

June 1, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	5,300		5,400	
Sales (Rs. m)	1,94,023	2,25,193	1,94,470	2,25,061
% Chng.	(0.2)	0.1		
EBITDA (Rs. m)	26,382	33,736	27,412	34,705
% Chng.	(3.8)	(2.8)		
EPS (Rs.)	78.3	112.4	81.1	115.1
% Chng.	(3.4)	(2.4)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	1,46,626	1,66,125	1,94,023	2,25,193
EBITDA (Rs. m)	21,851	20,496	26,382	33,736
Margin (%)	14.9	12.3	13.6	15.0
PAT (Rs. m)	10,556	8,191	11,256	16,156
EPS (Rs.)	53.0	57.0	78.3	112.4
Gr. (%)	748.6	7.6	37.4	43.5
DPS (Rs.)	11.4	10.3	17.1	19.4
Yield (%)	0.2	0.2	0.4	0.4
RoE (%)	14.9	13.9	17.0	21.0
RoCE (%)	20.2	16.7	21.3	26.4
EV/Sales (x)	4.6	4.1	3.5	3.0
EV/EBITDA (x)	30.9	33.2	26.0	20.2
PE (x)	87.3	81.1	59.0	41.1
P/BV (x)	11.8	10.7	9.4	8.0

Key Data

APLH.BO | APHS IN

52-W High / Low	Rs.4,902 / Rs.3,525
Sensex / Nifty	62,622 / 18,534
Market Cap	Rs.665bn/ \$ 8,033m
Shares Outstanding	144m
3M Avg. Daily Value	Rs.1756.26m

Shareholding Pattern (%)

Promoter's	29.33
Foreign	46.96
Domestic Institution	16.87
Public & Others	6.84
Promoter Pledge (Rs bn)	32.42

Stock Performance (%)

	1M	6M	12M
Absolute	2.4	(2.2)	16.1
Relative	(0.1)	(1.5)	3.1

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Strong FY24 guidance across segments

Quick Pointers:

- Hospital occupancy to be close to 70% by end of FY24 vs 65% currently.
- Guided break even for Healthco (entity level) by end of Q4FY24.

Apollo hospitals enterprise's (APHS) consolidated EBITDA at Rs4.9bn (down 3% QoQ) was below our estimate. Adjusted for 24x7 losses (Rs2.2bn), EBITDA was at Rs 7.1bn, flat QoQ vs our est of Rs7.3bn. 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 company. Though stake sale in Apollo HealthCo has been delayed, scale up in business is on track. Our FY24 and FY25E EBITDA stands reduced by ~3%. Overall we estimate 18% EBITDA CAGR over FY23-25E (ex 24x7). Maintain 'BUY' rating with revised TP of Rs5,300/share. We ascribe 22x EV/EBITDA multiple to hospital segment and 20x to offline pharmacy and AHLL, also assign zero value to the 24/7 business.

- EBITDA at Rs4.9bn below estimate led by lower margins in hospital segment:** Consolidated pre IND AS EBITDA reported at Rs4.35bn was below our estimate of Rs4.8bn. 24x7 digital app expenses were at Rs1.9bn (Rs1.75bn in Q3) and additional Rs280mn ESOP related non-cash expenses in Q4. Pharmacy OPM adjusted for 24x7 app exps expanded 20 bps YoY at 8.1%. Mature hospital EBITDA was down 3% QoQ, while EBITDA from new hospitals including proton was up 3% QoQ. Overall hospital OPM including proton declined 30bps QoQ to 24.4%. AHLL reported EBITDA of Rs255mn (flat QoQ) with 8.3% OPM.
- Lower occupancy; healthy ARPOB:** Overall occupancy stood at 64% vs 65% in Q3. ARPOB remained healthy at Rs.53.2K, up 3% QoQ and 10% YoY. Overall hospital revenues and EBITDA grew by 31% YoY and down 1% QoQ. Net debt increased by Rs 1.9bn QoQ to Rs 15.1bn. Mgnt. cited lower occupancy due to sustained reduction in scheme segment and also January being lot of holidays in South India cities.
- Key con-call takeaways:** (1) **Hospitals** - APHS guided occupancy closer to 70% by Q4FY24. Specialties now contribute 60% of total hospital revenues 2) **Bed Expansion** - Addition of 2000 beds over 3-4 years at a capex of Rs30bn across Mumbai, Gurgaon, Bangalore and Chennai markets. (3) Sees ARPOB growth of 7-8% annually, aided by better case mix and price hike in line with its historical trends (4) **Apollo 24x7** - GMV was up 9% QoQ in Q4 and came in at Rs16.5bn in FY23. During Q4, GMV to revenue conversion was 43% vs 32% in Q3. Guided Rs 250mn reduction in losses by H1FY24 end and EBITDA break- even for entire Apollo Healthco from Q4FY24 onwards. Overall discounting has been reduced by 2-3% (5) **Offline pharmacy** – Net addition of 1012 stores in FY23 and guided for 500-600 stores in FY24. Total pharmacies stands at 5,541 (6) **FY24 guidance:** Guided for strong revenue growth in FY24 across segments with 15% growth in hospital segment, offline pharmacy growth of 19-20% and doubling of diagnostic revenues over next 3 years.

Exhibit 1: Q4FY23 Result Overview (Rs mn) –EBITDA miss led by 24*7 losses and hospital segment

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	43,022	35,464	21.3	42,636	0.9	1,66,125	1,46,626	13.3
COGS	22,342	18,157	23.1	22,161	0.8	85,742	75,735	13.2
<i>% of Net Sales</i>	<i>51.9</i>	<i>51.2</i>		<i>52.0</i>		<i>51.6</i>	<i>51.7</i>	
Employee Expenses	5,908	4,466	32.3	5,648	4.6	21,438	17,865	20.0
<i>% of Net Sales</i>	<i>13.7</i>	<i>12.6</i>		<i>13.2</i>		<i>12.9</i>	<i>12.2</i>	
Other Expenses	9,891	8,209	20.5	9,774	1.2	38,448	31,175	23.3
<i>% of Net Sales</i>	<i>23.0</i>	<i>23.1</i>		<i>22.9</i>		<i>23.1</i>	<i>21.3</i>	
Total Expenses	38,141	30,832	23.7	37,582	1.5	1,45,628	1,24,775	16.7
EBITDA	4,882	4,632	5.4	5,054	(3.4)	20,496	21,851	(6.2)
<i>Margins (%)</i>	<i>11.3</i>	<i>13.1</i>		<i>11.9</i>		<i>12.3</i>	<i>14.9</i>	
Other Income	164	307	(46.8)	354	(53.8)	903	781	15.6
Interest	954	949	0.5	1,000	(4.6)	3,808	3,786	0.6
Depreciation	1,591	1,664	(4.4)	1,534	3.7	6,152	6,007	2.4
PBT	2,500	2,327	7.5	2,874	(13.0)	11,439	12,839	(10.9)
Total tax	1,080	1,387	(22.1)	1,035	4.3	2,562	4,770	(46.3)
<i>Tax rate (%)</i>	<i>43.2</i>	<i>59.6</i>		<i>36.0</i>		<i>22.4</i>	<i>37.2</i>	
Reported PAT	1,421	940	51.2	1,839	(22.7)	8,877	8,069	10.0
Share of profit from associates	36	30	18.2	(215)	(116.6)	(432)	74	(687.1)
Minority interest	11	69		89	(87.3)	255	527	
Consol PAT	1,445	901	60.3	1,535	(5.8)	8,191	10,556	(22.4)
Extra-ordinary Items	-	-		-		-	2,941	
Adj. PAT	1,445	901	60.3	1,535	(5.8)	8,191	7,615	7.6

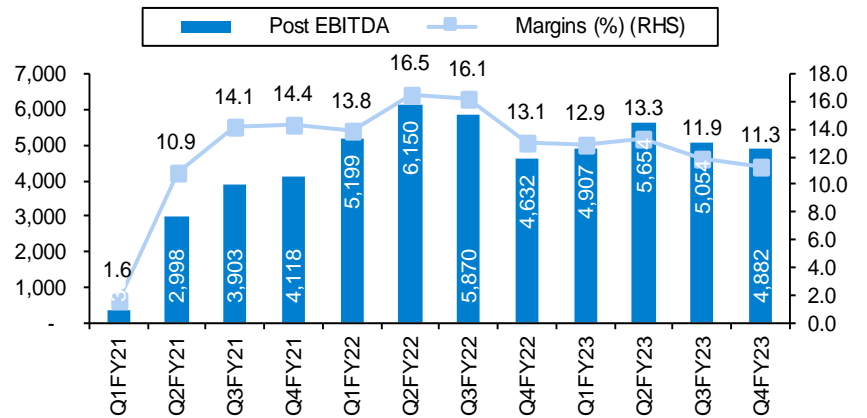
Source: Company, PL

Exhibit 2: SAP segment remain healthy

Revenues (Rs mn)	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Mature Hospitals	15,185	12,823	18.4	15,422	(1.5)	60,993	54,198	12.5
<i>% of Net Sales</i>	<i>35.3</i>	<i>36.2</i>		<i>36.2</i>		<i>36.7</i>	<i>37.4</i>	
New Hospitals	6,761	5,807	16.4	6,522	3.7	25,776	23,815	8.2
<i>% of Net Sales</i>	<i>15.7</i>	<i>16.4</i>		<i>15.3</i>		<i>15.5</i>	<i>16.5</i>	
SAP	17,992	13,745	30.9	17,578	2.4	67,045	53,610	25.1
<i>% of Net Sales</i>	<i>41.8</i>	<i>38.8</i>		<i>41.2</i>		<i>40.4</i>	<i>37.0</i>	
AHLL	3,085	3,089	(0.1)	3,114	(0.9)	12,312	13,125	(6.2)
<i>% of Net Sales</i>	<i>7.2</i>	<i>8.7</i>		<i>7.3</i>		<i>7.4</i>	<i>9.1</i>	
Total Sales	43,023	35,464	21.3	42,636	0.9	1,66,126	1,44,748	14.8

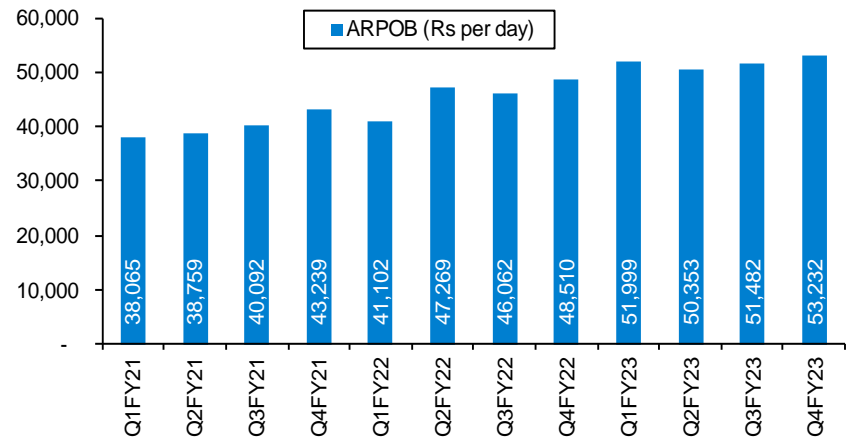
Source: Company, PL

Exhibit 3: Margin decline QoQ given elevated losses in 24x7



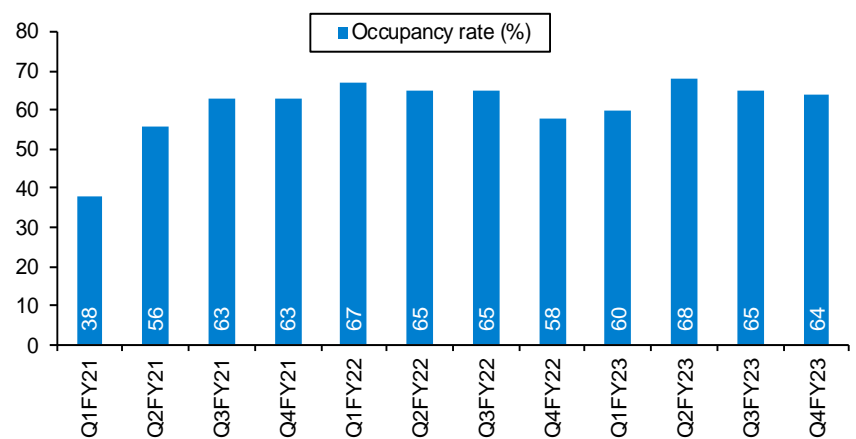
Source: Company, PL

Exhibit 4: ARPOB improved on reduction in institutional patients



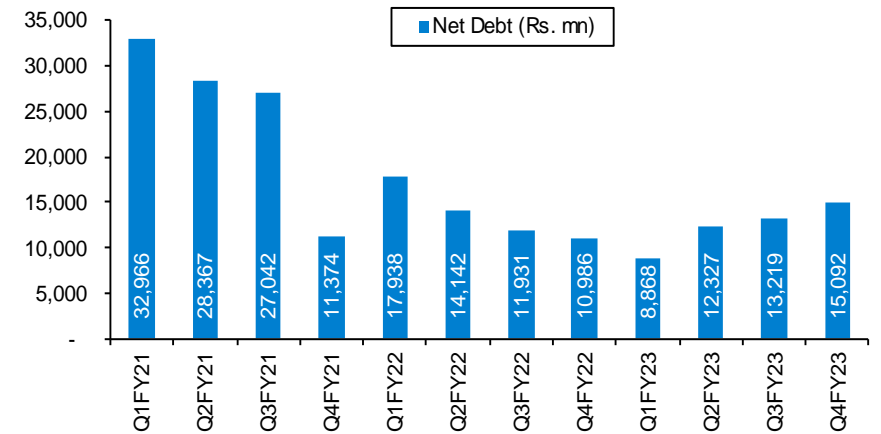
Source: Company, PL

Exhibit 5: Occupancy was flat QoQ



Source: Company, PL

Exhibit 6: Net debt increased by Rs 1.9bn



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	1,46,626	1,66,125	1,94,023	2,25,193
YoY gr. (%)	38.9	13.3	16.8	16.1
Cost of Goods Sold	75,735	85,742	97,011	1,12,596
Gross Profit	70,892	80,382	97,011	1,12,596
Margin (%)	48.3	48.4	50.0	50.0
Employee Cost	17,865	21,438	25,082	29,346
Other Expenses	31,175	38,448	45,547	49,515
EBITDA	21,851	20,496	26,382	33,736
YoY gr. (%)	92.1	(6.2)	28.7	27.9
Margin (%)	14.9	12.3	13.6	15.0
Depreciation and Amortization	6,007	6,152	6,500	6,700
EBIT	15,844	14,344	19,882	27,036
Margin (%)	10.8	8.6	10.2	12.0
Net Interest	3,786	3,808	3,400	3,200
Other Income	782	903	1,100	1,100
Profit Before Tax	12,840	11,439	17,582	24,936
Margin (%)	8.8	6.9	9.1	11.1
Total Tax	4,770	2,562	5,626	7,979
Effective tax rate (%)	37.2	22.4	32.0	32.0
Profit after tax	8,070	8,877	11,956	16,956
Minority interest	528	255	300	400
Share Profit from Associate	73	(432)	(400)	(400)
Adjusted PAT	10,556	8,191	11,256	16,156
YoY gr. (%)	602.0	(22.4)	37.4	43.5
Margin (%)	7.2	4.9	5.8	7.2
Extra Ord. Income / (Exp)	(2,941)	-	-	-
Reported PAT	7,615	8,191	11,256	16,156
YoY gr. (%)	748.7	7.6	37.4	43.5
Margin (%)	5.2	4.9	5.8	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,615	8,191	11,256	16,156
Equity Shares O/s (m)	144	144	144	144
EPS (Rs)	53.0	57.0	78.3	112.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	96,876	1,03,328	1,14,328	1,25,328
Tangibles	96,876	1,03,328	1,14,328	1,25,328
Intangibles	-	-	-	-
Acc: Dep / Amortization	34,194	40,346	46,846	53,546
Tangibles	34,194	40,346	46,846	53,546
Intangibles	-	-	-	-
Net fixed assets	62,682	62,981	67,481	71,781
Tangibles	62,682	62,981	67,481	71,781
Intangibles	-	-	-	-
Capital Work In Progress	455	6,098	6,098	6,098
Goodwill	9,235	9,858	9,858	9,858
Non-Current Investments	2,830	2,856	1,501	1,501
Net Deferred tax assets	(5,215)	(4,304)	(4,304)	(4,304)
Other Non-Current Assets	10,730	12,317	12,317	12,317
Current Assets				
Investments	5,013	2,922	4,277	4,277
Inventories	4,319	3,902	5,821	6,756
Trade receivables	17,676	22,342	25,223	29,275
Cash & Bank Balance	10,359	7,758	1,852	2,594
Other Current Assets	-	-	-	-
Total Assets	1,31,841	1,43,857	1,48,532	1,59,972
Equity				
Equity Share Capital	719	719	719	719
Other Equity	55,514	61,253	69,692	82,657
Total Network	56,233	61,971	70,411	83,376
Non-Current Liabilities				
Long Term borrowings	24,272	19,376	19,376	16,376
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,085	7,727	7,727	7,727
Trade payables	16,318	19,157	21,343	24,771
Other current liabilities	25,174	27,981	22,030	20,076
Total Equity & Liabilities	1,31,841	1,43,857	1,48,532	1,59,972

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	11,084	8,446	17,582	24,936
Add. Depreciation	6,007	6,152	6,500	6,700
Add. Interest	3,786	3,808	3,400	3,200
Less Financial Other Income	782	903	1,100	1,100
Add. Other	1,718	3,684	(700)	(800)
Op. profit before WC changes	22,595	22,090	26,782	34,036
Net Changes-WC	(3,593)	(4,500)	(9,846)	(4,923)
Direct tax	(2,043)	(3,820)	(5,626)	(7,979)
Net cash from Op. activities	16,959	13,771	11,310	21,134
Capital expenditures	(6,518)	(11,245)	(11,000)	(11,000)
Interest / Dividend Income	-	-	-	-
Others	(953)	4,125	-	-
Net Cash from Inv. activities	(7,471)	(7,119)	(11,000)	(11,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,866)	688	-	(3,000)
Dividend paid	(433)	(2,552)	(2,816)	(3,191)
Interest paid	(3,786)	(3,808)	(3,400)	(3,200)
Others	1,713	(1,993)	-	-
Net cash from Fin. activities	(5,373)	(7,665)	(6,216)	(9,391)
Net change in cash	4,115	(1,014)	(5,906)	742
Free Cash Flow	10,441	2,526	310	10,134

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	37,956	42,511	42,636	43,022
YoY gr. (%)	0.9	14.4	17.2	21.3
Raw Material Expenses	19,521	21,719	22,161	22,342
Gross Profit	18,435	20,792	20,475	20,680
Margin (%)	48.6	48.9	48.0	48.1
EBITDA	4,907	5,654	5,054	4,882
YoY gr. (%)	(5.6)	(8.1)	(13.9)	5.4
Margin (%)	12.9	13.3	11.9	11.3
Depreciation / Depletion	1,478	1,550	1,534	1,591
EBIT	3,430	4,104	3,520	3,291
Margin (%)	9.0	9.7	8.3	7.6
Net Interest	927	927	1,000	954
Other Income	161	226	354	164
Profit before Tax	2,663	3,402	2,874	2,500
Margin (%)	7.0	8.0	6.7	5.8
Total Tax	(695)	1,142	1,035	1,080
Effective tax rate (%)	(26.1)	33.6	36.0	43.2
Profit after Tax	3,358	2,260	1,839	1,421
Minority interest	67	89	89	11
Share Profit from Associates	(120)	(132)	(215)	36
Adjusted PAT	3,171	2,040	1,535	1,445
YoY gr. (%)	62.5	(17.7)	(32.8)	60.3
Margin (%)	8.4	4.8	3.6	3.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,171	2,040	1,535	1,445
YoY gr. (%)	62.5	(17.7)	(32.8)	60.3
Margin (%)	8.4	4.8	3.6	3.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,171	2,040	1,535	1,445
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	22.1	14.2	10.7	10.1

Source: Company Data, PL Research

Key Financial Metrics

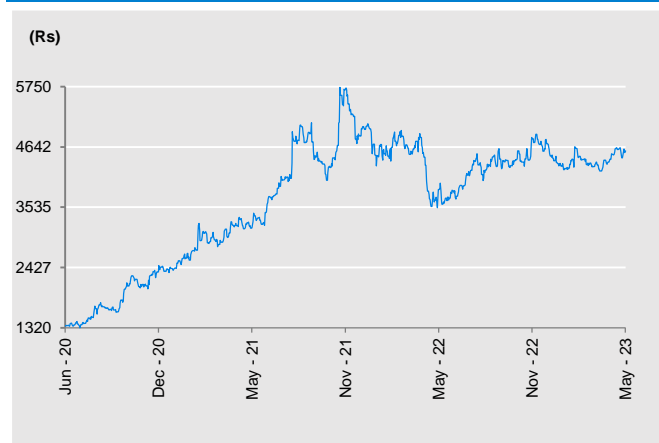
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	53.0	57.0	78.3	112.4
CEPS	115.2	99.8	123.5	159.0
BVPS	391.1	431.0	489.7	579.9
FCF	72.6	17.6	2.2	70.5
DPS	11.4	10.3	17.1	19.4
Return Ratio(%)				
RoCE	20.2	16.7	21.3	26.4
ROIC	13.6	10.8	14.0	17.7
RoE	14.9	13.9	17.0	21.0
Balance Sheet				
Net Debt : Equity (x)	0.2	0.3	0.3	0.2
Net Working Capital (Days)	14	16	18	18
Valuation(x)				
PER	87.3	81.1	59.0	41.1
P/B	11.8	10.7	9.4	8.0
P/CEPS	40.1	46.3	37.4	29.1
EV/EBITDA	30.9	33.2	26.0	20.2
EV/Sales	4.6	4.1	3.5	3.0
Dividend Yield (%)	0.2	0.2	0.4	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Pharmacy	53,610	66,919	80,149	94,442
Hospitals	13,125	12,311	14,281	16,423
Healthcare services	79,892	86,768	99,593	1,14,328

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	5,400	4,201
2	16-Feb-23	BUY	5,400	4,488
3	06-Jan-23	BUY	5,400	4,387
4	14-Nov-22	BUY	5,400	4,421
5	06-Oct-22	BUY	5,000	4,391
6	15-Aug-22	BUY	5,000	4,313
7	07-Jul-22	BUY	5,000	3,884

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	335	270
3	Aurobindo Pharma	BUY	660	611
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	3,098
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	330	288
9	Glenmark Pharmaceuticals	Reduce	570	609
10	HealthCare Global Enterprises	BUY	375	294
11	Indoco Remedies	BUY	400	340
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,055
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	980	827
18	Sun Pharmaceutical Industries	BUY	1,140	970
19	Torrent Pharmaceuticals	BUY	1,900	1,714
20	Zydus Lifesciences	Accumulate	520	508

PL's Recommendation Nomenclature (Absolute Performance)

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



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