Apollo Hospitals

BSE SENSEX	S&P CNX
58,775	17,522

CMP: INR4,170 TP: INR5,110 (+23%) Buy

Mobilizing resources for another healthy take off

- **We analyzed the FY22 Annual Report of Apollo Hospitals Enterprises (APHS) and present the key takeaways in this report.**
- **Our analysis indicates that APHS achieved the highest return ratio in FY22 historically, from an all-time low return ratio in FY21.**
- **The company exceeded pre-Covid profitability in FY22, driven by improved performance across segments – healthcare services, pharmacy and Apollo Health and Lifestyle (AHLL) and aided by Covid to some extent.**
- **Interestingly, its operating parameters in healthcare services (ARPOB/ occupancy) and pharmacy (number of stores/average revenue per store) segments are on an uptrend with scope for further improvement.**
- **Front-loading of investments to Apollo 24/7, though, would moderate margins/return ratios in FY23. However, the exponential rise in GMV aided by back-end infrastructure, positions APHS favorably in this segment.**
- **Even the capex for bed addition would be funded from internal accruals.**
- **We remain positive on APHS because of: a) its superior positioning in the pharmacy segment through offline/online presence supported by strong back-end infrastructure, and b) enhanced outlook for healthcare services/AHLL segment. Maintain BUY with a TP of INR5,110.**

Healthcare services: Journey from EBITDA neutral to 18% margin in 'new' hospitals over FY17-22; optimizing operations in mature hospitals

- APHS doubled its healthcare services revenue (mature/new hospitals and Proton) over FY17-22, fueled by 26% sales CAGR in new hospitals segment, and addition of business from Proton (INR2b revenue in FY22 v/s a mere INR5m in FY19). The mature hospitals segment reported 10% revenue CAGR during similar period.
- Healthcare services posted an EBITDA CAGR (Pre-IND AS 116 basis) of 19% during FY17-22, powered by healthy ramp-up in new hospitals and Proton as well as changing payor mix across hospitals.

Pharmacy: Transformation underway to build omnichannel healthcare platform

- APHS is working on building an infrastructure to support Apollo 24/7. It spent INR2b in FY22 and already expended INR1.3b in 1QFY23. Further, it added ~2k front-end pharmacy stores over the past five years on a base of 2.5k in FY17. This coupled with a rise in private label share (11% in FY22 from 6% in FY17) led to 19% revenue CAGR in overall pharmacy over FY17-22.
- APHS intends to build omnichannel healthcare platform with a focused approach through Apollo Healthco comprising back-end pharmacy, Apollo 24/7 digital platform, and pharmacy retail including private labels.

Stock Info

Bloomberg	APHS IN
Equity Shares (m)	139
M.Cap.(INRb)/(USDb)	599.6 / 7.5
52-Week Range (INR)	5931 / 3366
1, 6, 12 Rel. Per (%)	-6/-15/-18
12M Avg Val (INR M)	4039
Free float (%)	70.7

Financials Snapshot (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	146.6	164.2	193.5
EBITDA	21.9	21.8	27.3
Adj. PAT	9.8	8.9	12.8
EBIT Margin (%)	14.9	13.3	14.1
Cons. Adj. EPS (INR)	68.1	62.1	88.9
EPS Gr. (%)	NA	-8.8	43.2
BV/Sh. (INR)	405.8	475.0	560.8
Ratios			
Net D:E	0.1	0.0	-0.1
RoE (%)	19.1	14.6	17.7
RoCE (%)	14.5	15.9	16.7
Payout (%)	8.0	8.0	6.6
Valuations			
P/E (x)	61.3	67.2	46.9
EV/EBITDA (x)	28.2	27.7	21.9
Div. Yield (%)	0.1	0.1	0.1
FCF Yield (%)	1.6	2.4	2.3
EV/Sales (x)	4.2	3.7	3.1

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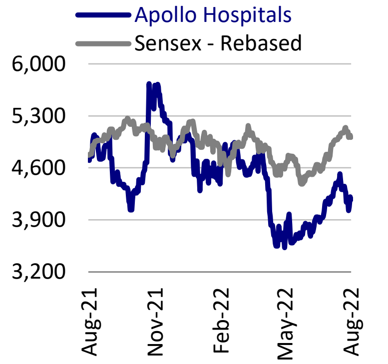
Research analyst – Gaurang Sakare (Gaurang.Sakare@MotilalOswal.com) / **Sumit Gupta** (Sumit.G@MotilalOswal.com)

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	29.3	29.3	29.8
DII	15.9	13.2	11.1
FII	48.5	50.8	53.2
Others	6.3	6.7	5.9

FII Includes depository receipts

Stock's performance (one-year)



AHLL: Achieved turnaround over FY17-22 and heading for better profitability going forward

- AHLL delivered 28% revenue CAGR over FY17-22, propelled by: a) 57% revenue CAGR in diagnostic segment (28% of AHLL sales), b) 29% revenue CAGR in primary care (33%) and c) 19% topline CAGR in secondary care segment (39%). The operating leverage has led to strong turnaround over the past five years from an operational loss of INR1b in FY17 to an EBITDA (pre-Ind AS 116) of INR1.2b (9% EBITDA margin) in FY22.
- APHS is incurring higher expense towards upgrading the abilities for home collections; further, digital logistics services in diagnostic segment may keep margins under check over the near term. However, the growth as well as margin outlook remains intact in the medium term.

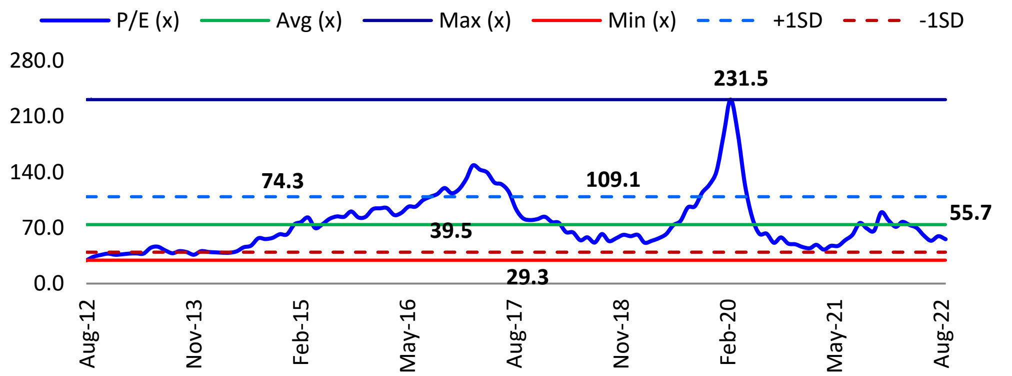
RoE at an all-time high with good scope of further uptrend

- After declining over FY14-18, APHS delivered 620bp expansion in RoE over FY18-20, led by 17% revenue CAGR and 450bp margin expansion. Better operational performance underpinned by lower capex resulted in FCFF turning positive in FY18 (reached INR8b in FY20). While RoE took a severe hit in FY21 due to Covid-induced restrictions, APHS rebounded strongly in FY22, partly supported by the Covid-led vaccination business.
- While RoE will remain under check in FY23 due to higher investment towards Apollo 24/7, we expect it to improve to nearly 18% from FY24, led by: a) improving occupancy in 'new' hospitals; b) better ARPOBs, partly led by international patients; and c) increasing footfalls in primary and secondary care segments of AHLL (which will offset the incremental spend on Apollo 24/7).

Valuation and view

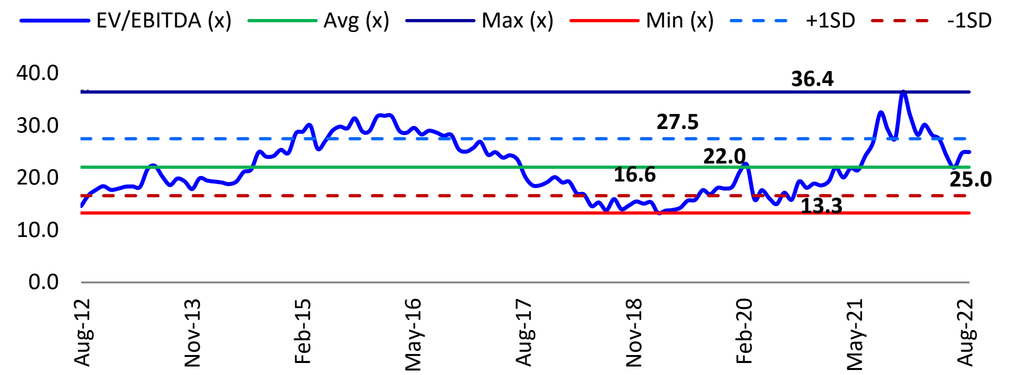
- We project 15% sales CAGR over FY22-24 to INR194b driven by back-end Pharmacy/Healthcare/AHLL revenue CAGR of 21%/12%/5%, respectively, over the same period. The EBITDA CAGR is likely to moderate due to the ongoing huge investments towards Apollo 24/7.
- APHS remains well placed to deliver: a) improved occupancy/ARPOB in healthcare services, partly supported by international patients and higher share of insurance-linked patients, b) enhanced offerings to patients through Apollo 24/7 platform and c) better footfalls in AHLL network.
- We value APHS on an SOTP basis (22x EV/EBITDA for healthcare services, 25x EV/EBITDA for front-end pharmacy, 15x EV/EBITDA for retained pharmacy, 30x for AHLL and 4x EV/sales for Apollo 24/7) to arrive at our TP of INR5,110. **Maintain BUY.**

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart

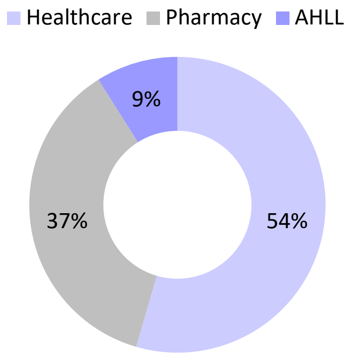


Source: MOFSL, Company, Bloomberg

Revenue driven by healthcare services, complemented by Pharmacy and AHLL

- **APHS' hospital business, led by improving case mix/payor mix, resulted in an ARPOB of over INR45k in FY22 despite occupancies being lower than pre-Covid levels. The recent capex plans of INR17b for Gurugram/Chennai to augment the bed capacity by 1000+ beds are an additional growth lever for the company.**
- **Aggressive store additions of 360+ per year over FY17-22 and cash burn have led the pharmacy vertical to increase its presence in both offline and online channels. Moreover, with the Amazon deal, it is likely to expand its geographical presence.**
- **Intensified focus on the AHLL business was driven by diagnostics, primary care and specialty care businesses. Heavy investments in AHLL are likely to expand its presence and acquire customers, which will help drive future growth.**

APHS revenue mix (FY22)



Healthcare services segment has been a key growth driver

- APHS' hospitals revenue (54% of total revenue) has nearly doubled to INR80b from INR41b, clocking a 14% CAGR over FY17-22. New hospitals revenue (30% of hospitals revenue) more than tripled to INR24b witnessing a 26% CAGR during FY17-22, while mature hospitals reported revenue of INR54b (68% of hospitals revenue) witnessing a 10% CAGR over the same period. APHS' Proton business clocked nearly INR2b revenue in FY22 v/s a meager INR5m in FY19.
- During FY17-20, hospital revenue registered 11% CAGR to INR57b driven by 5% CAGR in patient volume (IP and OP) and 6% CAGR in ARPOB to INR34k. New hospitals recorded 20% CAGR whereas mature hospitals posted 8% CAGR. Average length of stay of patients witnessed was four days. APHS took price hikes of 3%-3.5% in FY19 and improved the case mix.
- Over FY20-22, hospitals revenue registered 18% CAGR to INR80b fueled by 19% CAGR in patient volume (IP and OP) and 10% CAGR in ARPOB to INR45k. New hospitals registered 31% CAGR whereas mature hospitals recorded 12% CAGR. Average length of stay of patients witnessed was four days too.

Healthcare services revenue mix (FY22)

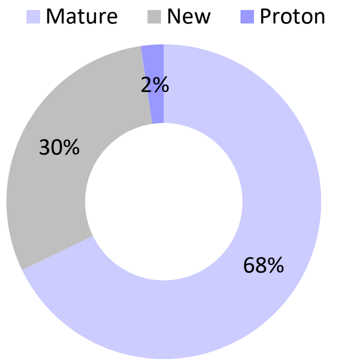
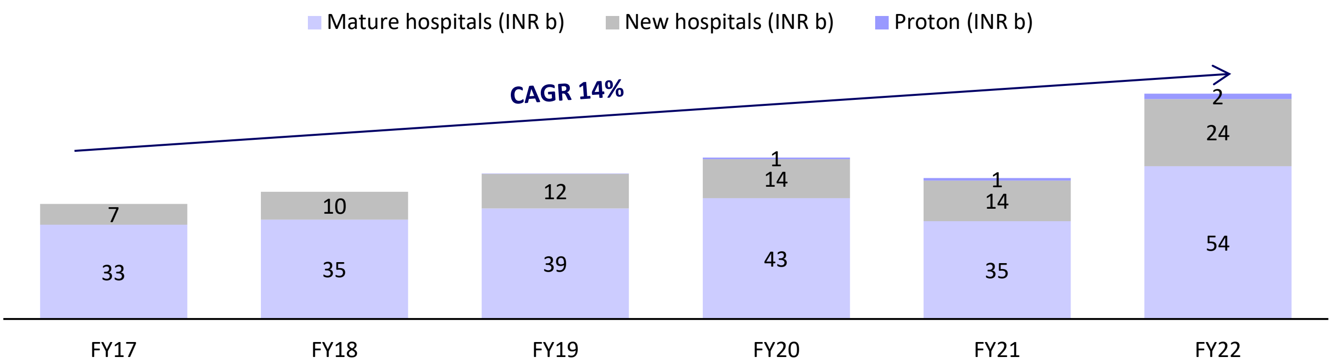


Exhibit 3: Hospitals revenue reported 14% CAGR over FY17-FY22

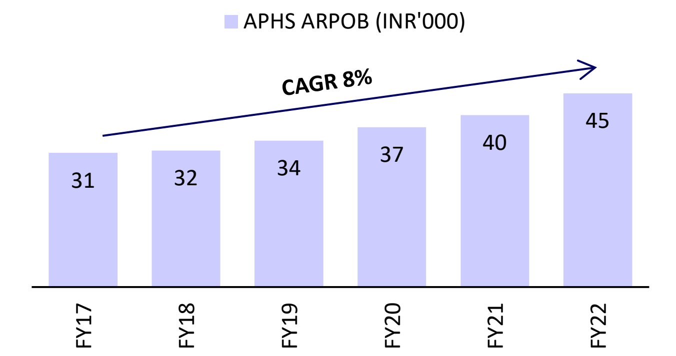


Source: MOFSL, Company

- New hospitals include hospitals in Vanagaram, Jayanagar, Trichy, Nasik, Women & Child- OMR, Nellore, Perungudi, Women & Child – SMR, Vizag new, Malleswaram and Navi Mumbai. The contributions from these hospitals to the total revenue have increased significantly.

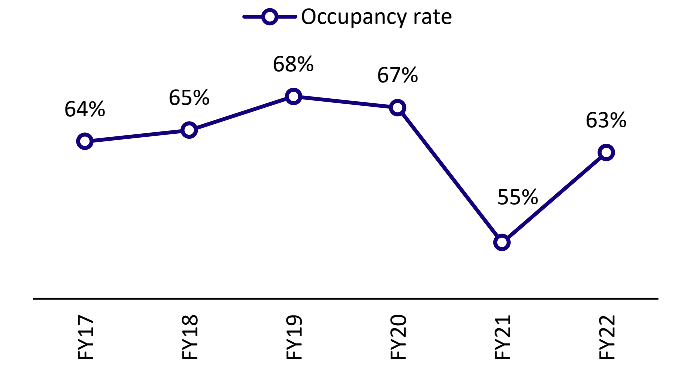
- In FY21, normal operations were impacted adversely by Covid-19 leading to a decline in growth of hospitals revenue by 13% YoY as surgeries were deferred and beds were occupied by (low-margin) Covid patients. In FY21, the revenue of mature hospitals declined 19% YoY that was slightly offset by 4% YoY revenue growth of new hospitals. However, ALOS was maintained at four days and ARPOB increased to INR45k over FY20-22.
- In FY21 and FY22, Covid-19 contributed 15% and 10% to healthcare sales, respectively.
- The focus on improving case mix/payor mix and resumption of electives led to a 60% YoY growth in hospitals business to INR80b in FY22.
- Moreover, with the planned reduction in lower-paying patients, APHS has been able to increase ARPOB to INR45k despite occupancy rate being at 63% in FY22 v/s an average of 66% during FY17-20.

Exhibit 4: ARPOB reached INR45k clocking 8% CAGR over FY17-22…



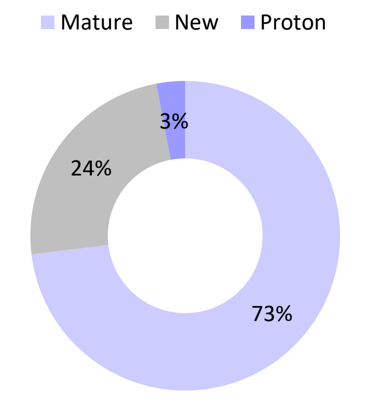
Source: MOFSL, Company

Exhibit 5: …with occupancy levels in FY22 still below historical levels



Source: MOFSL, Company

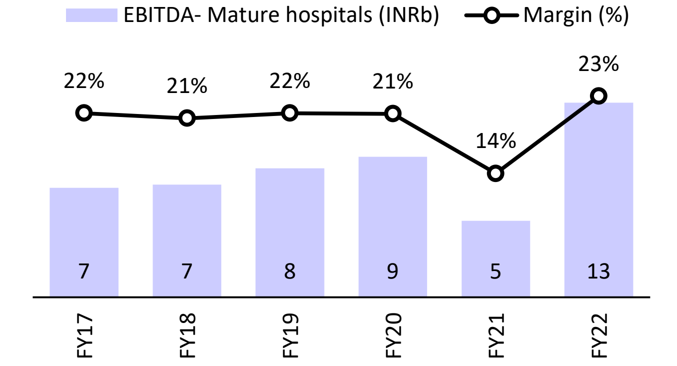
Hospital EBITDA mix (FY22)



Mature and New Hospitals business: Increasing operational efficiency

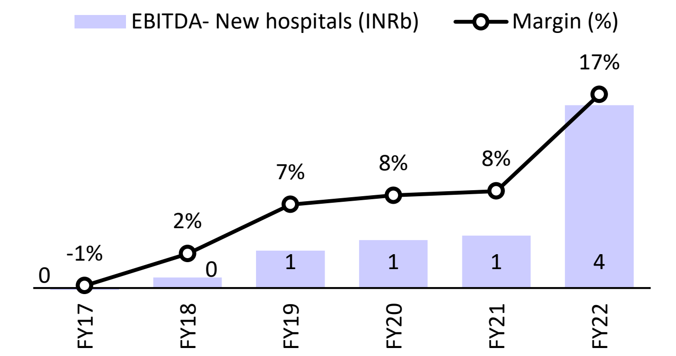
- In FY22, EBITDA margins for mature and new hospitals reached 23% and 7%, respectively.
- ALOS increased to 4.2 days in FY21 due to surge in Covid cases and deferment of electives. In FY22, after Covid abated, ALOS dropped to historically low levels and occupancy levels increased, thus taking ARPOB to INR45k.
- During FY21 and FY22, APHS rationalized the payor mix and focused on raising the revenue contribution of insured patients that has increased considerably from FY17 to FY22. These rationalization efforts have resulted in improved EBITDA margin of the hospital business by more than 400bp to 21.5% in FY22 from 17.4% in FY17.
- Over FY17-22, EBITDA margin of mature hospitals has been stable near 21-22%, barring FY21 where it clocked 14% margin. However, EBITDA margin of new hospitals has been improving consistently. In FY17, the new hospitals business was operationally loss making but over the period, the increase in volumes and ARPOB resulted in profit. As a result, EBITDA margin of new hospitals reached 17% in FY22. For example, Apollo Medics Lucknow has become profitable in FY21 v/s loss in FY20, while Nashik reported subdued profitability and yet to see improvement.

Exhibit 6: EBITDA of mature facilities reached 23% over FY17-22



Note: EBITDA is pre-IND AS 116 basis;
Source: MOFSL, Company

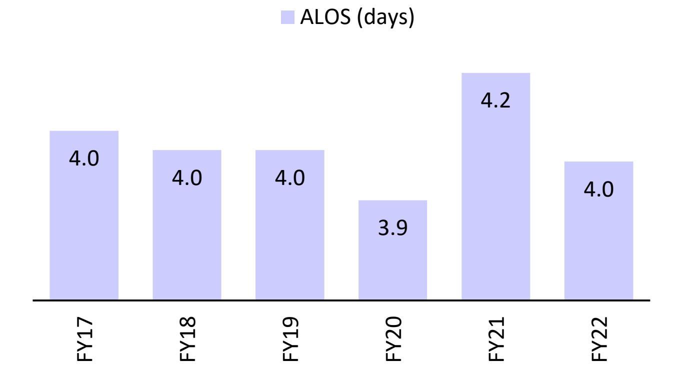
Exhibit 7: EBITDA of new facilities reached 17% over FY17-22



Note: EBITDA is pre-IND AS 116 basis;
Source: MOFSL, Company

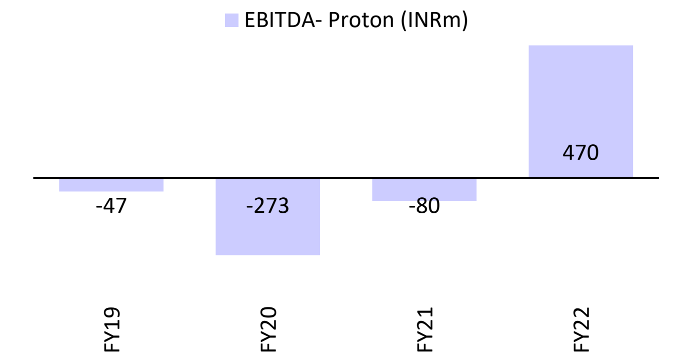
- Moreover, the Proton therapy center became operationally profitable posting an EBITDA of INR470m and margin of 25%. The growth was due to superior execution and continued traction in international patients.

Exhibit 8: ALOS declined to historical levels in FY22



Source: MOFSL, Company

Exhibit 9: Proton center became profitable in FY22



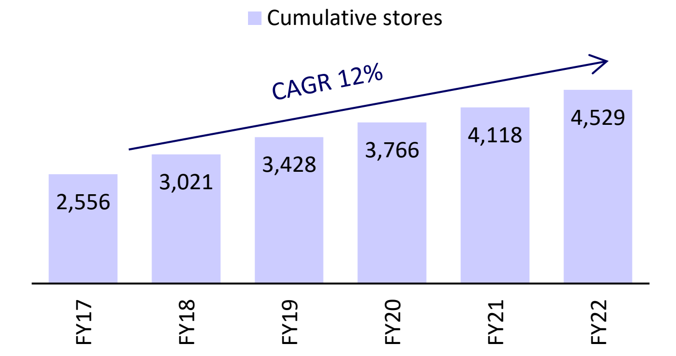
Note: EBITDA is pre-IND AS 116 basis;
Source: MOFSL, Company

APHS' hospital business remains on a strong footing led by its: a) ARPOB improving to INR50k+ levels despite occupancy levels of near-60% and expected improvement in footfalls of both domestic and international patients (resumption of medical value tourism); b) focus on improving payor mix/case mix; c) focus on improving occupancy rates; d) focus on increasing bed capacity by 1,000+ in Gurugram and Chennai over the next two years and e) Proton therapy center, which is likely to report high revenue growth over the next few years.

Health Co & Pharmacy distribution: Future leader under transformation

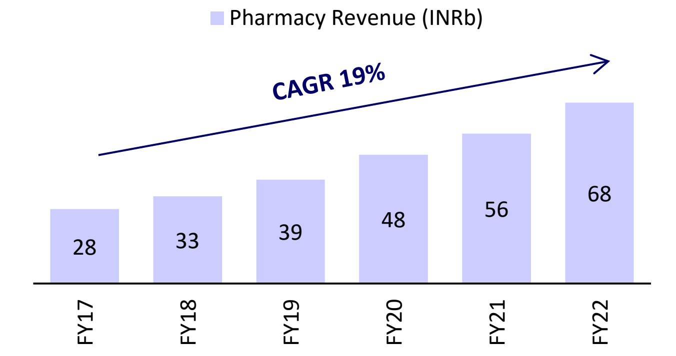
- The Pharmacy sales (37% of total revenue) clocked 14% CAGR over FY17-22 to INR54b driven by: a) aggressive store additions of 360+ stores per year, posting a 12% CAGR and taking the overall number of stores to 4,529 by FY22; b) revenue per store CAGR of 2% during FY17-22 to reach INR12m by FY22.
- Moreover, the share of private label sales in pharmacy sales has increased to 11% in FY22 from 6% in FY17.

Exhibit 10: Number of stores clocked 12% CAGR over FY17-22



Source: MOFSL, Company

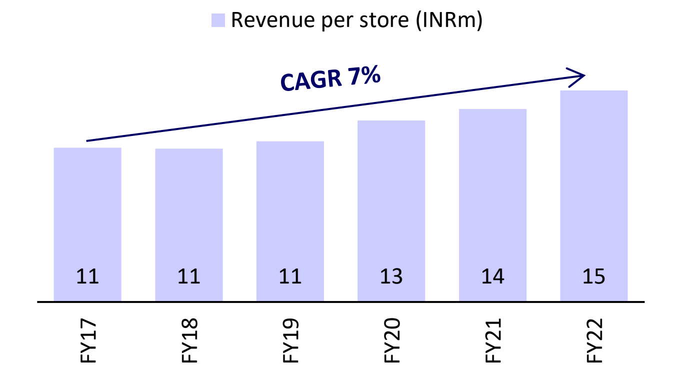
Exhibit 11: Pharmacy revenue recorded 19% CAGR over FY17-22



Note: FY21 and FY22 numbers are combined pharmacy numbers
Source: MOFSL, Company

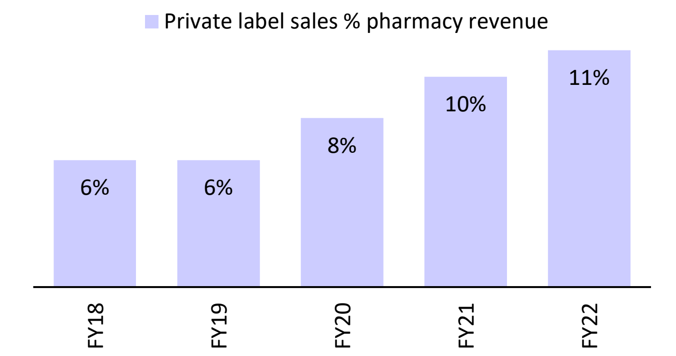
- In FY20, SAP revenues were higher by INR700-800m as increase in stock up of medicines/consumables happened due to Covid-induced lockdown and uncertainties during 4QFY22.

Exhibit 12: Pharmacy revenue/store posted 7% CAGR over FY17-22



Note: FY21 and FY22 numbers are combined pharmacy numbers
Source: MOFSL, Company

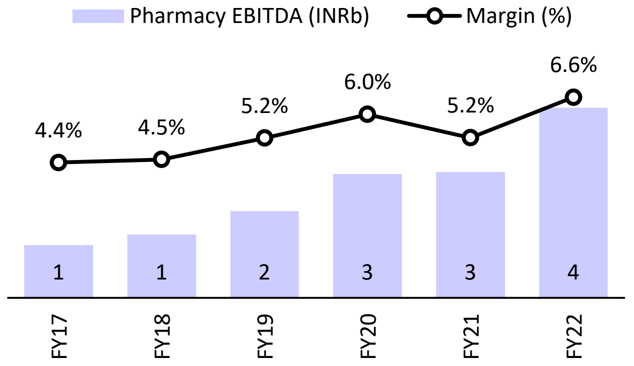
Exhibit 13: Private label sales contributed 11% to pharmacy sales in FY22



Source: MOFSL, Company

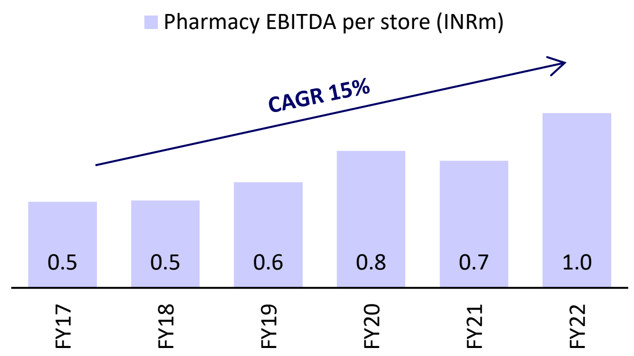
- Apollo 24x7 witnessed significant rise in orders per day, clocking 28,000 orders per day in FY22 v/s 2,600 orders per day in FY21 (from Nov'20) as the investments done in this vertical pays-off.

Exhibit 14: Pharmacy EBITDA margin has increased by more than 200bp over FY17-22



Note: EBITDA is pre-IND AS 116 basis; FY21 and FY22 numbers are combined pharmacy numbers
Source: MOFSL, Company

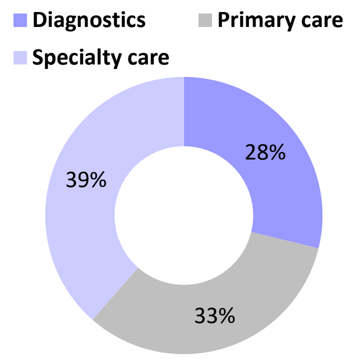
Exhibit 15: Pharmacy EBITDA/store (INR m) posted 15% CAGR over FY17-22



Note: EBITDA is pre-IND AS 116 basis; FY21 and FY22 numbers are combined pharmacy numbers
Source: MOFSL, Company

- In FY22, Apollo Pharmacies Limited (APL), an associate company of APHS entered into a deal to list its pharmacy products on the e-commerce platform of **Amazon India. With this deal, Amazon India customers can order pharmacy products across India and get orders delivered by the strong delivery network of Amazon.**
- Under this engagement, APL will fulfill the demand through its strong back-end of 4,500 stores, while Amazon will be responsible for customer acquisition and delivery.
- **APHS is investing heavily in the Apollo 24x7 platform, which is likely to bear fruits in near future. It spent INR2b in FY22 and has already expended INR1.3b in 1QFY23 and plans to spend INR5.0-5.5b annually for digital business in FY23E and FY24E. Additionally, led by the tie-up with Amazon, APHS will gain wider geographical reach to expand its operations.**

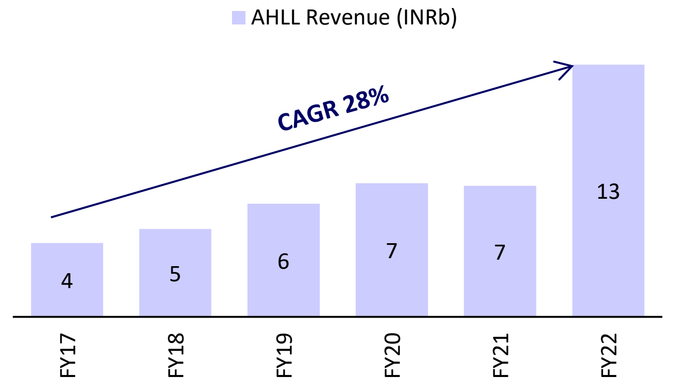
AHLL revenue mix (FY22)



AHLL: Current investments will drive future growth

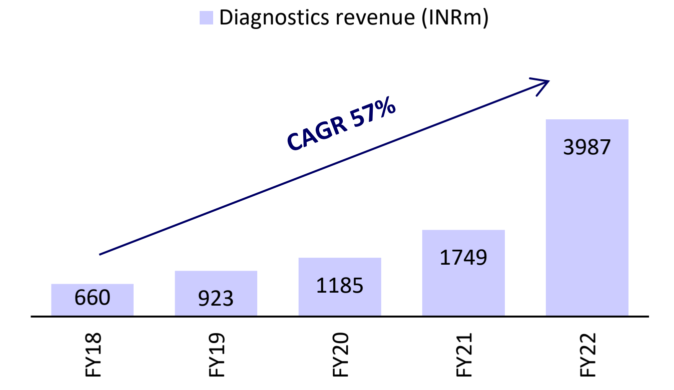
- AHLL's revenue (9% of total revenue) reported 28% CAGR over FY17-22 to reach INR13b in FY22. The growth was driven majorly by diagnostics, primary care and specialty care segments. Over FY18-22, diagnostics revenue reported a notable 57% CAGR and primary care revenue posted 29% CAGR while specialty care revenue registered moderate growth of 19%.
- In FY22, specialty care contributed nearly 39% to AHLL's revenue while primary care and diagnostics contributed nearly 33% and 28%, respectively.

Exhibit 16: AHLL's revenue posted 28% CAGR over FY17-22



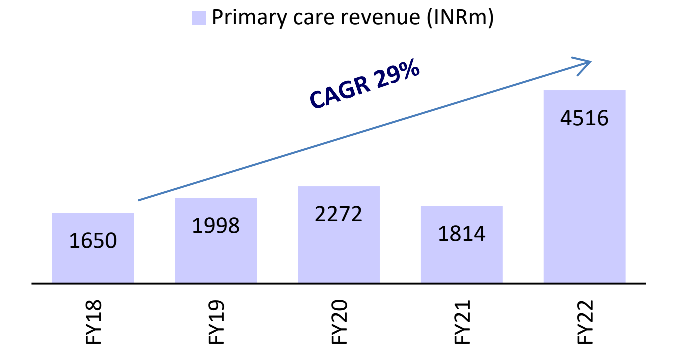
Source: MOFSL, Company

Exhibit 17: Diagnostics revenue reported 57% CAGR over FY18-22



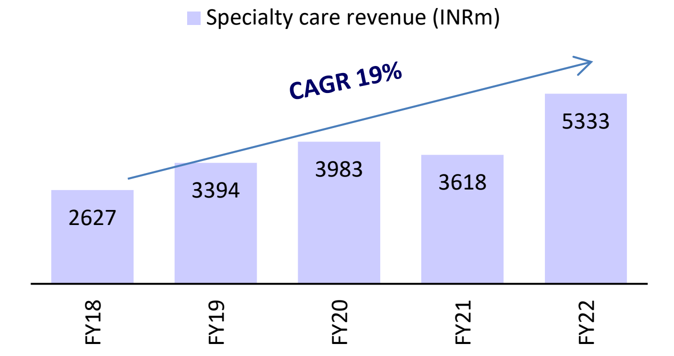
Source: MOFSL, Company

Exhibit 18: Primary care revenue clocked 29% CAGR over FY18-22



Source: MOFSL, Company

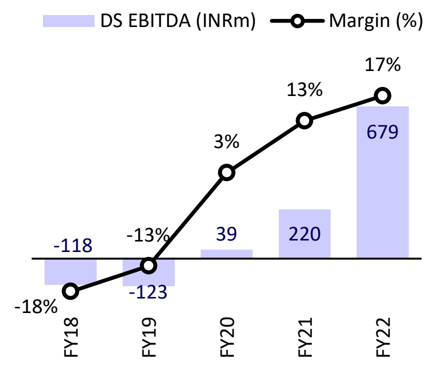
Exhibit 19: Specialty care revenue recorded 19% CAGR over FY18-22



Source: MOFSL, Company

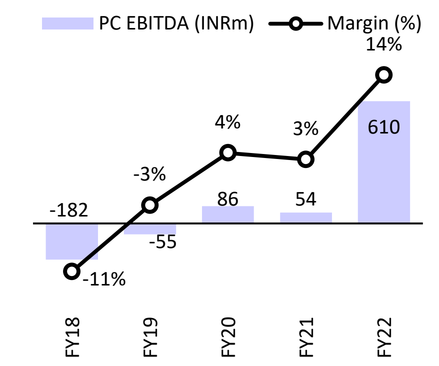
- AHLL became operationally profitable from FY20. By FY22, AHLL delivered an EBITDA of INR1.2bn and margin of 9%.
- In FY20, diagnostics, primary care and specialty care became operationally profitable delivering 3%, 4% and 4% margins, respectively. By FY22, margins improved to 17%, 14% and 5% for diagnostics, primary care and specialty care, respectively.

Exhibit 20: Diagnostics became profitable in FY20



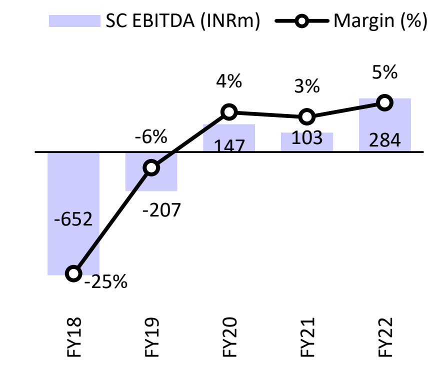
Note: EBITDA is pre-IND AS 116 basis; DS – Diagnostics; Source: MOFSL, Company

Exhibit 21: Primary care became profitable in FY20



Note: EBITDA is pre-IND AS 116 basis; PC – Primary care; Source: MOFSL, Company

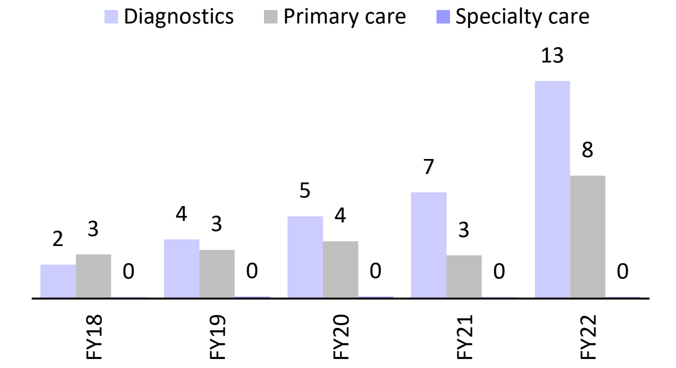
Exhibit 22: Specialty care became profitable in FY20



Note: EBITDA is pre-IND AS 116 basis; SC – Specialty care; Source: MOFSL, Company

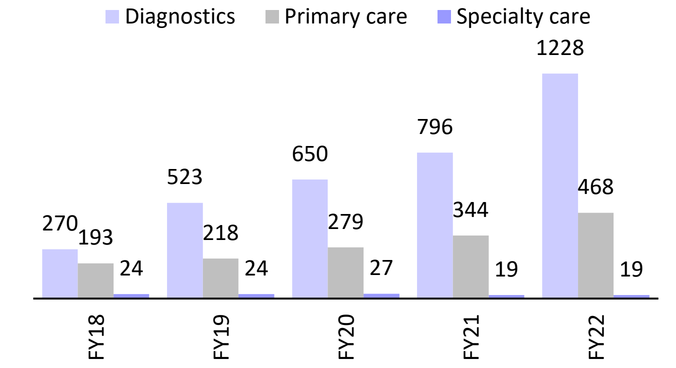
- Apollo Diagnostics has established a widespread network of more than 1,228 touch points across 160+ cities in 20 states, in its six years of operations. It registered 46% CAGR over FY18-22. Footfalls per day reported 59% CAGR during FY18-22 to reach nearly 13,500 by FY22.
- Primary care segment includes clinics, sugar, dental and dialysis and has it established 468 stores registering 25% CAGR from FY18-22. Footfalls per day clocked 29% CAGR during FY18-22 to reach more than 7,500 by FY22.
- Specialty care segment includes cradle and spectra segments. Despite reducing the number of stores (24 in FY18 to 19 in FY22), this segment recorded 6% CAGR in footfalls per day over FY18-22 to reach nearly 110 by FY22.

Exhibit 23: Footfalls per day (in '000) reported 44% CAGR over FY18-22



Source: MOFSL, Company

Exhibit 24: Number of network points posted 37% CAGR over FY18-22



Source: MOFSL, Company

APHS is investing heavily in the diagnostics, primary care and specialty care segments, which are likely to enhance AHLL's presence and increase footfalls leading to improved profitability in the future.

Revenue growth/margin expansion drive free cash flow

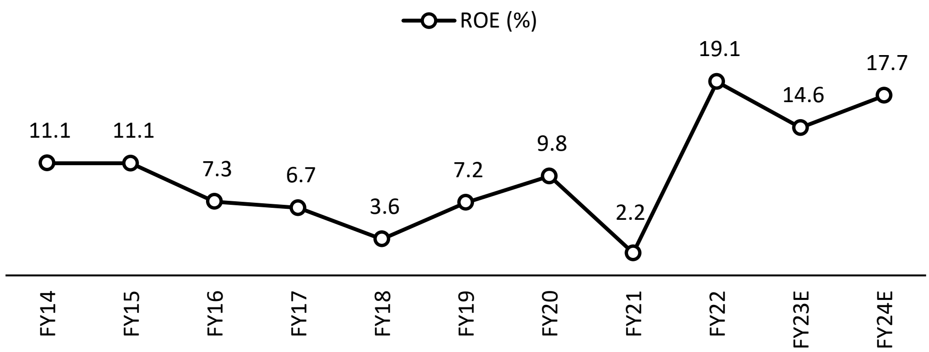
- **RoE has been on an uptrend since FY18, barring the Covid-led dip in FY21, driven by 15% revenue CAGR and 490bp EBITDA margin expansion over FY17-22.**
- **APHS' net debt reduced markedly to INR11b in FY22 from the highs of INR33b (in FY19) led by better performance and partly by the fundraise of INR11.7b in FY21.**
- **APHS' FCFF has continued to expand driven by revenue growth and margin expansion.**

RoE: from an all-time low in FY21 to historical highs in FY22

RoE surpasses pre-Covid levels

- RoE for APHS has remained subdued due to gradual improvement in operating margins along with slow reduction in debt. In FY21, RoE remained under pressure largely due to Covid-led disruptions.
- However, the elective surgeries recovered in FY22 with business normalizing post-Covid along with debt reduction that led to revenue growth and improved margins and consequently, RoE reached an all-time high level.

Exhibit 25: RoE expected to tread higher led by revenue growth/operating leverage



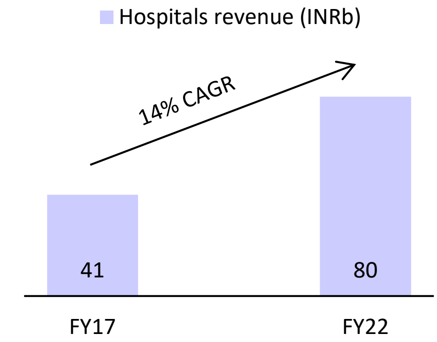
Source: MOFSL, Company

- Due to higher investments towards Apollo 24/7, we expect RoE to remain under check in FY23, but expect it to touch nearly 18% from FY24, led by: a) improving occupancy in 'new' hospitals; b) better ARPOBs, partly led by international patients; and c) increasing footfalls in primary and secondary care segments of AHLL (that would offset incremental spends on Apollo 24/7).

Revenue growth in AHLL/Combined Pharmacy led to higher margins in FY22

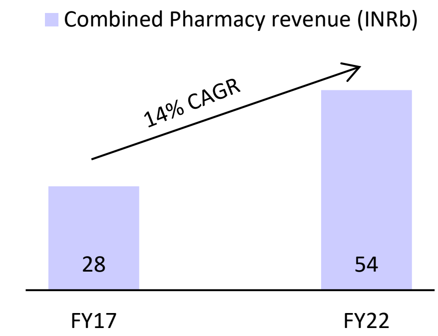
- APHS registered 15% sales CAGR to reach INR147b over FY17–22. AHLL/ Combined Pharmacy (Frontend + Backend Pharmacy business) segment reported 26%/19% sales CAGR, respectively, driving the topline growth. The Hospitals business exhibited 14.5% sales CAGR over FY17-22.

Exhibit 26: Hospitals business posted robust growth over FY17-22



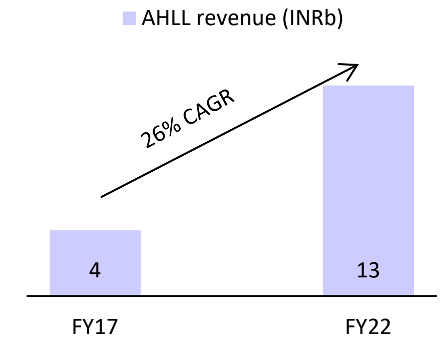
Source: Company, MOFSL

Exhibit 27: 19% CAGR in Combined Pharmacy revenue over FY17-22



Source: Company, MOFSL

Exhibit 28: AHLL has been the highest growth segment for APHS

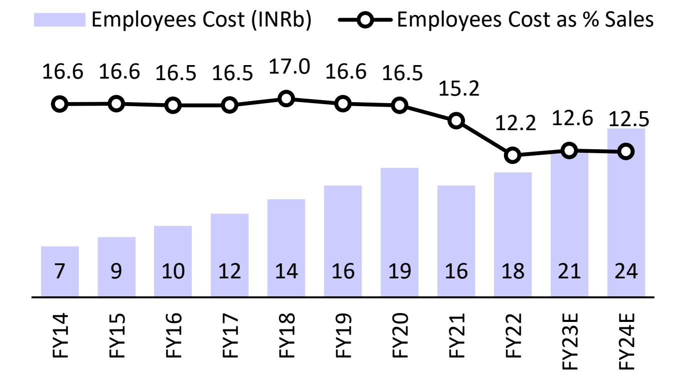


Source: Company, MOFSL

Better operating leverage underway

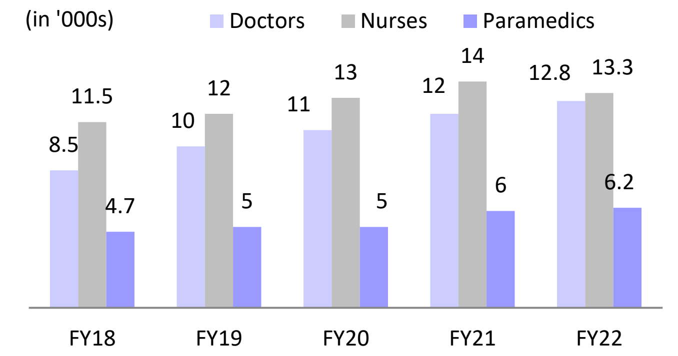
- Employee costs recorded 8% CAGR over FY17-22. However, the employee costs from FY22 are not strictly comparable to historic numbers as the costs exclude the impact of front-end Pharmacy costs.
- The key staff comprising doctors has exhibited 11% CAGR over FY18-22, which has contributed to the growth in employee costs majorly.

Exhibit 29: Staff costs as a % of sales on a downtrend…



Source: MOFSL, Company

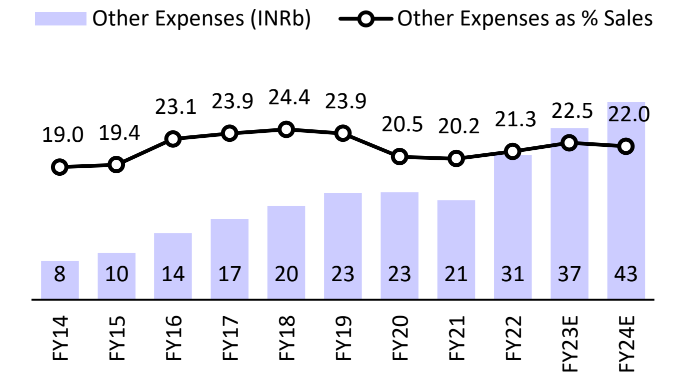
Exhibit 30: …despite growth in key staff positions



Source: MOFSL, Company

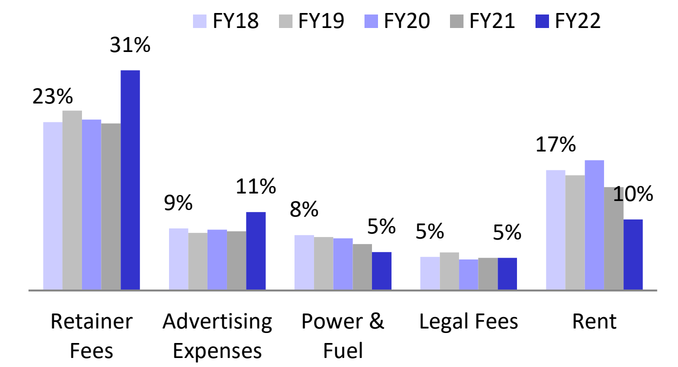
- Other expenses have been on the downtrend since FY18 exhibiting a lower CAGR than revenue. Other expenses stabilized at ~21% in FY22.

Exhibit 31: Other expenses on uptrend post dip due to Covid



Note: FY20 onwards other expenses are post-IND AS 116 adjustment; Source: MOFSL, Company

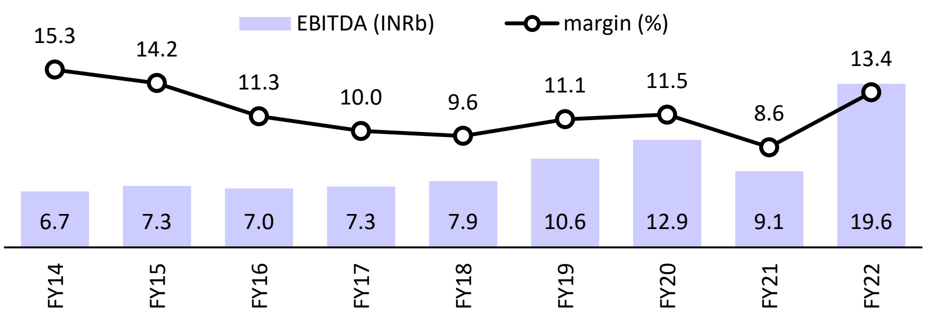
Exhibit 32: Major expenses as proportion of other expenses



Note: FY20 onwards rental expenses are adjusted as pre IND-AS 116 provisions; Source: MOFSL, Company

- Retainer fees paid to the doctors formed 33% of other expenses while advertising expenses formed 11% in FY22. Rental spends declined to 10% of the other expenses now in FY22 from 17% earlier.
- Interestingly, retainer fees paid to doctors reported 21% CAGR over FY19-22 to INR10b growing slightly higher than revenue CAGR of 15% in the hospital segment over the same period. The retainer fees had a dip in FY21 largely because of Covid-induced disruption and postponement of elective surgeries.
- The EBITDA margin was on an improving trend over FY18-FY20 expanding 190bp. The growth in margin was largely driven by the robust margin in Hospitals business along with improvement in Pharmacy/AHLL margin. Notably, AHLL reported operating profit.

Exhibit 33: EBITDA margin revived sharply



Note: EBITDA on Pre IND-AS 116 basis; Source: MOFSL, Company

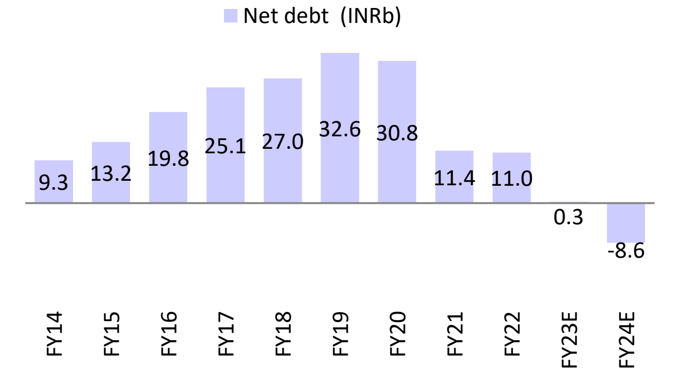
- EBITDA margin was hurt in FY21 largely due to Hospitals segment margin suffering on account of Covid. The contraction in EBITDA margin was partially offset by improved profitability of AHLL business and Covid-led vaccination business.

While the hospitals and AHLL segments' margins are expected to improve, the expenses incurred on Apollo 24/7 is likely to keep overall EBTDA margin (post IND-AS 116) stable over FY22-24 at 14%.

Net debt down to seven-year low

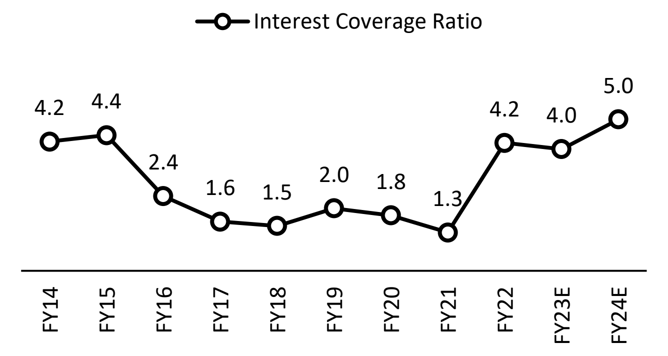
- From net debt of INR25b in FY17, APHS has brought down the net debt to INR11b in FY22. The net debt rose to INR32.6b in FY19 due to continued capex, especially in hospitals segment.
- APHS reduced its net debt sharply in FY21 led by fundraise through QIP and divestment in Apollo Munich.

Exhibit 34: APHS net debt down to INR11b in FY22…



Source: MOFSL, Company

Exhibit 35: …leading to better interest coverage ratio



Source: MOFSL, Company

Healthy FCFF generated over FY17-22; FCFE lower due to debt repayment

- APHS has continued to improve the FCFF over FY15-22 and has turned FCFF positive in FY18, driven by revenue growth and margin improvements across business segments.
- FCFF was up in FY21 despite a dip in EBIT, due to lower capex and negative tax outgo. Interestingly in FY22, FCFF grew only 6% YoY despite EBIT almost tripling, impacted adversely by higher tax and capex.

Exhibit 36: Better margins to drive higher FCFF but debt reduction to drag FCFE

FCF analysis (INR b)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBIT	4.7	5.0	5.2	4.4	4.1	4.3	6.7	9.7	5.6	15.8	15.7	20.9
D&A	1.4	1.7	2.1	2.6	3.1	3.6	4.0	6.2	5.7	6.0	6.2	6.4
Tax	0.9	1.1	1.0	1.4	1.3	1.3	1.9	3.1	-0.4	2.0	1.9	4.5
Non-cash expenses	0.0	0.1	-0.5	-0.1	1.4	1.7	2.3	1.0	1.7	2.0	0.0	0.0
Change in WC	-0.9	-2.1	-1.6	0.1	-0.8	-2.1	-0.5	-0.7	-0.7	-4.6	0.0	-0.6
Capex	-6.6	-6.0	-8.7	-9.9	-6.7	-6.2	-6.7	-5.1	-2.8	-6.5	-8.0	-9.0
FCFF	**-2.3**	**-2.4**	**-4.4**	**-4.3**	**-0.1**	**0.1**	**3.9**	**8.0**	**9.9**	**10.6**	**12.0**	**13.2**
Change in Net borrowing	3.5	5.7	3.9	6.5	5.3	1.9	5.5	-1.7	-19.5	-0.4	-7.7	-8.8
Interest Paid	1.0	1.2	1.2	1.9	3.3	3.2	3.6	5.6	4.7	3.8	3.9	4.2
FCFE	**2.2**	**4.5**	**0.7**	**4.1**	**8.6**	**5.3**	**13.0**	**12.0**	**-4.9**	**14.0**	**8.2**	**8.6**

Source: MOFSL, Company

- Capex is expected to be ~INR8-9b in FY23/FY24 targeted towards 1,000 bed additions in Chennai/ Gurugram hospitals. However, faster revenue growth and margin expansion would more than offset the capex requirement, leading to higher FCFF generation over the next two years.

We expect free cash flow to improve going forward despite capex for bed additions and increased spend on Apollo 24/7, led by better show by healthcare services/AHLL segment.

Exhibit 37: KMP/Directors – Remuneration trend

KMP (INR m)	Designation	FY17	FY18	FY19	FY20	FY21	FY22
Dr. Prathap C Reddy	Founder and Executive Chairman	108.2	95.9	96.6	121.3	57.5	167.0
Smt. Preetha Reddy	Executive Vice Chairperson	42.0	38.2	39.6	47.4	29.1	59.7
Smt. Suneeta Reddy	Managing Director	42.0	38.2	39.6	47.4	29.1	59.7
Smt. Shobana Kamineni	Executive Vice Chairperson	42.6	38.8	39.6	47.4	29.1	60.0
Smt. Sangita Reddy	Joint Managing Director	41.4	37.3	39.6	47.4	29.1	59.4
Shri. MBN Rao	Lead Independent Director	0.0	0.0	0.3	2.5	2.9	4.1
Shri. Vinayak Chatterjee	Independent Director	0.0	1.6	1.7	2.0	2.1	3.8
Dr. Murali Doraiswamy	Independent Director	0.0	0.0	0.8	1.9	2.1	3.6

Source: MOFSL, Company

Purchases from related parties remain high

- Purchases from related parties were 50% of consolidated cost of materials consumed (FY21: 57%). However, over the last five years, FY22 was the first year where related party purchases (as % of total cost of materials consumed) decreased significantly.

Exhibit 38: Purchases from related parties remained significant at 50% cost of materials consumed (INR b)

Related Parties	FY18	FY19	FY20	FY21	FY22
Keimed Private Limited	4.8	6.1	6.6	7.2	7.9
Palepu Pharma Private Ltd	4.5	5.3	5.6	5.4	6.7
Srinivasa Medisales Private Limited	2.2	2.8	3.4	3.2	3.4
Sanjeevani Pharma Distributors Private Limited	4.6	2.8	3.3	3.4	4.2
Vasu Agencies Hyd Private Limited	-	2.3	2.6	3.0	3.1
Neelkanth Drugs Private Limited - New Delhi	1.6	1.8	2.1	2.3	2.8
Dhruvi Pharma Pvt Ltd	0.7	0.9	1.3	1.3	1.5
Lucky Pharmaceuticals Private Limted - New Delhi	1.0	1.1	1.2	0.9	1.2
Apollo Sindoori Hotels Limited	1.2	1.0	1.1	1.3	1.4
Faber Sindoori Management Services Private	1.1	1.0	1.1	0.9	1.0
Meher Distributors Private Limited	0.6	0.8	1.0	1.0	1.3
Medihauxe International Private Limited	0.5	0.6	0.7	0.5	0.9
Adeline Pharma Private Limited	0.4	0.5	0.6	0.6	0.8
Medihauxe Pharma Private Limited - Hyderbad	0.3	0.3	0.3	0.2	0.4
Medihauxe Healthcare Private Limited	-	0.1	0.1	0.1	0.2
Vardhaman Pharma Distributors Private Limited	0.2	0.1	0.1	0.7	0.9
Others	0.2	0.1	0.1	0.1	0.1
Total	**23.9**	**27.4**	**31.2**	**32.3**	**37.8**
% of Total cost of materials consumed	**59%**	**59%**	**57%**	**57%**	**50%**

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	**72,557**	**82,435**	**96,174**	**112,468**	**105,600**	**146,626**	**164,177**	**193,525**
Change (%)	16.8	13.6	16.7	16.9	-6.1	38.9	12.0	17.9
Total Expenditure	**65,272**	**74,503**	**85,538**	**96,596**	**94,226**	**124,775**	**142,342**	**166,238**
% of Sales	90.0	90.4	88.9	85.9	89.2	85.1	86.7	85.9
EBITDA	**7,286**	**7,932**	**10,637**	**15,872**	**11,374**	**21,851**	**21,836**	**27,287**
Margin (%)	10.0	9.6	11.1	14.1	10.8	14.9	13.3	14.1
Depreciation	3,140	3,590	3,955	6,197	5,731	6,007	6,160	6,384
EBIT	**4,145**	**4,341**	**6,681**	**9,675**	**5,643**	**15,844**	**15,676**	**20,903**
Int. and Finance Charges	2,574	2,951	3,270	5,328	4,492	3,786	3,692	4,221
Other Income	649	322	324	270	450	781	624	735
PBT bef. EO Exp.	**2,221**	**1,712**	**3,736**	**4,617**	**1,601**	**12,839**	**12,608**	**17,418**
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**	**15,781**	**12,608**	**17,418**
Total Tax	910	1,119	1,734	2,252	847	4,770	1,888	4,441
Tax Rate (%)	41.0	65.4	46.4	34.3	38.2	30.2	15.0	25.5
Minority Interest	-899	-579	-359	-231	-8	454	250	200
Reported PAT	**2,210**	**1,172**	**2,361**	**4,548**	**1,368**	**10,557**	**10,470**	**12,776**
Adjusted PAT	**2,210**	**1,172**	**2,361**	**3,265**	**870**	**9,787**	**8,922**	**12,776**
Change (%)	-6.5	-47.0	101.5	38.3	-73.4	1,024.9	-8.8	43.2
Margin (%)	3.0	1.4	2.5	2.9	0.8	6.7	5.4	6.6

Consolidated - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	696	696	696	696	719	719	719	719
Total Reserves	32,402	31,819	32,639	32,695	45,306	55,733	65,361	77,296
Net Worth	**33,132**	**32,515**	**33,335**	**33,390**	**46,025**	**56,452**	**66,080**	**78,015**
Minority Interest	1,246	1,324	1,355	1,307	1,999	2,543	2,543	2,543
Total Loans	36,442	39,017	41,534	38,567	30,846	26,357	25,357	23,357
Non-Current Lease Liabilities	0	0	0	18,676	12,301	13,333	13,333	13,333
Deferred Tax Liabilities	2,250	2,393	2,975	2,447	2,354	5,215	5,215	5,215
Capital Employed	**73,070**	**75,250**	**79,198**	**94,387**	**93,525**	**103,900**	**112,528**	**122,463**
Gross Block	51,612	56,846	62,594	98,760	92,371	107,815	112,179	119,952
Less: Accum. Deprn.	9,164	12,580	16,240	27,960	28,395	34,402	40,562	46,945
Net Fixed Assets	**42,448**	**44,266**	**46,354**	**70,800**	**63,976**	**73,413**	**71,617**	**73,006**
Goodwill on Consolidation	3,463	3,463	3,462	3,462	3,753	9,235	9,235	9,235
Capital WIP	3,469	7,122	8,218	2,356	2,339	455	4,091	5,318
Total Investments	**4,061**	**3,520**	**4,617**	**4,631**	**13,659**	**8,063**	**8,063**	**8,063**
Curr. Assets, Loans&Adv.	**27,591**	**27,586**	**29,007**	**31,639**	**30,188**	**40,893**	**51,396**	**64,210**
Inventory	4,669	5,658	5,848	7,378	2,495	4,318	4,926	5,752
Account Receivables	7,505	8,252	10,232	10,272	13,311	17,676	17,542	20,678
Cash and Bank Balance	5,245	4,172	3,470	4,668	7,244	10,359	19,366	26,507
Loans and Advances	10,172	9,503	9,457	9,321	7,138	8,541	9,563	11,272
Curr. Liability & Prov.	**7,961**	**10,706**	**12,459**	**18,501**	**20,390**	**28,159**	**31,873**	**37,369**
Account Payables	5,296	7,186	8,351	9,898	12,328	16,318	18,615	21,741
Other Current Liabilities	1,659	2,655	2,961	7,271	6,746	10,420	11,667	13,752
Provisions	1,005	866	1,147	1,331	1,316	1,421	1,591	1,876
Net Current Assets	**19,630**	**16,880**	**16,548**	**13,138**	**9,798**	**12,734**	**19,523**	**26,841**
Appl. of Funds	**73,070**	**75,250**	**79,198**	**94,387**	**93,525**	**103,900**	**112,528**	**122,463**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	**15.4**	**8.1**	**16.4**	**22.7**	**6.1**	**68.1**	**62.1**	**88.9**
Cash EPS	38.5	34.2	45.4	68.0	47.4	113.5	108.4	137.7
BV/Share	238.2	233.7	239.6	240.0	330.8	405.8	475.0	560.8
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	31.5	8.0	8.0	6.6
Valuation (x)								
P/E	271.3	511.7	254.0	183.6	689.1	61.3	67.2	46.9
Cash P/E	108.4	121.8	91.9	61.3	87.9	36.7	38.5	30.3
P/BV	17.5	17.8	17.4	17.4	12.6	10.3	8.8	7.4
EV/Sales	8.4	7.5	6.4	5.5	5.9	4.2	3.7	3.1
EV/EBITDA	83.9	77.5	58.1	38.7	54.8	28.2	27.7	21.9
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
FCF per share	-3.3	-6.0	16.7	56.2	69.1	67.0	98.5	95.1
Return Ratios (%)								
RoE	6.7	3.6	7.2	9.8	2.2	19.1	14.6	17.7
RoCE	4.3	2.3	5.1	8.9	5.1	14.5	15.9	16.7
RoIC	4.4	2.5	5.8	8.7	4.6	14.2	16.1	19.0
Working Capital Ratios								
Fixed Asset Turnover (x)	1.4	1.5	1.5	1.1	1.1	1.4	1.5	1.6
Inventory (Days)	23	25	22	24	9	11	11	11
Debtor (Days)	38	37	39	33	46	44	39	39
Creditor (Days)	27	32	32	32	43	41	41	41
Leverage Ratio (x)								
Current Ratio	3.5	2.6	2.3	1.7	1.5	1.5	1.6	1.7
Interest Cover Ratio	1.6	1.5	2.0	1.8	1.3	4.2	4.2	5.0
Net Debt/Equity	0.8	1.0	1.0	0.9	0.2	0.1	0.0	-0.1

Consolidated - Cash Flow Statement **(INR m)**

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,311	596	2,002	4,317	1,368	11,084	12,608	17,418
Depreciation	3,140	3,590	3,955	6,197	5,731	6,007	6,160	6,384
Interest & Finance Charges	2,451	2,766	3,125	5,155	4,274	3,786	3,068	3,486
Direct Taxes Paid	-1,336	-1,251	-1,924	-3,061	353	-2,043	-1,888	-4,441
(Inc)/Dec in WC	-785	-2,054	-458	-703	-721	-4,630	2,218	-177
CF from Operations	**4,781**	**3,648**	**6,700**	**11,905**	**11,005**	**14,204**	**22,166**	**22,669**
Others	1,444	1,722	2,350	1,024	1,729	1,953	0	0
CF from Operating incl EO	**6,226**	**5,370**	**9,050**	**12,929**	**12,734**	**16,156**	**22,166**	**22,669**
(Inc)/Dec in FA	-6,687	-6,205	-6,720	-5,106	-2,804	-6,518	-8,000	-9,000
Free Cash Flow	**-462**	**-835**	**2,329**	**7,823**	**9,930**	**9,639**	**14,166**	**13,669**
(Pur)/Sale of Investments	-4,959	1,947	376	2,043	-6,207	-1,859	0	0
Others	2,109	209	-761	175	288	469	624	735
CF from Investments	**-9,538**	**-4,049**	**-7,106**	**-2,888**	**-8,723**	**-7,907**	**-7,376**	**-8,265**
Issue of Shares	6,056	83	0	0	11,520	0	0	0
Inc/(Dec) in Debt	2,057	0	0	-571	-8,985	-2,866	-1,000	-2,000
Interest Paid	-3,343	-3,178	-3,620	-5,645	-4,676	-3,764	-3,692	-4,221
Dividend Paid	0	-1,008	-837	-1,551	-383	-433	-841	-841
CF from Fin. Activity	**2,353**	**-1,085**	**-2,145**	**-9,095**	**-3,567**	**-7,677**	**-5,783**	**-7,262**
Inc/Dec of Cash	**-960**	**236**	**-201**	**946**	**444**	**572**	**9,007**	**7,142**
Opening Balance	3,788	2,829	3,064	2,862	3,808	4,252	4,824	13,831
Closing Balance	2,828	3,065	2,863	3,808	4,252	4,824	13,831	20,972
Bank Balance	2,417	1,108	606	860	2,992	5,535	5,535	5,535
Total Cash and Cash Equivalent	**5,245**	**4,172**	**3,470**	**4,668**	**7,244**	**10,359**	**19,366**	**26,507**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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