Apollo Hospitals Enterprise (APHS IN)

Rating: BUY | CMP: Rs7,410 | TP: Rs8,000

November 8, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	**BUY**		**BUY**	
Target Price	**8,000**		**7,150**	
Sales (Rs. m)	2,52,261	2,88,416	2,51,549	2,83,704
% Chng.	*0.3*	*1.7*		
EBITDA (Rs. m)	40,635	49,183	40,741	48,961
% Chng.	*(0.3)*	*0.5*		
EPS (Rs.)	145.0	188.1	142.7	188.2
% Chng.	*1.6*	*(0.1)*		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	1,90,592	2,17,249	2,52,261	2,88,416
EBITDA (Rs. m)	23,907	31,583	40,635	49,183
Margin (%)	*12.5*	*14.5*	*16.1*	*17.1*
PAT (Rs. m)	8,986	14,523	20,847	27,044
EPS (Rs.)	62.5	101.0	145.0	188.1
Gr. (%)	*9.7*	*61.6*	*43.5*	*29.7*
DPS (Rs.)	11.4	13.7	14.8	17.1
Yield (%)	*0.2*	*0.2*	*0.2*	*0.2*
RoE (%)	*13.7*	*19.2*	*23.0*	*24.1*
RoCE (%)	*17.9*	*23.0*	*28.1*	*30.4*
EV/Sales (x)	5.7	4.9	4.2	3.6
EV/EBITDA (x)	45.2	33.6	25.9	21.1
PE (x)	118.6	73.4	51.1	39.4
P/BV (x)	15.4	13.1	10.7	8.6

Key Data	APLH.BO | APHS IN
52-W High / Low	Rs.7,484 / Rs.5,087
Sensex / Nifty	79,542 / 24,199
Market Cap	Rs.1,065bn/ $ 12,627m
Shares Outstanding	144m
3M Avg. Daily Value	Rs.2393.02m

Shareholding Pattern (%)

Promoter's	29.33
Foreign	45.37
Domestic Institution	20.18
Public & Others	5.12
Promoter Pledge (Rs bn)	43.72

Stock Performance (%)

	1M	6M	12M
Absolute	9.4	25.6	44.3
Relative	11.5	16.1	17.8

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Strong show across segments

Quick Pointers:

- 50-60bps vs 100 bps earlier OPM improvement in hospital segment in FY25.
- Overall Healthco to reach Rs250bn of revenues with 7-8% OPM in 3 years.

Apollo Hospitals Enterprise (APHS) reported consolidated EBITDA of Rs8.2bn (up 30% YoY), 3% beat to our estimates. Adjusted for 24x7 losses (~Rs1.35bn), EBITDA was Rs9.5bn, up 15% YoY. The recent stake sale in HealthCo to Advent and merger with Keimed are a positive step and will lead to an integrated pharmacy distribution business complemented by the fast-growing omni-channel digital health business. Scale-up in Apollo HealthCo has been on track with likely breakeven in EBITDA of digital business over the next 4-5 quarters. Further, the management guidance of Rs20bn EBITDA of the merged entity by FY28, provides comfort. Our FY25E and FY26E EBITDA estimates broadly remain unchanged. Overall we estimate 17% EBITDA CAGR over FY24-26E (ex 24x7 losses). We maintain 'BUY' rating with a revised TP of Rs8,000/share as we roll forward. We ascribe 26x EV/EBITDA multiple to hospital and offline pharmacy, and assign 1x sales to the 24/7.

- **In-line EBITDA; 14% YoY growth in hospital EBITDA:** Consolidated EBITDA at Rs8.2bn; up 30% YoY. 24x7 digital app expenses were at Rs1.2bn (reduced 8% QoQ) and additional Rs156mn of ESOP related non-cash expenses. Pharmacy OPM adjusted for 24x7 was stable YoY at 8.2%. Apollo HealthCo achieved breakeven reported positive EBITDA of Rs 521mn vs Rs 225mn in Q1. Overall hospital EBITDA growth was at 14% YoY with OPM of 24.9% (up 130 bps QoQ), aided by operating leverage. AHLL reported EBITDA of Rs414mn (up 30% YoY) with 10.3% OPM; improvement of 130 bps YoY.

- **Occupancy improved QoQ on seasonality; steady ARPOB:** Overall occupancy stood at 73% vs 68% in Q1. ARPOB was flat QoQ and improved 3% YoY to Rs59K. Overall consol revenues grew by 15% YoY, while hospital revenues grew by 14% YoY and Healthco registered 15% YoY growth in revenues. APHS has become net cash positive to the tune of Rs 2.8bn due to the receipt of funds from the stake sale in HealthCo to Advent.

- **Key con-call takeaways: (1) Bed expansion** – Progressing well with total expansion of 2,877 census beds over the next 3-4 years at a capex of Rs44bn; including recently announced expansion at Worli (500 beds) and Lucknow phase 2 (160 beds). Plans to add 6 new hospitals (1,400 beds) in key markets such as NCR, Hyderabad, Kolkata, Pune and Bangalore within next 12 months. **(2) ARPOB guidance –** reiterated ARPOB guidance at 6-7% YoY on the back of higher surgical volumes, improved case and payor mix. **(3) Hospital margin guidance** – Guidance reduced to 50-60 bps (earlier 100 bps) margin expansion for FY25. Hired few doctors in some of the geographies like AP Telangana and north etc. Overall, IP volumes impacted due to Bangladesh unrest; of which larger impact was seen at Tamilnadu cluster; reporting IP growth of 4% YoY vs 6% in past. **(4) Apollo 24x7** - GMV increased 4% YoY to Rs7.6bn, while the company affirmed the difficulty in achieving its earlier projection of a 50% growth rate in the upcoming two quarters due to reduction in marketing cost. On track to achieve breakeven in next 4-5 quarters. **(5) HealthCo –** Mgmt targets overall Rs. 250bn of revenues with EBITDA margins at 7-8% in 3 years including Keimed**. (6) Pharmacy -** Mgmt cited monetization of certain digital assets, have started in Sept 2024 which will contribute to growth in Q3. **Offline pharmacy** - 202 new stores were opened in H1. Mgmt plans to optimize strategy of creating synergy through its ~6,800 pharmacy outlets along with hospital and clinics. **(7)** Applied for corporate agency license for insurance business with IRDA.

Exhibit 1: Q2FY25 Result Overview (Rs mn) – Healthy EBITDA across segments

Y/e March	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Net Sales	**55,893**	**48,469**	***15.3***	**50,856**	***9.9***	**1,06,749**	**92,647**	***15.2***
COGS	28,577	24,585	*16.2*	26,230	*8.9*	54,807	47,267	*16.0*
% of Net Sales	*51.1*	*50.7*		*51.6*		*51.3*	*51.0*	
Employee Expenses	7,001	6,441	*8.7*	6,581	*6.4*	13,582	12,359	*9.9*
% of Net Sales	*12.5*	*13.3*		*12.9*		*12.7*	*13.3*	
Other Expenses	12,160	11,168	*8.9*	11,294	*7.7*	23,454	21,656	*8.3*
% of Net Sales	*21.8*	*23.0*		*22.2*		*22.0*	*23.4*	
Total Expenses	47,738	42,194	*13.1*	44,105	*8.2*	**91,843**	**81,282**	*13.0*
EBITDA	**8,155**	**6,275**	***30.0***	**6,751**	***20.8***	**14,906**	**11,365**	***31.2***
Margins (%)	*14.6*	*12.9*		*13.3*		*14.0*	*12.3*	
Other Income	382	222	*72.1*	372	*2.7*	754	504	*49.6*
Interest	1,175	1,113	*5.6*	1,164	*0.9*	2,339	2,175	*7.5*
Depreciation	1,845	1,634	*12.9*	1,774	*4.0*	3,619	3,303	*9.6*
PBT	**5,517**	**3,750**	***47.1***	**4,185**	***31.8***	**9,702**	**6,391**	***51.8***
Total tax	1,617	1,302	*24.2*	1,145	*41.2*	2,762	2,268	*21.8*
Tax rate (%)	*29.3*	*34.7*		*27.4*		*28.5*	*35.5*	
Reported PAT	**3,900**	**2,448**	***59.3***	**3,040**	***28.3***	**6,940**	**4,123**	***68.3***
Share of profit from associates	57	21	*171.4*	115	*(50.4)*	172	80	*115.0*
Minority interest	169	159		103	*64.1*	272	227	
Consol PAT	**3,788**	**2,329**	***62.6***	**3,052**	***24.1***	**6,840**	**3,976**	***72.0***
Extra-ordinary Items	-	19		-		-	19	
Adj. PAT	**3,788**	**2,310**	***64.0***	**3,052**	***24.1***	**6,840**	**3,957**	***72.9***

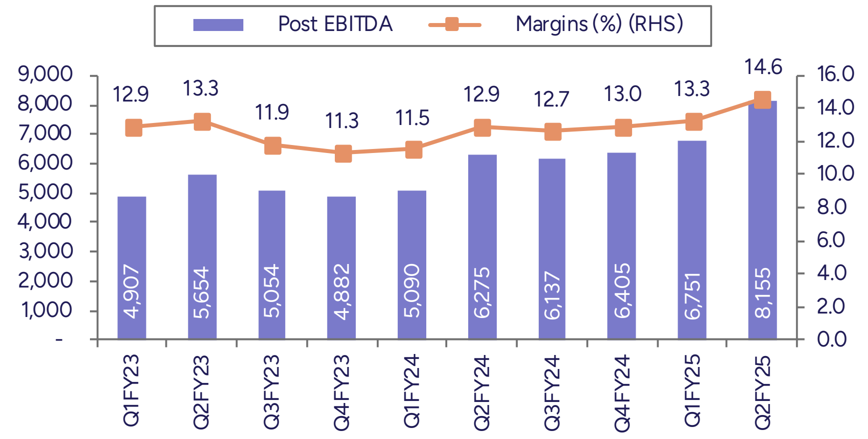
Source: Company, PL

Exhibit 2: Strong revenue growth across segments

Revenues (Rs mn)	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Healthcare	29,032	25,472	*14.0*	26,373	*10.1*	55,405	48,409	*14.5*
% of Net Sales	*51.9*	*52.6*		*51.9*		*51.9*	*52.3*	
SAP	22,822	19,454	*17.3*	20,821	*9.6*	43,643	37,508	*16.4*
% of Net Sales	*40.8*	*40.1*		*40.9*		*40.9*	*40.5*	
AHLL	4,039	3,542	*14.0*	3,661	*10.3*	7,700	6,729	*14.4*
% of Net Sales	*7.2*	*7.3*		*7.2*		*7.2*	*7.3*	
Total Sales	**55,893**	**48,468**	***15.3***	**50,855**	**9.9**	**1,06,748**	**92,646**	***15.2***

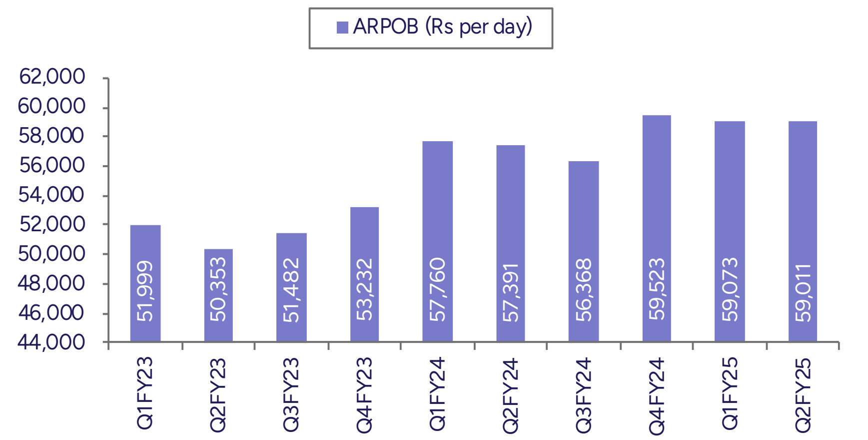
Source: Company, PL

Exhibit 3: Margin improved 130bps QoQ due to operational leverage



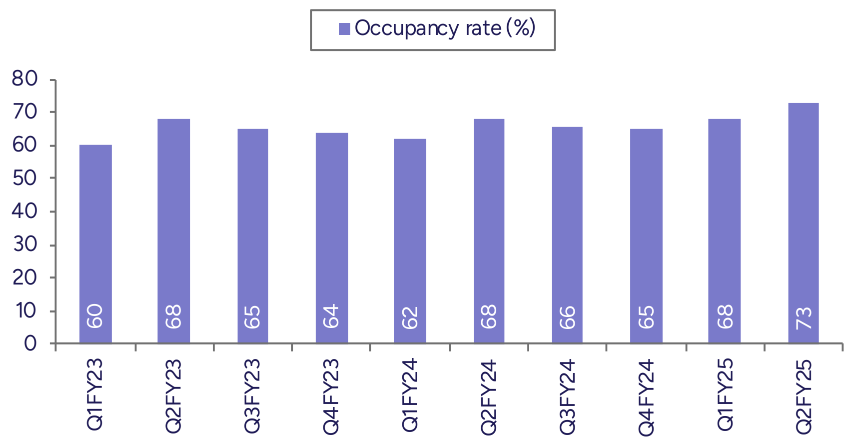
Source: Company, PL

Exhibit 4: ARPOB growth of 3% YoY; led by volume base growth



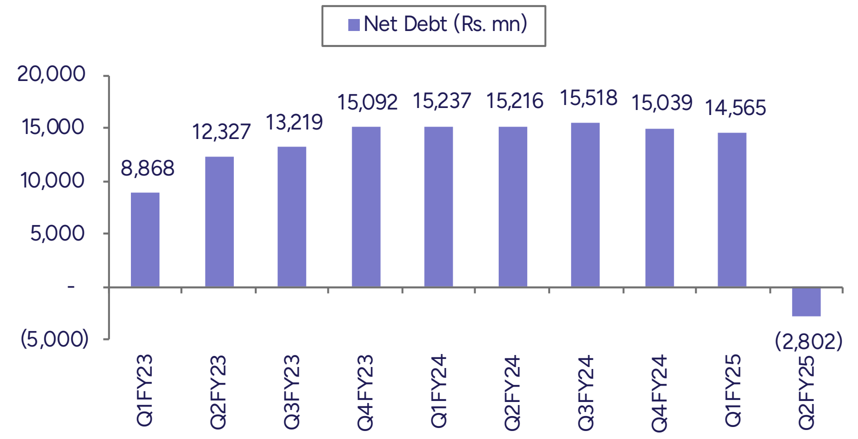
Source: Company, PL

Exhibit 5: Occupancy improved 500 bps QoQ due to seasonality



Source: Company, PL

Exhibit 6: Turned net cash company through stake sale in HealthCo



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	**1,90,592**	**2,17,249**	**2,52,261**	**2,88,416**
YoY gr. (%)	*14.7*	*14.0*	*16.1*	*14.3*
Cost of Goods Sold	98,055	1,08,625	1,26,131	1,44,208
Gross Profit	92,537	1,08,625	1,26,131	1,44,208
Margin (%)	*48.6*	*50.0*	*50.0*	*50.0*
Employee Cost	24,937	29,176	34,136	39,939
Other Expenses	43,693	47,865	51,359	55,085
EBITDA	**23,907**	**31,583**	**40,635**	**49,183**
YoY gr. (%)	*16.6*	*32.1*	*28.7*	*21.0*
Margin (%)	*12.5*	*14.5*	*16.1*	*17.1*
Depreciation and Amortization	6,870	7,250	7,468	7,692
EBIT	**17,037**	**24,333**	**33,168**	**41,492**
Margin (%)	*8.9*	*11.2*	*13.1*	*14.4*
Net Interest	4,494	4,600	4,500	4,000
Other Income	1,063	1,300	1,400	1,500
Profit Before Tax	**13,606**	**21,033**	**30,068**	**38,992**
Margin (%)	*7.1*	*9.7*	*11.9*	*13.5*
Total Tax	4,455	6,310	9,020	11,698
Effective tax rate (%)	*32.7*	*30.0*	*30.0*	*30.0*
Profit after tax	**9,151**	**14,723**	**21,047**	**27,294**
Minority interest	364	450	450	500
Share Profit from Associate	180	250	250	250
Adjusted PAT	**8,986**	**14,523**	**20,847**	**27,044**
YoY gr. (%)	*9.7*	*61.6*	*43.5*	*29.7*
Margin (%)	*4.7*	*6.7*	*8.3*	*9.4*
Extra Ord. Income / (Exp)	(19)	-	-	-
Reported PAT	**8,967**	**14,523**	**20,847**	**27,044**
YoY gr. (%)	*9.5*	*62.0*	*43.5*	*29.7*
Margin (%)	*4.7*	*6.7*	*8.3*	*9.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,967	14,523	20,847	27,044
Equity Shares O/s (m)	**144**	**144**	**144**	**144**
EPS (Rs)	**62.5**	**101.0**	**145.0**	**188.1**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	**1,13,955**	**1,24,955**	**1,35,955**	**1,46,955**
Tangibles	1,13,955	1,24,955	1,35,955	1,46,955
Intangibles	-	-	-	-
Acc: Dep / Amortization	**47,216**	**54,466**	**61,934**	**69,625**
Tangibles	47,216	54,466	61,934	69,625
Intangibles	-	-	-	-
Net fixed assets	**66,739**	**70,489**	**74,022**	**77,330**
Tangibles	66,739	70,489	74,022	77,330
Intangibles	-	-	-	-
Capital Work In Progress	8,728	8,728	8,728	8,728
Goodwill	10,123	10,123	10,123	10,123
Non-Current Investments	3,055	3,055	3,055	3,055
Net Deferred tax assets	(4,389)	(4,389)	(4,389)	(4,389)
Other Non-Current Assets	19,743	19,743	19,743	19,743
Current Assets				
Investments	6,840	6,840	6,840	6,840
Inventories	4,598	5,431	6,307	7,210
Trade receivables	25,149	28,242	32,794	37,494
Cash & Bank Balance	9,338	26,621	31,626	42,356
Other Current Assets	-	-	-	-
Total Assets	**1,67,422**	**1,93,692**	**2,09,099**	**2,30,327**
Equity				
Equity Share Capital	719	719	719	719
Other Equity	68,635	80,905	99,312	1,23,540
Total Networth	**69,354**	**81,624**	**1,00,031**	**1,24,259**
Non-Current Liabilities				
Long Term borrowings	22,356	19,356	16,356	13,356
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	9,263	9,263	9,263	9,263
Trade payables	23,686	23,897	27,749	31,726
Other current liabilities	34,523	51,312	47,460	43,483
Total Equity & Liabilities	**1,67,422**	**1,93,692**	**2,09,099**	**2,30,327**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	9,350	21,033	30,068	38,992
Add. Depreciation	6,870	7,250	7,468	7,692
Add. Interest	4,494	4,600	4,500	4,000
Less Financial Other Income	1,063	1,300	1,400	1,500
Add. Other	5,083	(200)	(200)	(250)
Op. profit before WC changes	25,797	32,683	41,835	50,433
Net Changes-WC	(1,928)	(5,238)	(6,869)	(7,190)
Direct tax	(4,667)	(6,310)	(9,020)	(11,698)
Net cash from Op. activities	**19,202**	**21,136**	**25,946**	**31,546**
Capital expenditures	(11,349)	(11,000)	(11,000)	(11,000)
Interest / Dividend Income	-	-	-	-
Others	3,403	17,000	-	-
Net Cash from Invt. activities	**(7,946)**	**6,000**	**(11,000)**	**(11,000)**
Issue of share cap. / premium	-	-	-	-
Debt changes	4,535	(3,000)	(3,000)	(3,000)
Dividend paid	(2,157)	(2,253)	(2,441)	(2,816)
Interest paid	(4,494)	(4,600)	(4,500)	(4,000)
Others	(134)	-	-	-
Net cash from Fin. activities	**(2,250)**	**(9,853)**	**(9,941)**	**(9,816)**
Net change in cash	**9,006**	**17,283**	**5,005**	**10,729**
Free Cash Flow	7,853	10,136	14,946	20,546

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	62.5	101.0	145.0	188.1
CEPS	110.3	151.4	196.9	241.6
BVPS	482.3	567.6	695.6	864.1
FCF	54.6	70.5	103.9	142.9
DPS	11.4	13.7	14.8	17.1
Return Ratio(%)				
RoCE	17.9	23.0	28.1	30.4
ROIC	11.3	15.2	19.4	22.9
RoE	13.7	19.2	23.0	24.1
Balance Sheet				
Net Debt : Equity (x)	0.2	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	12	16	16	16
Valuation(x)				
PER	118.6	73.4	51.1	39.4
P/B	15.4	13.1	10.7	8.6
P/CEPS	67.2	48.9	37.6	30.7
EV/EBITDA	45.2	33.6	25.9	21.1
EV/Sales	5.7	4.9	4.2	3.6
Dividend Yield (%)	0.2	0.2	0.2	0.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	**48,506**	**49,439**	**50,856**	**55,893**
YoY gr. (%)	*13.8*	*14.9*	*15.1*	*15.3*
Raw Material Expenses	25,331	25,457	26,230	28,577
Gross Profit	23,175	23,982	24,626	27,316
Margin (%)	*47.8*	*48.5*	*48.4*	*48.9*
EBITDA	**6,137**	**6,405**	**6,751**	**8,155**
YoY gr. (%)	*21.4*	*31.2*	*32.6*	*30.0*
Margin (%)	*12.7*	*13.0*	*13.3*	*14.6*
Depreciation / Depletion	1,670	1,897	1,774	1,845
EBIT	**4,467**	**4,508**	**4,977**	**6,310**
Margin (%)	*9.2*	*9.1*	*9.8*	*11.3*
Net Interest	1,126	1,193	1,164	1,175
Other Income	278	281	372	382
Profit before Tax	**3,619**	**3,596**	**4,185**	**5,517**
Margin (%)	*7.5*	*7.3*	*8.2*	*9.9*
Total Tax	1,089	1,098	1,145	1,617
Effective tax rate (%)	*30.1*	*30.5*	*27.4*	*29.3*
Profit after Tax	**2,530**	**2,498**	**3,040**	**3,900**
Minority interest	91	46	103	169
Share Profit from Associates	14	86	115	57
Adjusted PAT	**2,453**	**2,538**	**3,052**	**3,788**
YoY gr. (%)	*59.8*	*75.6*	*83.2*	*64.0*
Margin (%)	*5.1*	*5.1*	*6.0*	*6.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**2,453**	**2,538**	**3,052**	**3,788**
YoY gr. (%)	*59.8*	*75.6*	*83.2*	*64.0*
Margin (%)	*5.1*	*5.1*	*6.0*	*6.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**2,453**	**2,538**	**3,052**	**3,788**
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	**17.1**	**17.7**	**21.2**	**26.3**

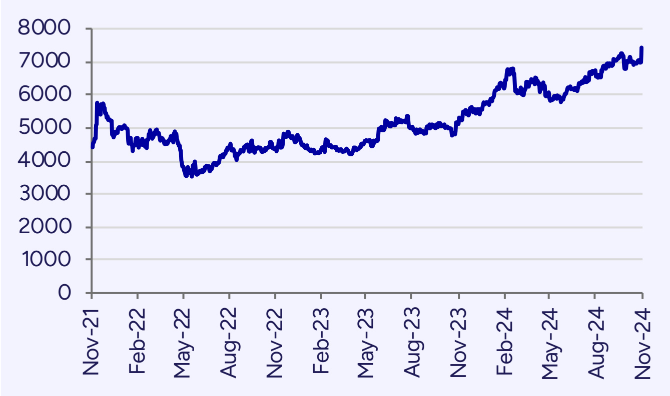
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Pharmacy	78,269	91,394	1,06,229	1,21,023
AHLL	13,653	15,564	17,588	19,698
Healthcare services	98,670	1,10,290	1,28,445	1,47,695

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	BUY	7,150	6,774
2	15-Aug-24	BUY	7,150	6,516
3	08-Jul-24	BUY	7,050	6,335
4	01-Jun-24	BUY	7,050	5,839
5	29-Apr-24	BUY	7,050	6,259
6	08-Apr-24	BUY	7,050	6,398
7	11-Feb-24	BUY	7,050	6,434
8	08-Jan-24	BUY	6,000	5,754
9	10-Nov-23	BUY	6,000	5,279

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,150	6,774
2	Aster DM Healthcare	BUY	500	443
3	Aurobindo Pharma	Accumulate	1,525	1,466
4	Cipla	Accumulate	1,615	1,478
5	Divi's Laboratories	Accumulate	5,000	5,426
6	Dr. Reddy's Laboratories	Reduce	1,335	1,272
7	Eris Lifesciences	BUY	1,420	1,292
8	Fortis Healthcare	BUY	515	581
9	HealthCare Global Enterprises	BUY	420	430
10	Indoco Remedies	Accumulate	320	315
11	Ipca Laboratories	Reduce	1,250	1,491
12	J.B. Chemicals & Pharmaceuticals	BUY	2,100	1,715
13	Jupiter Life Line Hospitals	BUY	1,475	1,432
14	Krishna Institute of Medical Sciences	BUY	480	550
15	Lupin	BUY	2,300	2,198
16	Max Healthcare Institute	BUY	975	926
17	Narayana Hrudayalaya	BUY	1,420	1,196
18	Sun Pharmaceutical Industries	BUY	2,100	1,903
19	Sunteck Realty	BUY	700	588
20	Torrent Pharmaceuticals	Accumulate	3,600	3,433
21	Zydus Lifesciences	Accumulate	1,305	1,057

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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