

November 14, 2022

## Q2FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	5,400		5,000	
Sales (Rs. m)	1,98,437	2,27,090	2,02,745	2,28,634
% Chng.	(2.1)	(0.7)		
EBITDA (Rs. m)	29,184	36,757	31,403	36,229
% Chng.	(7.1)	1.5		
EPS (Rs.)	88.5	125.3	102.7	125.5
% Chng.	(13.8)	(0.2)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,46,626	1,69,579	1,98,437	2,27,090
EBITDA (Rs. m)	21,851	22,589	29,184	36,757
Margin (%)	14.9	13.3	14.7	16.2
PAT (Rs. m)	10,556	9,921	12,725	18,015
EPS (Rs.)	53.0	69.0	88.5	125.3
Gr. (%)	748.6	30.3	28.3	41.6
DPS (Rs.)	11.4	13.7	17.1	13.7
Yield (%)	0.3	0.3	0.4	0.3
RoE (%)	14.9	13.9	18.5	22.1
RoCE (%)	20.2	19.3	25.0	30.1
EV/Sales (x)	4.4	3.8	3.3	2.8
EV/EBITDA (x)	29.6	28.7	22.1	17.2
PE (x)	83.5	64.1	50.0	35.3
P/BV (x)	11.3	9.9	8.6	7.1

### Key Data

APLH.BO | APHS IN

52-W High / Low	Rs.5,935 / Rs.3,362
Sensex / Nifty	61,795 / 18,350
Market Cap	Rs.636bn / \$ 7,867m
Shares Outstanding	144m
3M Avg. Daily Value	Rs.2523.14m

### Shareholding Pattern (%)

Promoter's	29.33
Foreign	49.09
Domestic Institution	14.90
Public & Others	6.68
Promoter Pledge (Rs bn)	30.53

### Stock Performance (%)

	1M	6M	12M
Absolute	3.4	20.2	(3.2)
Relative	(4.4)	5.2	(6.1)

### Param Desai

paramdesai@plindia.com | 91-22-66322259

### Sanketa Kohale

sanketakhale@plindia.com | 91-22-66322426

## Strong show across segments

### Quick Pointers:

- Hospital occupancy to be closer to 70% over next 12 months.
- Plans to increase 800 pharmacy stores by FY23 and 6500 by FY25E.

**Apollo hospitals enterprise's (APHS) consolidated EBITDA declined 8% to Rs5.6bn, in line with our estimate. Adjusted for 24x7 losses, EBITDA was at Rs 7.4bn, up 18% QoQ vs our est of Rs7.1bn. Hospital profitability was up 18% QoQ, while losses from 24x7 remained at elevated levels. EBITDA from offline pharmacy (SAP) increased 38%, while AHLL declined 39% YoY given high base. Overall occupancy stood at 68% vs 60% in Q1. ARPOB remained healthy at Rs.50K, down 3% QoQ due to case mix. Net debt increased by Rs 2.4bn QoQ to Rs 12.3bn.**

**We believe APHS has created a solid growth platform across segments and digital foraying has further made it a strong Omni channel play. The company also has good presence in offline format, making it more of a formidable player than just pure play online companies. Though stake sale in Apollo HealthCo has been delayed, scale up in business is on track. We ascribe 22x EV/EBITDA multiple to hospital segment, 25x EV/EBITDA to offline pharmacy and 20x EV/EBITDA to AHLL. Overall we estimate 19% EBITDA CAGR over FY22-25E an assign zero value to the 24/7 business. Recommend 'BUY' at SOTP based TP of Rs5,400 (Rs5,000 earlier) as we roll forward.**

**In-line EBITDA aided by hospital segment:** Consolidated pre IND AS EBITDA reported at Rs5.2bn, in line with our estimate. 24x7 digital app expenses were at Rs1.52bn and additional Rs220mn ESOP related non-cash expenses in Q2. Pharmacy OPM adjusted for 24x7 app exps expanded 20 bps QoQ at 7.8%. Mature hospital EBITDA was up 17% QoQ, while EBITDA from new hospitals including proton was up 21% QoQ. Overall hospital OPM including proton improved 130 bps to 25.2% vs 23.9% in Q1. AHLL reported EBITDA of Rs377mn (up 28% QoQ) with 11.8% OPM vs 10% in Q1.

**Key con-call takeaways:** (1) Hospitals - APHS guided occupancy closer to 70% over next 12 months. Mgmt anticipates 100-150bps for matured and 200 bps margin improvement for new hospitals 2) Bed Expansion - addition of 2000 beds over 3-4 years at a capex of Rs30bn across Mumbai, Gurgaon, Bangalore and Chennai markets. 500-550 beds in Gurgaon, 500 beds in Chennai, 400-450 beds in Bangalore and another 400 beds in Mumbai etc. Maintenance capex of Rs3.5bn annually. (3) Proton EBITDA was at Rs.400mn in H1FY23 and guided to cross Rs600-650mn in FY23 (4) Payor mix- Share of international patients to reach 10% by end of H2FY23 and 15% by FY24; which currently contributes 6% to the total revenues. (5) Revenue from insurance segment jumped up from 35% to 42% in Q2. In Q2, CGSS revenue was at 1%, State government was at 2% (Ayushman Bharat) and public sector was at 7%. (6) SAP - Pharmacy store expansion target increased to 800 stores (Earlier 500 stores) in FY23. (7) AHLL - Diagnostic revenue target of Rs. 10bn over the next 3 years with +15% OPM. (8) Apollo 24x7- GMV guidance of Rs15bn with expenses of Rs5.5bn in FY23. Aiming for ~\$1bn GMV with positive EBITDA over next 3 years or so. Apollo Health's fundraising plan of \$200mn will likely take place by end of FY23 at valuation of \$2.5bn.

**Exhibit 1: Q2FY23 Result Overview (Rs mn) – In line EBITDA**

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
<b>Net Sales</b>	<b>42,511</b>	<b>37,171</b>	<b>14.4</b>	<b>37,956</b>	<b>12.0</b>
COGS	21,719	18,723	16.0	19,521	11.3
<i>% of Net Sales</i>	<i>51.1</i>	<i>50.4</i>		<i>51.4</i>	
Employee Expenses	5,408	4,568	18.4	4,474	20.9
<i>% of Net Sales</i>	<i>12.7</i>	<i>12.3</i>		<i>11.8</i>	
Other Expenses	9,730	7,729	25.9	9,053	7.5
<i>% of Net Sales</i>	<i>22.9</i>	<i>20.8</i>		<i>23.9</i>	
Total Expenses	<b>36,857</b>	<b>31,021</b>	<b>18.8</b>	<b>33,049</b>	<b>11.5</b>
<b>EBITDA</b>	<b>5,654</b>	<b>6,150</b>	<b>(8.1)</b>	<b>4,907</b>	<b>15.2</b>
<i>Margins (%)</i>	<i>13.3</i>	<i>16.5</i>		<i>12.9</i>	
Other Income	226	56	300.9	161	40.5
Interest	927	954	(2.8)	927	(0.0)
Depreciation	1,550	1,448	7.1	1,478	4.9
<b>PBT</b>	<b>3,402</b>	<b>3,805</b>	<b>(10.6)</b>	<b>2,663</b>	<b>27.8</b>
Total tax	1,142	1,156	(1.2)	853	33.9
<i>Tax rate (%)</i>	<i>33.6</i>	<i>30.4</i>		<i>32.0</i>	
<b>Reported PAT</b>	<b>2,260</b>	<b>2,649</b>	<b>(14.7)</b>	<b>1,810</b>	<b>24.9</b>
Share of profit from associates	(132)	25	(622.2)	(120)	9.5
Minority interest	89	196		67	32.7
<b>Consol PAT</b>	<b>2,040</b>	<b>2,478</b>	<b>(17.7)</b>	<b>3,171</b>	<b>(35.7)</b>
Extra-ordinary Items	-	-		1,548	
<b>Adj. PAT</b>	<b>2,040</b>	<b>2,478</b>	<b>(17.7)</b>	<b>1,623</b>	<b>25.7</b>

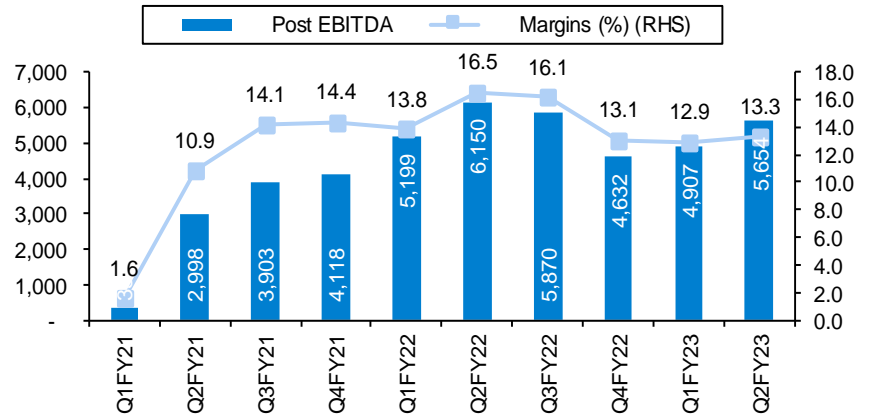
Source: Company, PL

**Exhibit 2: Break-up of Revenues**

Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Mature Hospitals	<b>15,920</b>	<b>14,570</b>	9.3	<b>14,466</b>	10.1
<i>% of Net Sales</i>	<i>37.4</i>	<i>39.2</i>		<i>38.1</i>	
New Hospitals	<b>6,725</b>	<b>7,116</b>	(5.5)	<b>5,768</b>	16.6
<i>% of Net Sales</i>	<i>15.8</i>	<i>19.1</i>		<i>15.2</i>	
SAP	<b>16,683</b>	<b>11,671</b>	42.9	<b>14,792</b>	12.8
<i>% of Net Sales</i>	<i>39.2</i>	<i>31.4</i>		<i>39.0</i>	
AHLL	<b>3,183</b>	<b>3,814</b>	(16.5)	<b>2,930</b>	8.6
<i>% of Net Sales</i>	<i>7.5</i>	<i>10.3</i>		<i>7.7</i>	
<b>Total Sales</b>	<b>42,511</b>	<b>37,171</b>	<b>14.4</b>	<b>37,956</b>	<b>12.0</b>

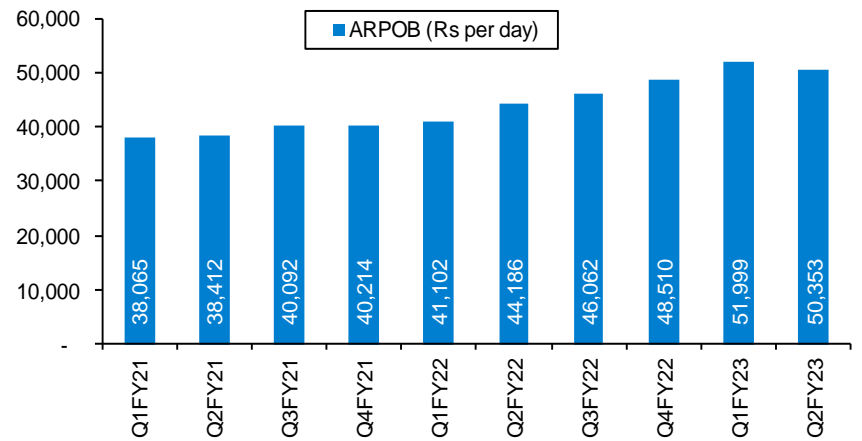
Source: Company, PL

**Exhibit 3: Margin expansion QoQ across all segments**



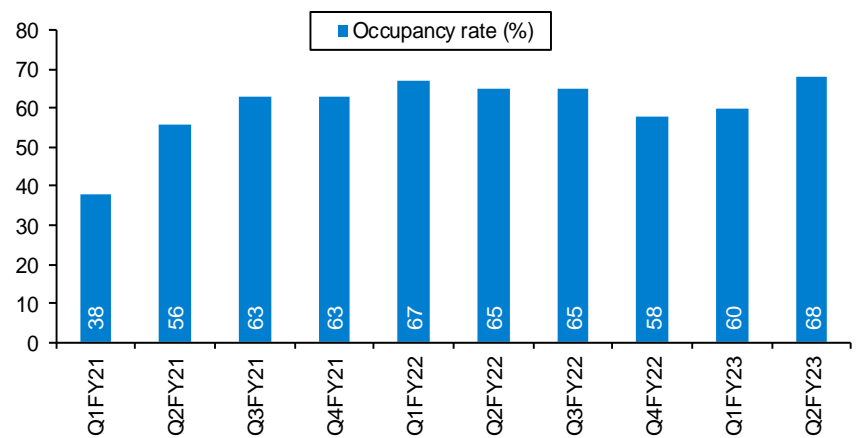
Source: Company, PL

**Exhibit 4: ARPOB remains healthy; sequentially declined due to case mix**



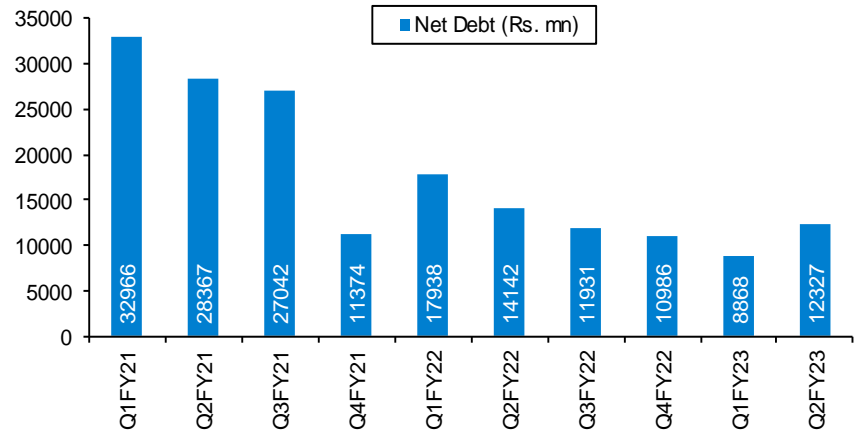
Source: Company, PL

**Exhibit 5: Occupancy improved QoQ on seasonality**



Source: Company, PL

Exhibit 6: Net debt increased by Rs 2.4bn



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>1,46,626</b>	<b>1,69,579</b>	<b>1,98,437</b>	<b>2,27,090</b>
YoY gr. (%)	38.9	15.7	17.0	14.4
Cost of Goods Sold	75,735	84,789	99,219	1,13,545
Gross Profit	70,892	84,789	99,219	1,13,545
Margin (%)	48.3	50.0	50.0	50.0
Employee Cost	17,865	20,902	24,456	28,613
Other Expenses	31,175	41,298	45,579	48,175
<b>EBITDA</b>	<b>21,851</b>	<b>22,589</b>	<b>29,184</b>	<b>36,757</b>
YoY gr. (%)	92.1	3.4	29.2	26.0
Margin (%)	14.9	13.3	14.7	16.2
Depreciation and Amortization	6,007	6,200	6,500	6,500
<b>EBIT</b>	<b>15,844</b>	<b>16,389</b>	<b>22,684</b>	<b>30,257</b>
Margin (%)	10.8	9.7	11.4	13.3
Net Interest	3,786	3,700	3,400	3,000
Other Income	782	800	900	1,000
<b>Profit Before Tax</b>	<b>12,840</b>	<b>13,489</b>	<b>20,184</b>	<b>28,257</b>
Margin (%)	8.8	8.0	10.2	12.4
Total Tax	4,770	4,317	6,459	9,042
Effective tax rate (%)	37.2	32.0	32.0	32.0
<b>Profit after tax</b>	<b>8,070</b>	<b>9,173</b>	<b>13,725</b>	<b>19,215</b>
Minority interest	528	800	1,000	1,200
Share Profit from Associate	73	-	-	-
<b>Adjusted PAT</b>	<b>10,556</b>	<b>9,921</b>	<b>12,725</b>	<b>18,015</b>
YoY gr. (%)	602.0	(6.0)	28.3	41.6
Margin (%)	7.2	5.9	6.4	7.9
Extra Ord. Income / (Exp)	(2,941)	(1,548)	-	-
<b>Reported PAT</b>	<b>7,615</b>	<b>8,373</b>	<b>12,725</b>	<b>18,015</b>
YoY gr. (%)	748.7	9.9	52.0	41.6
Margin (%)	5.2	4.9	6.4	7.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,615	8,373	12,725	18,015
<b>Equity Shares O/s (m)</b>	<b>144</b>	<b>144</b>	<b>144</b>	<b>144</b>
<b>EPS (Rs)</b>	<b>53.0</b>	<b>69.0</b>	<b>88.5</b>	<b>125.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>96,876</b>	<b>1,07,876</b>	<b>1,15,876</b>	<b>1,23,876</b>
Tangibles	96,876	1,07,876	1,15,876	1,23,876
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>34,194</b>	<b>40,394</b>	<b>46,894</b>	<b>53,394</b>
Tangibles	34,194	40,394	46,894	53,394
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>62,682</b>	<b>67,482</b>	<b>68,982</b>	<b>70,482</b>
Tangibles	62,682	67,482	68,982	70,482
Intangibles	-	-	-	-
Capital Work In Progress	455	455	455	455
Goodwill	9,235	9,235	9,235	9,235
Non-Current Investments	2,830	2,037	2,037	2,037
Net Deferred tax assets	(5,215)	(5,215)	(5,215)	(2,215)
Other Non-Current Assets	10,730	10,730	10,730	10,730
<b>Current Assets</b>				
Investments	5,013	5,806	5,806	5,806
Inventories	4,319	5,935	6,945	7,948
Trade receivables	17,676	22,045	25,797	29,522
Cash & Bank Balance	10,359	4,016	4,696	16,214
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>1,31,841</b>	<b>1,37,138</b>	<b>1,45,019</b>	<b>1,63,798</b>
<b>Equity</b>				
Equity Share Capital	719	719	719	719
Other Equity	55,514	63,182	73,091	88,852
<b>Total Network</b>	<b>56,233</b>	<b>63,901</b>	<b>73,810</b>	<b>89,571</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	24,272	21,272	18,272	15,272
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	2,085	2,085	2,085	2,085
Trade payables	16,318	17,623	19,033	20,556
Other current liabilities	25,174	24,498	24,061	28,555
<b>Total Equity &amp; Liabilities</b>	<b>1,31,841</b>	<b>1,37,138</b>	<b>1,45,019</b>	<b>1,60,798</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	11,084	13,489	20,184	28,257
Add. Depreciation	6,007	6,200	6,500	6,500
Add. Interest	3,786	3,700	3,400	3,000
Less Financial Other Income	782	800	900	1,000
Add. Other	1,953	(800)	(1,000)	(1,200)
Op. profit before WC changes	22,830	22,589	29,084	36,557
Net Changes-WC	(4,507)	(4,663)	(4,728)	256
Direct tax	(2,043)	(4,317)	(6,459)	(9,042)
<b>Net cash from Op. activities</b>	<b>16,280</b>	<b>13,610</b>	<b>17,897</b>	<b>27,771</b>
Capital expenditures	(6,518)	(11,000)	(8,000)	(8,000)
Interest / Dividend Income	-	-	-	-
Others	(264)	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(6,782)</b>	<b>(11,000)</b>	<b>(8,000)</b>	<b>(8,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,866)	(3,000)	(3,000)	(3,000)
Dividend paid	(433)	(2,253)	(2,816)	(2,253)
Interest paid	(3,786)	(3,700)	(3,400)	(3,000)
Others	1,701	-	-	-
<b>Net cash from Fin. activities</b>	<b>(5,384)</b>	<b>(8,953)</b>	<b>(9,216)</b>	<b>(8,253)</b>
<b>Net change in cash</b>	<b>4,115</b>	<b>(6,343)</b>	<b>680</b>	<b>11,518</b>
Free Cash Flow	9,762	2,610	9,897	19,771

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>36,389</b>	<b>35,464</b>	<b>37,956</b>	<b>42,511</b>
YoY gr. (%)	31.9	23.7	0.9	14.4
Raw Material Expenses	18,235	18,157	19,521	21,719
Gross Profit	18,154	17,308	18,435	20,792
Margin (%)	49.9	48.8	48.6	48.9
<b>EBITDA</b>	<b>5,870</b>	<b>4,632</b>	<b>4,907</b>	<b>5,654</b>
YoY gr. (%)	50.4	12.5	(5.6)	(8.1)
Margin (%)	16.1	13.1	12.9	13.3
Depreciation / Depletion	1,490	1,664	1,478	1,550
<b>EBIT</b>	<b>4,380</b>	<b>2,968</b>	<b>3,430</b>	<b>4,104</b>
Margin (%)	12.0	8.4	9.0	9.7
Net Interest	937	949	927	927
Other Income	172	307	161	226
<b>Profit before Tax</b>	<b>3,615</b>	<b>2,327</b>	<b>2,663</b>	<b>3,402</b>
Margin (%)	9.9	6.6	7.0	8.0
Total Tax	1,242	1,387	853	1,142
Effective tax rate (%)	34.4	59.6	32.0	33.6
<b>Profit after Tax</b>	<b>2,373</b>	<b>940</b>	<b>1,810</b>	<b>2,260</b>
Minority interest	149	69	67	89
Share Profit from Associates	60	30	(120)	(132)
<b>Adjusted PAT</b>	<b>2,284</b>	<b>901</b>	<b>1,623</b>	<b>2,040</b>
YoY gr. (%)	75.1	(36.8)	(16.8)	(17.7)
Margin (%)	6.3	2.5	4.3	4.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,284</b>	<b>901</b>	<b>1,623</b>	<b>2,040</b>
YoY gr. (%)	75.1	(36.8)	(16.8)	(17.7)
Margin (%)	6.3	2.5	4.3	4.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,284</b>	<b>901</b>	<b>1,623</b>	<b>2,040</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>15.9</b>	<b>6.3</b>	<b>22.1</b>	<b>14.2</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	53.0	69.0	88.5	125.3
CEPS	115.2	112.1	133.7	170.5
BVPS	391.1	444.4	513.3	622.9
FCF	67.9	18.2	68.8	137.5
DPS	11.4	13.7	17.1	13.7
<b>Return Ratio(%)</b>				
RoCE	20.2	19.3	25.0	30.1
ROIC	13.6	12.9	16.9	21.3
RoE	14.9	13.9	18.5	22.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.2	0.1	(0.1)
Net Working Capital (Days)	14	22	25	27
<b>Valuation(x)</b>				
PER	83.5	64.1	50.0	35.3
P/B	11.3	9.9	8.6	7.1
P/CEPS	38.4	39.4	33.1	25.9
EV/EBITDA	29.6	28.7	22.1	17.2
EV/Sales	4.4	3.8	3.3	2.8
Dividend Yield (%)	0.3	0.3	0.4	0.3

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
Pharmacy	53,610	63,260	75,912	89,576
Hospitals	13,125	13,388	15,797	17,693
Healthcare services	79,892	92,932	1,06,728	1,19,821

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	5,000	4,391
2	15-Aug-22	BUY	5,000	4,313
3	07-Jul-22	BUY	5,000	3,884
4	29-May-22	BUY	5,000	3,862
5	08-Apr-22	BUY	5,772	4,537
6	03-Mar-22	BUY	5,772	4,918

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	4,391
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	336
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,467
15	Lupin	Hold	650	719
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	810	715
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	BUY	425	409

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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### **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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