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Hospitals to maintain Q2 momentum...

Hospitals are expected to maintain the growth momentum in Q3FY22 with a marginal decline on a QoQ basis mainly due to the overheated Q2FY22, which mainly benefited from pent-up demand from elective surgeries. The hospital business saw a rebound in Q2FY22 with patient visit resulting in higher occupancy and elective procedures commanding higher margins. We expect this trend to continue in Q3FY22 amid some marginal decline due to loss in Covid revenue. We expect the I-direct hospital universe (three coverage companies) to post marginal 2.2% QoQ decline in revenue to ₹ 7007.5 crore.

EBITDA to increase 4.3% QoQ; margins at ~16.9%

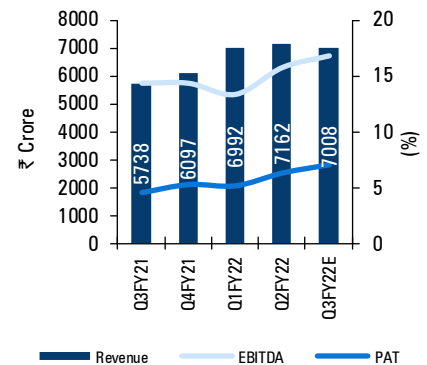
EBITDA of the I-direct hospital universe is expected to increase 4.3% QoQ to ₹ 1174.6 crore. EBITDA margins are likely to remain healthy at ~ 16.9%, with hospitals likely to maintain the ARPOB levels of Q2FY22 at similar occupancy. Cost rationalisation measures implemented during Covid are likely to continue to benefit margins.

On the companies front, Aster DM is likely to post a 254bps QoQ increase in EBITDA margins due to likely normalisation in GCC operations.

Adjusted PAT to increase 9.2% QoQ

Adjusted PAT of the I-direct hospital universe is expected to grow ~ 9.2% QoQ to ₹ 496 crore.

Topline & Profitability (Coverage Universe)



Expected margins in hospitals

EBITDA Margins	Q3FY22E	Q3FY21	Q2FY22
Apollo Hospitals	17.0%	14.1%	16.5%
Narayana Hrudaya	17.6%	14.0%	18.0%
Aster DM	16.2%	14.7%	14.7%
Total	16.9%	14.3%	16.4%

Top Picks

Apollo Hospitals

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Exhibit 1: Estimates for Q3FY22E

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	Q3FY22E	YoY	QoQ	Q3FY22E
Apollo Hospitals	3616.8	31.1%	-2.7%	613.3	57.1%	-0.3%	261.8	100.7%	5.6%			
Aster DM	2494.0	12.0%	-0.4%	404.7	23.4%	18.1%	155.8	68.5%	45.7%			
Narayana Hrudaya	896.7	19.5%	-4.6%	156.6	49.2%	-7.3%	78.5	92.4%	-21.0%			
Total	7007.5	22.1%	-2.2%	1174.6	42.7%	4.3%	496.0	88.1%	9.2%			

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific view

Company	Remarks
Apollo Hospitals	Revenues are likely to see a marginal decline of 2.7% QoQ to ₹ 3616.8 crore mainly due to some Covid contribution in Q2FY22. Hospitals are likely to decline 2.3% QoQ to ₹ 2,118.2 crore (up 4.4% QoQ ex-Covid revenue in Q2FY22) while pharmacy is expected to decline 4.6% QoQ to ₹ 1113.8 crore. AHLL is likely to remain steady QoQ at ₹ 384.7 crore. EBITDA margins are likely to increase 41 bps QoQ to 17% while EBITDA is expected to be steady QoQ at ₹ 613.3 crore. Adjusted PAT is expected to increase 5.6% QoQ to ₹ 261.8 crore
Aster DM	Revenues are likely to post a marginal decline of 0.4% QoQ to ₹ 2494 crore. Aster's GCC operations are expected to grow 2.2% QoQ to ₹ 2034.7 crore while the India business is likely to decline 8.4% QoQ to ₹ 557.7 crore on the back of shrinking Covid opportunities in Q3FY22. EBITDA margins are likely to increase 254 bps QoQ to 16.2% while EBITDA is expected to grow 18.1% QoQ to ₹ 404.7 crore. Net profit is expected to be up 45.7% QoQ to ₹ 155.8 crore
Narayana Hrudayalaya a	Revenues are likely to de-grow 4.6% QoQ to ₹ 896.7 crore, mainly due to Covid related revenue in the base. EBITDA margins are likely to remain steady QoQ at 17.5% as elective procedures are likely to continue in line with Q2FY22 narrative. EBITDA is expected to decline 4.6% QoQ to ₹ 896.7 crore while net profit is expected to decline 21% QoQ to ₹ 78.5 crore. Delta vis-a-vis EBITDA is likely due to higher tax and lower other income

Source: Company, ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Hospitals)

Exhibit 5: IFCR Direct Coverage Universe (Hospitals)																					
Company	I-Direct	CMP	TP	Rating	M Cap	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
	Code	(₹)	(₹)		(₹ cr)	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Hospitals																					
Apollo Hospitals	APOHOS	4993	5,930	Buy	72177	22.6	7.9	72.9	99.4	222.3	638.6	68.8	50.5	10.2	6.3	18.1	21.7	9.7	2.5	18.6	20.9
Narayana Hrudalaya	NARHRU	626	650	Buy	13142	6.4	-0.7	16.4	18.3	101.3	NA	39.3	35.2	11.0	1.2	17.5	18.4	11.4	-1.3	23.3	20.9
Shalby	SHALIM	147	170	Hold	1587	2.6	3.9	4.3	5.7	57.5	37.4	33.8	25.9	7.2	6.5	8.9	8.8	3.5	5.1	5.4	6.7
Aster DM	ASTDM	183	250	Buy	9191	5.7	3.0	10.6	17.2	32.3	62.2	17.4	10.7	7.2	5.4	8.7	12.1	8.7	4.4	13.5	18.0
Healthcare Global	HEAGLO	245	240	Hold	3027	-12.0	-21.7	15.6	8.4	NA	NA	15.5	28.6	1.0	-0.9	7.6	10.4	NA	NA	NA	7.2

Source: ICICI Direct Research

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