

Apollo Hospitals



BSE SENSEX 60,056
S&P CNX 17,743

CMP: INR4,403 TP: INR5,580 (+27%)

BUY



Stock Info

Bloomberg	APHS IN
Equity Shares (m)	139
M.Cap.(INRb)/(USD\$b)	633.1 / 7.7
52-Week Range (INR)	4900 / 3366
1, 6, 12 Rel. Per (%)	-2/0/-12
12M Avg Val (INR M)	2393
Free float (%)	70.7

Financials Snapshot (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	167.2	198.9	240.5
EBITDA	20.9	26.5	33.7
Adj. PAT	7.5	12.1	17.1
EBITDA Margin (%)	12.5	13.3	14.0
Cons. Adj. EPS (INR)	52.4	83.9	122.8
EPS Gr. (%)	-23.1	60.2	46.3
BV/Sh. (INR)	465.0	545.6	662.5

Ratios

Net D:E	0.0	-0.1	-0.3
RoE (%)	12.4	17.2	20.3
RoCE (%)	14.9	16.3	19.5
Payout (%)	9.3	7.0	4.8

Valuations

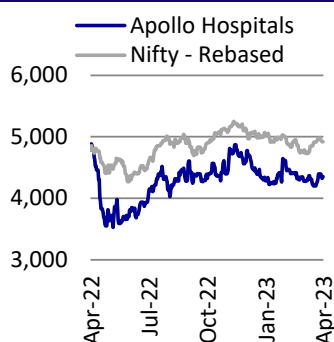
P/E (x)	84.0	52.5	35.9
EV/EBITDA (x)	30.6	23.9	17.6
Div. Yield (%)	0.1	0.1	0.1
FCF Yield (%)	2.1	2.0	3.9
EV/Sales (x)	3.8	3.2	2.5

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	29.3	29.3	29.3
DII	18.0	16.8	13.2
FII	47.0	47.9	50.8
Others	5.7	5.9	6.7

FII Includes depository receipts

Stock performance (one-year)



Bridging gaps for comprehensive patient service

Profitability improvement in progress

We met with Ms. Sunita Reddy, MD, Apollo Hospitals (APHS), to understand the company's business outlook in detail.

- Ms. Reddy has reiterated the company's commitment to reducing the losses in Healthco to zero by 4QFY24, thereby improving the overall profitability of APHS.
- APHS is making efforts to improve margins in new hospitals by optimizing the case mix and providing high-end tertiary treatment.
- APHS is strengthening its 'IT' backbone to gain a comprehensive database about patients and provide integrated healthcare services to them.
- We remain positive on APHS on the back of favourable demand tailwinds in the hospital segment and a robust outlook for offline/online pharmacies as well as diagnostic services.
- We expect a 20%/27% sales/EBITDA CAGR over FY23-25 for APHS. We arrive at a TP of INR5,580 by valuing APHS on the SOTP basis (EV/EBITDA of 23x for Healthcare Services, 13x for retained Pharmacy, 25x for front-end Pharmacy, and 20x for AHLL; 4x EV/sales for Apollo 24/7). Reiterate BUY.

On track to reduce losses in Healthco

- APHS is making efforts to 1) exponentially grow GMV (gross merchandise value), 2) aggressively expand offline stores, 3) improve the profitability of offline stores, and 4) reduce opex for Apollo 24/7.
- Interestingly, APHS provides the least discount of 16% for procuring medicines on the Apollo 24/7 platform compared to peers, which give 20-25% discount. Despite lower discounts, online sales grew 3x YoY in 9MFY23. Due to strong support from offline stores, Apollo 24/7 is able to cater to time-sensitive supplies of medicines (two-hour delivery).
- APHS is on track to deliver GMV of INR16b in FY23 (INR10.5b in 9MFY23). GMV comprises medicines (65%), diagnostics (15%), IP/OP referral fees and consultation.
- APHS added 667 stores in 9MFY23 (v/s 411 in FY22) and is expected to sustain the momentum in store additions in the medium term to increase its reach and expand its presence in existing regions. Overall, it has 5,600 pharmacies currently.
- The company's Healthco unit reported EBITDA loss of INR1.2b in 9MFY23. APHS intends to be EBITDA neutral by 4QFY24 on the back of profitability improvement in offline stores and cost reductions in Apollo 24/7.

Enhanced efforts to improve profitability of new hospitals

- While APHS delivered a 310bp YoY expansion in EBITDA margin of mature hospitals (14% of sales) in 9MFY23, new hospitals witnessed a 150bp contraction.
- APHS has intensified its efforts to improve the case mix, add infrastructure to increase high-end tertiary treatment and expand relationships with other corporates in the regions of new hospitals to improve profitability.

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- Moreover, a decline in the migration of the patient pool to nearby metro cities – an outcome of Covid – is supporting better occupancy in new hospitals.
- Having said this, a higher proportion of institutional patients (particularly in Hyderabad cluster) could limit margin improvement in new hospitals.
- Overall, it is confident of improving average revenue per occupied bed (ARPOB) by 5% in the healthcare segment in the next 12-15 months.
- Overall, we expect a 14%/18% sales CAGR in mature/new hospitals to INR80b/INR33b over FY23-25.

Integration through IT network to upscale patient touch-points

- APHS is creating multiple services to cater to patient needs through online (Apollo 24/7) and offline channels (Exhibit 4).
- APHS is ramping up physical and IT infrastructure to provide tele-consultation, medicines, specialty care (diagnosis, dialysis, dental, sugar, child care) as well as tertiary treatment.
- Its IT infrastructure has helped APHS build ‘one patient, one record’ database, comprising diagnostic reports, diagnosis and patient medical history. It also allows online appointment booking.

Valuation comparison with peers

- We compare APHS with hospital peers on financial and valuation parameters.
- APHS has a better outlook on profitability over the next two years compared to peers.
- However, it is currently trading near the industry average of 17x EV/EBITDA on FY25E basis.

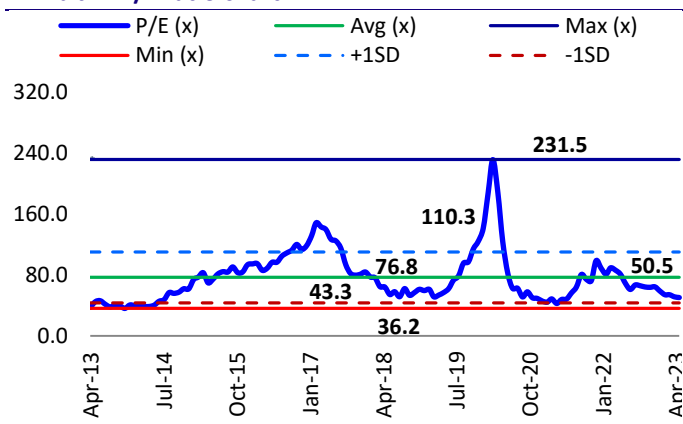
Exhibit 1: APHS valuation comparison with peers

	Price (INR)	M-cap (INR b)	CAGR (FY23-25E, %)			EV/EBITDA		P/E		ROE (%)	
			Sales	EBITDA	EPS	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Apollo Hospitals	4,340	624	20	27	51	23	17	51	35	17	20
Max Healthcare	465	452	16	17	20	23	20	34	29	16	15
Medanta	494	132	16	18	25	19	16	37	30	15	16
Rainbow Children's	800	81	20	17	18	19	16	35	30	22	21
Fortis Healthcare	266	200	11	16	22	16	14	30	25	9	10
KIMS	1,513	121	16	16	16	17	15	32	27	20	18
Narayana Hrudayalaya	755	154	11	10	9	15	14	26	24	24	22

MOFSL estimates for APHS and MAXHEALT; Bloomberg estimates for the rest

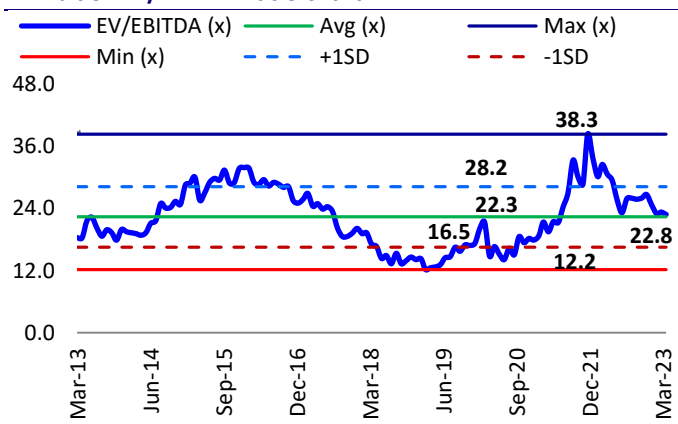
Source: MOFSL, Bloomberg, Company

Exhibit 2: P/E ratio chart



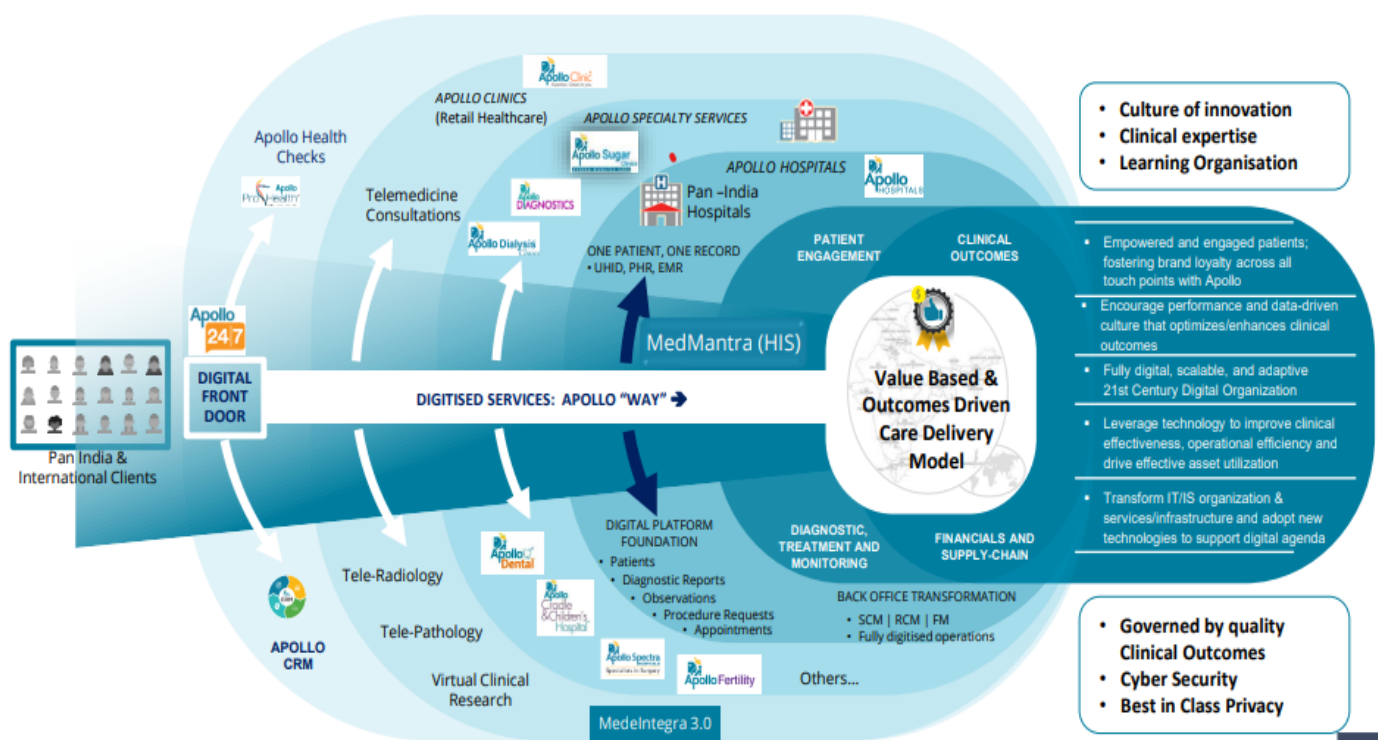
Source: MOFSL, Company, Bloomberg

Exhibit 3: EV/EBITDA ratio chart



Source: MOFSL, Company, Bloomberg

Exhibit 4: Healthcare consumerization through digital channel



Source: MOFSL, Company

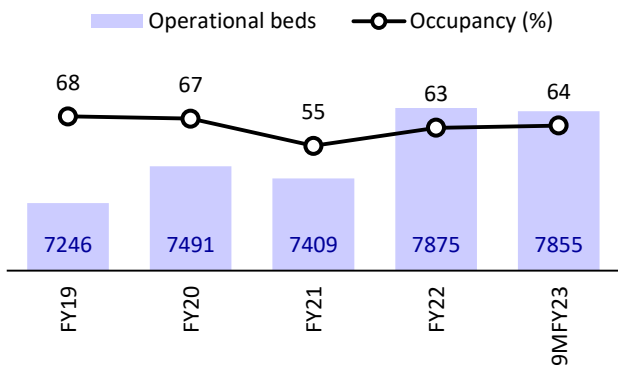
Exhibit 5: Healthy mix by vintage (owned hospitals)

	Hospitals	Capacity beds	Operational beds	Occupancy (%)
Mature	29	5794	5471	66
New	14	2740	2384	61
HCS total (excl. managed)	43	8534	7855	64

Source: MOFSL, Company

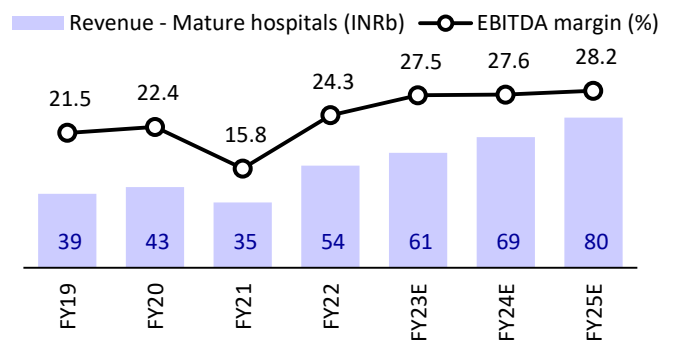
Story in charts

Exhibit 6: Occupancy stable during 9MFY23



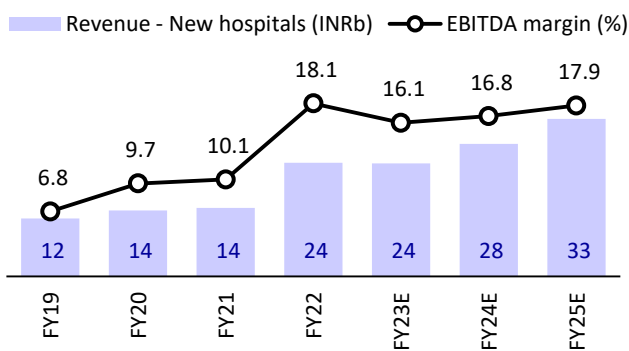
Source: Company, MOFSL

Exhibit 7: EBITDA margin of mature hospitals to be stable at 28% by FY25



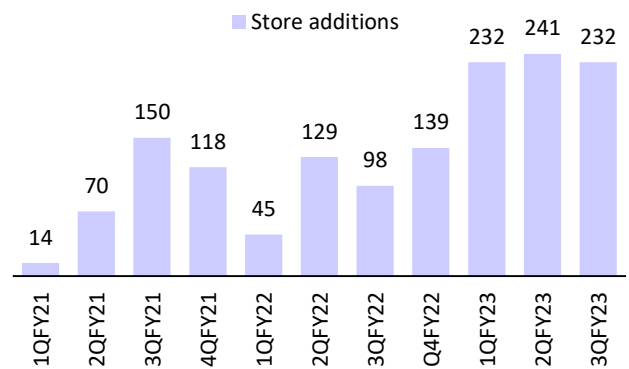
Source: Company, MOFSL

Exhibit 8: EBITDA margin of new hospitals to reach 18% by FY25



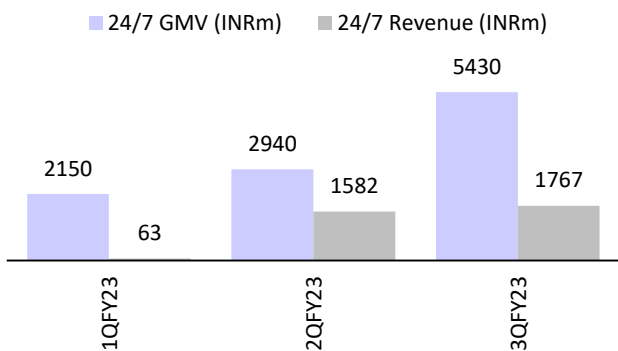
Source: Company, MOFSL

Exhibit 9: APHS aggressively adding stores



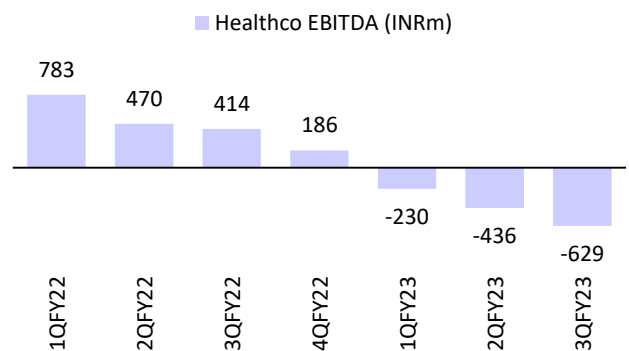
Source: Company, MOFSL

Exhibit 10: Apollo 24/7 GMV on growth path



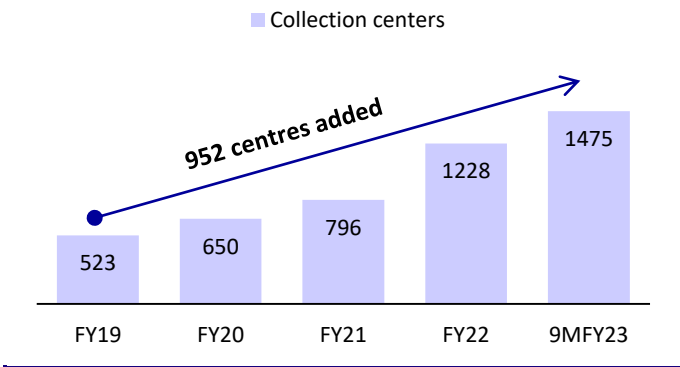
Source: Company, MOFSL

Exhibit 11: Healthco EBITDA declined due to investments



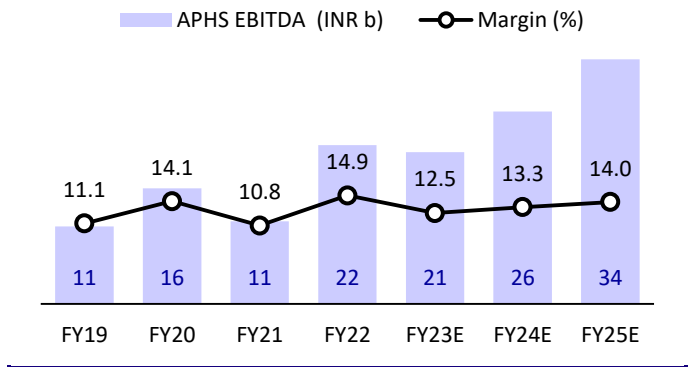
Source: Company, MOFSL

Exhibit 12: Diagnostic collection centers being added at a rapid pace



Source: Company, MOFSL

Exhibit 13: Expect APHS overall EBITDA margin to reach 14% by FY25



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	82,435	96,174	112,468	105,600	146,626	167,153	198,915	240,497
Change (%)	13.6	16.7	16.9	-6.1	38.9	14.0	19.0	20.9
Total Expenditure	74,503	85,538	96,596	94,226	124,775	146,259	172,460	206,827
% of Sales	90.4	88.9	85.9	89.2	85.1	87.5	86.7	86.0
EBITDA	7,932	10,637	15,872	11,374	21,851	20,894	26,456	33,670
Margin (%)	9.6	11.1	14.1	10.8	14.9	12.5	13.3	14.0
Depreciation	3,590	3,955	6,197	5,731	6,007	6,160	6,384	6,756
EBIT	4,341	6,681	9,675	5,643	15,844	14,734	20,072	26,914
Int. and Finance Charges	2,951	3,270	5,328	4,492	3,786	3,919	3,957	3,938
Other Income	322	324	270	450	781	1,086	1,094	1,202
PBT bef. EO Exp.	1,712	3,736	4,617	1,601	12,839	11,902	17,209	24,179
EO Items	0	0	1,952	614	2,941	0	0	0
PBT after EO Exp.	1,712	3,736	6,569	2,215	15,781	11,902	17,209	24,179
Total Tax	1,119	1,734	2,252	847	4,770	2,224	4,646	6,577
Tax Rate (%)	65.4	46.4	34.3	38.2	30.2	18.7	27.0	27.2
Minority Interest	-579	-359	-231	-8	454	600	500	525
Reported PAT	1,172	2,361	4,548	1,368	10,557	9,078	12,062	17,077
Adjusted PAT	1,172	2,361	3,265	870	9,787	7,530	12,062	17,077
Change (%)	-47.0	101.5	38.3	-73.4	1,024.9	-23.1	60.2	41.6
Margin (%)	1.4	2.5	2.9	0.8	6.7	4.5	6.1	7.1

Consolidated - Balance Sheet								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	696	696	696	719	719	719	719	719
Total Reserves	31,819	32,639	32,695	45,306	55,733	63,969	75,191	91,454
Net Worth	32,515	33,335	33,390	46,025	56,452	64,688	75,910	92,173
Minority Interest	1,324	1,355	1,307	1,999	2,543	2,543	2,543	2,543
Total Loans	39,017	41,534	38,567	30,846	26,357	25,357	23,357	18,457
Non-Current Lease Liabilities	0	0	18,676	12,301	13,333	13,333	13,333	13,333
Deferred Tax Liabilities	2,393	2,975	2,447	2,354	5,215	5,215	5,215	5,215
Capital Employed	75,250	79,198	94,387	93,525	103,900	111,137	120,358	131,721
Gross Block	56,846	62,594	98,760	92,371	107,815	112,179	119,952	125,706
Less: Accum. Deprn.	12,580	16,240	27,960	28,395	34,402	40,562	46,945	53,701
Net Fixed Assets	44,266	46,354	70,800	63,976	73,413	71,617	73,006	72,005
Goodwill on Consolidation	3,463	3,462	3,462	3,753	9,235	9,235	9,235	9,235
Capital WIP	7,122	8,218	2,356	2,339	455	4,091	5,318	2,564
Total Investments	3,520	4,617	4,631	13,659	8,063	8,063	8,063	8,063
Curr. Assets, Loans&Adv.	27,586	29,007	31,639	30,188	40,893	50,757	63,353	86,325
Inventory	5,658	5,848	7,378	2,495	4,318	5,061	5,968	7,157
Account Receivables	8,252	10,232	10,272	13,311	17,676	17,860	21,254	25,697
Cash and Bank Balance	4,172	3,470	4,668	7,244	10,359	18,099	24,545	39,462
Loans and Advances	9,503	9,457	9,321	7,138	8,541	9,736	11,586	14,008
Curr. Liability & Prov.	10,706	12,459	18,501	20,390	28,159	32,626	38,618	46,470
Account Payables	7,186	8,351	9,898	12,328	16,318	19,128	22,554	27,049
Other Current Liabilities	2,655	2,961	7,271	6,746	10,420	11,878	14,135	17,090
Provisions	866	1,147	1,331	1,316	1,421	1,620	1,928	2,331
Net Current Assets	16,880	16,548	13,138	9,798	12,734	18,131	24,736	39,855
Appl. of Funds	75,250	79,198	94,387	93,525	103,900	111,137	120,358	131,721

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	8.1	16.4	22.7	6.1	68.1	52.4	83.9	122.8
Cash EPS	34.2	45.4	68.0	47.4	113.5	98.4	132.6	171.3
BV/Share	233.7	239.6	240.0	330.8	405.8	465.0	545.6	662.5
DPS	5.0	6.0	6.7	3.0	5.0	5.0	5.0	5.0
Payout (%)	69.5	42.6	22.4	31.5	8.0	9.3	7.0	4.8
Valuation (x)								
P/E	532.6	264.3	191.1	717.2	63.8	84.0	52.5	35.9
Cash P/E	126.8	95.6	63.8	91.5	38.2	44.7	33.2	25.7
P/BV	18.6	18.1	18.1	13.1	10.7	9.5	8.1	6.6
EV/Sales	7.7	6.7	5.7	6.1	4.4	3.8	3.2	2.5
EV/EBITDA	80.5	60.3	40.2	56.9	29.3	30.6	23.9	17.6
Dividend Yield (%)	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
FCF per share	-6.0	16.7	56.2	69.1	67.0	90.5	88.0	171.7
Return Ratios (%)								
RoE	3.6	7.2	9.8	2.2	19.1	12.4	17.2	20.3
RoCE	2.3	5.1	8.9	5.1	14.5	14.9	16.3	19.5
RoIC	2.5	5.8	8.7	4.6	14.2	14.4	17.9	23.9
Working Capital Ratios								
Fixed Asset Turnover (x)	1.5	1.5	1.1	1.1	1.4	1.5	1.7	1.9
Inventory (Days)	25	22	24	9	11	11	11	11
Debtor (Days)	37	39	33	46	44	39	39	39
Creditor (Days)	32	32	32	43	41	42	41	41
Leverage Ratio (x)								
Current Ratio	2.6	2.3	1.7	1.5	1.5	1.6	1.6	1.9
Interest Cover Ratio	1.5	2.0	1.8	1.3	4.2	3.8	5.1	6.8
Net Debt/Equity	1.0	1.0	0.9	0.2	0.1	0.0	-0.1	-0.3

Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	596	2,002	4,317	1,368	11,084	11,902	17,209	24,179
Depreciation	3,590	3,955	6,197	5,731	6,007	6,160	6,384	6,756
Interest & Finance Charges	2,766	3,125	5,155	4,274	3,786	2,833	2,863	2,735
Direct Taxes Paid	-1,251	-1,924	-3,061	353	-2,043	-2,224	-4,646	-6,577
(Inc)/Dec in WC	-2,054	-458	-703	-721	-4,630	2,344	-159	-202
CF from Operations	3,648	6,700	11,905	11,005	14,204	21,014	21,650	26,891
Others	1,722	2,350	1,024	1,729	1,953	0	0	0
CF from Operating incl EO	5,370	9,050	12,929	12,734	16,156	21,014	21,650	26,891
(Inc)/Dec in FA	-6,205	-6,720	-5,106	-2,804	-6,518	-8,000	-9,000	-3,000
Free Cash Flow	-835	2,329	7,823	9,930	9,639	13,014	12,650	23,891
(Pur)/Sale of Investments	1,947	376	2,043	-6,207	-1,859	0	0	0
Others	209	-761	175	288	469	1,086	1,094	1,202
CF from Investments	-4,049	-7,106	-2,888	-8,723	-7,907	-6,914	-7,906	-1,798
Issue of Shares	83	0	0	11,520	0	0	0	0
Inc/(Dec) in Debt	0	0	-571	-8,985	-2,866	-1,000	-2,000	-4,900
Interest Paid	-3,178	-3,620	-5,645	-4,676	-3,764	-3,919	-3,957	-3,938
Dividend Paid	-1,008	-837	-1,551	-383	-433	-841	-841	-814
CF from Fin. Activity	-1,085	-2,145	-9,095	-3,567	-7,677	-6,360	-7,299	-10,176
Inc/Dec of Cash	236	-201	946	444	572	7,741	6,446	14,917
Opening Balance	2,829	3,064	2,862	3,808	4,252	4,824	12,565	19,010
Closing Balance	3,065	2,863	3,808	4,252	4,824	12,565	19,010	33,928
Bank Balance	1,108	606	860	2,992	5,535	5,535	5,535	5,535
Total Cash and Cash Equivalent	4,172	3,470	4,668	7,244	10,359	18,099	24,545	39,462

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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