollo Hospitals

SELL

CMP Rs1,388

Target Rs1,180

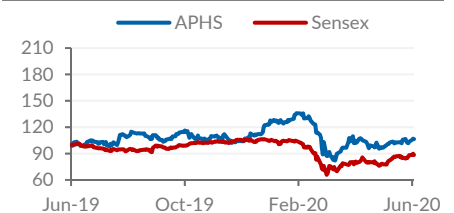
Downside 15.0%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ Management guided to 25-30% reduction in costs (lower rentals, marketing expenses) in the near term while effort to reduce costs by 15% in the long term with focus to prune COGS, staff and travel expenses ✓ Focus on micro-markets, home care and scaling up pharmacy to 5k stores and Rs50bn in revenues ✓ 48% occupancy in June with non-COVID hospitals slowly limping back to normalcy ✓ Debt reduction of Rs3bn in FY21, partly offset by additional debt of Rs1.5bn due to COVID ✓ FY20 ended on strong note with 17% rise in Q4 revenues, 36% growth in EBIDTA; one-offs included proceeds from stake sale in Apollo Munich (~Rs1.6bn) and write off in Lavasa (Rs321mn)
Our View	<ul style="list-style-type: none"> ✓ FY21 estimates could see sharp downgrades; remain ~30% below consensus ✓ Extent of cost cuts highlights a pressing need to protect margin which implies materially lower growth than is being factored by the street. ✓ New hospitals account for 24% of total hospitals revenues Apollo more sensitive to recovery in elective surgeries compared to Narayana
Valuation	<ul style="list-style-type: none"> ✓ Ascribe 9x EV/EBIDTA to FY22 EBIDTA and 1x EV/sales each to pharmacy and AHLL businesses; significantly below consensus on valuation given the subpar operating metrics
Risk to our call	<ul style="list-style-type: none"> ✓ Lower than expected decline FY21 margin would boost earnings and comfort on multiples

Stock data (as on June 26, 2020)

Sensex:	35,171
52 Week h/l (Rs)	1,814 /1,047
Market cap (Rs/USD mn)	1936,100/2,541
Outstanding Shares	140
6m Avg t/o (Rs mn):	729
Div yield (%):	0.6
Bloomberg code:	APHS IN
NSE code:	APOLLOHOSP

Stock performance



	1M	3M	1Y
Absolute return	6.7%	19.6%	6.5%

Shareholding pattern (As of Mar20 end)

Promoter	30.8%
FII+DII	61.7%
Others	8.5%

Δ in earnings estimates

	FY21e	FY22e
EPS (New)	14.2	44.2
EPS (Old)	15.2	44.0
% change	-6.6%	0.4%

Exhibit 1: Result table

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Revenues	29,224	29,117	0.4	24,995	16.9
RM + inventory changes	(4,270)	(4,347)	(1.8)	(4,265)	0.1
Purchase of goods	(10,441)	(9,825)	6.3	(7,722)	35.2
Staff	(4,755)	(4,754)	0.0	(4,256)	11.7
Other expenses	(5,958)	(5,892)	1.1	(5,956)	0.0
OPM (%)	13.0	14.8	(176) bps	11.2	182 bps
Depreciation	(1,639)	(1,573)	4.2	(1,049)	56.2
Interest	(1,352)	(1,374)	(1.6)	(854)	58.3
Tax	(740)	(554)	33.7	-391	89.3
Exceptional/Associate share	1,987	4	-	109	1,724.6
PAT	2,097	899	133.2	729	187.8

Source: Company, YES Sec - Research

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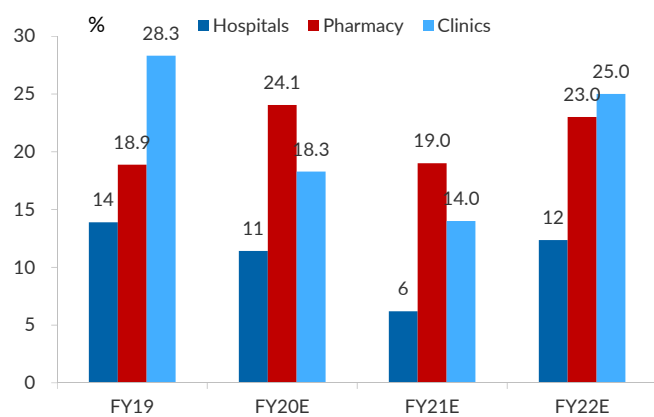
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CON-CALL HIGHLIGHTS

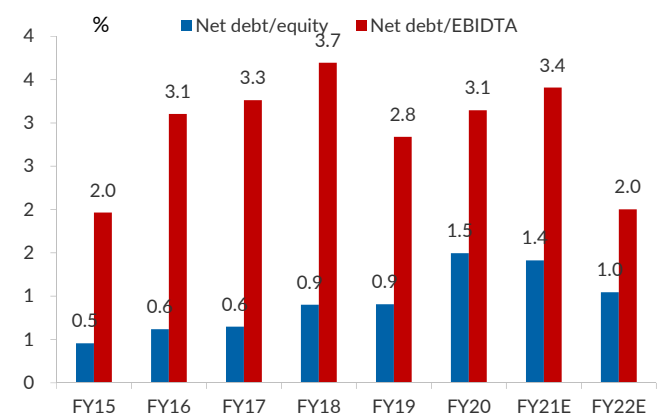
- ✓ 15% lower costs in the medium term after immediate 25-30% reduction in costs spread over few quarters –got a waiver for 3 months rentals and efforts underway to get it waived for whole year. Cut in marketing expenses. Longer term looking at COGS, staff and travel costs and committed to 15% reduction
- ✓ Near term outlook appears challenging
- ✓ Select focus on micro markets, 5k stores with Rs50bn revenues in pharmacy and home care are strategic focus areas
- ✓ 48% occupancy in June; non-covid hospitals slowly limping back to normal occupancy
- ✓ Debt reduction of Rs3bn in Apollo Pharmacy and on net basis down Rs1.5bn after increase due to covid
- ✓ Medical tourism patients account for 15-20% of OPD revenues

Exhibit 2: Growth forecast across segments



Source: Company, YES Sec – Research

Exhibit 3: FY22 cash flows key to reducing debt/EBIDTA



Source: Company, YES Sec – Research

Exhibit 4: Apollo Hospitals: SOTP valuation

Valuation	Method	Multiple	FY22 EV (Rs mn)
Hospitals	EV/EBIDTA	9.0	125,672
Pharmacy	EV/sales	1.0	70,559
AHLL	EV/sales	1.0	9,924
Net debt (FY22, Rs mn)			(38,543)
Target Mcap			167,612
No of shares (mn)			139
Target price (Rs)			1,180
CMP (Rs)			1,388
Downside (%)			(15.0)

Source: Company, YES Sec – Research

FINANCIALS

Exhibit 5: Balance sheet

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Equity capital	696	696	696	696	696
Reserves	31,819	32,639	32,699	32,762	36,994
Net worth	32,515	33,335	33,394	33,457	37,690
Minority Interest	1,320	1,354	1,306	1,306	1,306
Debt	34,051	34,434	55,331	51,831	44,831
Def. tax lia.	2,565	3,149	2,943	2,943	2,943
Total liabilities	70,451	72,271	92,974	89,537	86,770
Goodwill	3,462	3,462	3,462	3,462	3,462
Fixed assets	51,315	54,506	73,206	68,154	63,476
Investments	8,971	10,870	9,741	9,741	9,741
Net working capital	6,532	3,260	6,069	7,685	9,595
Def Tax assets	171	173	496	496	496
Inventories	5,658	5,847	7,378	8,313	9,802
Sundry debtors	8,251	10,232	10,270	11,572	13,644
Cash	4,754	4,233	5,422	4,582	5,474
Other current assets	3,538	2,499	3,401	5,069	5,977
Sundry creditors	(9,852)	(12,112)	(9,083)	(10,234)	(12,067)
Other current liabilities	(5,818)	(7,439)	(11,319)	(11,617)	(13,236)
Total assets	70,451	72,271	92,974	89,537	86,770

Source: Company, YES Sec – Research

Exhibit 6: Income statement

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	82,434	96,173	112,468	126,727	149,420
Operating profit	7,933	10,637	15,871	13,865	19,671
Depreciation	(3,590)	(3,955)	(6,200)	(6,096)	(6,178)
Interest expense	(2,950)	(3,270)	(5,327)	(5,090)	(4,591)
Other income	321	310	270	270	270
Profit before tax	1,714	3,722	4,614	2,949	9,172
Taxes	(1,119)	(1,733)	(2,250)	(973)	(3,027)
Adj. profit	595	1,989	2,364	1,976	6,145
Exceptional items	0	0	1,949	0	0
Net profit	595	1,989	4,313	1,976	6,145

Source: Company, YES Sec – Research

Exhibit 7: Cash flow statement

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Profit before tax	1,714	3,723	4,614	2,949	9,172
Depreciation	3,590	3,955	6,200	6,096	6,178
Def. tax lia.	1,465	582	(529)	-	-
Tax paid	(1,119)	(1,733)	(2,250)	(973)	(3,027)
Working capital Δ	3,841	2,750	(1,620)	(2,456)	(1,018)
Other operating items	-	-	1,949	-	-
Operating cashflow	9,491	9,276	8,364	5,616	11,305
Capital expenditure	(8,407)	(7,146)	(24,900)	(1,044)	(1,500)
Free cash flow	1,084	2,131	(16,536)	4,572	9,805
Equity raised	(3,817)	(356)	(2,748)	(0)	(0)
Minority Interest	(844)	34	(48)	-	-
Investments	(977)	(1,899)	1,129	-	-
Debt financing/disposal	3,832	383	20,897	(3,500)	(7,000)
Dividends	(977)	(814)	(1,506)	(1,913)	(1,913)
Net Δ in cash	(1,698)	(521)	1,189	(840)	892

Exhibit 8: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Tax burden (x)	0.35	0.53	0.51	0.67	0.67
Interest burden (x)	0.37	0.53	0.46	0.37	0.67
EBIT margin (x)	0.06	0.07	0.09	0.06	0.09
Asset turnover (x)	1.03	1.13	1.14	1.17	1.39
Financial leverage (x)	2.31	2.59	2.96	3.24	3.03
RoE (%)	1.7	6.0	7.1	5.9	17.3

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY18	FY19	FY20E	FY21E	FY22E
Growth matrix (%)					
Revenue growth	13.6	16.7	16.9	12.7	17.9
Op profit growth	8.9	34.1	49.2	(12.6)	41.9
EBIT growth	6.7	49.9	42.2	(19.1)	71.2
Net profit growth	(32.9)	234.3	116.8	(54.2)	211.1
Profitability ratios (%)					
OPM	9.6	11.1	14.1	10.9	13.2
EBIT margin	5.7	7.3	8.8	6.3	9.2
Net profit margin	0.7	2.1	2.1	1.6	4.1
RoCE	6.6	9.8	12.0	8.8	15.6
RoNW	1.7	6.0	7.1	5.9	17.3
RoA	0.7	2.3	2.4	1.8	5.7
Per share ratios					
EPS	4.3	14.3	17.0	14.2	44.2
Dividend per share	6.0	5.0	11.8	11.8	11.8
Cash EPS	30.1	42.7	61.6	58.0	88.6
Book value per share	233.7	239.6	240.0	240.5	270.9
Valuation ratios (x)					
P/E	323.2	96.6	44.8	97.7	31.4
P/BV	5.9	5.8	5.8	5.8	5.1
M Cap/Sales	2.3	2.0	1.7	1.5	1.3
EV/EBIDTA	28.0	21.0	15.3	17.3	11.8
Payout (%)					
Tax payout	65.3	46.6	48.8	33.0	33.0
Dividend payout	164.1	40.9	44.3	96.8	31.1
Liquidity ratios					
Debtor days	37	39	33	33	33
Inventory days	25	22	24	24	24
Creditor days	27	27	29	29	29
Leverage ratios					
Interest coverage	1.6	2.1	1.9	1.6	3.0
Net debt / equity	0.9	0.9	1.5	1.4	1.0
Net debt / op. profit	3.7	2.8	3.1	3.4	2.0

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