

Q2FY23 Update | Healthcare Facilities | 14 November 2022

Apollo Hospitals Enterprise Ltd.

Hospital business to drive growth...

Q2FY23 saw increase in occupancy levels for the mature and new hospitals of Apollo. There has been an improvement in EBITDA margins of existing hospitals both on a YoY and QoQ basis. EBITDA margin of 23% on a blended basis for the hospitals is sustainable. The patient mix is going to improve going forward as international patients are still below pre-covid level of 6%. It is expected to go up to 10% by FY23 and 15% in FY24. The management is guiding for robust mid-teens growth and ~20% yoy growth in hospitals and pharmacies respectively, in FY23. For hospitals, the management is also guiding for margin expansion of 150-200 bps yoy in FY23, led by improved mix and cost optimization. IP Volumes across the group grew by 13.3% QoQ in Q2FY23. Revenue of existing hospitals grew 9% while the new hospitals de-grew by 5%. Diagnostics and Primary care are being ramped up in AHLL (Apollo Health and Lifestyle Limited). The Diagnostics sub segment registered a growth of 52%YoY (Ex covid) during the quarter and crossed landmark of Rs. 1000 Mn. The healthcare vertical is poised to deliver superior growth in the next 1-2 years through better asset utilisation and increase in ARPOBs. International revenues should also pick up in the next 1-2 years. The backend pharmacy division along with 24x7 is poised for superior growth in the near future. AHLL should also continue with its superior growth trajectory, particularly in the diagnostics business, which should achieve a revenue of Rs 5000 Mn in FY23 and Rs 10,000 Mn in the next 3-4 years'. On an overall basis, we are positive about the prospects of Apollo and we assign "Buy" rating on the stock.

Strong revenue growth in hospitals business both new and mature

- Apollo reported decent set of numbers for Q2FY23. The company registered growth of 14.4% on YoY basis and 12% on QoQ basis.
- EBITDA margin for Q2FY23 decreased by 325 bps YoY but has seen grown marginally by 37 bps sequentially to 13.3%.
- Occupancy across the group was 68% in Q2FY23. ARPOB (excluding vaccination) was Rs 51,136 in Q2FY23 as compared to Rs 44,186 in Q2FY22 registering growth of 15.7%. ALOS for Q2FY23 was 3.41 days.
- During the quarter, Healthcare services posted an EBITDA margin of 25.2%, Pharmacy has margin of -2.6% (after adjusting for 24x7 operating costs) and AHLL—11.9%.
- Mature hospitals delivered EBITDA margin of 28.1% (from 25% in Q2FY22) while new hospitals delivered margin of 18.4% from (19.9% in Q2FY22).

Outlook and Valuation:

We are positive about the prospects connected with Apollo. Both the healthcare services and pharmacy including 24x7 should perform robustly in the future. AHLL should also report superior performance. **Based on SOTP valuation we arrive at target price of 5,260 (implied EV/EBITDA multiple of 22 on its Sep 24E EBITDA), offering 19% upside from current levels. Buy.**

Y/E Mar (Rs Mn)	Q1 FY23	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	Q2FY23e	Var. (%)
Net sales	42,511	37,171	14.4%	37,956	12.0%	43,555	-2.4
Operating costs	36,857	31,021	18.8%	33,049	11.5%		
EBITDA	5,653	6,150	-8.1%	4,907	15.2%	6882	-17.9
EBITDA Margin (%)	13.3%	16.5%	(325) bps	12.9%	37 bps	15.8%	(250) bps
Depreciation	1,550	1,448	7.1%	1,478	4.9%		
Interest	927	954	-2.8%	927	0.0%		
Other income	226	56	300.9%	161	40.5%		
PBT	0	0	NM	0	NM		
Provision for tax	3,402	3,805	-10.6%	2,663	27.8%		
Effective tax rate (%)	1,142	1,156	-1.2%	-695	-264.4%		
Consolidated PAT	33.6%	30.4%	320 bps	-26.1%	5,968 bps	4,312	-52.7

Source: AceEquity, SMIFS research

Y/E Mar (Rs Mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	1,05,600	-6.1	11,374	10.8	1,050	-65.7	7.3	2.5	4.2	269.3	27.0
FY22	1,46,626	38.9	21,851	14.9	8,350	695.6	58.1	15.6	12.2	73.8	29.4
FY23e	1,68,265	14.8	26,631	15.8	11,377	36.2	79.1	17.4	13.5	55.8	24.5
FY24e	1,96,165	16.6	32,919	16.8	15,041	32.2	104.6	19.0	15.2	42.2	19.4
FY25e	2,11,098	7.6	36,269	17.2	17,689	17.6	123.0	18.6	14.8	35.9	17.2

Source: AceEquity, SMIFS research



Rating: **Accumulate** Upside: **19%**
Current Price: **4,418** Target Price: **5,260**

Earlier recommendation

Previous Rating: **Accumulate**
Previous Target Price: **4,913**
Source: SMIFS Research

Market data

Bloomberg: **APHS IN**
52-week H/L (Rs): **5,930/3,366**
Mcap (Rs bn/USD Bn): **635/7.9**
Shares outstanding (mn): **143.8**
Free float: **70.0%**
Avg. daily vol (3M – in '000): **839**
Face Value (Rs): **5**
Group: **S&P BSE 100**

Source: Bloomberg, SMIFS Research

Shareholding pattern (%)

	Sep-22	Jun-22	Mar-22	Dec-21
Promoter	29.3	29.3	29.3	29.3
FII	49.1	48.5	50.8	52.4
DII	8.8	7.6	5.9	6.6
Public	12.8	14.6	14	11.7

Promoter pledging (%)

Pledging	16.4	16.4	16.4	22.3
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Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE 500	6.4	3.7	1.9	62.1
APHS IN	3.4	-0.1	-3.1	211.6

*as on 11th Nov 2022; Source: AceEquity, SMIFS research

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Q2FY23— Key takeaways from the management call

Hospitals Segment:

- Matured hospitals EBITDA 28% at 70% occupancy rate. **The management believes further improvement possible on the back of 1) better case mix, 2) higher contribution from international patients, 3) optimum occupancy up to 82-83% level, 4) continuing cost optimization drives**
- There has been a significant improvement in ARPOB (excluding vaccination) from Rs 44,186 in Q2FY22 to Rs 51,136 in Q2FY23 primarily because of a change in case mix and increased patients' volume across hospitals.
- Payor mix in the quarter has improved and is better than pre covid level. The insurance patients mix has improved to 42% compared to 35% before covid.
- Occupancies can improve from the current level of 65% to 75% on a blended basis in the next 2-3 years. As of now, the matured hospitals have an occupancy of around 67-68% while new hospitals have an occupancy of around 64%. The increase in occupancy can happen without much capex investment.
- Tentative investments of Rs 600-700 cr may happen in Bangalore in brownfield (400-500 beds) and greenfield (300 beds) opportunities in 3 years' time. Capex for these projects will mostly be funded through internal accruals, existing cash in the system and slump sale proceeds from the Apollo HealthCo transaction.
- The management plans to spend capex of Rs. 30,000 Mn over three years for beds expansion. They plan to add over 2000 beds (greenfield capex) in Gurugram.

Pharmacy Distribution Segment:

- The management expects Apollo 24/7 to grow rapidly and a revenue of Rs 50 Mn is expected in the Amazon platform for pharmacy products in the next 3-4 years. The Amazon contract is for 10 years.
- The management expects margins in this business to remain steady.

AHLL:

- AHLL showed very impressive topline growth and the margins have also improved on a YoY basis. Lot many collection centres in the diagnostics vertical have been added during this period and home collection has also improved. Besides primary and secondary care have recovered in the clinics.
- Expansion into newer geographies: APHS is open to all options in terms of diagnostics expansion, but is primarily focusing on organic growth. The company intends to pursue the inorganic strategy for expansion primarily in North and West India. In South and East India, the focus remains on organic growth.
- The dialysis and fertility wings in AHLL are also expected to perform well in the next 3-4 years' time.

Outlook and Valuation

We are positive about the prospects connected with Apollo. Both the healthcare services and pharmacy including 24x7 should perform robustly in the future. AHLL should also report superior performance. **Based on SOTP valuation we arrive at target price of 5,260 (implied EV/EBITDA multiple of 22 on its Sep 24E EBITDA), offering 19% upside from current levels. Buy.**

Fig 1: SOTP Valuation Metrics for Sep 24E

Rs mn	Hospitals	Pharmacies	Other Subsidiaries	Total (Rs. Mn)
EBITDA	23,380	3,977	7,333	34,690
Applied EV / EBITDA	22x	24x	22x	22x
Sales	1,11,335	80,109	2,16,914	4,08,358
Applied EV / Sales	4.6x	1.3x	0.7x	1.9x
Computed EV	5,14,367	95,446	1,61,324	7,71,138
Less: Minorities interest (benefit)			22	2,543
Less: Net debt / (cash)				12,564
Computed Equity Value (Rs. mn)				7,56,031
Target price per share				5260

Source: Company, SMIFS Research

Fig 2: Key Assumptions table

YE March (Rs Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues							
Hospitals	66,476	75,143	65,158	91,902	90,477	1,05,399	1,18,159
Standalone pharmacy	38,861	48,206	48,760	53,610	64,999	78,290	82,205
AHLL	4,088	5,026	5,191	10,339	10,868	11,411	12,895
Total Revenue	96,174	1,12,468	1,05,600	1,46,626	1,66,344	1,95,100	2,13,259
EBITDA (Post Ind-AS)							
Hospitals	9,205	9,970	6,926	18,033	19,150	22,134	24,813
Standalone pharmacy	2,030	5,232	3,680	1,852	5,532	8,437	9,377
AHLL	-599	671	768	1,966	1,645	2,169	2,450
Total EBITDA	10,636	15,873	11,374	21,851	26,327	32,740	36,640
EBITDA Margin							
Hospitals	13.8%	13.3%	10.6%	19.6%	21.2%	21.0%	21.0%
Standalone pharmacy	5.2%	10.9%	7.5%	3.5%	8.5%	10.8%	11.4%
AHLL	-14.7%	13.4%	14.8%	19.0%	15.1%	19.0%	19.0%
Total EBITDA	16.0%	21.1%	17.5%	23.8%	29.1%	31.1%	31.0%
Contribution %							
Hospitals	69.1	66.8	61.7	62.7	54.4	54.0	55.4
Standalone pharmacy	40.4	42.9	46.2	36.6	39.1	40.1	38.5
AHLL	4.3	4.5	4.9	7.1	6.5	5.8	6.0

Source: Company, SMIFS Research

Fig 3: Hospitals key parameters

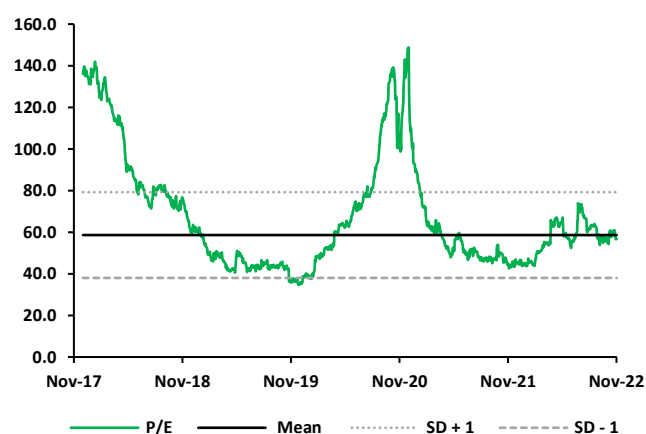
YE March (Rs Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operational Beds	7,491	7,409	7,860	8,400	8800	9200
Occupancy Level	67.0%	55.0%	65.0%	66.0%	66.5%	68.9%
ARPOB	37,397	40,214	45,327	51,278	54,554	56,014

Source: Company, SMIFS Research

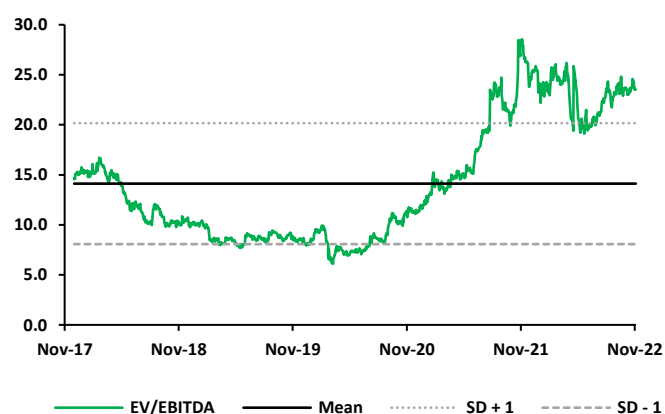
Fig 4: Beds capacity region wise break up

Region	Beds
Tamil Nadu	2,131
AP, Telangana Region	1,344
Karnataka Region	775
Others	1,107
Significant Subs/JVs/associates	2,518
Total Operational Beds	7,875

Source: Company, SMIFS Research

Fig 5: 1-year forward P/E


Source: AceEquity, SMIFS Research, FY22 EPS is excluding the one time gain component

Fig 6: 1-year forward EV/EBITDA


Source: AceEquity, SMIFS Research

Quarterly financials

Fig 7: Quarterly Financials

Y/E March (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Sales	27,597	28,680	37,602	37,171	36,389	35,465	37,956	42,511
Raw Materials	14,865	14,750	20,620	18,723	18,235	18,157	19,521	21,719
Employee Costs	3,524	3,884	4,435	4,568	4,396	4,466	4,474	5,408
Other Expenditure	5,307	5,927	7,349	7,729	7,888	8,209	9,053	9,730
EBITDA	3,902	4,119	5,199	6,150	5,870	4,633	4,907	5,654
Other Income	55	205	246	56	172	307	161	226
Depreciation	1250	1385	1406	1448	1490	1664	1478	1550
EBIT	2,706	2,939	4,039	4,759	4,552	3,276	3,590	4,329
Interest	1010	986	947	954	937	949	927	927
Exceptional items	0	252	2,941	0	0	0	0	0
PBT	1,697	2,205	6,034	3,805	3,615	2,327	2,663	3,402
Tax	512	677	986	1,156	1,242	1,387	(695)	1,142
<i>Tax rate (%)</i>	<i>30.2</i>	<i>30.7</i>	<i>16.3</i>	<i>30.4</i>	<i>34.4</i>	<i>59.6</i>	<i>-26.1</i>	<i>33.6</i>
PAT	1,185	1,528	5,048	2,649	2,373	941	3,358	2,260
Share of Associate / JV	155	171	-42	25	60	30	-120	-132
Minority Interest	-37	-20	-114	-196	-149	-69	-67	-89
Adjusted PAT	1,377	1,531	2,915	2,870	2,581	1,040	3,305	2,217
YoY Growth (%)								
<i>Revenue</i>	<i>-5.2</i>	<i>-1.9</i>	<i>73.2</i>	<i>34.6</i>	<i>31.9</i>	<i>23.7</i>	<i>0.9</i>	<i>14.4</i>
<i>EBITDA</i>	<i>-9.3</i>	<i>8.4</i>	<i>1369.4</i>	<i>105.0</i>	<i>50.5</i>	<i>12.5</i>	<i>-5.6</i>	<i>-8.1</i>
<i>PAT</i>	<i>41.5</i>	<i>-53.8</i>	<i>-77.7</i>	<i>263.5</i>	<i>87.4</i>	<i>-32.1</i>	<i>13.4</i>	<i>-22.8</i>
QoQ Growth (%)								
<i>Revenue</i>	<i>0.0</i>	<i>3.9</i>	<i>31.1</i>	<i>-1.1</i>	<i>-2.1</i>	<i>-2.5</i>	<i>7.0</i>	<i>12.0</i>
<i>EBITDA</i>	<i>30.0</i>	<i>5.6</i>	<i>26.2</i>	<i>18.3</i>	<i>-4.6</i>	<i>-21.1</i>	<i>5.9</i>	<i>15.2</i>
<i>PAT</i>	<i>340.2</i>	<i>11.1</i>	<i>90.4</i>	<i>-1.5</i>	<i>-10.1</i>	<i>-59.7</i>	<i>217.9</i>	<i>-32.9</i>
Margin (%)								
<i>RMC/revenue (%)</i>	<i>53.9</i>	<i>51.4</i>	<i>54.8</i>	<i>50.4</i>	<i>50.1</i>	<i>51.2</i>	<i>51.4</i>	<i>51.1</i>
<i>Gross margin (%)</i>	<i>46.1</i>	<i>48.6</i>	<i>45.2</i>	<i>49.6</i>	<i>49.9</i>	<i>48.8</i>	<i>48.6</i>	<i>48.9</i>
<i>Employee cost/revenue (%)</i>	<i>12.8</i>	<i>13.5</i>	<i>11.8</i>	<i>12.3</i>	<i>12.1</i>	<i>12.6</i>	<i>11.8</i>	<i>12.7</i>
<i>Other expenses/revenue (%)</i>	<i>19.2</i>	<i>20.7</i>	<i>19.5</i>	<i>20.8</i>	<i>21.7</i>	<i>23.1</i>	<i>23.9</i>	<i>22.9</i>
<i>EBITDA margin (%)</i>	<i>14.1</i>	<i>14.4</i>	<i>13.8</i>	<i>16.5</i>	<i>16.1</i>	<i>13.1</i>	<i>12.9</i>	<i>13.3</i>
<i>Adj PAT margin (%)</i>	<i>5.0</i>	<i>5.3</i>	<i>7.8</i>	<i>7.7</i>	<i>7.1</i>	<i>2.9</i>	<i>8.7</i>	<i>5.2</i>

Source: AceEquity, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs Mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	1,05,600	1,46,626	1,68,265	1,96,165	2,11,098
Raw materials	56,842	75,735	86,657	1,00,044	1,07,660
% of sales	53.8	51.7	51.5	51.0	51.0
Personnel	16,010	17,865	20,115	22,951	24,276
% of sales	15.2	12.2	12.0	11.7	11.5
Other Expenses	21,374	31,175	34,863	40,251	42,893
% of sales	20.2	21.3	20.7	20.5	20.3
EBITDA	11,374	21,851	26,631	32,919	36,269
Other Income	450	781	565	565	565
Depreciation & Amortization	5,731	6,007	6,399	6,987	7,624
EBIT	6,093	16,626	20,797	26,497	29,210
Finance cost	4,492	3,786	3,773	3,815	3,857
Core PBT	1,151	12,058	16,458	22,117	24,788
Exceptional items	606	2,941	-	-	-
PBT	2,207	15,780	17,024	22,682	25,353
Tax-Total	847	4,770	5,146	6,857	7,664
Effective tax rate (%)	38.4	30.2	30.2	30.2	30.2
PAT	1,360	11,010	11,878	15,826	17,689
Minority Interest	-136	528	501	785	-
Share of associates	8	74	-	-	-
Adjusted PAT	1,050	8,350	11,377	15,041	17,689

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth ratios (%)					
Net sales	-6.1	38.9	14.8	16.6	7.6
EBITDA	-28.3	92.1	21.9	23.6	10.2
Adjusted PAT	-65.7	695.6	36.2	32.2	17.6
Margin Ratio (%)					
Gross Profit	46.2	48.3	48.5	49.0	49.0
EBITDA Margin	10.8	14.9	15.8	16.8	17.2
EBIT Margin	5.8	11.3	12.4	13.5	13.8
Core PBT	1.1	8.2	9.8	11.3	11.7
Adj PAT	1.0	5.7	6.8	7.7	8.4
Return Ratio (%)					
ROE	2.5	15.6	17.4	19.0	18.6
ROCE	4.2	12.2	13.5	15.2	14.8
Turnover Ratio (days)					
Gross Block Turnover (x)	1.1	1.4	1.5	1.6	1.6
Adj OCF/ Adj PAT (%)	785.3	148.1	137.6	145.7	136.4
Inventory	16	21	21	21	21
Debtors	46	44	42	40	40
Creditors	74	79	70	70	70
Cash Conversion Cycle	-12	-14	-7	-9	-9
Solvency Ratio (%)					
Debt-equity (x)	0.9	0.7	0.6	0.5	0.4
Net Debt-equity (x)	0.5	0.4	0.2	0.0	-0.1
Gross Debt / EBITDA	3.7	1.9	1.6	1.3	1.2
Current Ratio	2.3	2.1	2.7	3.1	3.6
Interest coverage ratio (x)	1.4	4.4	5.5	6.9	7.6
Dividend					
Dividend per share	3.0	11.8	5.0	6.6	7.4
Dividend Yield (%)	0.1	0.3	0.1	0.1	0.2
Dividend Payout (%)	41.1	20.2	6.3	6.3	6.0
Per share (Rs)					
Basic EPS (reported)	10.7	71.3	82.6	110.1	123.0
Adj EPS	7.3	58.1	79.1	104.6	123.0
CEPS	47.2	99.9	123.6	153.2	176.1
BVPS	334	410	499	603	718
Valuation					
P/E	269.3	73.8	55.8	42.2	35.9
P/BV	6.0	10.4	8.8	7.3	6.1
EV / EBITDA	27.0	29.4	24.5	19.4	17.2
EV/Sales	2.9	4.4	3.9	3.3	3.0
EV / Core PBT	266.7	53.3	39.6	28.9	25.2

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs Mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of funds					
Capital	719	719	719	719	719
Reserves & Surplus	47,305	58,276	71,072	85,948	1,02,576
Shareholders' Funds	48,024	58,995	71,791	86,667	1,03,295
Total Loan Funds	41,597	41,864	42,214	42,514	42,814
Other Liabilities	8,730	11,710	11,710	11,710	11,710
Total Liabilities	98,351	1,12,569	1,25,715	1,40,891	1,57,819
Application of funds					
Gross Block	92,372	1,07,817	1,15,072	1,23,870	1,33,412
Net Block	63,977	73,413	74,274	76,091	78,016
Capital WIP	2,116	440	465	495	525
Investments	13,480	8,063	8,057	8,051	8,045
Non-current asset	8,160	14,025	14,025	14,025	14,025
Inventories	2,495	4,318	4,986	5,756	6,194
Sundry Debtors	13,311	17,676	19,362	21,498	23,134
Cash & Bank Balances	7,244	10,359	20,572	33,568	47,934
Other Current Assets	3,386	3,849	3,849	3,849	3,849
Total Current Assets	26,436	36,201	48,768	64,670	81,110
Sundry Creditors	11,600	16,318	16,619	19,187	20,647
Other Current Liabilities	4,216	3,255	3,255	3,255	3,255
Total Current Liabilities	15,816	19,573	19,874	22,441	23,902
Net Current Assets	10,620	16,628	28,894	42,229	57,208
Total Assets	98,351	1,12,569	1,25,715	1,40,891	1,57,819

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs Mn)	FY21	FY22	FY23E	FY24E	FY25E
Operating profit before WC changes	13,102	22,829	26,631	32,919	36,269
Net change in working capital	-721	-4,630	-2,053	-338	-614
Taxes paid	353	-2,043	-5,146	-6,857	-7,664
Cash flow from operating activities (a)	12,734	16,156	19,432	25,724	27,991
Adj OCF	8,242	12,370	15,659	21,909	24,134
Capital expenditure	-2,955	-6,572	-5,000	-6,000	-6,000
Adj FCF	5,287	5,798	10,659	15,909	18,134
Cash flow from investing activities (b)	-8,723	-7,907	-6,715	-8,263	-9,007
Debt	-8,985	-2,866	350	300	300
Dividend	-383	-433	-713	-950	-1,061
Interest and lease	-5,549	-4,368	-3,773	-3,815	-3,857
Cash flow from financing activities (c)	-3,401	-7,677	-2,505	-4,465	-4,619
Net change in cash (a+b+c)	610	572	10,213	12,997	14,365

Source: Company, SMIFS Research Estimates

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