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Buoyancy to sustain despite initial Omicron scare...

Hospitals had to deal with the Omicron Covid wave in the first half of Q4 but since the reported hospitalisation rate was significantly lower than Delta variant, we expect occupancy levels to have recovered swiftly. Amid optical initiatives like tele-consultation, digital app based drives for treating patients at remote locations, zoning of patients besides higher focus on insurance/out of pocket payees, we expect the hospitals universe to maintain Q3FY22 momentum, if not surpass it.

Primarily IPD (surgeries and diagnostics) contribute bulk of revenues to hospitals, which would have taken mild downturn during the peak of Omicron wave in this quarter. Had it not been the initial Omicron fracas the sequential growth expectation could have been slightly better. International patient mix is expected to be below pre-Covid level due to continued curbs on inbound airlines.

I-Direct hospitals are expected to report sequentially flattish quarter mainly due to Covid led loss of revenue, which is likely to be offset by pent-up demand from elective surgeries. We expect the I-direct hospitals universe to post QoQ flat revenues at ₹ 7761.7 crore.

EBITDA to increase 2.4% QoQ; margins at ~16.5%

Post the onset of Covid, hospitals rather than keeping doctors on fixed payroll, have increasingly adopted margin accretive model wherein doctors share a percentage of consulting fee and IPD income, for surgeries done in the hospital premises. In addition, maturing profile of hospitals, reduction in ALOS along with ramp up in occupancy and ARPOB levels have moved the hospitals to a better margin profile. During Q4, hospitals were well equipped operationally to perform electives amid inflow of Covid patient-mix during the Omicron wave.

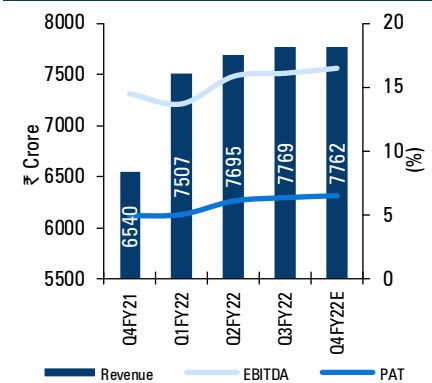
EBITDA of the I-direct hospital universe is expected to increase 2.4% QoQ to ₹ 1279 crore. EBITDA margins are likely to remain healthy at ~ 16.5%.

On the company's front, Aster DM is likely to post a 180 bps QoQ increase in EBITDA margins mainly due to likely normalisation in GCC operations.

Adjusted PAT to increase 2.2% QoQ

Adjusted PAT of the I-direct hospital universe is expected to grow ~ 2.2% QoQ to ₹ 506 crore.

Topline & Profitability (Coverage Universe)



Expected margins in hospitals

EBITDA Margins	Q4FY22E	Q4FY21	Q3FY22
Apollo Hospitals	15.7%	14.4%	16.1%
Narayana Hrudayalaya	18.0%	16.9%	18.2%
Aster DM	16.8%	13.4%	15.0%
Healthcare Global	17.3%	13.5%	17.3%
Shalby	17.8%	21.4%	17.4%
Hospitals Coverage	16.5%	14.5%	16.1%

Expected growth in Pharmacy

Pharmacy (₹ crore)	Q4FY22E	YoY (%)	QoQ (%)
Apollo Hospitals	1,330.6	18.9%	1.8%
Aster DM	614.9	10.0%	1.1%
Total	1,945.5	16.0%	1.6%

Other Segments

(₹ crore)	Q4FY22E	YoY (%)	QoQ (%)
Apollo Hospitals AHLL	336.8	60.0%	7.5%
Aster DM Clinics	645.7	10.0%	1.4%
Total	982.5	23.2%	3.4%

Top Picks

Aster DM
Shalby

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Exhibit 1: Estimates for Q4FY22E

Company	Revenue			EBITDA			PAT		
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
Apollo Hospitals	3613.0	26.0%	-0.7%	566.48	37.6%	-3.5%	215.66	43.4%	-5.6%
Narayana Hrudayalaya	951.2	13.5%	-0.9%	171.1	21.0%	-2.2%	84.1	23.6%	-13.7%
Aster DM	2671.4	11.7%	0.8%	449.4	40.0%	13.2%	191.2	81.4%	28.9%
Healthcare Global	355.5	19.3%	-0.7%	61.6	53.1%	-0.4%	-0.3	NA	PL
Shalby	170.6	17.6%	5.1%	30.4	-2.0%	7.7%	15.4	56.8%	-11.5%
Total	7761.7	18.7%	-0.1%	1279.0	35.3%	2.4%	506.0	55.9%	2.2%

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific view

Company	Remarks
Apollo Hospitals	Revenues are likely to remain flat QoQ at ₹ 3613 crore. Hospitals segment revenues are expected to decline 4% QoQ to ₹ 1946 crore, mainly due to lower realisations during Omicron wave. Pharmacy sales are expected to increase 2% QoQ to ₹ 1331 crore while AHLL business is likely to grow 8% QoQ to ₹ 337 crore. EBITDA margins are likely to decline 45 bps QoQ to 15.7% and EBITDA is expected to post de-growth of 3% QoQ to ₹ 566 crore. Adjusted PAT is expected to decline 5.6% QoQ to ₹ 216 crore
Aster DM	Revenues are expected to remain flat QoQ at ₹ 2671 crore. Aster's GCC operations is expected to grow 2% QoQ to ₹ 2147 crore while the India business is likely to de-grow 5% QoQ to ₹ 586 crore. EBITDA margins are likely to increase 184 bps QoQ to 16.8% due to likely uptick in margins for GCC hospitals. EBITDA is expected to grow 13% QoQ to ₹ 449 crore. Net profit is expected to be up 29% QoQ to ₹ 191 crore
Narayana Hrudayalaya	Revenues are likely to remain flat QoQ at ₹ 951 crore due to quarter being partially impacted by Omicron wave. EBITDA margins are likely to remain steady QoQ at 18% while EBITDA is expected to decline 2% QoQ to ₹ 171 crore. Adjusted profit is expected to decline 13.7% QoQ to ₹ 84 crore. Delta vis-à-vis with EBITDA is expected due to higher tax rate
Healthcare Global	Revenues are likely to remain flat QoQ at ₹ 356 crore with both existing and new centres expected to continue turnaround momentum. EBITDA margins are likely to remain flat QoQ at 17.3% and EBITDA for Q4 is expected to be ₹ 62 crore. HCG is expected to post adjusted loss of ₹ 30 lakh in Q4FY22
Shalby	Revenues are likely to be up 5% QoQ to ₹ 171 crore with both owned hospitals and consensus business expected to grow sequentially. EBITDA margins is expected to increase 43 bps to 17.8%. EBITDA is expected to grow 7.7% QoQ to ₹ 30 crore. Adjusted profit is expected to decline 12% QoQ to ₹ 15 crore. Delta vis-à-vis with EBITDA is expected due to higher tax rate

Source: Company, ICICI Direct Research

Expected growth in Mature Hospitals			
Hospitals	Mature		
(₹ crore)	Q4FY22E	YoY (%)	QoQ (%)
Apollo Hospitals	1377.7	30.0%	-2.4%
Narayana Hrudayalaya	642.3	8.5%	0.7%
Aster DM	1253.1	8.7%	0.8%
Healthcare Global	273.1	13.6%	-0.6%
Shalby*	96.3	60.3%	4.1%
Total	3,642.4	17.3%	-0.5%
Expected growth in New Hospitals			
Hospitals	New		
(₹ crore)	Q4FY22E	YoY (%)	QoQ (%)
Apollo Hospitals	567.9	26.7%	1.7%
Narayana Hrudayalaya	100.4	37.3%	5.4%
Aster DM	219.9	33.2%	2.7%
Healthcare Global	81.4	41.1%	-2.3%
Shalby*	55.4	-34.8%	5.0%
Total	1,025.0	23.7%	2.1%

Shalby*: YoY change in maturity profile

Exhibit 3: ICICI Direct Coverage Universe (Hospitals)

Company	I-Direct	CMP	TP	Rating	M Cap	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
	Code	(₹)	(₹)		(₹ cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21-FY22E	FY23E	FY24E	FY21-FY22E	FY23E	FY24E		
Hospitals																					
Apollo Hospitals	APOHOS	4549	5,480	Buy	65404	7.9	67.2	81.3	105.5	578.7	67.7	55.9	43.1	6.3	16.4	18.2	20.7	2.5	17.5	18.1	19.9
Narayana Hrudalaya	NARHRU	738	765	Buy	15082	-0.7	-0.7	20.1	22.8	NA	NA	36.6	32.4	1.2	1.2	22.4	21.5	-1.3	-1.3	22.3	20.3
Shalby	SHALIM	131	170	Buy	1419	3.9	3.9	5.7	7.2	33.5	33.5	22.9	18.3	6.5	6.5	9.6	10.5	5.1	5.1	6.7	7.9
Aster DM	ASTDM	190	250	Buy	9481	3.0	3.0	17.6	NA	64.2	64.2	10.8	NA	5.4	9.2	12.9	NA	4.4	13.5	18.4	NA
Healthcare Global	HEAGLO	292	240	Hold	3655	-21.7	6.0	3.5	NA	NA	48.6	82.7	NA	-0.9	5.2	7.7	NA	NA	NA	3.4	NA

Source: ICICI Direct Research

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