

August 12, 2023

## Q1FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	5,800		5,300	
Sales (Rs. m)	1,93,768	2,25,193	1,94,023	2,25,193
% Chng.	(0.1)	-		
EBITDA (Rs. m)	25,194	33,407	26,382	33,736
% Chng.	(4.5)	(1.0)		
EPS (Rs.)	67.0	108.9	78.3	112.4
% Chng.	(14.4)	(3.1)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	1,46,626	1,66,125	1,93,768	2,25,193
EBITDA (Rs. m)	21,851	20,496	25,194	33,407
Margin (%)	14.9	12.3	13.0	14.8
PAT (Rs. m)	10,556	8,191	9,631	15,661
EPS (Rs.)	53.0	57.0	67.0	108.9
Gr. (%)	748.6	7.6	17.6	62.6
DPS (Rs.)	11.4	10.3	17.1	19.4
Yield (%)	0.2	0.2	0.3	0.4
RoE (%)	14.9	13.9	14.7	20.9
RoCE (%)	20.2	16.7	20.2	26.5
EV/Sales (x)	4.9	4.3	3.8	3.2
EV/EBITDA (x)	32.8	35.2	28.9	21.6
PE (x)	92.6	86.1	73.2	45.0
P/BV (x)	12.5	11.4	10.3	8.7

### Key Data

APLH.BO | APHS IN

52-W High / Low	Rs.5,364 / Rs.3,988
Sensex / Nifty	65,323 / 19,428
Market Cap	Rs.705bn/ \$ 8,516m
Shares Outstanding	144m
3M Avg. Daily Value	Rs.2544.37m

### Shareholding Pattern (%)

Promoter's	29.33
Foreign	47.93
Domestic Institution	16.12
Public & Others	6.62
Promoter Pledge (Rs bn)	33.73

### Stock Performance (%)

	1M	6M	12M
Absolute	(6.7)	11.1	10.8
Relative	(6.3)	3.2	0.6

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## In-line quarter; occupancy to pick up

### Quick Pointers:

- Occupancy stood at 62%; ARPOB growth was 11% YoY in hospital segment.
- QoQ reduction in 24x7 expenses aided by reduction in digital expenses

**Apollo hospitals enterprise's (APHS) reported consolidated EBIDTA of Rs 5.1bn (up 4% QoQ); in-line with our estimates. Adjusted for 24x7 losses and ESOP cost (Rs2bn), EBIDTA was at Rs 7.1bn, up 19% YoY. 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 FY24E and FY25E EBITDA ex 24x7 broadly remain unchanged. Overall we estimate 16% EBITDA CAGR over FY23-25E (ex 24x7). Maintain 'BUY' rating with revised TP of Rs. 5,800/share (earlier Rs5,300/share). We ascribe 24x (22x earlier) EV/EBITDA multiple to hospital segment, 25x (20x earlier) to offline pharmacy and 20x to AHLL, assign zero value to the 24/7 business.**

- EBIDTA at Rs5.1bn; in-line with our estimate:** Consolidated EBIDTA at Rs5.1bn was in-line with our estimate. 24x7 digital app expenses were at Rs1.75bn (Rs1.9bn in Q4) and additional Rs292mn of ESOP related non-cash expenses in Q1. Pharmacy OPM adjusted for 24x7 app exps expanded 10 bps YoY at 8.2%. Mature hospital EBIDTA was up 3% QoQ, while EBIDTA from new hospitals including proton was down 4% QoQ. Overall hospital OPM including proton further declined by 80bps QoQ to 23.6%; due to higher COGS and marketing expenses. AHLL reported EBIDTA of Rs233mn (down 9% QoQ) with 7.3% OPM.
- Lower occupancy; strong ARPOB:** Overall occupancy stood at 62% vs 64% in Q4. ARPOB growth was strong at 9% QoQ and 11% YoY to Rs.57.8K. Overall hospital revenues grew by 13% YoY and 5% QoQ. Net debt increased by Rs 145mn QoQ to Rs 15.2bn. Management cited higher ARPOB growth was driven by case mix and tariff increase.
- Key con-call takeaways:** (1) **Hospitals** – Lower occupancy were seen in some of Tier 2 cities like Madurai, Trichy markets. Company have added new doctors in units like Navi Mumbai, Vizag which will help to aid occupancy and margins going forward. Overall reiterated its guidance of 70% occupancy. Occupancy in July month has been tracing well (2) **Bed Expansion** - Addition of 2000 beds over 3-4 years at a capex of Rs30bn across Bangalore and Kolkata markets where occupancy is already higher (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 5% QoQ and came in at Rs6.2bn however revenues decline by 19% QoQ. Mgmt cited lower discounts and conscious decision of not serving certain pin codes where logistics cost was higher. During Q1, GMV to revenue conversion was 33% and should improve going forward. The reduction in 24x7 losses QoQ was aided by reduction in digital expenses. Guided EBITDA break- even by end of Q4FY24. (5) **Offline pharmacy** – Net addition of 34 stores in Q1 and guided for 500-600 stores in FY24. Guided for Rs100bn of revenues with 6% OPM in FY24.

**Exhibit 1: Q4FY23 Result Overview (Rs mn) – In-line EBIDTA**

Y/e March	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
<b>Net Sales</b>	<b>44,178</b>	<b>37,956</b>	<b>16.4</b>	<b>43,022</b>	<b>2.7</b>	<b>193,768</b>	<b>166,125</b>	<b>16.6</b>
COGS	22,682	19,521	16.2	22,342	1.5	96,884	85,742	13.0
<i>% of Net Sales</i>	<i>51.3</i>	<i>51.4</i>		<i>51.9</i>		<i>50.0</i>	<i>51.6</i>	
Employee Expenses	5,918	4,474	32.3	5,908	0.2	25,082	21,438	17.0
<i>% of Net Sales</i>	<i>13.4</i>	<i>11.8</i>		<i>13.7</i>		<i>12.9</i>	<i>12.9</i>	
Other Expenses	10,488	9,053	15.8	9,891	6.0	46,608	38,448	21.2
<i>% of Net Sales</i>	<i>23.7</i>	<i>23.9</i>		<i>23.0</i>		<i>24.1</i>	<i>23.1</i>	
Total Expenses	39,088	33,049	18.3	38,141	2.5	<b>168,574</b>	<b>145,628</b>	15.8
<b>EBITDA</b>	<b>5,090</b>	<b>4,907</b>	<b>3.7</b>	<b>4,882</b>	<b>4.3</b>	<b>25,194</b>	<b>20,496</b>	<b>22.9</b>
<i>Margins (%)</i>	<i>11.5</i>	<i>12.9</i>		<i>11.3</i>		<i>13.0</i>	<i>12.3</i>	
Other Income	282	161	75.6	164	72.5	1,100	903	21.8
Interest	1,062	927	14.5	954	11.3	3,900	3,808	2.4
Depreciation	1,669	1,478	12.9	1,591	4.9	6,500	6,152	5.6
<b>PBT</b>	<b>2,641</b>	<b>2,663</b>	<b>(0.8)</b>	<b>2,500</b>	<b>5.6</b>	<b>15,894</b>	<b>11,439</b>	<b>38.9</b>
Total tax	966	(695)	(239.0)	1,080	(10.5)	5,563	2,562	117.1
<i>Tax rate (%)</i>	<i>36.6</i>	<i>(26.1)</i>		<i>43.2</i>		<i>35.0</i>	<i>22.4</i>	
<b>Reported PAT</b>	<b>1,675</b>	<b>3,358</b>	<b>(50.1)</b>	<b>1,421</b>	<b>17.9</b>	<b>10,331</b>	<b>8,877</b>	<b>16.4</b>
Share of profit from associates	59	(120)	(149.1)	36	65.3	(400)	(432)	(7.3)
Minority interest	68	67		11	507.1	300	255	
<b>Consol PAT</b>	<b>1,666</b>	<b>3,171</b>	<b>(47.5)</b>	<b>1,445</b>	<b>15.3</b>	<b>9,631</b>	<b>8,191</b>	<b>17.6</b>
Extra-ordinary Items	-	-		-		-	-	
<b>Adj. PAT</b>	<b>1,666</b>	<b>3,171</b>	<b>(47.5)</b>	<b>1,445</b>	<b>15.3</b>	<b>9,631</b>	<b>8,191</b>	<b>17.6</b>

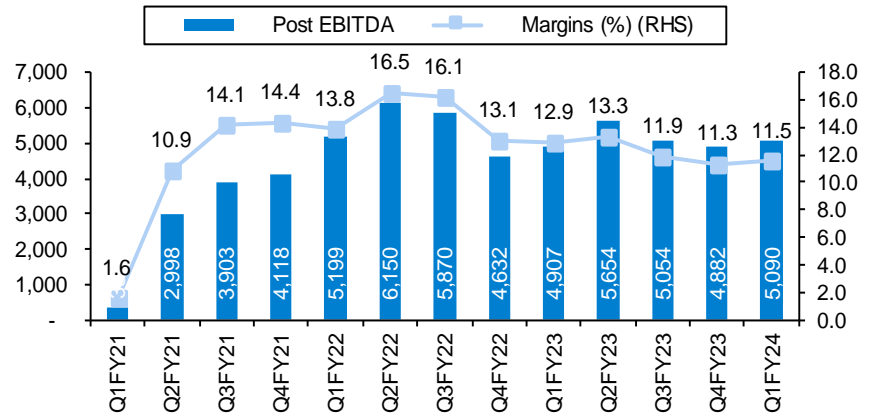
Source: Company, PL

**Exhibit 2: Hospital and offline pharmacy segment remains healthy**

Revenues (Rs mn)	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Mature Hospitals	15,845	14,466	9.5	15,185	4.3	<b>67,271</b>	<b>60,993</b>	10.3
<i>% of Net Sales</i>	<i>35.9</i>	<i>38.1</i>		<i>35.3</i>		<i>34.7</i>	<i>36.7</i>	
New Hospitals	7,092	5,768	23.0	6,761	4.9	<b>32,068</b>	<b>25,776</b>	24.4
<i>% of Net Sales</i>	<i>16.1</i>	<i>15.2</i>		<i>15.7</i>		<i>16.5</i>	<i>15.5</i>	
SAP	18,054	14,792	22.1	17,992	0.3	<b>80,149</b>	<b>67,045</b>	19.5
<i>% of Net Sales</i>	<i>40.9</i>	<i>39.0</i>		<i>41.8</i>		<i>41.4</i>	<i>40.4</i>	
AHLL	3,187	2,930	8.8	3,085	3.3	<b>14,281</b>	<b>12,312</b>	16.0
<i>% of Net Sales</i>	<i>7.2</i>	<i>7.7</i>		<i>7.2</i>		<i>7.4</i>	<i>7.4</i>	
<b>Total Sales</b>	<b>44,178</b>	<b>37,956</b>	<b>16.4</b>	<b>43,023</b>	<b>2.7</b>	<b>193,768</b>	<b>166,126</b>	<b>16.6</b>

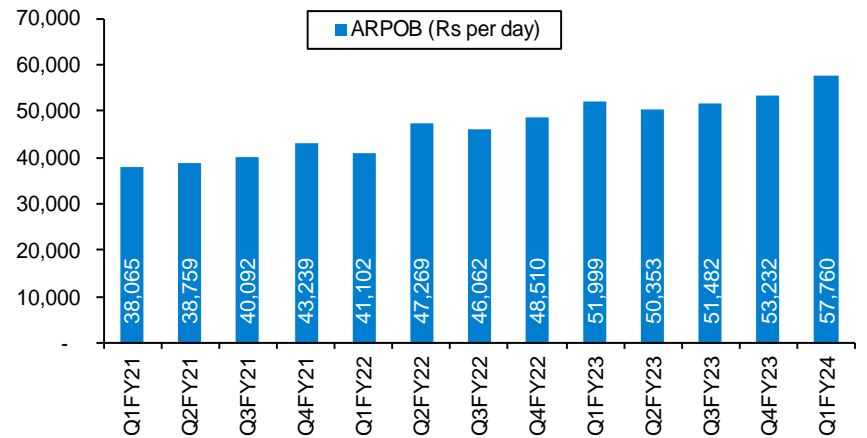
Source: Company, PL

**Exhibit 3: Margin stable QoQ**



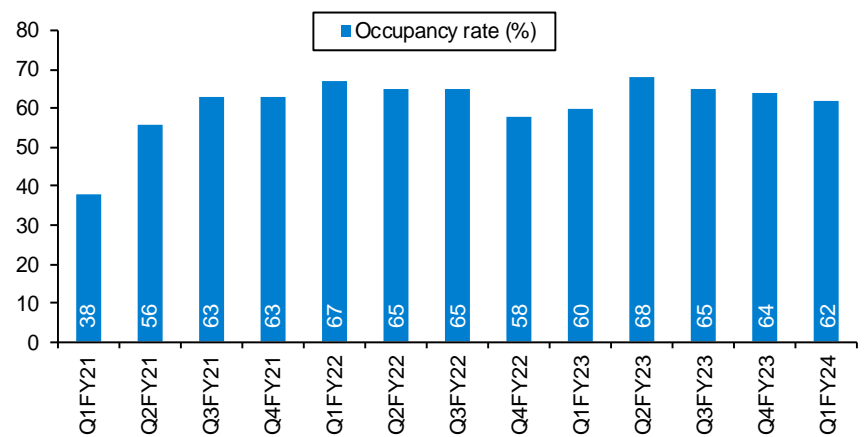
Source: Company, PL

**Exhibit 4: ARPOB improved on case mix and price hike**



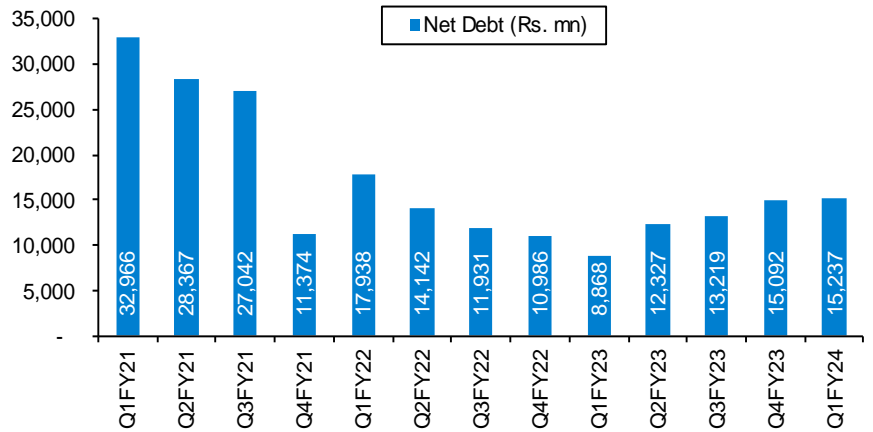
Source: Company, PL

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



Source: Company, PL

**Exhibit 6: Net debt increased by Rs 145mn**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>1,46,626</b>	<b>1,66,125</b>	<b>1,93,768</b>	<b>2,25,193</b>
YoY gr. (%)	38.9	13.3	16.6	16.2
Cost of Goods Sold	75,735	85,742	96,884	1,12,596
Gross Profit	70,892	80,382	96,884	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	46,608	49,843
<b>EBITDA</b>	<b>21,851</b>	<b>20,496</b>	<b>25,194</b>	<b>33,407</b>
YoY gr. (%)	92.1	(6.2)	22.9	32.6
Margin (%)	14.9	12.3	13.0	14.8
Depreciation and Amortization	6,007	6,152	6,500	6,700
<b>EBIT</b>	<b>15,844</b>	<b>14,344</b>	<b>18,694</b>	<b>26,707</b>
Margin (%)	10.8	8.6	9.6	11.9
Net Interest	3,786	3,808	3,900	3,600
Other Income	782	903	1,100	1,100
<b>Profit Before Tax</b>	<b>12,840</b>	<b>11,439</b>	<b>15,894</b>	<b>24,207</b>
Margin (%)	8.8	6.9	8.2	10.7
Total Tax	4,770	2,562	5,563	7,746
Effective tax rate (%)	37.2	22.4	35.0	32.0
<b>Profit after tax</b>	<b>8,070</b>	<b>8,877</b>	<b>10,331</b>	<b>16,461</b>
Minority interest	528	255	300	400
Share Profit from Associate	73	(432)	(400)	(400)
<b>Adjusted PAT</b>	<b>10,556</b>	<b>8,191</b>	<b>9,631</b>	<b>15,661</b>
YoY gr. (%)	602.0	(22.4)	17.6	62.6
Margin (%)	7.2	4.9	5.0	7.0
Extra Ord. Income / (Exp)	(2,941)	-	-	-
<b>Reported PAT</b>	<b>7,615</b>	<b>8,191</b>	<b>9,631</b>	<b>15,661</b>
YoY gr. (%)	748.7	7.6	17.6	62.6
Margin (%)	5.2	4.9	5.0	7.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,615	8,191	9,631	15,661
<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>57.0</b>	<b>67.0</b>	<b>108.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>96,876</b>	<b>1,03,328</b>	<b>1,14,328</b>	<b>1,24,328</b>
Tangibles	96,876	1,03,328	1,14,328	1,24,328
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>34,194</b>	<b>40,346</b>	<b>46,846</b>	<b>53,546</b>
Tangibles	34,194	40,346	46,846	53,546
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>62,682</b>	<b>62,981</b>	<b>67,481</b>	<b>70,781</b>
Tangibles	62,682	62,981	67,481	70,781
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
<b>Current Assets</b>				
Investments	5,013	2,922	4,277	4,277
Inventories	4,319	3,902	5,813	6,756
Trade receivables	17,676	22,342	25,190	29,275
Cash & Bank Balance	10,359	7,758	1,096	2,827
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>1,31,841</b>	<b>1,43,857</b>	<b>1,47,736</b>	<b>1,59,205</b>
<b>Equity</b>				
Equity Share Capital	719	719	719	719
Other Equity	55,514	61,253	68,068	80,537
<b>Total Network</b>	<b>56,233</b>	<b>61,971</b>	<b>68,787</b>	<b>81,256</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	24,272	19,376	19,376	16,376
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	2,085	7,727	7,727	7,727
Trade payables	16,318	19,157	21,315	24,771
Other current liabilities	25,174	27,981	22,886	21,429
<b>Total Equity &amp; Liabilities</b>	<b>1,31,841</b>	<b>1,43,857</b>	<b>1,47,736</b>	<b>1,59,205</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	11,084	8,446	15,894	24,207
Add. Depreciation	6,007	6,152	6,500	6,700
Add. Interest	3,786	3,808	3,900	3,600
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	25,594	33,707
Net Changes-WC	(3,593)	(4,500)	(8,977)	(4,438)
Direct tax	(2,043)	(3,820)	(5,563)	(7,746)
<b>Net cash from Op. activities</b>	<b>16,959</b>	<b>13,771</b>	<b>11,054</b>	<b>21,522</b>
Capital expenditures	(6,518)	(11,245)	(11,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	(953)	4,125	-	-
<b>Net Cash from Inv. activities</b>	<b>(7,471)</b>	<b>(7,119)</b>	<b>(11,000)</b>	<b>(10,000)</b>
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)	(3,900)	(3,600)
Others	1,713	(1,993)	-	-
<b>Net cash from Fin. activities</b>	<b>(5,373)</b>	<b>(7,665)</b>	<b>(6,716)</b>	<b>(9,791)</b>
<b>Net change in cash</b>	<b>4,115</b>	<b>(1,014)</b>	<b>(6,662)</b>	<b>1,731</b>
Free Cash Flow	10,441	2,526	54	11,522

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>42,511</b>	<b>42,636</b>	<b>43,022</b>	<b>44,178</b>
YoY gr. (%)	14.4	17.2	21.3	16.4
Raw Material Expenses	21,719	22,161	22,342	22,682
Gross Profit	20,792	20,475	20,680	21,496
Margin (%)	48.9	48.0	48.1	48.7
<b>EBITDA</b>	<b>5,654</b>	<b>5,054</b>	<b>4,882</b>	<b>5,090</b>
YoY gr. (%)	(8.1)	(13.9)	5.4	3.7
Margin (%)	13.3	11.9	11.3	11.5
Depreciation / Depletion	1,550	1,534	1,591	1,669
<b>EBIT</b>	<b>4,104</b>	<b>3,520</b>	<b>3,291</b>	<b>3,421</b>
Margin (%)	9.7	8.3	7.6	7.7
Net Interest	927	1,000	954	1,062
Other Income	226	354	164	282
<b>Profit before Tax</b>	<b>3,402</b>	<b>2,874</b>	<b>2,500</b>	<b>2,641</b>
Margin (%)	8.0	6.7	5.8	6.0
Total Tax	1,142	1,035	1,080	966
Effective tax rate (%)	33.6	36.0	43.2	36.6
<b>Profit after Tax</b>	<b>2,260</b>	<b>1,839</b>	<b>1,421</b>	<b>1,675</b>
Minority interest	89	89	11	68
Share Profit from Associates	(132)	(215)	36	59
<b>Adjusted PAT</b>	<b>2,040</b>	<b>1,535</b>	<b>1,445</b>	<b>1,666</b>
YoY gr. (%)	(17.7)	(32.8)	60.3	(47.5)
Margin (%)	4.8	3.6	3.4	3.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,040</b>	<b>1,535</b>	<b>1,445</b>	<b>1,666</b>
YoY gr. (%)	(17.7)	(32.8)	60.3	(47.5)
Margin (%)	4.8	3.6	3.4	3.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,040</b>	<b>1,535</b>	<b>1,445</b>	<b>1,666</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>14.2</b>	<b>10.7</b>	<b>10.1</b>	<b>11.6</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	53.0	57.0	67.0	108.9
CEPS	115.2	99.8	112.2	155.5
BVPS	391.1	431.0	478.4	565.1
FCF	72.6	17.6	0.4	80.1
DPS	11.4	10.3	17.1	19.4
<b>Return Ratio(%)</b>				
RoCE	20.2	16.7	20.2	26.5
ROIC	13.6	10.8	13.1	17.6
RoE	14.9	13.9	14.7	20.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.3	0.3	0.2
Net Working Capital (Days)	14	16	18	18
<b>Valuation(x)</b>				
PER	92.6	86.1	73.2	45.0
P/B	12.5	11.4	10.3	8.7
P/CEPS	42.6	49.2	43.7	31.5
EV/EBITDA	32.8	35.2	28.9	21.6
EV/Sales	4.9	4.3	3.8	3.2
Dividend Yield (%)	0.2	0.2	0.3	0.4

Source: Company Data, PL Research

**Key Operating Metrics**

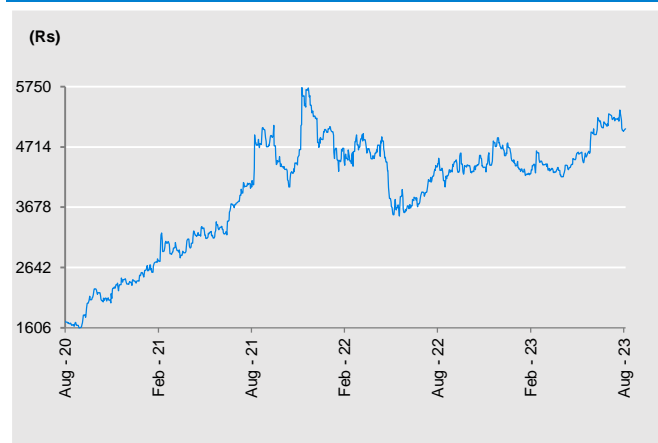
Y/e Mar	FY22	FY23	FY24E	FY25E
Pharmacy	53,610	66,919	80,149	94,442
AHLL	13,125	12,311	14,281	16,423
Healthcare services	79,892	86,768	99,338	1,14,328

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	5,300	5,283
2	01-Jun-23	BUY	5,300	4,622
3	06-Apr-23	BUY	5,400	4,201
4	16-Feb-23	BUY	5,400	4,488
5	06-Jan-23	BUY	5,400	4,387
6	14-Nov-22	BUY	5,400	4,421
7	06-Oct-22	BUY	5,000	4,391
8	15-Aug-22	BUY	5,000	4,313

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,300	5,283
2	Aster DM Healthcare	BUY	335	311
3	Aurobindo Pharma	BUY	660	761
4	Cipla	BUY	1,220	1,069
5	Divi's Laboratories	Hold	2,700	3,737
6	Dr. Reddy's Laboratories	Reduce	5,150	5,476
7	Eris Lifesciences	BUY	910	828
8	Fortis Healthcare	BUY	365	324
9	Glenmark Pharmaceuticals	Reduce	570	668
10	HealthCare Global Enterprises	BUY	375	326
11	Indoco Remedies	BUY	380	324
12	Ipca Laboratories	Hold	750	760
13	J.B. Chemicals & Pharmaceuticals	BUY	3,000	2,711
14	Krishna Institute of Medical Sciences	BUY	2,000	1,831
15	Lupin	Hold	1,010	1,064
16	Max Healthcare Institute	BUY	610	560
17	Narayana Hrudayalaya	BUY	1,110	1,010
18	Sun Pharmaceutical Industries	BUY	1,265	1,141
19	Torrent Pharmaceuticals	BUY	2,250	2,055
20	Zydus Lifesciences	Accumulate	520	588

## 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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