21 December 2021

Initiating Coverage | Sector: Healthcare

Apollo Hospitals

Multiple growth levers at play

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Apollo Hospitals

BSE SENSEX	S&P CNX
55,822	16,614

CMP: INR4,706 TP: INR5,900 (+25%) Buy

Stock Info

Bloomberg	APHS IN
Equity Shares (m)	144
M.Cap.(INRb)/(USDb)	676.6 / 8.9
52-Week Range (INR)	5931 / 2253
1, 6, 12 Rel. Per (%)	-9/39/78
12M Avg Val (INR M)	3826
Free float (%)	70.2

Financials & Valuations (INR b)

Y/E MARCH	2022E	2023E	2024E
Sales	142.2	166.1	192.7
EBITDA	22.2	24.9	30.1
Adj. PAT	9.5	12.1	16.2
EBITDA Margin (%)	15.6	15.0	15.6
Cons. Adj. EPS (INR)	66.0	84.5	112.4
EPS Gr. (%)	744.3	28.0	33.0
BV/Sh. (INR)	408.5	489.8	599.8
Ratios			
Net D:E	0.1	-0.1	-0.3
RoE (%)	18.5	19.4	21.3
RoCE (%)	13.8	15.6	17.6
Payout (%)	7.2	6.9	5.2
Valuations			
P/E (x)	71.3	55.7	41.9
EV/EBITDA (x)	31.6	27.5	22.2
Div. Yield (%)	0.1	0.1	0.1
FCF Yield (%)	2.3	2.8	3.1
EV/Sales (x)	4.9	4.1	3.5

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	29.8	29.8	30.8
DII	12.5	11.1	14.9
FII	51.5	53.2	47.8
Others	6.1	5.9	6.4

FII Includes depository receipts

Multiple growth levers at play

All healthcare services under one 'APOLLO' roof

Apollo Healthcare Enterprises Limited (AHEL) has become a premier name in the Indian healthcare segment on the back of its centres of excellence across its 30 mature hospitals. Its 13 new hospitals are now nearing maturity, contributing to its growth and profitability. At the same time, AHEL is rapidly strengthening its adjacencies in healthcare services through the Apollo 24|7 platform, which has an unpatrolled reach and turnaround time, powered by its expansive network of 4,300 retail pharmacy stores. We expect its omni-channel differentiated factor to be the preferred mode for online pharmacy going forward, enabling AHEL to garner a ~14% market share in e-pharmacy over the next five years. Additionally, the improving profitability and expansion of Apollo Health And Lifestyle Limited (AHLL) will act as another growth lever, with much promise of growth in this highly efficient business in the future. Considering the multiple growth levers in place to drive its business, we expect AHEL's revenue to grow at CAGR of 16% and earnings to grow at CAGR of 30% over FY22-24 to INR192b/INR16b. We initiate coverage on AHEL with an SOTP-based target price of INR5,900 and a Buy rating.

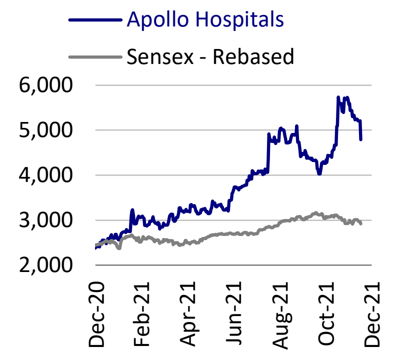
Pharmacy: Building omni-channel pharmacy with strong offline presence

- AHEL's digital health platform's flagship offering, its e-pharmacy, has deep roots due to a 4,300 strong physical store presence, driving not just a wider reach for the company than pure online pharmacies, but also enabling an industry-leading delivery time of two hours. It already has an efficient distribution business in place that supplies exclusively to all its pharmacies.
- With the help of short delivery times through its omni-channel model, AHEL can not only address the chronic drug needs of patients, but also serve a substantial population requiring acute treatment medications - something that pure online pharmacies have failed to achieve.
- We believe that AHEL's current omni-channel model makes the company well-placed to grow its online pharmacy revenues, on the back of an exponential growth of 15x in orders/day and revenue/order CAGR of 11% over the next five years. We believe that AHEL's 24|7 online pharmacy revenues can grow to USD400m by FY25 from ~USD40-50m annualized run-rate currently.
- We expect the pharmacy distribution business to record a CAGR of 17% over FY21-24, on the back of same-store sales growth, higher private label penetration, and new store additions, with benefits from a ramp-up in 24|7 deliveries.

Hospitals: Sufficient scope for sweating existing assets/expanding into new regions

- AHEL is India's leading hospital chain with 71 owned and operated hospitals, 10,000+ bed capacity and 7,800+ operating beds. With hospitals across the country, particularly in the metros and large cities, AHEL has established itself as a leading name in quality care. It has an established presence in southern India with 4,300+ operating beds in this region.

Stock Performance (1-year)



- AHEL's mature hospitals (more than nine years of operation) are already established centers of excellence that provide gold-standard care. Mature hospitals with ~5,300 operating beds and INR35b in revenues (FY21) grew at a 4% CAGR over FY13-21 (8% over FY13-20) after being impacted by COVID in FY21. 13 of AHEL's new hospitals, on the other hand, are now out of their start-up phase and continue to ramp-up, achieving INR20b in revenues and near double-digit margins in FY21, despite the COVID impact.
- We expect 25% CAGR in AHEL's hospital revenues, driven by a 22% CAGR in mature hospitals and 31% in new hospitals over FY21-24. We expect an increase in occupancy, particularly at new hospitals, to drive 50% CAGR in EBITDA over FY21-24, resulting in an EBITDA margin of 24% for the hospital business by FY24.

AHLL – The dark horse in retail care delivery segment

- AHEL has developed key adjacencies in servicing patients' needs across the care continuum and specialties through AHLL. AHLL focuses on the retail healthcare segment, providing specialized healthcare services in a cost-effective manner. Since setting up the first clinic in 2002, AHLL has expanded to add other specialized retail care services such as sugar clinics, dialysis centers, diagnostics, etc.
- With an established presence of ~20 years, AHLL has navigated through the tough times of ramping-up to achieve growth and profitability. Primary care, secondary care, and diagnostics all turned EBITDA-positive in FY21 and will incrementally contribute to margin expansion.
- We expect AHLL to record 33% revenue CAGR over FY21-24, driven by rapid expansion in the diagnostics and primary care segments. We expect EBITDA to grow at 54% CAGR over FY21-24 on the high base of FY21 which benefited from COVID-related testing.

Valuation and View

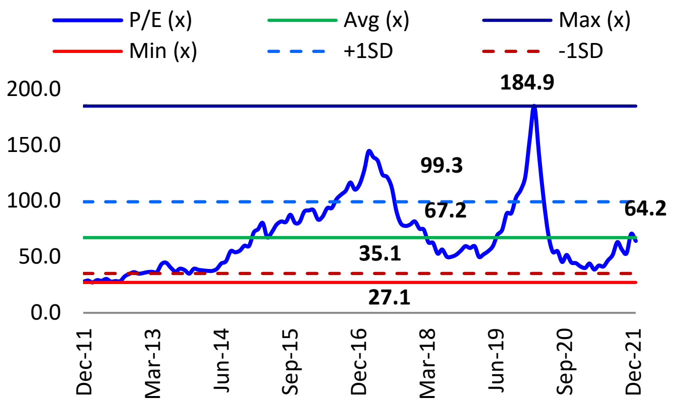
- We are positive on AHEL based on a) its differentiated business model in online pharmacy through its omni-channel presence, b) ramp-up in other digital services on the 24x7 platform such as diagnostics, tele-consultations, c) improving profitability of the hospital segment with new hospitals continuing their journey towards maturity, d) absence of new greenfield expansion for hospitals and the ability to add another ~2,000 beds from the pool of capacity beds that are not currently operational, e) improving unit economics of AHLL's business with all the sub-segments also achieving break-even.
- We estimate 22% revenue CAGR and 38% EBITDA CAGR over FY21-24E and 480bp margin expansion over FY21-24.
- We value AHEL on an SOTP basis. We ascribe 24x EV/EBITDA multiple to the hospital segment, 35x to back-end pharmacy, 35x to front-end (25.5% stake), and 30x to AHLL. We ascribe EV/Sales multiple of 4x to the Apollo 24|7 business. We arrive at a price target of INR5,900 for AHEL, marking an upside of 25% from the current levels. Initiate coverage with BUY rating.
- Key Risks: A delay in profitability improvement of new hospitals, lower-than-expected share of private labels in the pharmacy business, lower-than-anticipated footfall at clinics in the AHLL segment, and lower-than-estimated ramp-up in daily online orders pose a key risk to our call.

Exhibit 1: Valuation comparison table

Company	Price	MCap	EPS (INR)			ROE (%)			P/E(x)			EV/EBITDA(x)		
Name	(INR)	(INRb)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Apollo Hospitals	**4,706**	**677**	**66**	**77.1**	**100.3**	**18.5**	**17.9**	**19.5**	**71.3**	**61.0**	**46.9**	**31.6**	**27.5**	**22.3**
Max Healthcare	388	376	8.2	9.5	11.7	16.3	18.5	19.1	47.3	40.8	33.2	27.5	25.6	21.4
Dr. Lal Pathlabs	3,380	282	48.4	51.2	59.9	29.4	27	26.2	69.8	66	56.4	48.6	45.2	42
Fortis Healthcare	268	202	4.6	6.9	7.7	6.7	7.3	7	58.3	38.9	34.8	20.6	18.2	16.4
Metropolis	3,130	160	45.1	52.6	62.4	29.3	28	28.5	69.4	59.5	50.2	43.4	37	31.5
Narayna Hrudyalaya	554	113	14.3	18.2	20.9	22.7	23.2	22.9	38.8	30.5	26.5	19.9	16.3	14.5
KIMS	1,276	102	37.6	44.4	47.2	27	22.9	19.5	33.9	28.7	27	22.8	18.8	17.2
Aster DM Healthcare	175	88	8.5	11.8	12.2	11.7	14.4	13.3	20.6	14.9	14.4	10.5	8.9	8.4
Shalby	128	14	4.6	6.4	NA	5.8	7.5	NA	27.7	19.9	NA	13.2	11.8	NA

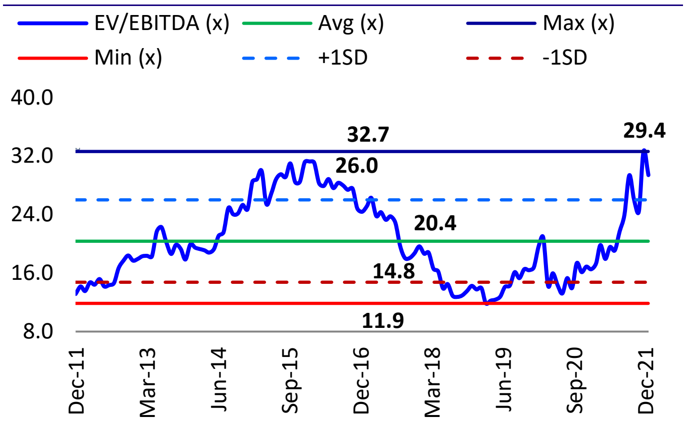
Note: * Bloomberg estimates; Source: MOFSL, Bloomberg

Exhibit 2: Apollo P/E Chart



Source: MOFSL, Company

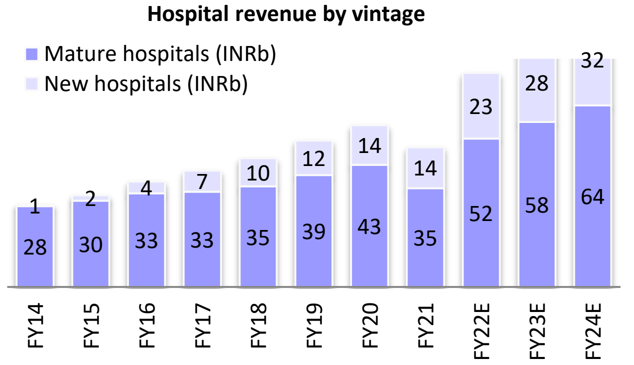
Exhibit 3: Apollo EV/EBITDA Chart



Source: MOFSL, Company

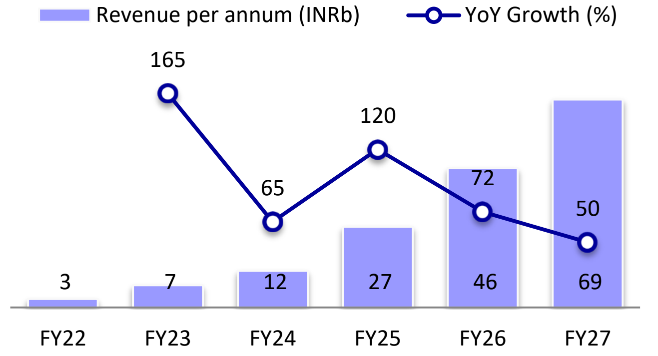
Story in charts

Exhibit 4: New hospitals to contribute more with time



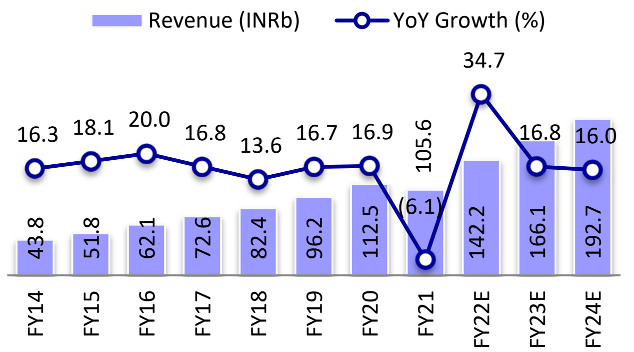
Source: Company, MOFSL

Exhibit 5: Apollo 24/7 expected to deliver 90% revenue CAGR over FY22-27



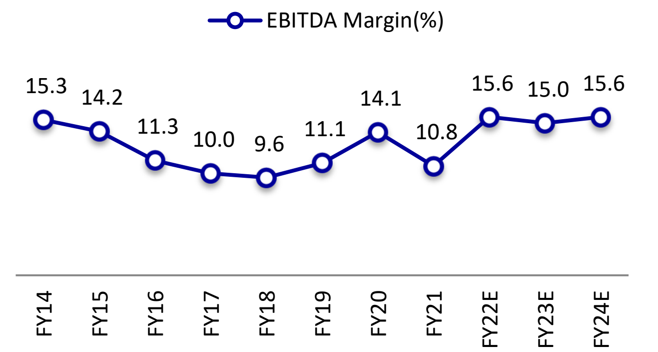
Source: Company, MOFSL

Exhibit 6: Revenue CAGR of 22% expected over FY21-24E



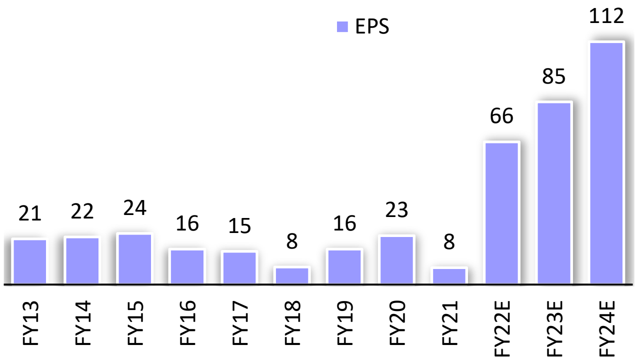
Source: Company, MOFSL

Exhibit 7: EBIDTA margin to improve to 15.6% by FY24



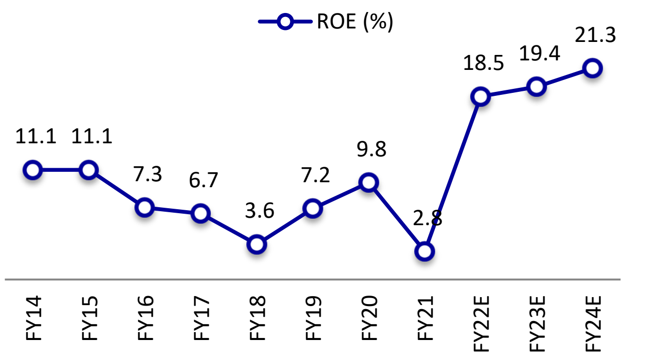
Source: Company, MOFSL

Exhibit 8: EPS CAGR of 30% expected over FY22-24



Source: Company, MOFSL

Exhibit 9: RoE to revive sharply over FY21-24E



Source: Company, MOFSL

'Largest' hospital/pharmacy network in India

Largest organized hospital and Pharmacy network now going digital with 24/7.

- AHEL is the largest healthcare services provider in India with 71 hospitals (44 owned, 22 day surgery cradles, and five managed) with a 10,209 bed capacity. The company owns India's largest pharmacy chain of 4,292 stores. On 5th February 2020, the company launched Apollo 24|7, its integrated digital health-tech platform with a focus on e-pharmacies.
- AHEL has a major presence in South India with 43 hospitals (60% of total hospitals) in the region. The company has expanded pan India with West India being its next biggest region where it has nine hospitals.
- AHEL's pharmacy business is present pan India with 67% of its total stores located in South India. The company is leveraging its brick-and-mortar presence to expand its offerings through the digital platform via Apollo 24|7. The platform will serve patients with information videos, online consultations, doorstep sample collection, rapid pharmacy delivery, and a digital record vault. The platform has 8.8m registered users and recorded pharmacy orders of 0.37m in April 2021, marking a growth of 6.6 times since November 2020.
- AHLL also operates in the retail healthcare space. AHLL was introduced with the aim of taking healthcare services purely from a 'hospital' setting closer to the home within the neighborhood and with a goal to serve the community through multiple touch points, which include 191 primary clinics, 22 sugar clinics, 62 dental clinics, 20 birthing centers, 15 spectra facilities, 796 diagnostic centers, and 69 dialysis centers.

BUSINESS AT GLANCE

Apollo 24|7– Bridging the online-offline pharmacy gap

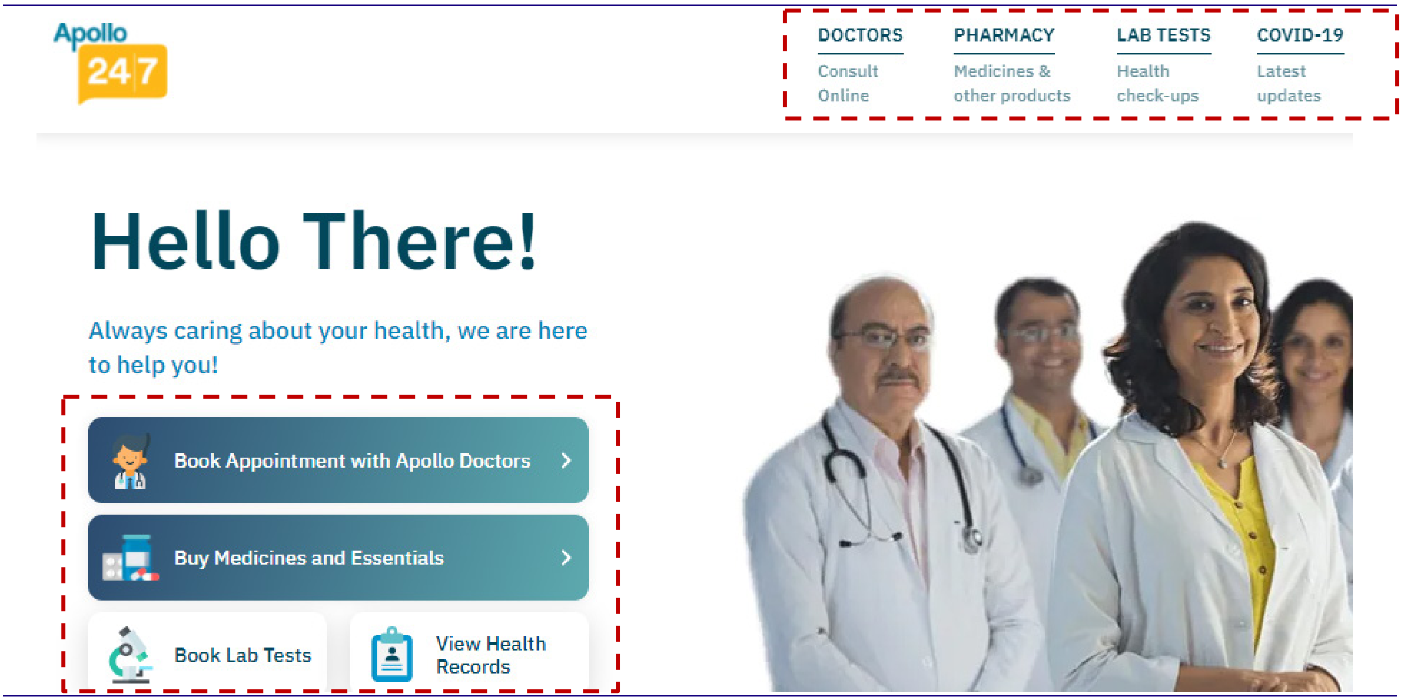
Apollo to take advantage of 4100+ wide network of the offline pharmacy channel to provide fast delivery and high fulfillment via 24/7.

- **Apollo 24|7 online pharmacy is well-positioned to leverage its offline presence in order to enable faster deliveries and a wider coverage for its e-pharmacy customers.**
- **We expect its offline pharmacy network to reach close to 5,500 stores by FY24, thus further expanding its reach which is already the widest in the country. We expect pharmacy sales to reach INR78b by FY24, marking a CAGR of 17% over FY21-24.**
- **With its largest and best omni-channel pharmacy presence in India, we expect Apollo 24|7 to ramp-up sales going forward, on the back of a 15-fold growth in orders/day and 11% CAGR in revenues/orders over FY22-27. We believe that with a ramp-up in online pharmacy orders, Apollo 24|7 has the strength to garner a ~14% market share of the e-pharmacy business in India and clock revenues of USD1b by FY27.**

Integrated healthcare platform offering in India like no other…

- Apollo 24|7, AHEL's integrated retail care delivery platform, brings all its digitally-enabled services under one umbrella and at the fingertips of consumers.
- The 24|7 e-pharmacy bridges the gap between online-to-offline pharmacies, ensuring wider coverage and fastest delivery times. A panel of expert doctors, both general practitioners and specialists from AHEL, provide tele-consultations to patients in the comfort of their homes. It is already the leading diagnostics chain in South India, and the digital platform takes the ease of ordering tests to a higher level.
- Another aspect of the healthcare platform is its digital health records offering. With AHEL's presence across the care continuum, its digital health records maintain the entire patient data from the company's healthcare ecosystem to aid doctors in delivering better care to patients, while patients enjoy access to their data stored securely in one place.

Exhibit 10: Integrated offerings in consulting, medicine delivery, lab testing, and health records under Apollo 24/7

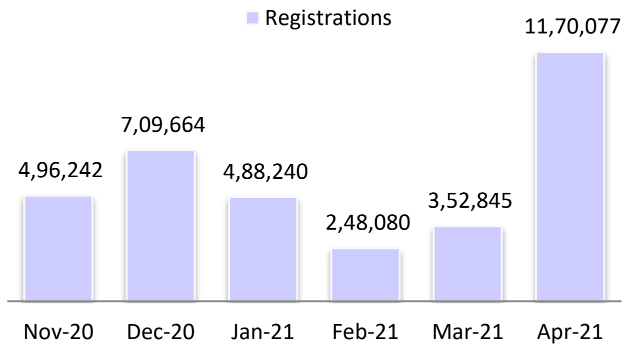


Source: MOFSL, Company

Coming of age of the tech-platform Apollo 24|7

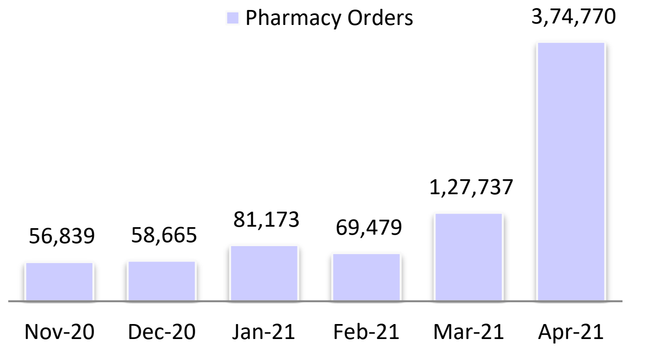
- AHEL operates its online pharmacy services through an omni-channel model, leveraging its existing offline presence through the Apollo pharmacy network, in which it holds a 25.5% stake post the stake sale in SAP.
- An omni-channel presence reinforces brand value and enables faster delivery of medicines due to closer proximity to consumers. Store-level inventory management ensures consistent availability of medicines, thus enabling delivery of not only chronic medicines, but also of most acute medicines, something that is not possible through a centralised inventory model.
- Due to its physical presence, even in smaller towns, AHEL can serve customers in these markets as well, thereby providing it with a competitive advantage over online-only pharma companies.

Exhibit 11: Healthy rate of total registrations



Source: MOFSL, Company

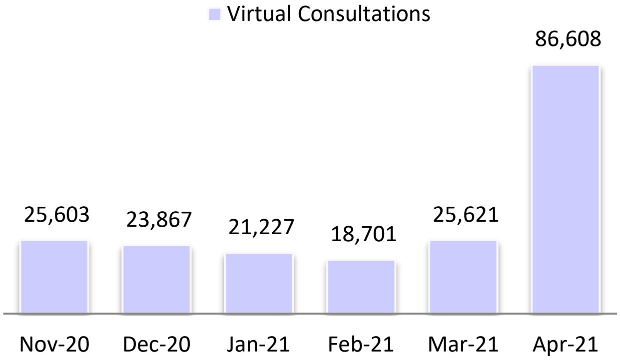
Exhibit 12: Pharmacy orders jump up in Apr-21 partly due to COVID



Source: MOFSL, Company

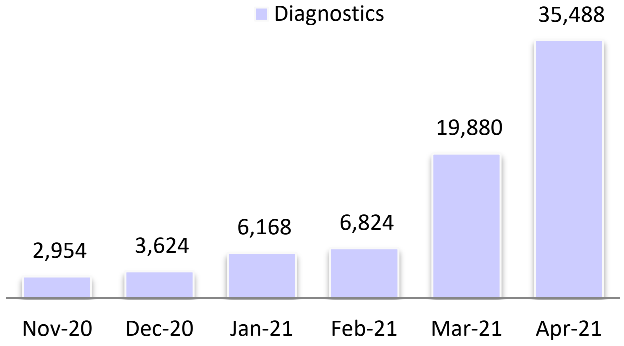
- Registrations in April'21 tripled MoM, mainly as a result of an increase in COVID cases during that period. Pharmacy orders also tripled MoM in Apr'21 to 375k. AHEL, however, has consistently clocked 55k+ of pharmacy orders per month, or ~2k orders per day, since Nov'20.
- Along expected lines, virtual consultations more than tripled in Apr'21, as doctors and patients alike preferred online consultations vis-à-vis physical consultations. AHEL had been clocking an average of ~800 consultations per day on its platform. All consultations on the company's platform are paid consultations. Its integrated service offerings can help AHEL to further scale-up virtual consultations.
- Diagnostic tests nearly doubled in April'21 as COVID ravaged through India. However, given the current declining trend in COVID cases, the number of registrations/tele-consultations per month is expected to decline as well. Nevertheless, the convenience of tele-consultation will ensure that this platform continues to grow at a healthy rate as compared to the pre-COVID levels.

Exhibit 13: Virtual consultations in April triple from March levels



Source: MOFSL, Company

Exhibit 14: Diagnostic tests also increase due to COVID



Source: MOFSL, Company

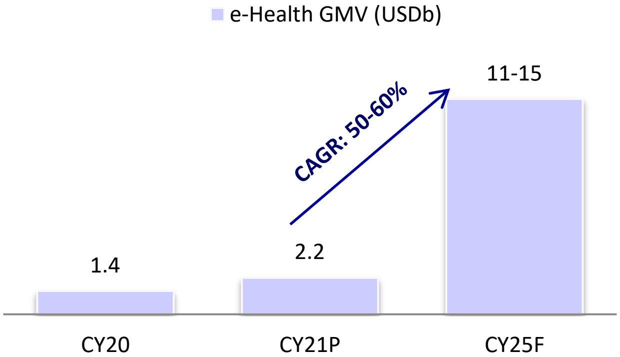
Fast evolving digital healthcare industry

- Total e-health GMV in India is projected to grow ~50% YoY in CY21, partly aided by the COVID-related shift to online. E-health is quickly becoming the next forefront in the battlefield among e-commerce companies. Increased competition is leading to higher discounts and better services to consumers, resulting in a faster shift to online purchases in the healthcare sector. Total e-Health GMV is expected to continue recording 50-60% CAGR over the next four years to reach USD11-15b by CY25.

The healthcare industry in India is going omni-channel which is way forward for E-Pharmacies.

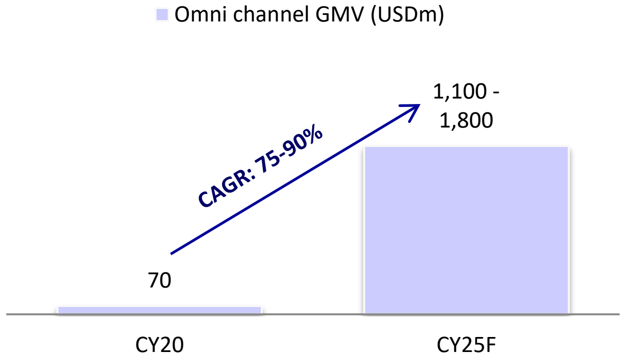
- At the same time, omni-channel GMV is expected to clock a faster growth of 75-90% CAGR over CY20-25 to reach ~USD1.1-1.8b. An omni-channel presence, especially for medicine delivery, is crucial for serving the customer/patient population, especially in the case of acute drugs. The omni-channel model enables medicine delivery in as less as two hours in the metros.
- e-Pharmacies also lend themselves well to an omni channel business model, owing to smaller price and size per product, resulting in a smaller store size and lower inventory value as compared to other e-commerce categories. In the traditional e-commerce business model, using centralized inventory warehouses can result in deliveries taking 1-2 days, even in the metros, with mostly, only chronic medicine requirements being met.

Exhibit 15: e-Health total GMV to reach USD11-15b by CY25



Source: MOFSL, Industry

Exhibit 16: …out of which omni-channel is expected to garner 10% market share by CY25



Source: MOFSL, Industry

Exhibit 17: E-commerce (online/omni-channel) growing at much faster rate than traditional pharmacies

Value in INRb	FY15	FY19	FY20	FY21	FY25F	CAGR FY15-21	CAGR FY21-25
Total	**1,100**	**1,572**	**1,725**	**1,811**	**2,725**	**9%**	**11%**
Modern Retail	55	137	173	205	535	24%	27%
e-commerce (Incl. Omni-channel)	1	18	38	56	230	96%	42%
Omni-channel Players	0	3	4	6	25	190%	43%
Online only players	1	15	34	50	205	92%	42%
B&M	54	112	135	149	305	18%	20%
Traditional	1,045	1,434	1,553	1,607	2,190	7%	8%
B&M + Omni-channel for pharmacy chains	**54**	**115**	**139**	**155**	**330**	**19%**	**21%**

Source: MOFSL, Medplus RHP

- The overall retail pharmacy market is estimated to be worth INR1.8 trillion in FY21. While the focus of retailers remains on the metros and mini metros, smaller towns are the biggest markets for retail pharmacy due to their higher aggregate population.
- However, the metros and mini metros remain the largest organized pharma market with an estimated size of INR126b in FY21. The overall organized retail penetration is also higher in the metros at 22% vs. the average of 11% for India.
- However, with organized pharmacy competition intensifying in the metros and mini metros, the smaller cities provide ample opportunities for deeper penetration and further growth. Their low cost procurement due to economies of scale can also help them to establish a foothold in the smaller cities and towns where consumers have lower purchasing power.

Apollo 24/7 has the advantage of widespread presence and despite its late entry can succeed against competition.

Apollo 24|7 on track to experience explosive growth

- Despite being a late entrant in the online pharmacy segment, Apollo 24|7 e-pharmacy is on course to grow its number of orders/day by 15x from the current levels due to its strong retail network presence.
- It has a presence across 700+ cities in India and reaches 17,000+ pin codes through its 4,292+ strong physical pharmacies. These physical pharmacies not only serve physical shoppers, but also enable Apollo 24|7 to deliver medicines within just two hours. This allows it to deliver medicines to patients with acute ailments - a largely un-served segment- through online pharmacies.
- We expect revenue per order to grow at CAGR of 11% over FY22-27, as Apollo 24|7 gains customer loyalty and there is an increase in the proportion of private label brands.

Exhibit 18: Apollo 24|7 e-pharmacy revenues estimated to clock CAGR of 90% over FY22-27 and surpass USD1b by FY27

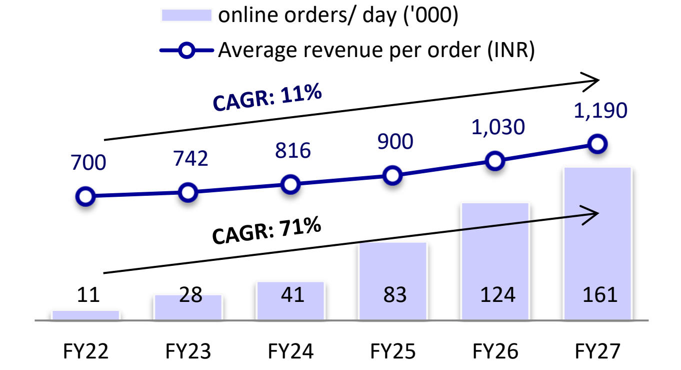
	FY22	FY23	FY24	FY25	FY26	FY27	CAGR (FY22-27)
online orders/ day	11,000	27,500	41,250	82,500	123,750	160,875	71%
Average revenue per order (INR)	700	742	816	900	1,030	1,190	11%
Revenue per annum (INRm)	2,812	7,448	12,289	27,036	46,636	69,721	90%
YoY Growth (%)		165	65	120	72	50	

Source: MOFSL, Company

- We estimate Apollo 24|7 e-pharmacy revenues to grow at a CAGR of 90% over FY22-27 to reach INR79b by FY27, driven by a 71% CAGR in orders/day and 11% CAGR in average revenue per order.

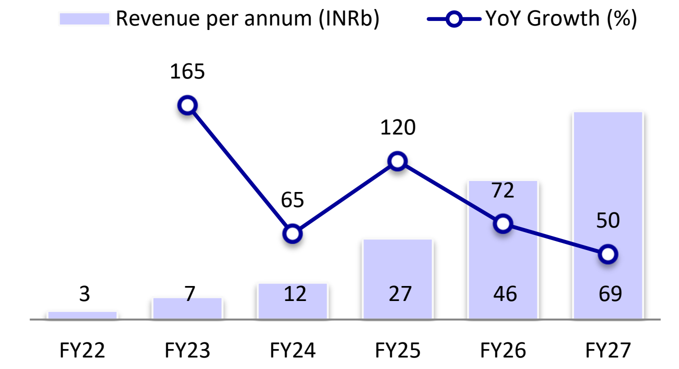
- On back of an estimated market size of online pharmacies (including omni-channel) of INR230b in FY25, we estimate Apollo 24|7 to garner a market share of ~13.5% by FY25.

Exhibit 19: Orders/day estimated to grow 15x over FY22-27



Source: MOFSL, Company

Exhibit 20: Revenues to grow at CAGR of 90% over FY22-27

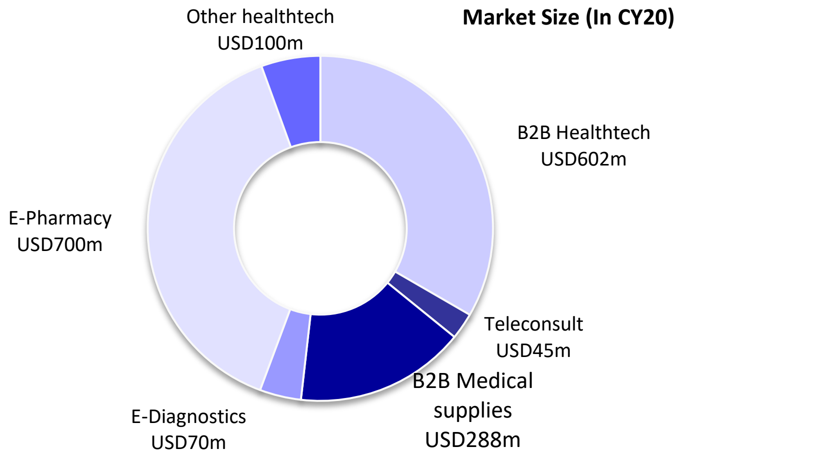


Source: MOFSL, Company

Indian e-pharmacy market to reach USD4.5b by FY25

- India's overall digital health-tech market was estimated to be worth ~USD2b in CY20 and has expanded further following the second COVID wave in CY21. Online pharmacies accounted for nearly 40% of the overall Indian health-tech market.
- E-pharmacies accounted for just 2-3% of pharmacy sales in India in CY19. E-pharmacy sales are expected to grow from an estimated USD700m in CY20 to USD4.5b by CY25, marking a CAGR of 45% over this period.

Exhibit 21: E-pharmacies' sales to clock 45% CAGR over CY20-25



Source: MOFSL, API Holding DRHP

- According to the FICCI, the number of people using e-pharmacies in India increased to 9m during the pandemic, up from 3.5m, and is expected to grow to 70m by CY25. Online penetration is also much faster in the metros than in other smaller cities.
- Pharmeasy's market share has grown beyond 50% after the Medlife acquisition, while 1mg's share has declined to 18% from the highs of 23%. Pharmeasy+Medlife, 1mg and Netmeds have a combined market share of 80%+, with Apollo 24|7 also catching up after its late start.

Exhibit 22: Online penetration much faster in metros and mini metros

Overall retail pharmacy market FY21 INRb	Overall pharmacy retail market	Organized pharmacy retail market	Penetration of organized retail
Metro and mini metros	580	126	22%
Tier I	580	41	7%
Tier II and beyond	652	37	6%
Total	**1,811**	**205**	**11%**

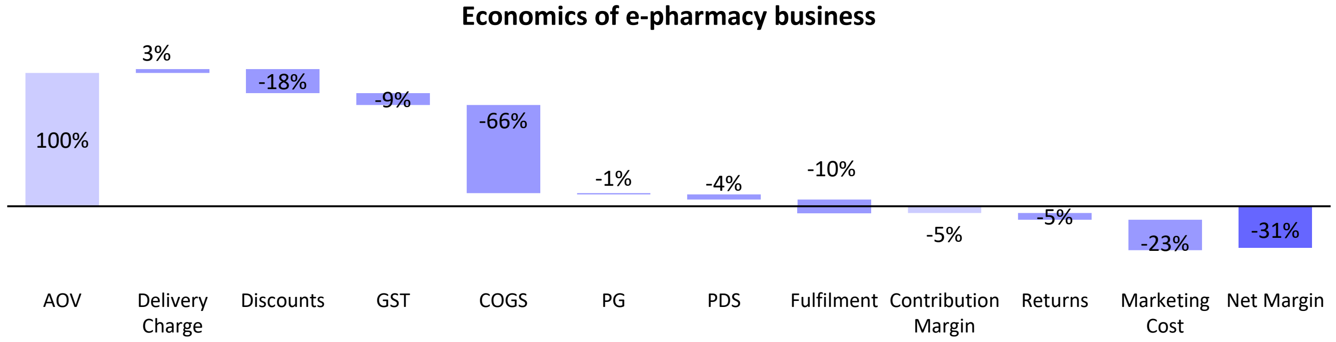
Source: Industry

- This segment is also heating up with considerable number of deals and fund-raising activities underway. In May-21, Tata (digital) announced the acquisition of a majority stake in 1mg that marked its entry into the online pharmacy segment. Tata is reportedly working on a super-app that would integrate all its online offerings. In Aug'21, Reliance announced the acquisition of a majority stake of 60% in Netmeds for INR6.2b. Since then, it has begun delivering medicines from its Reliance Smart points, thereby integrating the online offering with its wide physical presence.
- In Oct'21, Pharmeasy raised USD350m in a pre-IPO round of funding, valuing the company at USD5.6b. Pharmeasy has already acquired a majority stake in Thyrocare to offer integrated healthcare services to its customers.

Market share gains and operating leverage to drive profitability

- For an order value of INR 100, an e-pharmacy usually makes a loss of ~5% due to costs associated with discounts, GST, payment gateway fees, packaging and distribution, and order fulfilment. After accounting for the returns and marketing costs, an e-pharmacy loses ~31% per order of INR100.
- The current e-pharmacy business model is designed to maximise revenue/GMV/user base growth potential by expanding reach without focusing much on profitability. Once a company develops a large base, it can improve its COGS by 200-500bp due to economies of scale, reduce PDS and fulfilment costs by 100-300bp, and lower marketing costs by 500-1,000bp. These combined benefits of lower spending and cost improvements can position online pharmacies firmly on the path to profitability.
- It remains to be seen if lowering discounts is the path that online pharmacies plan to take in order to achieve profitability, albeit at the risk of losing customers to competitors who may continue to offer large discounts to attract customers.

Exhibit 23: Economics of e-pharmacy business



**AOV-Average Order Value, PG-Payment gateway, PDS-Packaging, distribution, Storage*

Source: MOFSL, Medplus RHP

Exhibit 24: Significant investor interest in e-pharmacy segment as deals and fund raising activities pick up

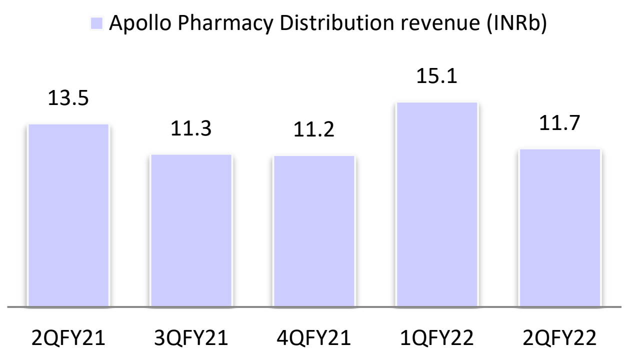
Company	Status	Acquires/Investor	Pin codes	Fund raised	Valuation	Cities
1mg	Acquired (60% stake)	Tata	20000+	USD 100-120m	USD450m	1,000+
Netmeds	Acquired (60% stake)	Reliance	19,000+	USD99m	INR10b	670+
Pharmeasy	Fund raise	ADQ, Orbimed, Amansa, Neuberger Berman	22000+	USD1.6b	USD5.6b	1,000+
Apollo 24*7	**NA**	**NA**	**17,000+**	**NA**	**NA**	**700+ (stores)**

Source: MOFSL, Crunchbase

New pharmaco entity already ramping up

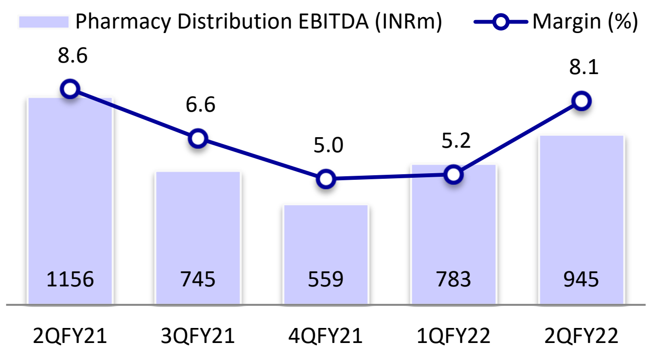
- AHEL has sold off its majority stake in the retail-pharmacy front-end business, reducing it to ~25.5%. It now operates (and reports) the pharmacy distribution business that supplies to the retail pharmacy network. Online pharmacy revenues are reflected in the pharmacy distribution business.

Exhibit 25: Pharmacy distribution revenues on the rise



Source: MOFSL, Company

Exhibit 26: EBITDA margin impacted by 24|7 start-up costs



Source: MOFSL, Company

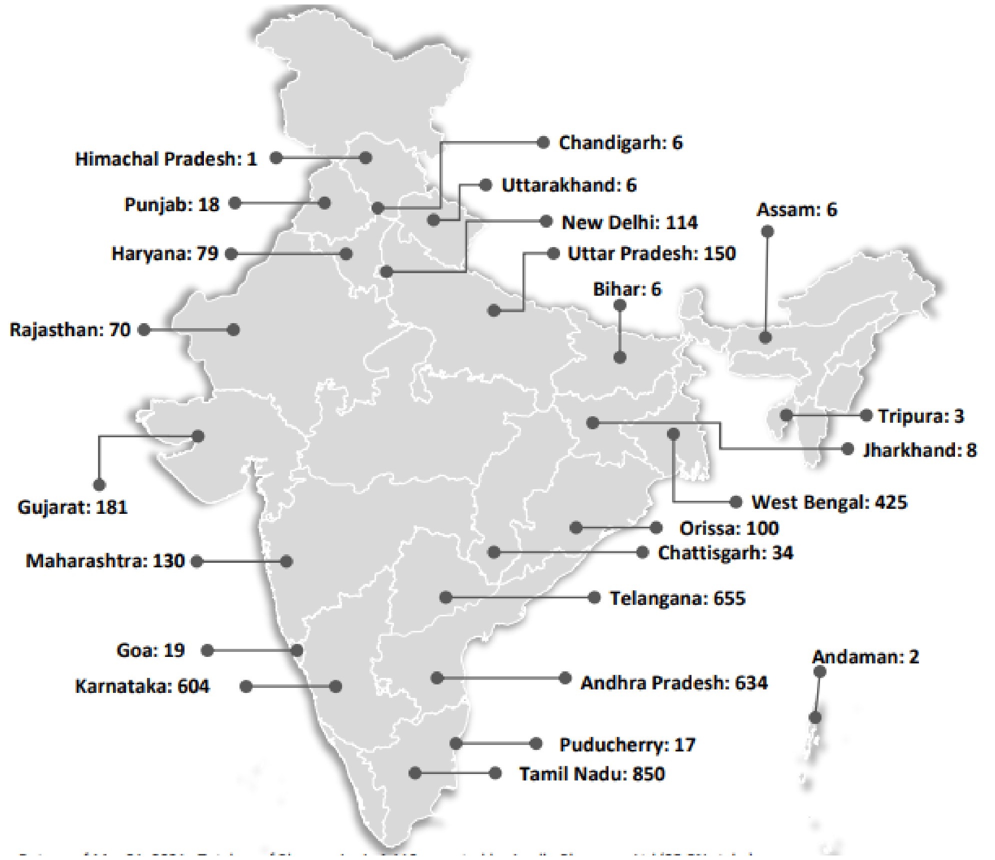
- Since it separated the retail pharmacy business in Sep 1, 2020, its revenues have increased from INR11b in 3QFY21 to INR15b in 1QFY22, aided by a steep jump in online pharmacy sales in 1QFY22 due to the second COVID wave. This has since normalized in 2QFY22.
- The EBITDA margin was down marginally YoY to 8.1% in 2QFY22 due to start-up costs associated with Apollo 24|7. However, unlike its peers, Apollo 24|7 remains profitable at the EBITDA level.

AHEL's unparalleled omni-channel strength differentiates it from the rest

Largest Pharmacy network in India with ~1500 stores added in last four years.

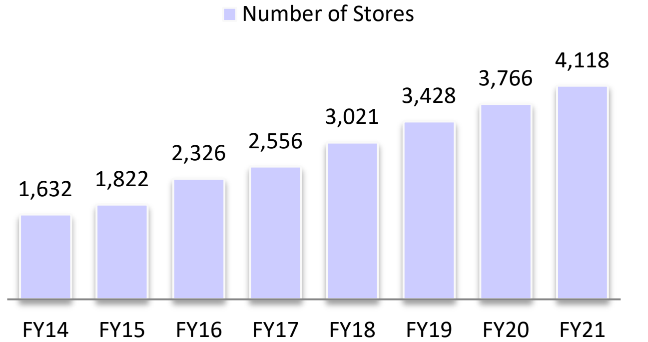
- AHEL had 4,292 physical retail pharmacy stores spread across India, as of Sep'21. Tamil Nadu, Andhra Pradesh, Telangana and Karnataka are the top states for Apollo pharmacy, accounting for 2/3rd of its total physical pharmacy presence.

Exhibit 27: AHEL's presence not only wider, but also deeper in India (4,292 as of Sep'21)



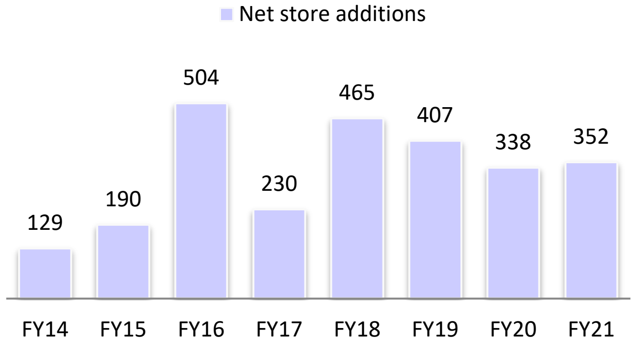
Source: MOFSL, Company

Exhibit 28: 4,100+ pharmacies across India



Source: MOFSL, Company

Exhibit 29: 1,500+ stores added in last five years



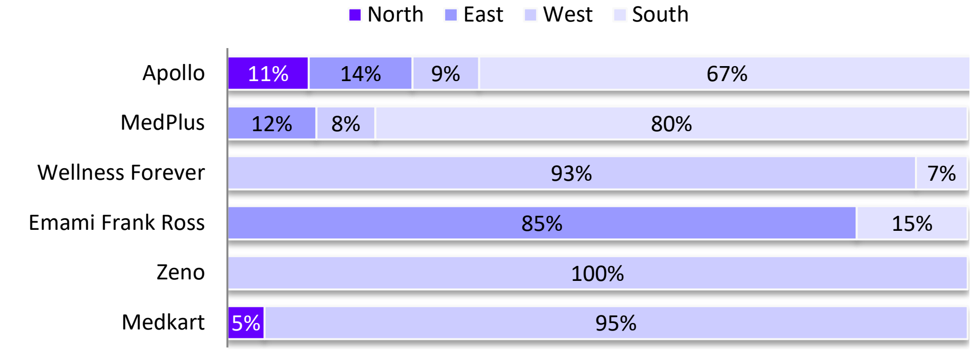
Source: MOFSL, Company

Market leader with the largest and widest network of pharmacies

Apollo Pharmacy has advantage of being present pan India across metros as well as non-metros

- Apollo Pharmacy is also the only chain with a presence across the country and a dominant position in South India. Despite its larger footprint in South India, it remains the only chain with a pan India presence. With the help of its brand strength in healthcare through its presence in hospitals across India, AHEL can penetrate deeper into the geographies where it currently has a smaller presence.

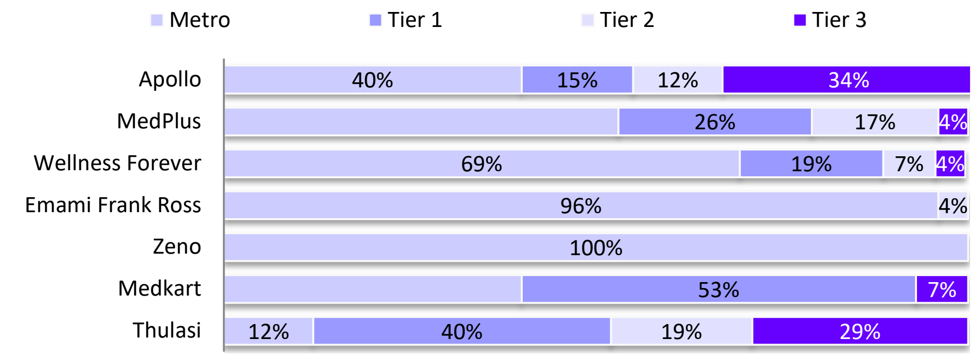
Exhibit 30: AHEL has presence across India with South being its biggest market



Source: MOFSL, Medplus RHP

- AHEL's presence is not just restricted to the metros. Its presence across India transcends the metros into smaller towns and cities. AHEL's existing presence in tier 1/2/3 cities will help it in expanding into smaller towns and cities, as the competition in metros intensifies. As noted previously, the metros and mini metros form only 30% of the Indian retail pharmacy market, creating substantial growth potential in smaller towns. Organized retail pharmacy penetration is also lower in smaller towns, and there is potential for large players like AHEL to utilize their brand name in order to expand in these markets.

Exhibit 31: AHEL's wide and deep presence across India



Source: MOFSL, Medplus RHP

- The shift to retail chain pharmacies from independent pharmacies and subsequently to the online/omni-channel from offline retail pharmacy chain is already being witnessed in the developed markets such as the US.

Exhibit 32: Economies of scale drive improved store-level metrics for large chains

	Retail pharmacy chains	Independent pharmacy chains
Store Size (Sq.ft)	200-700+	150-500+
Average sales/day (INR)	30,000 - 50,000	4,000 - 6,000
SKUs	4,000 - 10,000	2,000 - 6,000
COGS (%)	78 - 83%	86 - 88%
Gross Margins (as a % of sales)	17 - 22%	12 - 14%
Employee expense ratio (as a % of sales)	3 - 5%	3 - 5%
Ad and promotional expense (as a % of sales)	0 - 1%	0 - 1%
Ret expense (as a % of sales)	1 - 3%	1 - 3%
Other store expenses (as a % of sales)	1 - 2%	2 - 4%
Operating EBITDA margin per store	9 - 12%	3 - 6%
Retail Discounts (as a % of MRP)	0 - 20%	0 - 10%
Capex/store	4,00,000 - 8,00,000	1,00,000 - 4,00,000

Source: MOFSL, Medplus RHP

- Retail chain pharmacies are able to deliver a better customer experience and higher margins per store owing to their lower cost procurement as a result of lower operating costs per store as compared to independent pharmacies. Owing to their lower procurement and operating costs, they are also able to provide higher discounts to customers, while maintaining profitability at the store level.
- However, on the downside, their larger store size requires a higher capex per store as compared to smaller independent pharmacies.

Access to VC funding heating up the competition in this segment

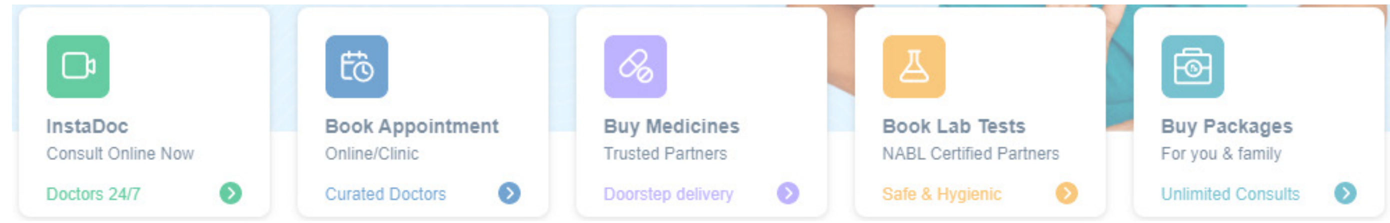
- The competition is certainly heating up in the healthcare platform segment. The recent acquisition of Thyrocare by Pharmeasy indicates that a single service offering is now not good enough for attracting customers to their platform.
- Pharmeasy now offers online consultations, medicine delivery and lab tests. With the Thyrocare acquisition, it intends to offer lab services integrated with its platform and a better consumer experience, along with the ability to track phlebotomists, tests, test results, etc. - a service similar to that provided by food delivery platforms such as Swiggy and Zomato.

Exhibit 33: Pharmeasy acquisition of Thyrocare to offer integrated healthcare platform

Source: MOFSL, Pharmeasy.com

- Tata Health has also begun offering similar online platform services in the healthcare segment wherein users can book virtual or physical consultations, lab tests, and buy medicines and healthcare packages. It had recently acquired the online pharmacy startup 1MG to expand into this segment.

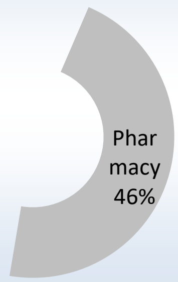
Exhibit 34: Tata Health rapidly expanding in digital retail healthcare segment



Source: MOFSL, Tatahealth.com

- We expect Tata Health to provide stiff competition to AHEL, especially in the smaller cities, owing to its established, centuries-old brand name. While Pharmeasy is a formidable competitor in the metros and larger cities, its lack of a physical presence and brand recall in smaller cities might make those segments tough to crack for Pharmeasy.

Segmental revenue contribution (FY21)



Back-end pharmacy distribution, Apollo 24|7 and retail pharmacy all under one roof

- On 14th August, 2021, AHEL's shareholders approved the slump sale of identified business undertakings into Apollo Healthco (AHL), including 1) Back-end pharmacy supply (excludes hospital-based pharmacies), 2) Apollo 24|7 digital healthcare platform, 3) Investment in pharmacy retail business (i.e. Apollo Medicals Private Limited), and 4) "Apollo 24|7" brand, the "Apollo Pharmacy" brand and private label brands. AHEL will receive a consideration of INR12.1b. AHEL will retain a majority shareholding after external capital is raised.

Segmental EBITDA contribution (FY21)

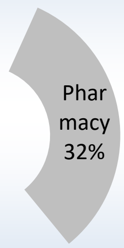
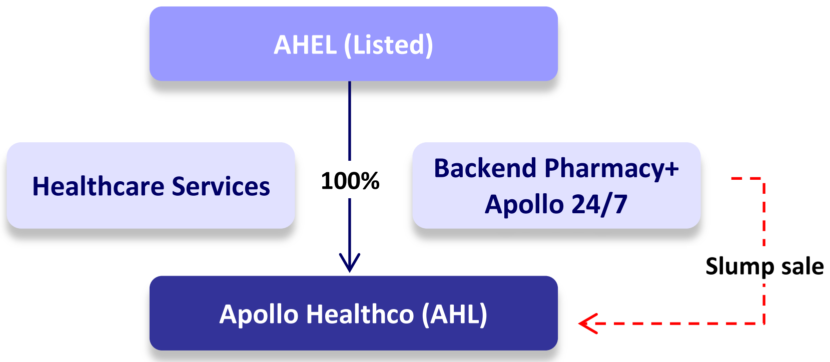


Exhibit 35: AHEL's structure post the slump sale of businesses

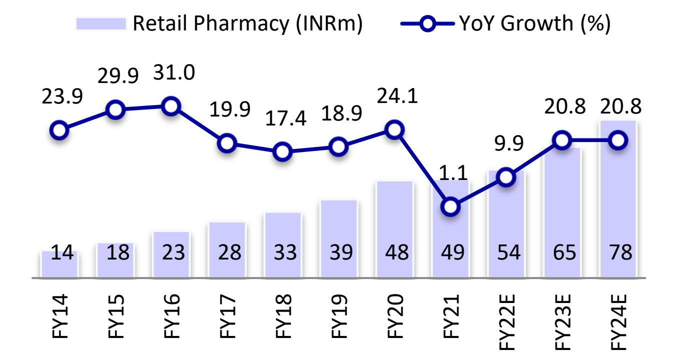


Source: MOFSL

Retail pharmacy to continue expanding and solidifying foundation

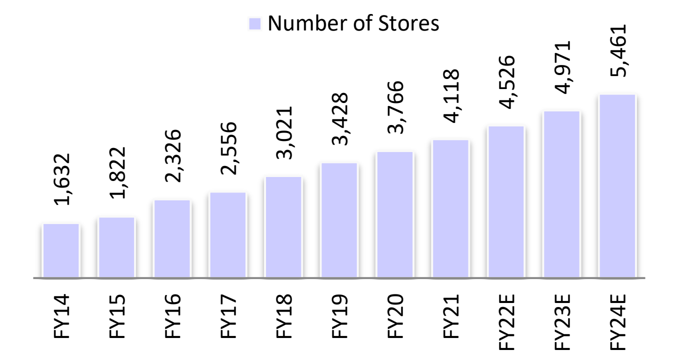
- AHEL has a retail pharmacy chain of over 4,292 (Sep'21) stores across the country. Its retail pharmacy business grew at a CAGR of 20%+ over FY13-21. On the back of network rationalization, increase in private label penetration, and improving service, its revenue per store has increased consistently from INR7.3m in FY13 to INR11.8 m in FY21. Higher per stores revenue is contributing to better margins due to operating leverage. The EBITDA margin has improved from 2.7% in FY13 to 7.5% in FY21.

Exhibit 36: Revenue CAGR of 17% estimated over FY21-24



Source: MOFSL, Company

Exhibit 37: Number of stores to reach ~5,500 by FY24

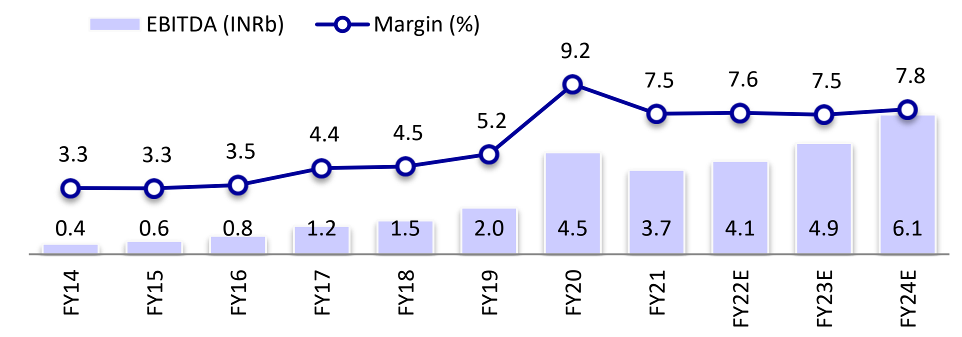


Source: MOFSL, Company

Network expansion to drive 17% revenue CAGR over FY21-24.

- We expect new store additions to continue and the network to expand to ~5,500 stores by FY24. We expect both these factors to drive 17% CAGR in retail pharmacy revenues over FY21-24. We expect AHEL's margins to sustain at the FY21 levels over the next two years, despite its increased investments in the Apollo 24|7 online pharmacy business.

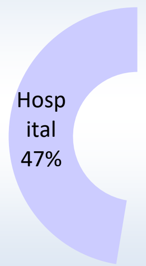
Exhibit 38: EBITDA margin to expand to 7.8% by FY24



Source: MOFSL, Company

Better ARPOB and occupancy to drive growth in hospital segment

Segmental revenue contribution (FY21)

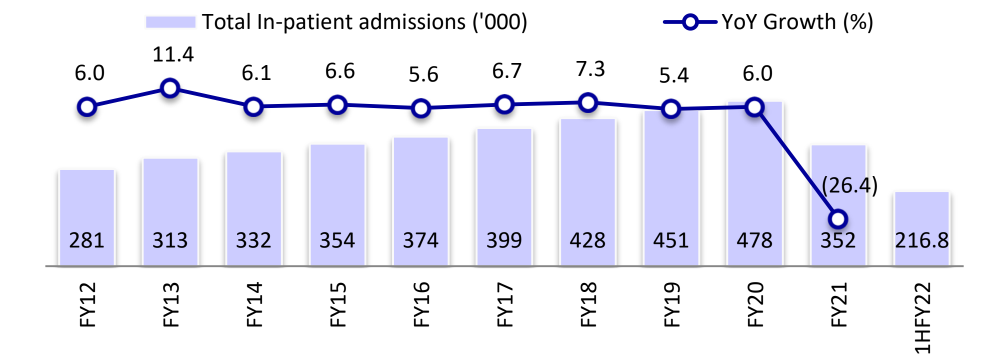


- **AHEL's hospital segment revenues grew at a CAGR of 9% over FY13-21, driven by the addition of 14 new hospitals over this period. However, the hospital segment recorded a muted EBITDA growth during this period due to start-up costs associated with new hospitals**.
- **Going forward, with the newly-added hospitals now approaching maturity, we expect a 25% CAGR in hospital revenues, driven by a 22% CAGR in mature hospitals and 31% CAGR in new hospitals over FY21- 24. We expect an increase in occupancy, particularly in new hospitals, to drive a 72% CAGR in EBITDA over FY21-24, resulting in an EBITDA margin of 23% for the hospital segment by FY24.**

Hospitals well into the recovery mode post COVID-led disruptions

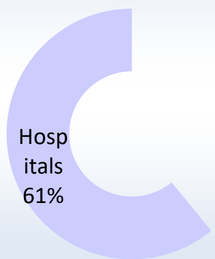
- Before COVID disrupted the world in general, and healthcare and hospitals in particular in 2020, AHEL catered to ~500k admitted patients every year at its hospitals and its admitted patients grew at a CAGR of 7.4% over FY10-20 (~3% in FY11-21). Over the last 6-7 years, AHEL's in-patient volumes have grown consistently at the rate of 6-7% every year, despite a continuously increasing base.
- During the same period, ARPOBs also grew at a CAGR of 8.4% (~8.1% in FY11-21), thereby fuelling in-patient growth and enabling a strong double-digit YoY growth each year.

Exhibit 39: Hospital admissions rebounding after COVID



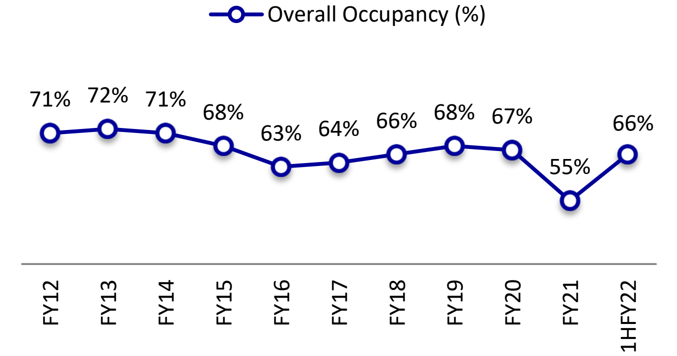
Source: MOSL, Company

Segmental EBITDA contribution (FY21)



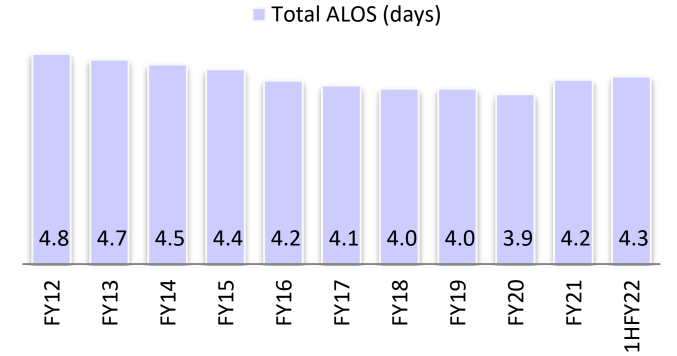
- Before the addition of new hospitals, AHEL's occupancy rate had consistently trended above 70%. With the addition of 14 new hospitals in phases, the company's occupancy rate declined to a low of 63% in FY16. As admission volumes in the newly-added hospitals picked up and there was a pause in new greenfield hospital additions, AHEL's occupancy rate began improving in FY19/20. Before COVID hit India in Mar'20, AHEL's mature hospitals had an occupancy rate of 71% in 3QFY20.

Exhibit 40: Normalisation of elective surgeries and COVID leads to surge in occupancy in 1HFY22



Source: MOFSL, Company

Exhibit 41: ALOS on a declining trend pre-COVID; marginal COVID-led increase in 1QFY22



Source: MOFSL, Company

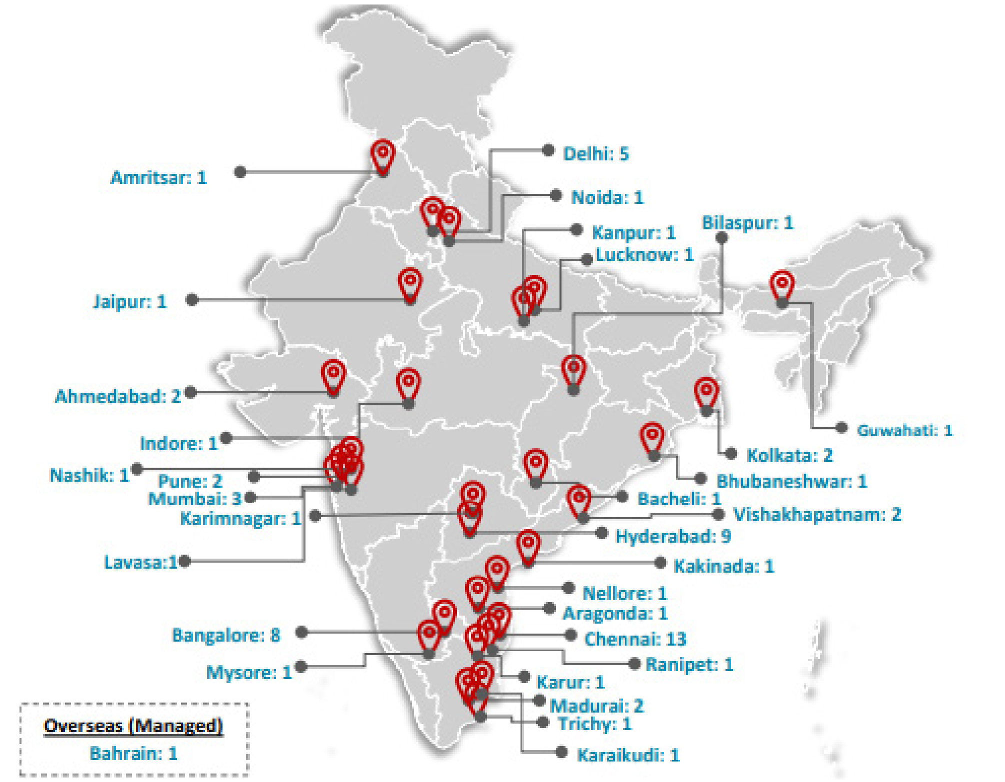
- With advancements in treatment options and the adoption of new technologies, the company's ALOS (Average Length of Stay) continued to decline from 4.8 days in FY12 to 3.9 days in FY20. Due to longer stay of COVID patients, the ALOS increased to 4.2 days in FY21. A decline in ALOS benefits both hospitals as well as patients, as patients incur lower cost of stay and hospitals improve their ARPOBs due to a higher number of procedures.

India's largest hospital network with particular strength in the south

Apollo hospitals is India's largest hospitals network with strong presence in South

- AHEL is India's premier healthcare and the largest hospital chain, with 71 owned and managed hospitals across the country. It has either owned or managed hospitals in 14 states in India, covering all regions, and manages one overseas hospital in Bahrain. It is particularly strong in the southern states in India, where it has 44 managed or owned hospitals.

Exhibit 42: Per capita hospital bed remains low as HC spending still subdued



Source: MOFSL, Company

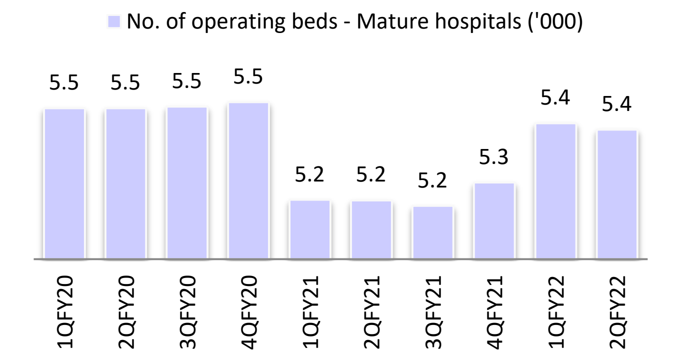
- Based on operating model, AHEL has 44 owned hospitals with a capacity of 8,816 beds and 7,647 operating beds. It has 22 day care centers/CRADLE units with a capacity of 542 beds (all operational). In addition, it also manages five hospitals with a capacity of 851 beds (and operational) across India and Bahrain.

Sector bounces back in 12 months post COVID disruption in 1QFY21

The hospitals business has come back to normalcy within just 12 months after the onset of covid pandemic.

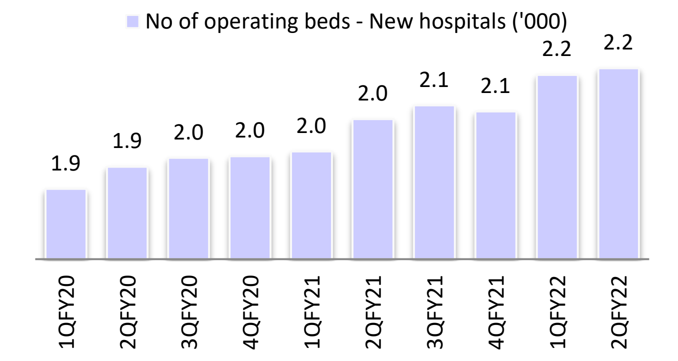
- In Mar'20, the world, including India, saw significant disruptions due to the COVID outbreak. In order to prepare India's healthcare infra for the challenge, the government announced strict nation-wide lockdowns, which continued well into 2QFY21. Hospitals across India saw their inpatient volumes falling drastically across the board, as elective surgeries were postponed. Only a few, very critical patients occupied hospital beds, and COVID patients were largely treated at government institutions. This led to the occupancy of AHEL's hospital segment declining to 37% in 1QFY21, resulting in a decline of 42% in the segment's revenues. Due to significant fixed costs involved in the hospital business, the revenue decline led to an overall EBITDA loss of INR840m for AHEL's hospital segment in 1QFY21.

Exhibit 43: Mature hospitals operating beds remain largely flat since 1QFY20, barring some COVID-related impact



Source: MOFSL, Company

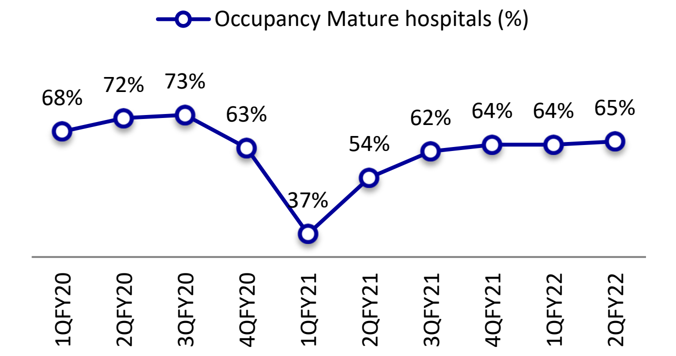
Exhibit 44: Consistent increase in new hospitals operating beds



Source: MOFSL, Company

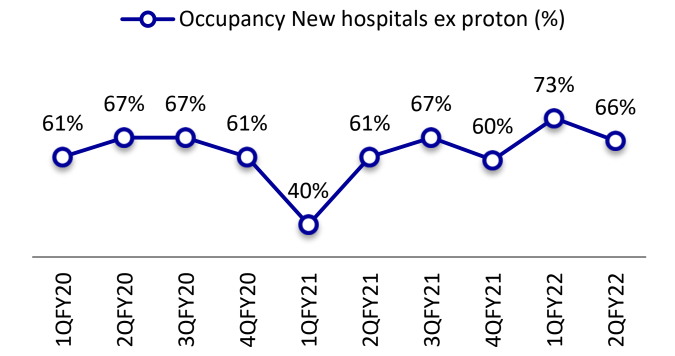
- With the decline in COVID cases and easing of lockdowns, in-patient volumes gradually picked during the remainder of FY21, until the second COVID wave plunged India into a crisis. Armed with better knowledge and preparation for keeping non-COVID patients safe, along with the sky rocketing demand for ventilator beds and ICUs, hospital admissions and occupancy increased in 1QFY22, driven by rising COVID patients across the country.

Exhibit 45: Mature hospitals occupancy returning to normal



Source: MOFSL, Company

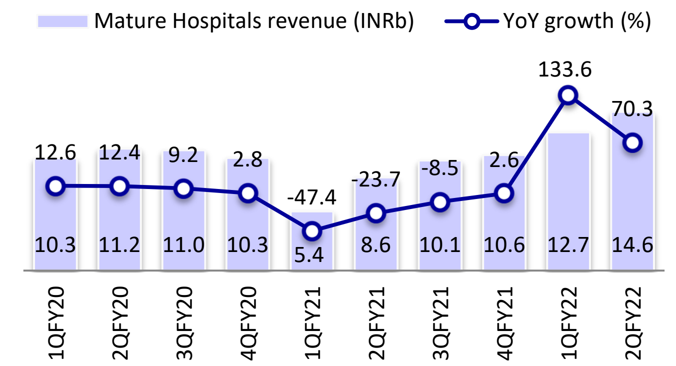
Exhibit 46: Post-Covid normalization in new hospital occupancy



Source: MOFSL, Company

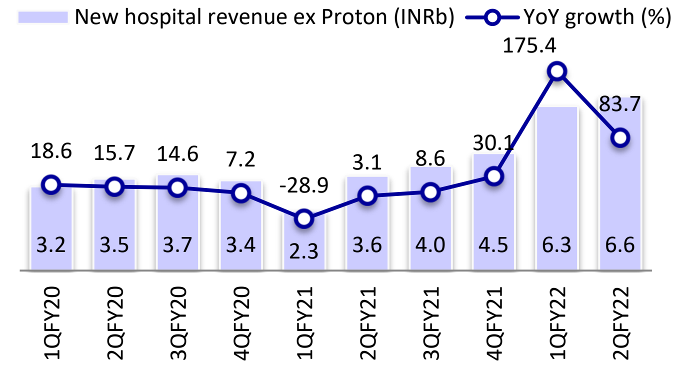
- AHEL's new hospitals particularly benefited from this trend, as patients struggled to find quality beds. The increase in occupancy of AHEL's hospital segment on a very low base of 1QFY21 resulted in revenues increasing by ~2.5x over the 1QFY20 levels and achieved highest-ever EBITDA for the company. With decline in Covid cases in India, this trend further improved in 2QFY22 with higher proportion of non-Covid patients.

Exhibit 47: Mature hospitals showed strong YoY revenue growth in 2QFY22…



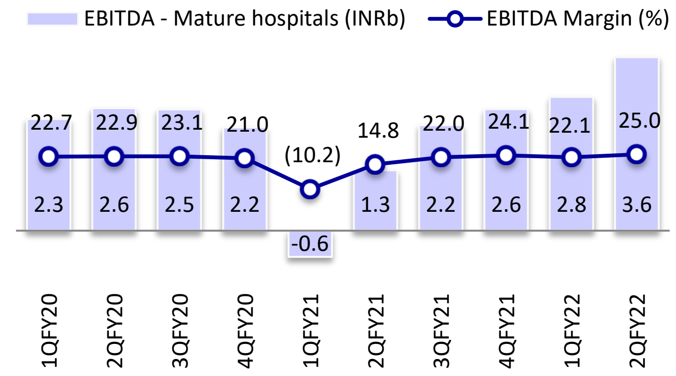
Source: MOFSL, Company

Exhibit 48: …so did new hospitals



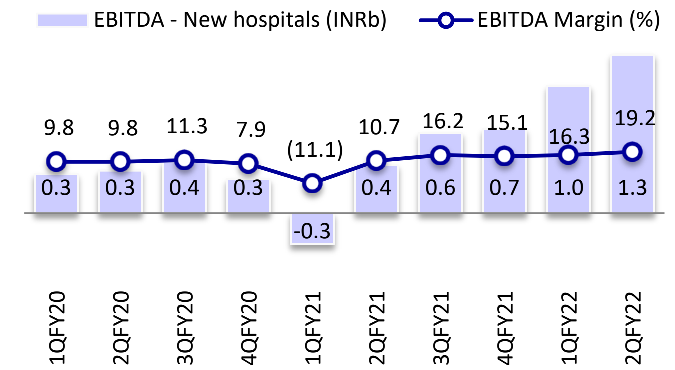
Source: MOFSL, Company

Exhibit 49: Mature hospitals EBITDA bounced back from 3QYF21 lows



Source: MOFSL, Company

Exhibit 50: New hospitals profitability surpasses pre-COVID levels



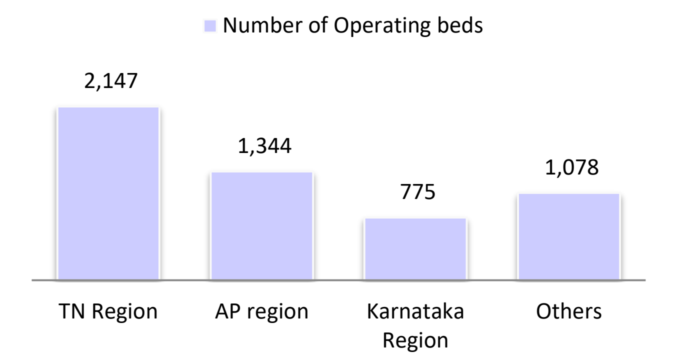
Source: MOFSL, Company

TN, AP and Karnataka dominate AHEL's hospital metrics

Tamil Nadu, Andhra Pradesh, Telangana and Karnataka represent more than 50% of the operating beds.

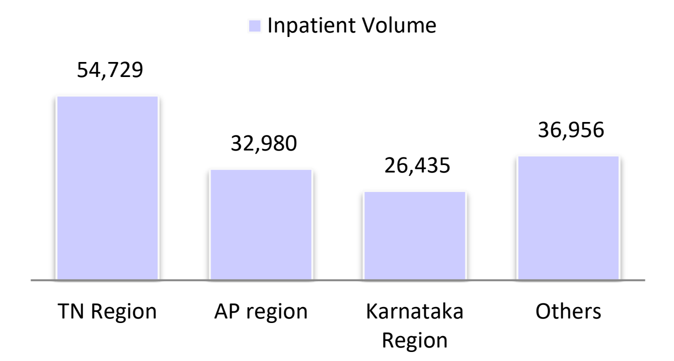
- Tamil Nadu (TN), Andhra Pradesh (AP, incl. Telangana) and Karnataka regions are the most important geographic areas for AHEL, accounting for more than 50% (4,100+) of its operating beds.
- The TN region accounts for ~22% of operating beds and 30% of in-patient volume for AHEL. Occupancy rates in TN have trended lower than the company average, mainly due to the addition of new hospitals in the region that have a lower occupancy rate and the very low occupancy rate of Proton, its new specialty ultra-high end cancer hospital in Chennai. As a result of a large number of hospitals in the metro areas and established excellence centers in TN, the ARPOBs in this region are much higher than the company levels.
- AP is the next biggest region for AHEL and accounts for ~16% of its operating beds and ~18% of its total in-patient volumes. Karnataka is the third-biggest region for AHEL, accounting for ~10% of its operating beds and 12% of its in-patient volumes. The occupancy rates in the Karnataka cluster have trended much higher than AHEL's average levels in the last five years, while the region's ARPOBs have been in-line with the company average.

Exhibit 51: 4,000+ operating beds in South India



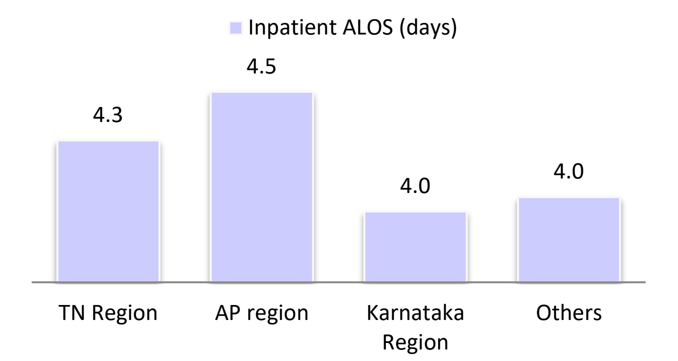
Source: MOFSL, Company

Exhibit 52: TN region dominates AHEL's admissions



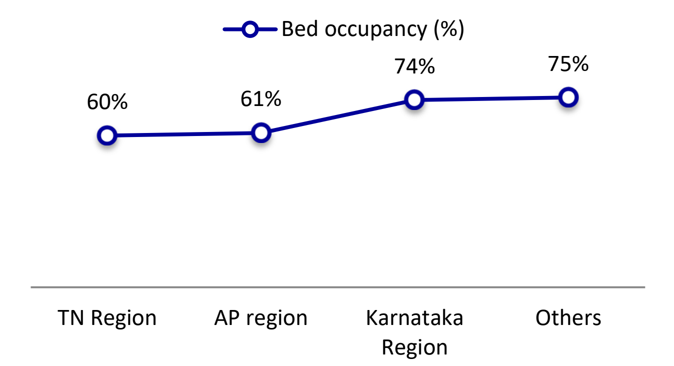
Source: MOFSL, Company

Exhibit 53: AP ALOS higher than other regions, exacerbated by COVID patients



Source: MOFSL, Company

Exhibit 54: Karnataka occupancy among highest for AHEL



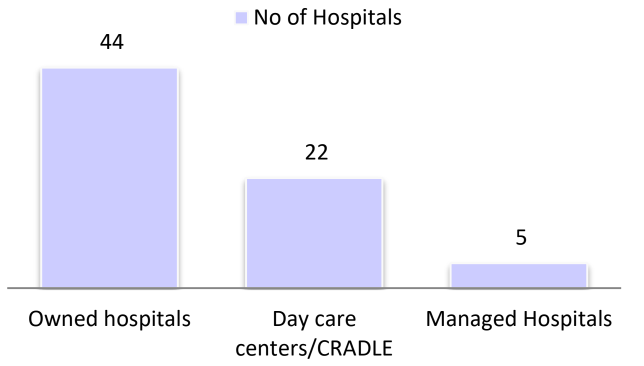
Source: MOFSL, Company

71 hospitals with 7,800+ operating beds and 10,000+ bed capacity

- Out of the 44 hospitals, 30 are mature hospitals that have been in operation for a significant number of years (>nine years). 13 hospitals in Vanagaram, Jayanagar, Trichy, Nashik, Karapakkam, Nellore, OMR, Vizag, Malleswaram, Navi

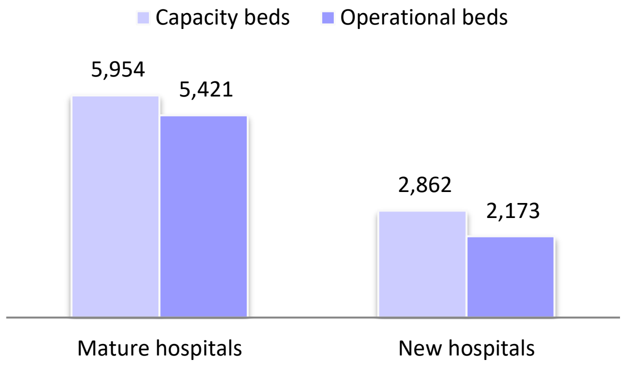
Mumbai, Indore, Assam, Lucknow, have been added over the last nine years at a total capex of USD490m and are currently in the ramp-up phase. In addition, Proton is AHEL's new specialty ultra-high end cancer hospital in Chennai that boasts of unparalleled infrastructure for cancer treatment in South Asia.

Exhibit 55: Largest Indian hospital chain with 71 hospitals



Source: MOFSL, Company

Exhibit 56: 10,000+ capacity and 7,800+ operational beds



Source: MOFSL, Company

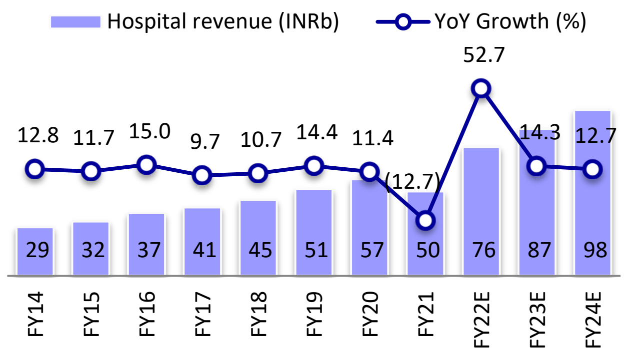
- AHEL's mature hospitals have a ~6,000 bed capacity out of which, ~5,400 beds are operational. New hospitals have a ~2,900 bed capacity out of which only ~75% have been made operational so far.

Revenue CAGR of 25% in hospital segment estimated over FY21-24

New Hospitals to contribute higher share of revenues 2-3 years down the line.

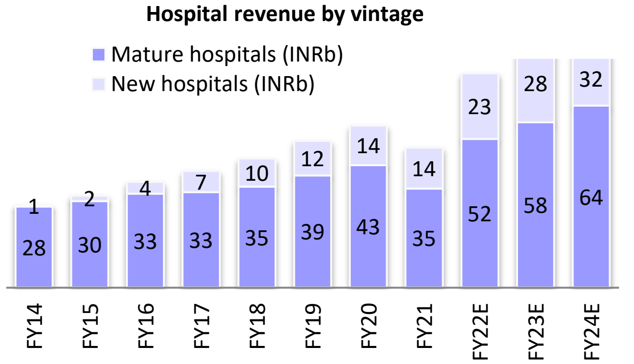
- Revenues of AHEL's healthcare services/hospital division grew at a CAGR of 9% from INR26b in FY13 to INR50b in FY21. A decline of 13% in FY21 was driven by the COVID-related impact on the overall industry.
- Revenues of AHEL's mature hospitals grew at a CAGR of 4% over FY13-21 from INR26 to INR35b. New hospitals recorded revenue CAGR of 118% during the same period from INR28m in FY13 to INR24b in FY21 on a small base. New hospitals clocked a fast growth and higher profitability in 1QFY22, due to higher occupancy and better operating leverage, as a result of the second COVID wave.
- We expect AHEL's hospital revenues to grow at a CAGR of 25% over FY21-24 to INR98b by FY24, driven by revenue CAGR of 22% in mature hospitals, 31% in new hospitals, and 35% in Proton over the same period.

Exhibit 57: Hospital revenue CAGR of 25% estimated over FY21-24



Source: MOFSL, Company

Exhibit 58: New hospitals to contribute more with time

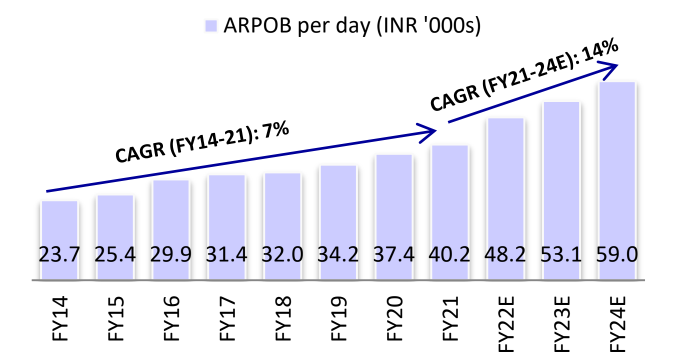


Source: MOFSL, Company

New hospitals now well into the ramp-up phase

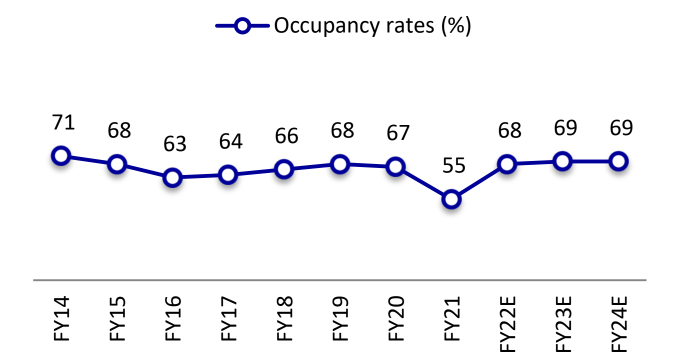
- ARPOBs grew by a CAGR of 8% from INR 22k per day in FY13 to INR40k per day in FY21 (ARPOB is calculated as IP revenues + OP revenue + hospital-based pharmacy revenues)/IP bed days).
- The growth in ARPOBs was led by a higher proportion of complex cases and increased operation theatre utilization. ALOS declined from 4.7 days in FY13 to 4.2 days in FY21, indicating a higher patient turnover. ALOS had declined to 3.9 before COVID but rose to 4.2 days in FY21, as COVID patients required longer hospitalization/COVID treatment based on the protocol. Higher patient turnover drives operation theatre utilization higher, leading to increased ARPOBs. We believe that ALOS will decline further as COVID cases subside due to an increase in vaccination and reduced infections.

Exhibit 59: ARPOBs to grow at healthy pace from FY21-24



Source: MOFSL, Company

Exhibit 60: Occupancy rate to reach ~70% by FY24



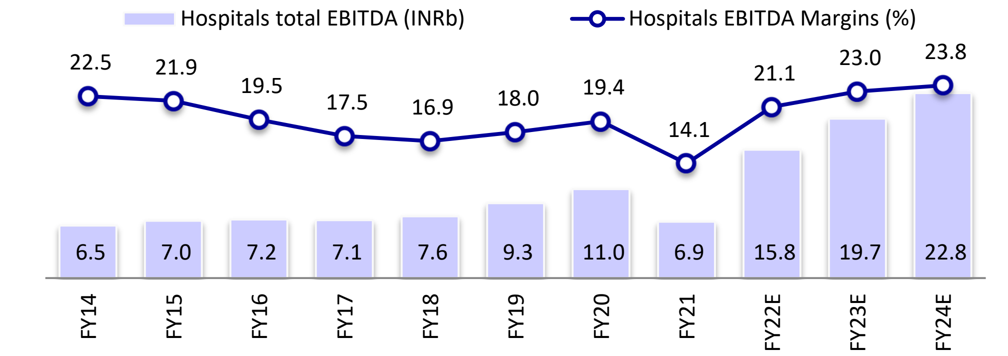
Source: MOFSL, Company

- Occupancy rates had trended downwards from the highs of 72% in FY13, mainly due to the commissioning of new hospitals, which have low occupancy during their initial years. With no additional hospitals commissioned over the last two-three years and the new hospitals maturing, the occupancy levels have trended upwards from FY18 onwards. This upward trend was, however, hampered by COVID-related lockdowns and postponement of elective surgeries in FY21. Occupancy levels increased to 66% in 2QFY22 as non-Covid volumes increased, despite continued impact on international patients. We conservatively estimate occupancy levels to reach 69% by FY24, which is still lower than the peak of 72% witnessed in FY12.

Improving profitability of new hospitals to drive EBITDA growth

- Healthcare services EBITDA grew at CAGR of 9% over FY14-20 to INR11b in FY20 but fell to INR6.9b in FY21. The growth was impacted by COVID in FY21. The COVID impact was higher at the EBITDA level as compared to revenues due to high fixed costs in the hospital business, as lower occupancy led to reduced operating leverage.
- Mature hospitals recorded a -1% EBITDA CAGR over FY13-21 (7.2% CAGR over FY13-20). New hospitals, which were incurring losses before FY18 due to start-up costs and low occupancy, turned profitable in FY18 and clocked a CAGR of 85% over FY18-21. New hospitals EBITDA also grew 8% YoY in FY21, as fewer beds were available during COVID, and less established hospitals also saw their occupancy levels increase during this period.

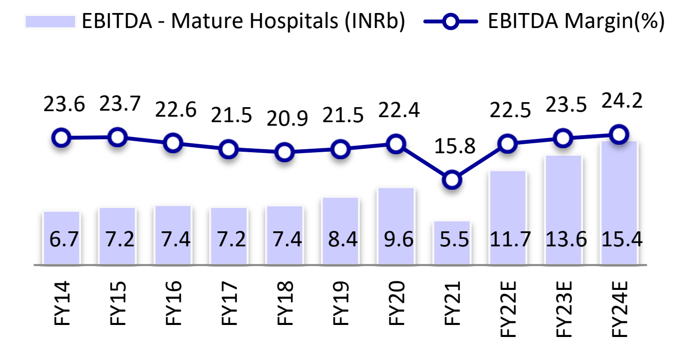
Exhibit 61: EBITDA margin to improve as more new hospitals mature



Source: MOFSL, Company

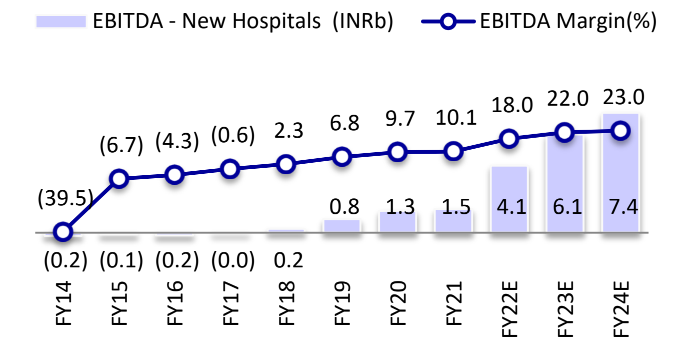
- With most of the new hospitals now being well-established and mature hospitals continuing to grow based on their centers of excellence and quality of care, we estimate the overall EBITDA to grow at a CAGR of 50% over FY21-24 on a low base, driven by 41% EBITDA CAGR of mature hospitals and 72% CAGR of new hospitals. We also expect Proton to achieve break-even in FY22.
- We expect the EBITDA margin to reach 24% for mature hospitals, 23% for new hospitals and 20% for Proton by FY24, leading to an overall EBITDA margin of 23.8% for the hospital segment.

Exhibit 62: Mature hospitals enjoy healthy EBITDA margin



Source: MOFSL, Company

Exhibit 63: New hospitals EBITDA margin to touch 23% by FY24



Source: MOFSL, Company

Private players to shape healthcare sector over coming years

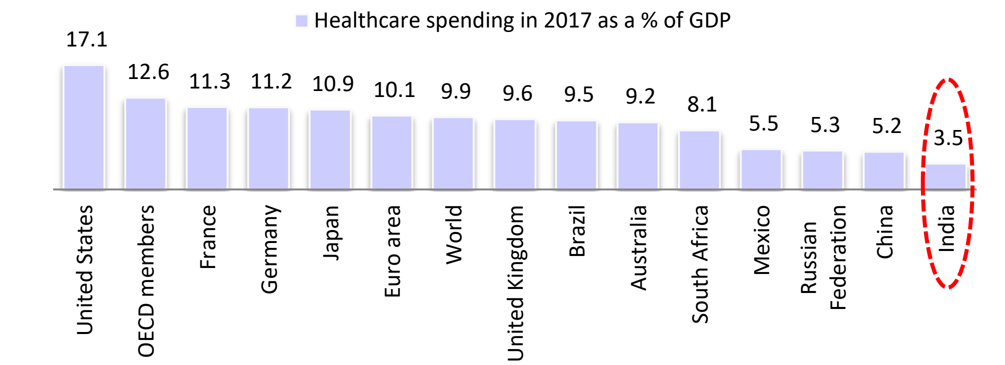
- **India ranks very low in healthcare metrics across most parameters such as spending as a % of GDP, per capita healthcare spending, per capita beds, and per capita doctors. Government spending on healthcare is just 1.5% of the country's GDP as compared to the OECD average of ~8%.**
- **Most of the healthcare spending is done in the private sector, out of which a majority of the spending is out of pocket.**
- **Lower organized employment is limiting insurance penetration in India.**

Lion's share of India's healthcare spending comes from private sector

India's spending on healthcare is very low. So, lack of strong public infrastructure means Indian people rely on private healthcare.

- India's healthcare spending remains abysmally low even in comparison to other developing countries like Brazil and South Africa.
- Healthcare spending in the west (ex-US) is supplemented with other social schemes that lead to better living standards and overall health, resulting in reduced level of healthcare spending.
- Given the lack of public healthcare infrastructure in India, a majority of its population is left with no choice but to seek healthcare at private establishments by paying from their own pockets.

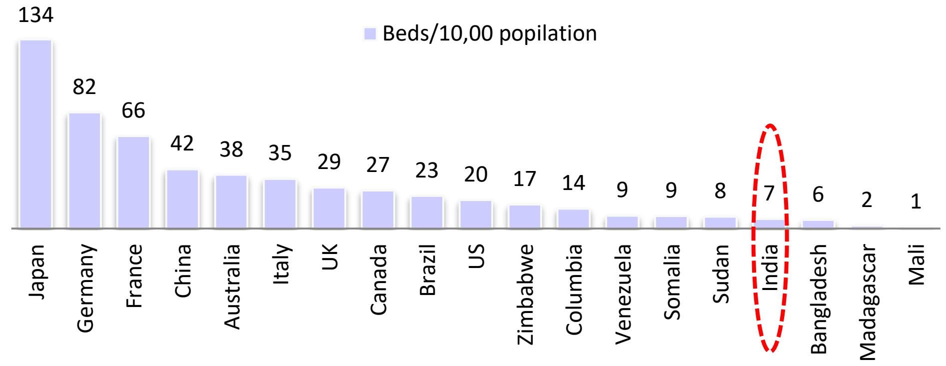
Exhibit 64: India's HC spending as a % of GDP remains very low even among developing countries



Source: MOFSL, OECD

- As seen during the COVID-19 epidemic, low level of healthcare spending exerts extreme stress on local infrastructure in case of smaller infection breakouts or larger epidemics and pandemics. The immovable nature of healthcare infra further exacerbates the situation.

Exhibit 65: Per capita hospital beds remain low as HC spending remains subdued



Source: MOFSL, Industry

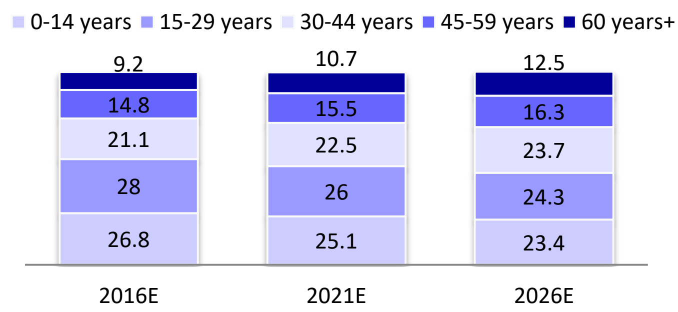
- The number of hospitals in a country is not just a function of investment in setting up new hospitals, but also in healthcare education. Due to low investment in healthcare education, the number of beds per capita population also remains extremely low.
- Increasing the number of hospital beds in India is a prolonged process as it requires ramping up the education system to be able to feed the new hospitals. The prolonged gestation period and demand for existing establishments will continue to drive healthcare costs upwards.

India to face challenges of an aging population over coming years

Average age of the country set to increase leading to higher need for healthcare services

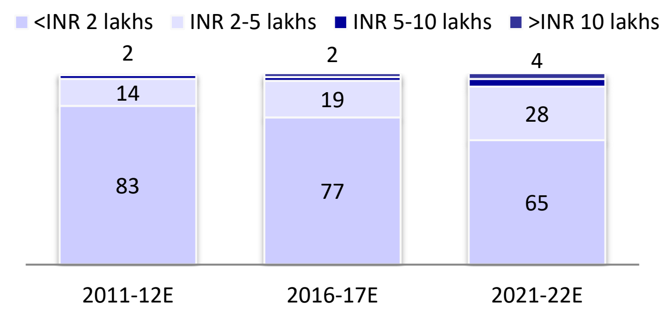
- India currently has a high proportion of young population which, however will age in the coming 15-20 years, leading to an increase in the average age of its people.
- India's aging population will bring its own challenges related to increased demand for healthcare services. This is already being seen in the US and now in China which are battling the increased need for healthcare and spending.

Exhibit 66: Average age of Indian population set to increase



Source: MOFSL, Crisil

Exhibit 67: Higher income levels of Indians to drive increase in healthcare affordability



Source: MOFSL,Industry

- With income levels also expected to increase in the coming years, India's aging population will demand more and better healthcare services, particularly in-patient treatment. The Indian government has learnt from its experience of the challenges brought by COVID and increased its healthcare spending target from ~1.5% currently to 2.5% of the GDP in next two years.

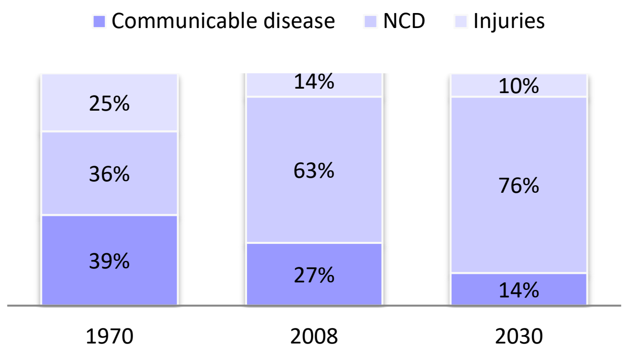
- Despite the government's efforts, the private sector will continue to drive a majority of the country's healthcare spending. Increasing consumer ability to pay for private care and rising insurance penetration are expected to drive the growth of India's private healthcare sector over the next two-three decades.

Increased need for care driven by shift from communicable to non-communicable diseases

Communicable diseases and injuries to be replaced higher advent of non-communicable diseases

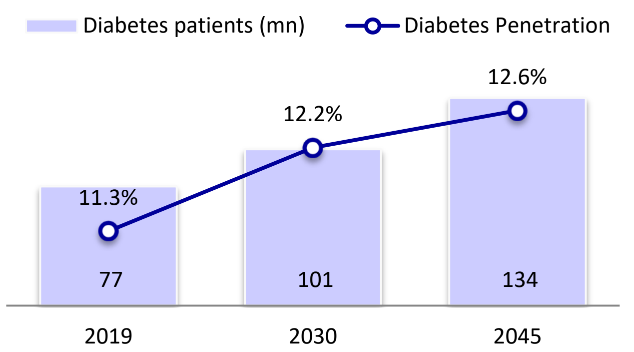
- The share of communicable diseases in India has reduced from 39% in 1970 to 27% in CY08 and will further halve by CY30. Similarly, the share of injuries is expected to decline from 25% in 1970 to 10% in CY30.
- At the same time, the share of non-communicable diseases is expected to more than double over 1970-CY30, thereby driving the need for secondary, tertiary and quaternary care in the country.

Exhibit 68: Share of NCDs expected to expand further



Source: WHO, World Bank, MOFSL

Exhibit 69: Diabetes cases in India expected to rise

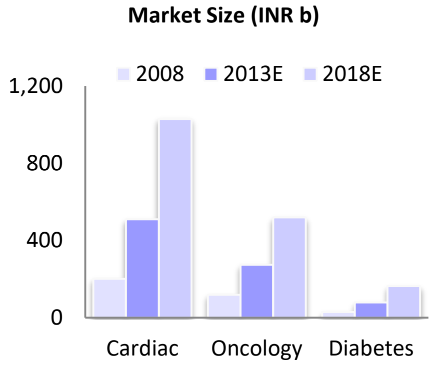


Source: IDF, MOFSL

Cardiac, Onco and Diabetes to dominate healthcare spending

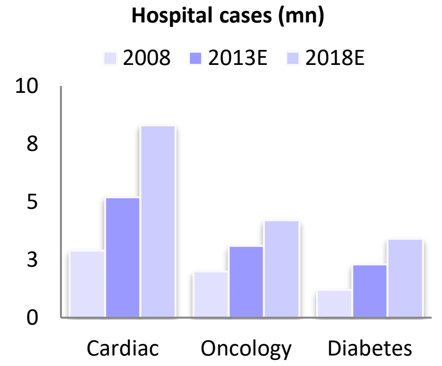
- Cardiac care will continue to dominate healthcare spending in India due to better diagnostic facilities and the prevalence of cardiac diseases as a result of sedentary lifestyles. Most of the healthcare spending in cardiac care is driven by spending on heart surgeries.
- The prevalence of cancer is increasing worldwide, and India is unlikely to remain untouched. As the diagnosis of early cancer improves due to scientific advancements, spending on cancer-related surgeries and medicine will also increase. Despite having a low number of hospital cancer cases, the cost per cancer treatment is almost similar to that for cardiac cases due to high treatment/medicine costs.
- India is said to be one of the diabetes capitals of the world, and diabetes cases will continue to account for a large chunk of its healthcare spending.

Exhibit 70: Cardiac care remains biggest market in terms of size…



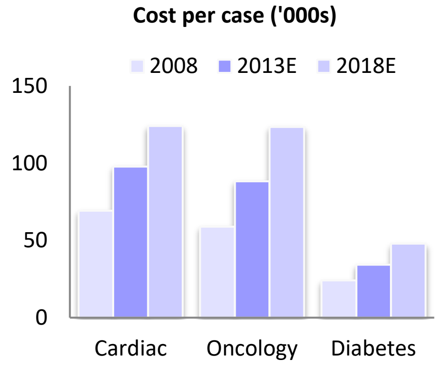
Source: MOFSL, Industry

Exhibit 71: …and cases…



Source: MOFSL, Industry

Exhibit 72: …and cost per case

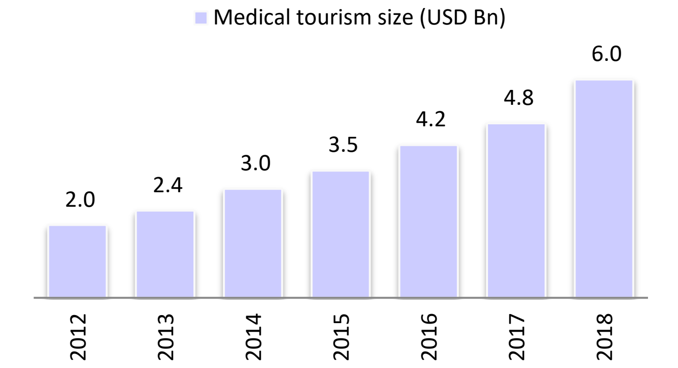


Source: MOFSL, Industry

High quality, low cost to drive medical tourism in India

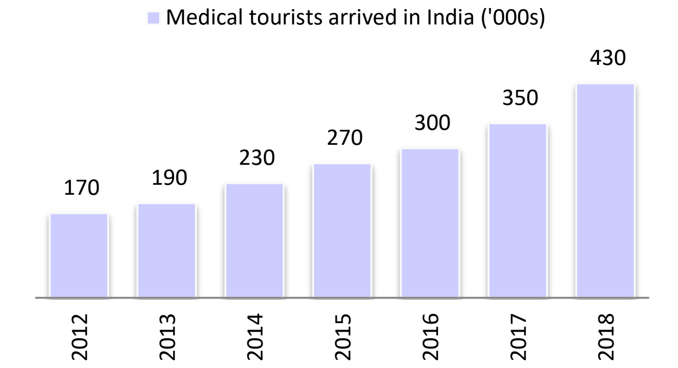
- India is one of the leading destinations for medical tourism due to its ability to provide high quality care at affordable prices. Even in comparison to some other popular medical tourism destinations in Asia, India offers better medical care at much lower prices.
- The medical tourism industry in India has tripled in size from USD2b to USD6b over CY12-18. The number of medical tourists arriving in India has also increased from 170k in CY12 to 430k in CY18. The average cost per case has also increased from ~USD11,750 in CY12 to ~USD14,000 in CY18, as more patients with complex diseases are choosing India for their medical needs.

Exhibit 73: Indian medical tourism market clocks CAGR of 20% over last five years…



Source: Ministry of Tourism, CII, MOFSL

Exhibit 74: …Number of medical tourists in India also increases in line with market growth

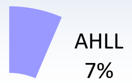


Source: Ministry of Tourism, CII, MOFSL

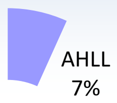
- The growth of the Indian medical tourism industry faced a major hiccup due to COVID-led travel restrictions. With rapid vaccinations, the sector is once again opening up to cater to the needs of international patients. The government's positive approach towards meeting the medical needs of international patients and easing the visa norms for medical tourists, supported by the one of the best quality healthcare facilities in the world, are expected to continue driving the sector over the next decade.

AHLL – a wildcard in the pack

Segmental revenue contribution (FY21)



Segmental EBITDA contribution (FY21)

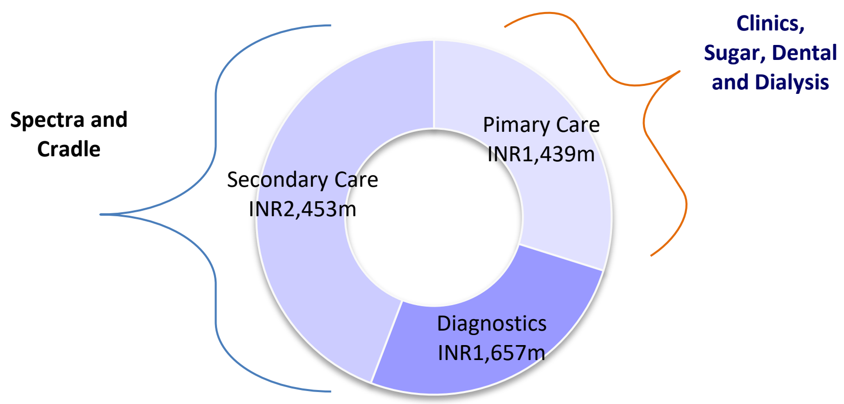


- **AHEL's lifestyle retail care segment, AHLL, is emerging as one of its fastest-growing sub-segments. Low cost, quality and convenience is driving the increased demand in this segment, enabling it to break-even in FY20.**
- **We expect AHLL to record 33% revenue CAGR over FY21-24, driven by rapid expansion in the diagnostics and primary care segments. We expect AHLL to record EBITDA CAGR of 52% over FY21-24, on a high base of FY21 as a result of COVID-related testing.**

Retail healthcare among the most exciting segments worldwide...and for AHEL

- Retail healthcare is growing faster than the hospitals business in the developed markets, especially in the US which has demand for high quality, low cost healthcare. The demand is even higher in countries like India where healthcare penetration is too low on account of low affordability. The retail healthcare model has demonstrated rapid growth and holds significant promise in taking healthcare beyond the metros.
- AHLL is AHEL's lifestyle healthcare division comprising of clinics, diagnostics, outpatient surgery centers, dental clinics, dialysis centers and 'CRADLE' maternity homes. The various divisions in AHLL's businesses act as complementary services for managing people with health conditions who do not require long stays at hospitals.

Exhibit 75: Specialized offerings for efficient healthcare delivery in retail setting



Source: MOFSL, Company

Expansion in Diagnostics and Primary care segment to drive revenue growth for AHLL

- AHLL's business is segmented into primary care, secondary care and diagnostics. The primary care segment includes clinics, sugar, dental, and dialysis sub-segments. The specialty care includes the CRADLE and Spectra sub-segments.
- Secondary care is AHLL's largest segment, accounting for 44% of its revenues and 51% of its EBITDA in FY21. Per patient revenues of the secondary care segment are the highest among all of AHLL's sub-segments.
- Diagnostics accounted for 30% of revenues and 27% of EBITDA for AHLL in FY21 while the primary care segment, with the lowest per patient revenues, accounted for 26% of its revenues and 22% of EBITDA in FY21.

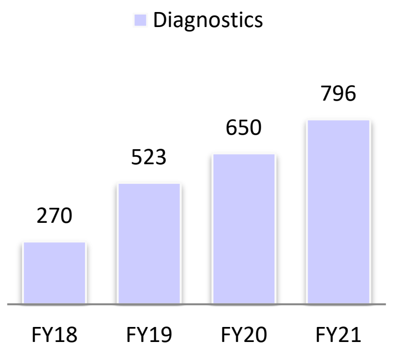
Diagnostics in focus with COVID-led increase in demand

- AHLL's diagnostics network has grown rapidly over the last four years from 270 centers in FY18 to ~800 centers in FY21. The expanding network has led to increasing footfalls/day in the diagnostics business. Average revenue per patient (APP) had already been on an uptrend even before COVID. COVID has further increased the pace of network expansion, and the higher prices for COVID RT-PCR tests led to a sharp uptick in APP in FY21.

Diagnostic network would benefit following the integration of diagnostics with Apollo 24|7

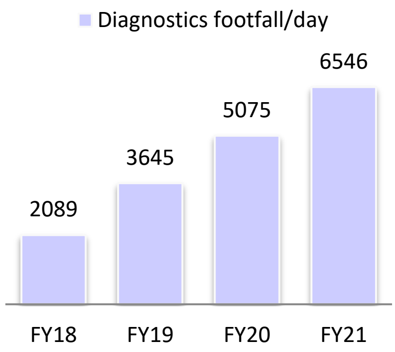
- Apollo diagnostics enjoys a strong brand recall in India, particularly across all the southern states. Due to its strong presence in four big southern states, it also has a captive addressable population which is much larger than that for any large diagnostic chain in India. Following the integration of diagnostics with Apollo 24|7, the digital platform is expected to act as a conduit for funneling more patients to the diagnostics network, thereby fuelling rapid expansion.

Exhibit 76: Fast-growing diagnostics network...



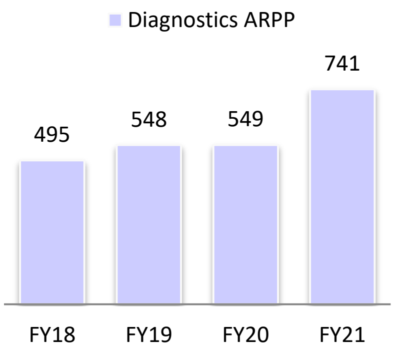
Source: MOFSL, Company

Exhibit 77: ...accompanied by rise in footfalls/day



Source: MOFSL, Company

Exhibit 78: Growing revenue per patient even prior to COVID

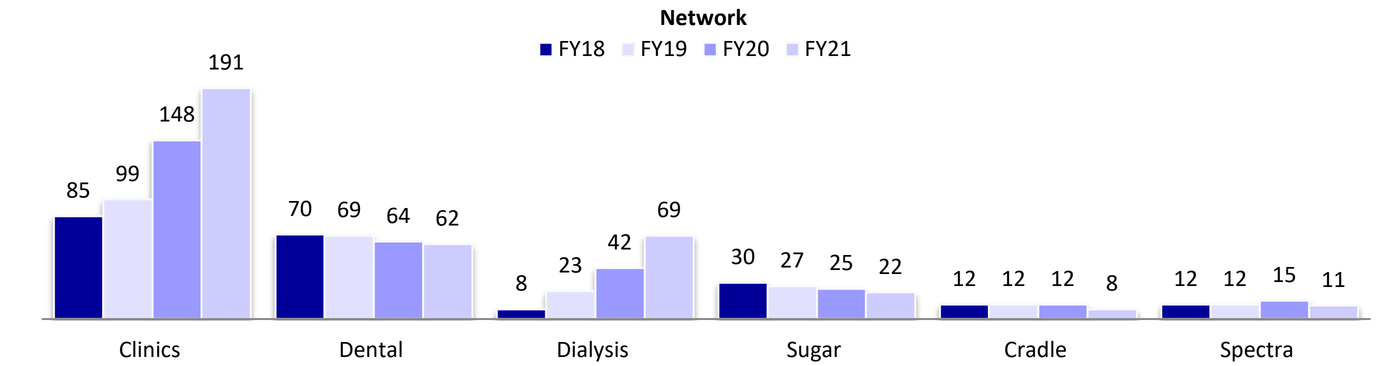


Source: MOFSL, Company

Primary care recording faster growth; Secondary care profitability improving

- AHLL's primary care clinics provide consultation services to people. They also act as conduits to drive in-patient volumes to the larger Apollo hospitals close to these clinics. The clinics also assist in post-operative health care. Its network strength has more than doubled over the last four years from 85 in FY18 to 191 in FY21.
- Another important segment for AHLL is its dialysis centers network. Chronic kidney disease patients need regular dialysis to maintain their health. This segment is also one of AHLL's fastest growing ones with its network strength growing by ~8.5x over the last four years from eight in FY18 to 69 in FY21.
- AHLL's sugar clinics provide specialized services to diabetes patients. Apollo's sugar clinics team includes diabetes experts, endocrinologists, dieticians, exercise management consultants, counsellors and diabetes educators who help patients with diabetes to manage their condition and avoid serious complications. AHLL's dental clinics provide high quality dental care at its standalone healthcare centers which have dental specialists and state-of-the-art facilities.
- AHLL's secondary care clinics comprise of Spectra outpatient/short stay surgery centers with state-of-the-art equipment, experts across various specialties and all the care of a large hospital in a more accessible facility. AHEL has 17 Spectra centers in 12 cities that are staffed by 2,300+ leading doctors. AHLL's CRADLE centers are India's leading mother and child care centers/maternity homes that provide healthcare services in the areas of gynecology, laparoscopy, pediatrics & neonatology, fertility, foetal medicine & NICU, etc.

Exhibit 79: Clinics, Dialysis centres witnessing exponential growth within AHLL



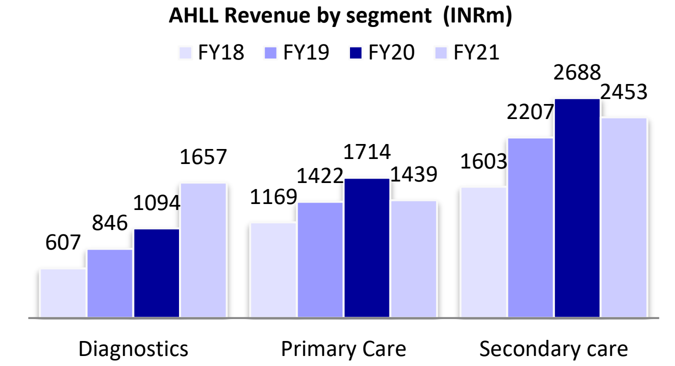
Source: MOFSL, Company

- The growth of AHLL's primary care segment is being driven by the scaling-up of its clinics and dialysis centers; although it's dental clinics have been unable to ramp-up in line with other services. AHLL's CRADLE network remained steady for three years before COVID, although COVID has forced center rationalization in this segment. Spectra's network has also remained stable.

AHLL achieves break-even in FY20 and continues to ramp-up in other sub-segments

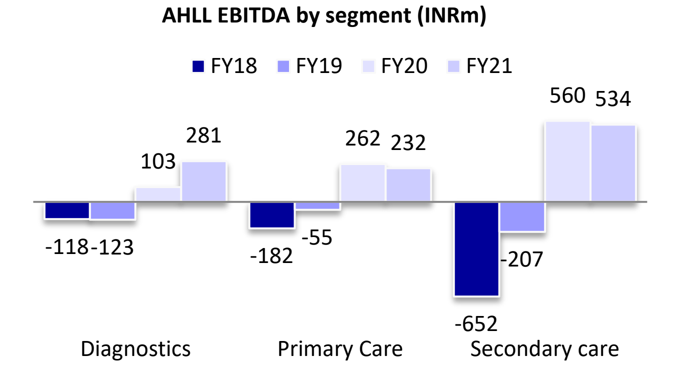
- A ramp-up in footfalls and revenues per centre has driven AHLL's overall sales over the past three-four years. AHLL also turned EBITDA positive in FY19, with all its sub-divisions reporting positive EBITDA in FY20.

Exhibit 80: Diagnostics remains AHLL's fastest growing segment with 40% CAGR over last four years



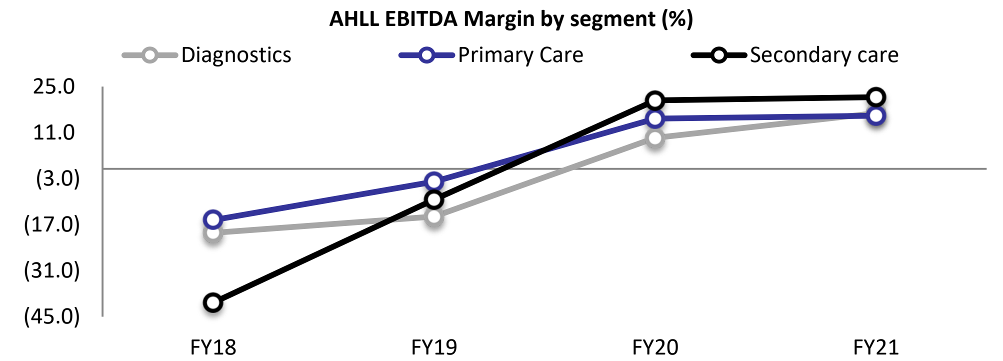
Source: MOFSL, Company

Exhibit 81: All AHLL sub-segments turn EBITDA positive in FY20



Source: MOFSL, Company

Exhibit 82: Secondary care enjoys highest EBITDA margin within AHLL at 22% in FY21



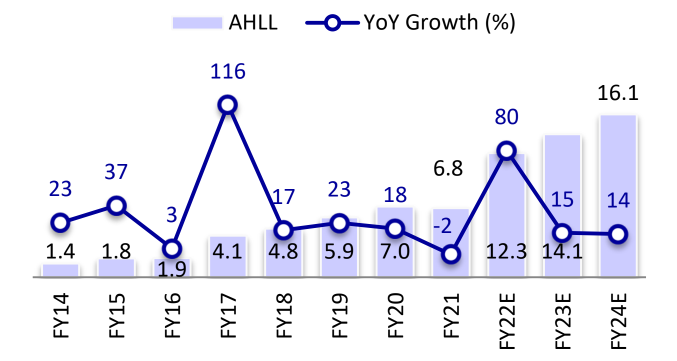
Source: MOFSL, Company

Retail healthcare firmly established, AHLL estimated to clock 33% sales CAGR over FY21-24

AHLL's earnings growth to be driven by improvement in occupancy, growth of clinics business and higher share of complex tests in diagnostics business

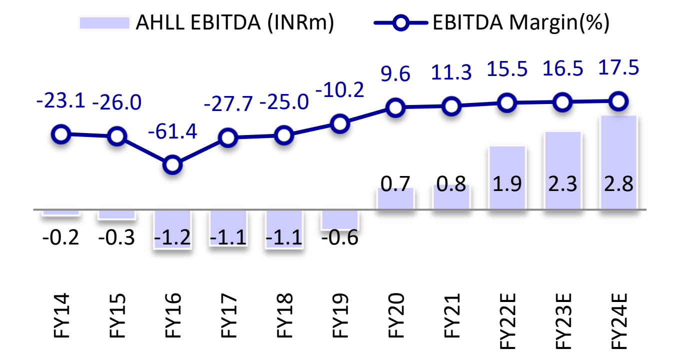
- We expect AHLL to clock 33% revenue CAGR over FY21-24 to reach INR15b by FY23. We estimate AHLL to record 54% CAGR in EBITDA over FY21-24 and EBITDA margin of ~17.5% on the back of improved operating leverage of these centres which now have decent legacy in terms of operations, slowing expansion and related early business losses.
- We expect AHLL's margins to improve, driven by operating leverage, improvement in occupancy in Cradles and Spectra, secular growth in the clinics business and higher share of more complex tests in diagnostics.

Exhibit 83: Revenue CAGR of 33% expected over FY21-24



Source: MOFSL, Company

Exhibit 84: Margin expansion of 620bp expected over FY21-24



Source: MOFSL, Company

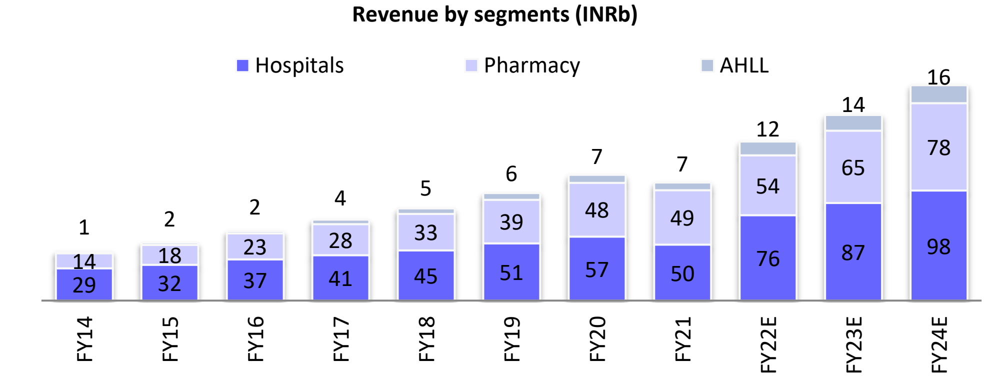
Faster growth along with better margins ahead

- **AHEL's total revenues grew at 13.7% CAGR over FY13-21 on the back of the ramp-up of its 24|7 platform and the improving performance of new hospitals. We estimate revenue CAGR of 22% over FY21-24, driven by revenue CAGR of 33% in AHLL, 25% in hospital and 17% in pharmacy.**
- **With no new greenfield projects on the anvil, AHEL's capex is expected to decline to ~INR1.2b for the next two years from a peak of ~INR10b in FY16. The absence of new greenfield projects will also ensure there are no margin dampeners due to start-up costs involved in new hospitals.**
- **There could be an upside to our estimates due to the potential addition of 1,500-2,000 beds to its current facilities from the pool of capacity beds that are yet to be made operational.**

Solid topline growth for past eight years

- AHEL's total revenues grew at 13.7% CAGR over FY13-21 and were impacted by a COVID-related decline in hospital admissions in FY21. AHEL's total revenues grew at CAGR of 17% over FY13-20. The company's topline CAGR of 13% over FY13-21 was driven by revenue CAGR of 26% in AHLL, 20% in pharmacy, and 9% in the hospital segment.
- AHEL's growth over FY13-21 was hampered by a 28% YoY decline in revenues in FY21 due to the impact of COVID-led lockdown and postponement of elective surgeries.
- We expect AHEL's revenues to grow at 22% CAGR over FY21-24, driven by revenue CAGR of 33% in AHLL, 25% in hospital and 17% in pharmacy.

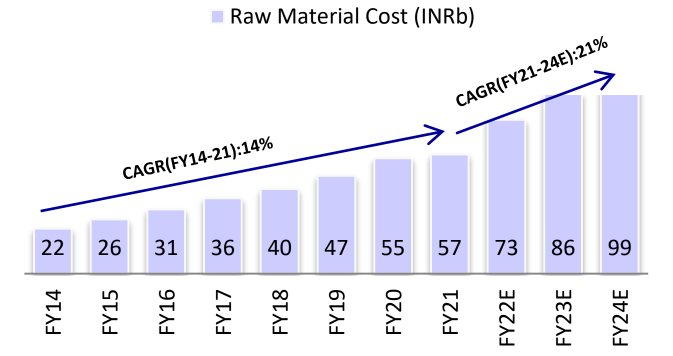
Exhibit 85: Revenue CAGR of 14% over past eight years; Estimated revenue CAGR of 22% over FY21-24



Source: MOFSL, Company

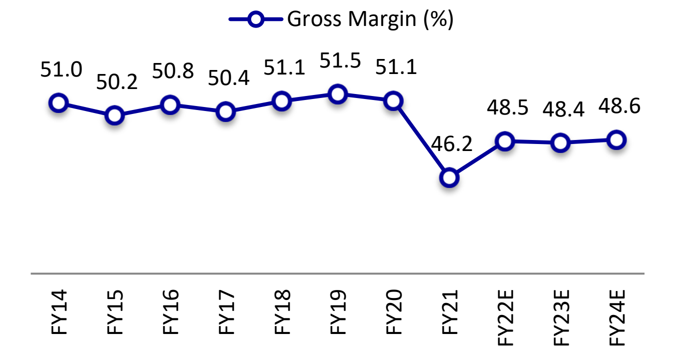
- Healthcare services accounted for 68% of AHLL's total revenues in FY13. Retail pharmacy services accounted for 29% of total revenues in FY13, while AHLL, which was in its nascent stages then, contributed 3% to sales.
- Based on the faster growth expected in pharmacy revenues, aided by the omni-channel model and better performance by AHLL, we expect the revenue contribution of hospital/healthcare to decline from 68% in FY13 to 51% in FY24 and the contribution of pharmacy to increase to 40% in FY24.

Exhibit 86: Raw material costs to increase at slower pace than revenues over FY21-24



Source: Company, MOFSL

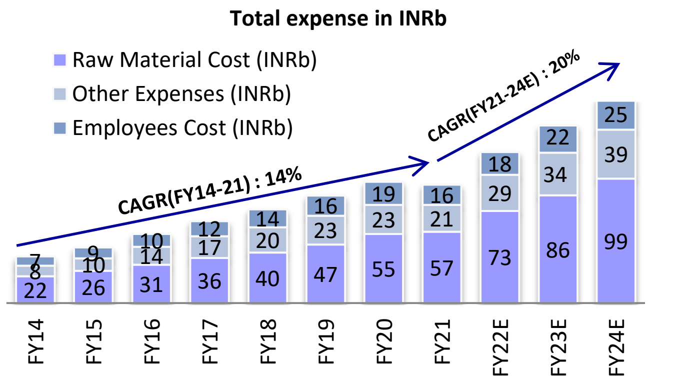
Exhibit 87: Gross margin to trend upwards over FY21-24



Source: Company, MOFSL

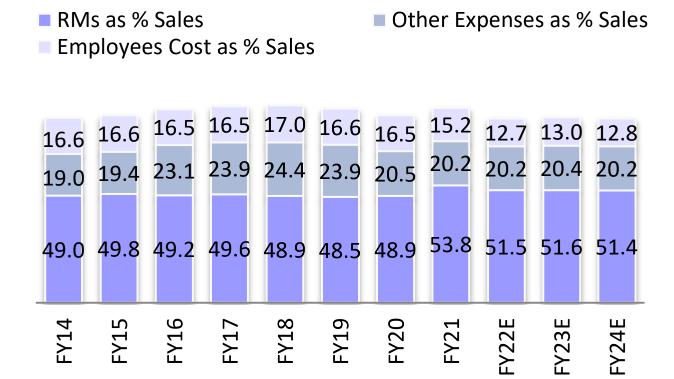
- Raw material costs accounted for 49% of AHEL's total sales in FY13 and 54% of its total sales in FY21. Hospital raw materials include consumables used in treatment, operations, etc., and medicines. We expect the company's raw material costs to increase at a slower pace than revenues over FY21-24, resulting in ~240bp gross margin expansion over FY21-24, despite an increase in the contribution of the pharmacy business which has higher COGS.
- Other expenses, such as rent and operating costs, accounted for 20% of AHEL's sales in FY21, and are expected to remain steady as % of sales over FY22-24. Employee costs, including doctors' and nurses' salaries, are the third-biggest item. Other expenses are expected to remain largely unchanged from FY21 at ~ 20% of sales in FY24.

Exhibit 88: Total expenses CAGR of 20% expected over FY21-24



Source: MOFSL, Company

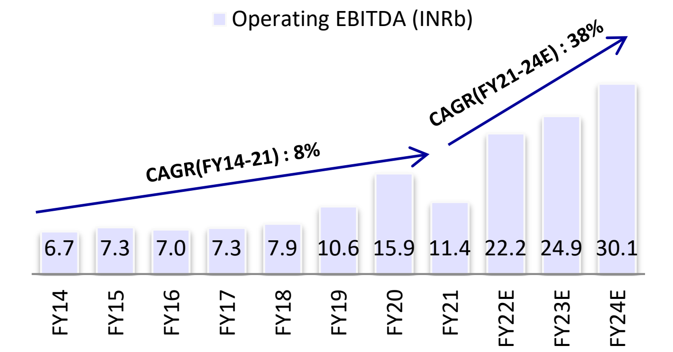
Exhibit 89: Tight control over employee costs to drive margin expansion



Source: MOFSL, Company

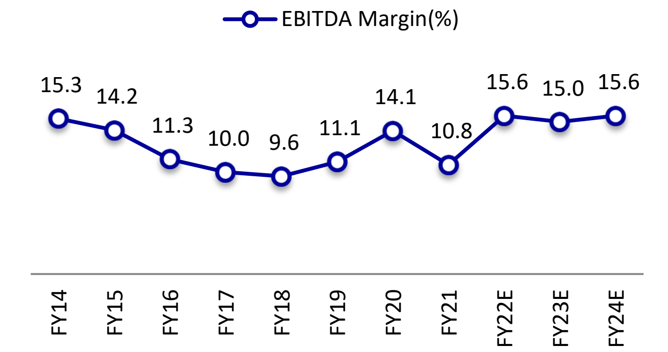
- AHEL recorded an EBITDA CAGR of 8% over FY13-21 mainly due to the impact of COVID-led lockdowns in FY21, which also affected hospital admissions and AHLL's revenues. AHEL's EBITDA declined 28% YoY in FY21 due to COVID-related disruptions. The EBITDA decline was offset to some extent by an increase in pharmacy, tele-consultation and diagnostic revenues, which benefitted from COVID testing, medicine deliveries and convenience.
- Given that COVID-led disruptions are now receding, the reach of pharmacy is increasing, occupancy of new hospitals is improving, and operations of mature hospitals are normalising, we estimate EBITDA CAGR of 38% over FY21-24. We estimate EBIDTA margin to reach ~15.6% by FY24.

Exhibit 90: EBITDA CAGR of 38% estimated over FY21-24 partly on a low base



Source: MOFSL, Company

Exhibit 91: EBIDTA margin to improve to 15.6% by FY24



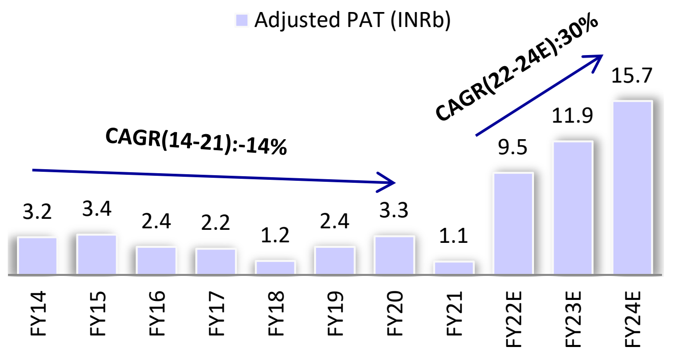
Source: MOFSL, Company

- We do not expect the hospital segment to be majorly impacted even in case of another COVID wave in India, as hospitals have now developed the expertise to keep non-COVID patients insulated from COVID patients.

PAT expected to grow 14x by FY24 on low FY21 base due to COVID impact

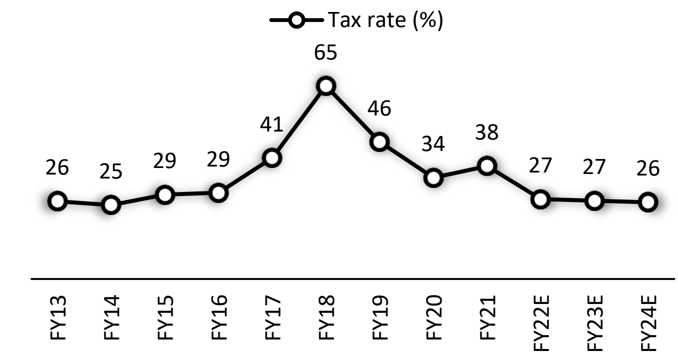
- The adjusted PAT declined at a CAGR of 12% over FY13-21. Even pre-COVID, PAT had remained largely flat over FY13-20 (CAGR of 1%) due to low margins of new hospitals and AHLL, further exacerbated by a high tax rate. In FY21, PAT declined 66% YoY due to the COVID impact.
- The capex for new hospitals during this period led to an increase in loans and assets, resulting in higher interest expenses and depreciation. The tax rate also increased from 25% in FY14 to 65% in FY18, thereby impacting profitability.
- We expect PAT to grow by 14x over FY21-24, driven by improving profitability of new hospitals, AHLL and break-even achieved by the Proton business. We expect the mature hospitals segment and pharmacy business to continue delivering a strong performance, along with an upside from the 24|7 omni-channel pharmacy.

Exhibit 92: PAT CAGR of 30% expected over FY22-24



Source: MOFSL, Company

Exhibit 93: Tax rate on the decline since FY19



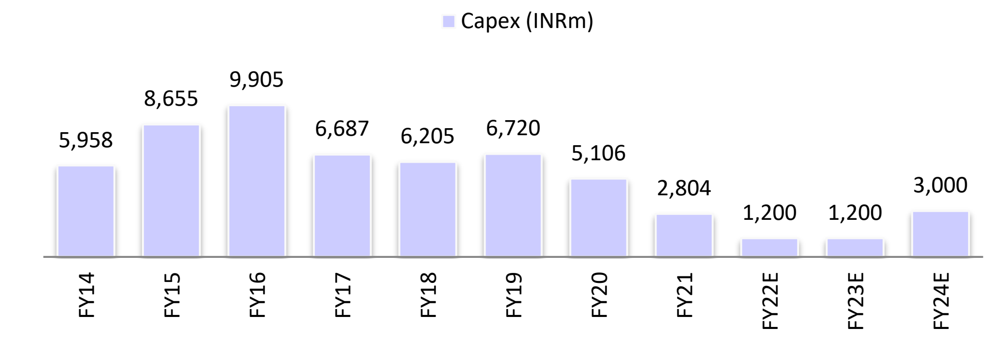
Source: MOFSL, Company

Capex to moderate as sweating existing assets remains a priority

- AHEL's capex increased over FY14-16 and peaked in FY16 before declining in the subsequent years. The company's capex declined from INR5.1b in FY20 to INR2.8b in FY21 and was allocated mainly for the pharmacy and 24|7 business, with no new capex for hospital expansion.

- We expect AHEL's capex to normalise as investments in new hospitals decline. With the Proton business ramping up and expected to turn EBITDA positive, and the capex related to pharmacy/24|7 now complete, we estimate AHEL's overall capex to be around INR1.2b, going forward.

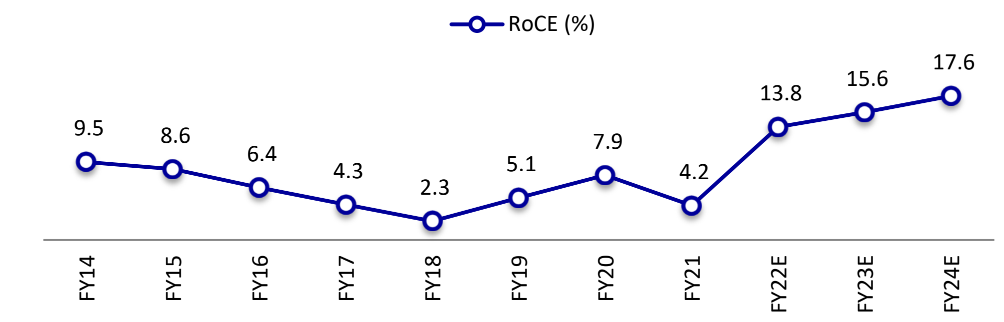
Exhibit 94: Capex to decline due to absence of greenfield expansions ahead



Source: MOFSL, Company

- AHEL's RoCE has declined consistently over FY14-FY18 due to an increase in capex and losses from new hospitals. As the capex cycle comes to an end and new hospitals turn profitable, we expect the company's RoCE to increase steadily to 18%.

Exhibit 95: RoCE to improve with most loss-making businesses maturing



Source: MOFSL, Company

FCFF to improve due to completion of all major capex projects

- AHEL recently completed its network expansion by adding 2,400+ beds in 13 locations (new hospitals) and the Proton business. Since then, it has not undertaken any major capex for new greenfield expansion. This, along with the improving profitability of its newly-commissioned hospitals which are reporting better profitability, has resulted in healthy FCFF generation since FY19. With no new greenfield expansion of hospitals on the anvil, we expect AHEL's FCFF to continue improving until the next greenfield expansion cycle. We expect AHEL's FCFF to reach ~INR20b in FY24, up from loss of INR4b in FY15.

Exhibit 96: FCFF to further improve by FY23 due to completion of greenfield projects and absence of major planned expansions

FCFF	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Income (INRm)	3,168	3,399	2,364	2,210	1,172	2,361	3,265	1,125	9,311	12,150	16,155
Depreciation and Amortization (INRm)	1,671	2,117	2,659	3,140	3,590	3,955	6,197	5,731	6,272	6,403	6,524
Interest*(1-t) (INRm)	895	842	1,275	1,519	1,022	1,752	3,501	2,774	2,893	2,131	2,031
Capex (INRm)	(5,958)	(8,655)	(9,905)	(6,687)	(6,205)	(6,720)	(5,106)	(2,804)	(1,200)	-1,200	-3,000
Working Capital (INRm)	(2,141)	(1,608)	108	(785)	(2,054)	(458)	(703)	(721)	(1,075)	-506	-782
FCFF (INRm)	**(2,365)**	**(3,906)**	**(3,499)**	**(603)**	**(2,474)**	**890**	**7,155**	**6,105**	**16,201**	**18,978**	**20,927**

SWOT ANALYSIS

- Pan India presence with South India being the largest market for both hospital and pharmacy segments
- Market leader in hospital business with largest number of operating beds
- Omni-channel presence in pharmacy, with one of the highest TAMs in the industry
- India's leading brand in healthcare sector with a legacy of 37 years
- Comprehensive offerings spanning the entire value chain of healthcare services

- Capital-intensive hospital business coupled with long gestation period
- Hospital business focused mainly on metros and tier-1 cities
- Dearth of skilled doctors and skilled medical staff in a workforce-intensive industry
- Intensive regulatory requirements

- Increased healthcare requirements as population aging hastens over next decade
- Well-positioned to attract medical tourism patients from overseas countries
- Scope for expanding number of beds by operationalizing capacity beds that are not yet operational
- Integrated health-tech platform bringing all offerings under one roof, e-pharmacy
- Faster adoption of retail healthcare model by individuals and insurance companies

- Intense competition in e-pharmacy business from funded start-ups
- Increasing competition for acquisition targets making inorganic expansion difficult
- Government price caps on hospital pricing
- Extended pandemic could restrict medical tourism business

Earnings sensitivity

- **We estimate 22% sales CAGR for AHEL over FY21–23E for our base case scenario, 25% for our bull case scenario, and 16% for our bear case scenario. We estimate 480bp EBITDA margin expansion for our base/bull/bear case scenarios.**
- **Based on our estimates, we expect an upside of 25% for our base case scenario and 45% for our bull case scenario, and a downside of 9% for our bear case scenario.**

Exhibit 97: Estimated upside of 21% for base case scenario and 46% for bull case scenario

Base Case Scenario						
Business	**Parameter (INRb)**	**Multiple (x)**		**% stake**	**Value**	**Assumption**
Hospital EBITDA	22.0	EV/EBITDA	24	100	536	Assuming 25% FY21-24 CAGR in Hospital sales;
Retained Pharmacy	5.8	EV/EBITDA	35	100	203	Assuming 17% CAGR in Pharmacy sales
AHLL	2.7	EV/EBITDA	30	70.3	57	Assuming 41% CAGR in AHLL sales
Front end Pharmacy	1.8	EV/EBITDA	35	25.5	16	480bp EBITDA margin expansion
Indraprastha				22	2	
24/7	12.0	EV/sales	4	100	48	
EV (INRb)					**860**	
Net Debt (INRb)					14	
Target Market Cap (INRb					846	
Outstanding shares					144	
Target Price (INR)					5,900	
CMP					4,706	
Potential upside (%)					25.4	

Bull Case Scenario						
Business	**Parameter (INRb)**	**Multiple (x)**		**% Stake**	**Value**	**Assumption**
Hospital EBITDA	23	EV/EBITDA	26	100	590	Assuming 28% FY21-24 CAGR in Hospital sales;
Retained Pharmacy	6	EV/EBITDA	36	100	227	Assuming 20% CAGR in Pharmacy sales
AHLL	3	EV/EBITDA	27	70.3	59	Assuming 43% CAGR in AHLL sales
Front end Pharmacy	1.7	EV/EBITDA	37	25.5	16	480bp EBITDA margin expansion
Indraprastha				22	2	
24/7	11.30	EV/sales	9	100	101	
EV (INRb)					995	
Net Debt (INRb)					14	
Target Market Cap (INRb)					981	
Outstanding shares					144	
Target Price (INR)					6,820	
CMP					4,706	
Potential upside (%)					44.9	

Bear Case Scenario						
Business	**Parameter (INRb)**	**Multiple (x)**		**% Stake**	**Value**	**Assumption**
Hospital EBITDA	16	EV/EBITDA	22	100	348	Assuming 18% FY21-24 CAGR in Hospital sales;
Retained Pharmacy	5	EV/EBITDA	34	100	157	Assuming 13% CAGR in Pharmacy sales
AHLL	2	EV/EBITDA	23	70.3	28	Assuming 22% CAGR in AHLL sales
Front end Pharmacy	1.7	EV/EBITDA	33	25.5	15	480bp EBITDA margin expansion
Indraprastha				22	2	
24/7	11.30	EV/sales	7	100	79	
EV (INRb)					628	
Net Debt (INRb)					14	
Target Market Cap (INRb)					614	
Outstanding shares					144	
Target Price (INR)					4,270	
CMP					4,706	
Potential upside (%)					(9.2)	

Source: MOFSL, Company

Base Case

- In our base case scenario, we estimate 22% revenue CAGR and 38% EBITDA CAGR over FY21-24E and 480bp margin expansion. We assign EV/EBITDA multiples of 24x/35x/30x/35x for hospital/retained pharmacy/AHLL/front-end pharmacy over 12-month forward EBITDA of INR22b/INR6b/INR3b/INR2b. We ascribe an EV/Sales multiple of 4x for the Apollo 24|7 business. We arrive at an SOTP-based target price of INR5,900, marking an upside of 25% from the current levels.

Bull Case

- In our bull case scenario, we estimate 26% revenue CAGR and 46% EBITDA CAGR over FY21–24E and 480bp margin expansion. We assign EV/EBITDA multiples of 26x/36x/27x/37x for hospital/retained pharmacy/AHLL/front-end pharmacy over 12-months forward EBITDA of INR23b/INR6b/INR3b/INR2b. We ascribe an EV/Sales multiple of 9x for the Apollo 24|7 business. We arrive at an SOTP-based target price of INR6,280, marking an upside of 45% from the current levels.

Bear Case

- In our bear case scenario, we estimate 16% revenue CAGR and 27% EBITDA CAGR over FY21–24E and 480bp margin expansion. We assign EV/EBITDA multiples of 22x/34x/23x/33x for hospital/retained pharmacy/AHLL/front-end pharmacy over 12-months forward EBITDA of INR16b/INR5b/INR2b/INR2b. We ascribe an EV/Sales multiple of 7x for the Apollo 24|7 business. We arrive at an SOTP-based target price of INR4,270, marking a downside of 9% from the current levels.

Valuation and view

Increased focus on healthcare in India after years of neglect

- India's healthcare is currently at an inflexion point after suffering from eternal underinvestment in infrastructure, rising healthcare needs, dearth of trained professionals and quality of care.
- On the other hand, the digital revolution has not left the healthcare sector untouched. India's online pharmacy market alone is expected to reach a size of USD4.5b by FY25 from ~USD600m in FY20, driven by new offerings in the health tech segment.
- Rising awareness, increasing options and services, focus on health brought about by COVID, access to digital tools, and improving affordability, particularly in the urban areas, is expected to drive the growth of India's healthcare sector.

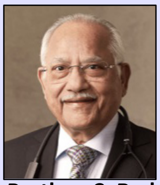
AHEL firmly in the driver's seat in all segments

- AHEL's new offering, Apollo 24|7 platform and its e-pharmacy business, leverages its existing physical network to transform the company into an omni-channel pharmacy player with the widest and deepest reach. We expect Apollo 24|7 e-pharmacy to garner a market share of ~14% of the online pharmacy segment by FY25, driven by an exponential growth in orders fulfilled, and reach USD1b+ in revenues by FY27. We estimate Apollo 24|7 to grow faster than the industry beyond FY25 as well and to increase its market share further.
- In the hospital segment, we expect new hospitals to dominate AHEL's growth and margin expansion, as they begin their journey towards becoming mature hospitals. We expect 25% CAGR in hospital revenues, driven by 22% CAGR in mature hospitals and 31% in new hospitals, over FY21- 24. We expect an increase in occupancy, particularly at new hospitals, to drive 72% CAGR in EBITDA over FY21-24, enabling the EBITDA margin of the hospital business to cross 23% by FY23.
- AHLL has run through its own journey of start-ups and difficulty in ramping up and has now turned profitable. All of AHLL's sub-segments have also turned EBITDA-positive, with improving unit economics. We expect AHLL to see 36% revenue CAGR over FY21-24, driven by the rapid expansion in diagnostics and primary care segments. We expect EBITDA to grow at 52% CAGR over FY21-24, on a high base of FY21, which benefited from COVID related testing.

Valuation and view

- We are positive on AHEL based on a) differentiated business model in online pharmacy through its omni-channel presence, b) ramp-up in other digital services on the 24|7 platform such as diagnostics, tele-consultations, c) improving profitability of the hospital segment with new hospitals continuing their journey towards maturity, d) absence of new greenfield expansion for hospitals, e) improving unit economics in the AHLL business with all sub-segments also achieving break-even.
- We value AHEL on an SOTP basis. We ascribe 24x EV/EBITDA multiple to the hospital segment and 35x to the back-end pharmacy, 35x to front-end (25.5% stake), and 30x to AHLL. We ascribe an EV/Sales multiple of 4x to the Apollo 24|7 business. We arrive at a price target of INR5,900 for AHEL, marking an upside of 25% from the current levels.

Management profile



Dr. Prathap C. Reddy
Founder, Chairman

- Founder-Chairman of Apollo Hospitals. Dr. Prathap C Reddy has also been the Chairman of the CII's National Health Council and advisor to its committees on Healthcare, Health Insurance, Public Health and Pharma.

Dr. Preetha Reddy
Executive Vice Chairperson

- Dr. Preetha Reddy works closely with the organization's clinicians in introducing contemporary protocols to continuously enhance clinical outcomes.
- Dr. Reddy holds a Bachelor's degree in Science and a Masters in Public Administration. She was conferred the degree of Doctor of Science (Honoris Causa) by The Tamil Nadu Dr. MGR Medical University

Ms. Suneeta Reddy
Managing Director

- Ms. Suneeta Reddy heads the finance and strategy functions.
- She holds a Bachelor of Arts degree in Public Relations, Economics and Marketing. She also holds a Diploma in Financial Management from the IFMR, Chennai, and has completed the Owner / President Management Program at Harvard Business School (HBS), Boston, USA

Ms. Shobana Kamineni
Executive Vice Chairperson

- Ms. Shobana Kamineni steers integrated digital first healthcare services in India through Apollo 24|7. She heads Apollo Pharmacy
- In addition, Shobana is the Vice-Chairperson of the KEI Group, a logistics, leisure & infrastructure business, which she founded with her husband

Dr. Sangita Reddy
Joint Managing Director

- Dr. Sangita Reddy heads Apollo Philanthropy, an umbrella entity encompassing 'Save a Child's Heart Initiative'
- A science graduate from the Women's Christian College in Chennai, India, Dr. Reddy pursued post-graduation courses in Hospital Administration from Rutgers University, Harvard University and the National University of Singapore

Mr. Krishnan Akhileswaran
(CFO)

- Mr. Krishnan Akhileswaran serves as group CFO at AHEL. Shri. Krishnan Akhileswaran has been associated with AHEL since 2010. Prior to this, he served as the Senior Vice President/Controller Finance at FirstSource from 2003 till 2010. Shri. Krishnan Akhileswaran received his MBA degree from University of Mumbai

Dr. K. Hariprasad
(President – Hospitals)

- Dr. K. Hariprasad serves as President of Hospitals Division at AHEL. He has a total work experience of 19 years and associated with AHEL since 1999. Dr. Hariprasad received his Bachelor`s in Medicine and Surgery degree from Kasturba Medical College

Financials and valuation

Consolidated - Income Statement								(INRm)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	**72,557**	**82,435**	**96,174**	**1,12,468**	**1,05,600**	**1,42,229**	**1,66,137**	**1,92,725**
Change (%)	16.8	13.6	16.7	16.9	-6.1	34.7	16.8	16.0
Total Expenditure	**65,272**	**74,503**	**85,538**	**96,596**	**94,226**	**1,20,042**	**1,41,217**	**1,62,660**
% of Sales	90.0	90.4	88.9	85.9	89.2	84.4	85.0	84.4
EBITDA	**7,286**	**7,932**	**10,637**	**15,872**	**11,374**	**22,188**	**24,921**	**30,065**
Margin (%)	10.0	9.6	11.1	14.1	10.8	15.6	15.0	15.6
Depreciation	3,140	3,590	3,955	6,197	5,731	6,272	6,403	6,524
EBIT	**4,145**	**4,341**	**6,681**	**9,675**	**5,643**	**15,916**	**18,517**	**23,541**
Int. and Finance Charges	2,574	2,951	3,270	5,328	4,492	3,710	2,899	2,745
Other Income	649	322	324	270	450	606	708	821
PBT bef. EO Exp.	**2,221**	**1,712**	**3,736**	**4,617**	**1,601**	**12,812**	**16,326**	**21,618**
EO Items	0	0	0	1,952	614	2,941	0	0
PBT after EO Exp.	**2,221**	**1,712**	**3,736**	**6,569**	**2,215**	**15,753**	**16,326**	**21,618**
Total Tax	910	1,119	1,734	2,252	847	4,253	4,326	5,621
Tax Rate (%)	41.0	65.4	46.4	34.3	38.2	27.0	26.5	26.0
Minority Interest	-899	-579	-359	-231	-136	-143	-150	-157
Reported PAT	**2,210**	**1,172**	**2,361**	**4,548**	**1,504**	**11,642**	**12,150**	**16,155**
Adjusted PAT	**2,210**	**1,172**	**2,361**	**3,265**	**1,125**	**9,495**	**12,150**	**16,155**
Change (%)	-6.5	-47.0	101.5	38.3	-65.6	744.3	28.0	33.0
Margin (%)	3.0	1.4	2.5	2.9	1.1	6.7	7.3	8.4

Consolidated - Balance Sheet								(INRm)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	696	696	696	696	719	719	719	719
Eq. Share Warrants & App. Money	35	0	0	0	0	0	0	0
Total Reserves	32,402	31,819	32,639	32,695	45,306	56,107	67,416	82,729
Net Worth	**33,132**	**32,515**	**33,335**	**33,390**	**46,025**	**56,826**	**68,135**	**83,448**
Minority Interest	1,246	1,324	1,355	1,307	1,999	1,999	1,999	1,999
Total Loans	36,442	39,017	41,534	57,243	43,147	28,897	27,397	25,897
Deferred Tax Liabilities	2,250	2,393	2,975	2,447	2,354	2,354	2,354	2,354
Capital Employed	**73,070**	**75,250**	**79,198**	**94,387**	**93,525**	**90,076**	**99,884**	**1,13,698**
Gross Block	51,612	56,846	62,594	98,760	92,371	94,843	96,297	98,448
Less: Accum. Deprn.	9,164	12,580	16,240	27,960	28,395	34,667	41,070	47,594
Net Fixed Assets	**42,448**	**44,266**	**46,354**	**70,800**	**63,976**	**60,176**	**55,227**	**50,854**
Goodwill on Consolidation	3,463	3,463	3,462	3,462	3,753	3,753	3,753	3,753
Capital WIP	3,469	7,122	8,218	2,356	2,339	1,068	814	1,663
Total Investments	**4,061**	**3,520**	**4,617**	**4,631**	**13,659**	**16,600**	**16,600**	**16,600**
Curr. Assets, Loans&Adv.	**27,591**	**27,586**	**29,007**	**31,639**	**30,188**	**35,913**	**55,666**	**78,002**
Inventory	4,669	5,658	5,848	7,378	2,495	3,179	3,739	4,307
Account Receivables	7,505	8,252	10,232	10,272	13,311	17,928	20,942	24,293
Cash and Bank Balance	5,245	4,172	3,470	4,668	7,244	4,850	19,356	35,911
Loans and Advances	10,172	9,503	9,457	9,321	7,138	9,956	11,630	13,491
Curr. Liability & Prov.	**7,961**	**10,706**	**12,459**	**18,501**	**20,390**	**27,434**	**32,176**	**37,174**
Account Payables	5,296	7,186	8,351	9,898	12,328	15,706	18,476	21,281
Other Current Liabilities	1,659	2,655	2,961	7,271	6,746	9,956	11,630	13,491
Provisions	1,005	866	1,147	1,331	1,316	1,772	2,070	2,402
Net Current Assets	**19,630**	**16,880**	**16,548**	**13,138**	**9,798**	**8,479**	**23,491**	**40,828**
Appl. of Funds	**73,070**	**75,250**	**79,198**	**94,387**	**93,525**	**90,075**	**99,884**	**1,13,697**

Financials and valuation

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS	**15.4**	**8.1**	**16.4**	**22.7**	**7.8**	**66.0**	**84.5**	**112.4**
Cash EPS	38.5	34.2	45.4	68.0	49.3	113.3	133.4	163.0
BV/Share	238.2	233.7	239.6	240.0	330.8	408.5	489.8	599.8
DPS	6.0	5.0	6.0	6.7	3.0	5.0	5.0	5.0
Payout (%)	44.2	69.5	42.6	22.4	28.7	7.2	6.9	5.2
Valuation (x)								
P/E	306.2	577.5	286.6	207.2	601.6	71.3	55.7	41.9
Cash P/E	122.4	137.5	103.7	69.2	95.5	41.5	35.3	28.9
P/BV	19.8	20.1	19.6	19.6	14.2	11.5	9.6	7.8
EV/Sales	9.5	8.4	7.2	6.3	6.7	4.9	4.1	3.5
EV/EBITDA	94.1	86.9	65.1	44.6	62.6	31.6	27.5	22.2
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
FCF per share	-3.3	-6.0	16.7	56.2	69.1	108.9	131.4	143.7
Return Ratios (%)								
RoE	6.7	3.6	7.2	9.8	2.8	18.5	19.4	21.3
RoCE	4.3	2.3	5.1	7.9	4.2	13.8	15.6	17.6
RoIC	4.4	2.5	5.8	8.7	4.6	16.9	20.8	28.4
Working Capital Ratios								
Fixed Asset Turnover (x)	1.4	1.5	1.5	1.1	1.1	1.5	1.7	2.0
Inventory (Days)	23	25	22	24	9	8	8	8
Debtor (Days)	38	37	39	33	46	46	46	46
Creditor (Days)	27	32	32	32	43	40	41	40
Leverage Ratio (x)								
Current Ratio	3.5	2.6	2.3	1.7	1.5	1.3	1.7	2.1
Interest Cover Ratio	1.6	1.5	2.0	1.8	1.3	4.3	6.4	8.6
Net Debt/Equity	0.8	1.0	1.0	1.4	0.5	0.1	-0.1	-0.3

Consolidated - Cash Flow Statement **(INRm)**

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,311	596	2,002	4,317	1,368	12,812	16,326	21,618
Depreciation	3,140	3,590	3,955	6,197	5,731	6,272	6,403	6,524
Interest & Finance Charges	2,451	2,766	3,125	5,155	4,274	3,104	2,191	1,923
Direct Taxes Paid	-1,336	-1,251	-1,924	-3,061	353	-4,253	-4,326	-5,621
(Inc)/Dec in WC	-785	-2,054	-458	-703	-721	-1,075	-506	-782
CF from Operations	**4,781**	**3,648**	**6,700**	**11,905**	**11,005**	**16,859**	**20,088**	**23,662**
Others	1,444	1,722	2,350	1,024	1,729	0	0	0
CF from Operating incl EO	**6,226**	**5,370**	**9,050**	**12,929**	**12,734**	**16,859**	**20,088**	**23,662**
(Inc)/Dec in FA	-6,687	-6,205	-6,720	-5,106	-2,804	-1,200	-1,200	-3,000
Free Cash Flow	**-462**	**-835**	**2,329**	**7,823**	**9,930**	**15,659**	**18,888**	**20,662**
(Pur)/Sale of Investments	-4,959	1,947	376	2,043	-6,207	0	0	0
Others	2,109	209	-761	175	288	606	708	821
CF from Investments	**-9,538**	**-4,049**	**-7,106**	**-2,888**	**-8,723**	**-594**	**-492**	**-2,179**
Issue of Shares	6,056	83	0	0	11,520	0	0	0
Inc/(Dec) in Debt	2,057	0	0	-571	-8,985	-14,250	-1,500	-1,500
Interest Paid	-3,343	-3,178	-3,620	-5,645	-4,676	-3,710	-2,899	-2,745
Dividend Paid	0	-1,008	-837	-1,551	-383	-841	-841	-841
CF from Fin. Activity	**2,353**	**-1,085**	**-2,145**	**-9,095**	**-3,567**	**-18,659**	**-5,090**	**-4,928**
Inc/Dec of Cash	**-960**	**236**	**-201**	**946**	**444**	**-2,394**	**14,506**	**16,555**
Opening Balance	3,788	2,829	3,064	2,862	3,808	4,252	1,858	16,364
Closing Balance	2,828	3,065	2,863	3,808	4,252	1,858	16,364	32,919
Bank Balance	2,417	1,108	606	860	2,992	2,992	2,992	2,992
Total Cash and Cash Equivalent	**5,245**	**4,172**	**3,470**	**4,668**	**7,244**	**4,850**	**19,356**	**35,911**

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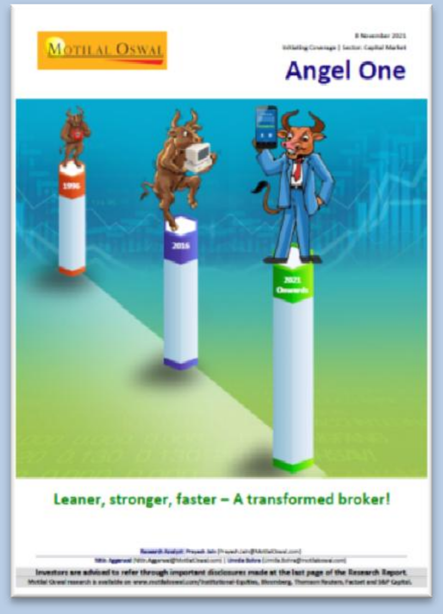

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UNDER REVIEW	Rating may undergo a change
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