



Q1FY23 Update | Healthcare Facilities | 16 August 2022

Apollo Hospitals Enterprise Ltd.

Hospital business in the limelight...

Q1FY23 saw increase in ARPOBs for the mature and new hospitals of Apollo. The proportion of local patients being treated in Apollo Hospitals continued to improve. There has been an improvement in EBITDA margins of new and existing hospitals both on a YoY and QoQ basis. EBITDA margin of 23% on a blended basis for the hospitals is sustainable. 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 9% QoQ. Mature hospital volumes grew 13% QoQ, while new hospitals volumes grew by 1% QoQ in Q1FY23. Diagnostics and Primary care are being ramped up in AHLL (Apollo Health and Lifestyle Limited). The Diagnostics sub segment registered a degrowth of 23%YoY during the quarter due to high base of Covid. Gross margins at a consolidated level have improved because of less Covid contribution. 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. Besides, there would be a focus on centres of excellence as well as on higher realisation procedures within the oncology, cardiac, neurology and orthopaedics vertical. There would also be some cost rationalisation measures. The backend pharmacy division along with 24x7 is also 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 500 crore in FY23 and Rs 1000 cr in the next 3-4 years'. On an overall basis, we are positive about the prospects of Apollo and we assign "Accumulate" rating on the stock.

Strong revenue growth in hospitals business

- Apollo reported subdued set of numbers for Q1FY23. While on a YoY basis the growth was flat, however on QoQ basis there was growth of 7%.
- EBITDA margin for Q1FY23 decreased by 90 bps YoY respectively. EBITDA margin stood at 12.9%.
- Occupancy across the group was 60% in Q1FY23. ARPOB (excluding vaccination) was Rs 51,999 in Q1FY23 as compared to Rs 41,102 in Q1FY22 registering growth of 27%. ALOS for Q1FY23 was 3.38 days.
- During the quarter, Healthcare services posted an EBITDA margin of 23.9%, Pharmacy has margin of -1.6% (after adjusting for 24x7 operating costs) and AHLL—10%.
- Inpatient Volumes across the group increased by 9% from 115,902 in Q4FY22 to 126,511.

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. **We value the stock at 22x FY24e EBITDA to arrive at a Target Price of Rs 4913.**

Y/E Mar (Rs cr)	Q1 FY23	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)
Net sales	3,796	3,760	0.9%	3,546	7.0%
Operating costs	3,305	3,240	2.0%	3,083	7.2%
EBITDA	491	520	-5.6%	463	5.9%
EBITDA Margin (%)	12.9%	13.8%	(90) bps	13.1%	(13) bps
Depreciation	93	95	-2.1%	95	-2.3%
Interest	16	25	-34.8%	31	-47.7%
Other income	31	20	50.2%	17	79.1%
PBT	254	305	-16.7%	236	7.9%
Provision for tax	-70	99	-170.5%	139	-150.1%
Effective tax rate (%)	-27.3%	32.3%	(5,963) bps	58.8%	(8,617) bps
Consolidated PAT	317	489	-35.2%	90	251.8%

Source: AceEquity, SMIFS research

Y/E Mar (Rs Cr)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	11,247	16.9%	1,587	14.1%	324	37.1%	22.6	9.7%	10.4%	171.1	36.8
FY21	10,560	-6.1%	1,137	10.8%	113	-65.1%	7.9	2.5%	6.0%	490.2	51.4
FY22	14,663	38.9%	2,185	14.9%	850	652.8%	57.4	15.1%	14.6%	67.2	26.8
FY23e	17,302	18.0%	2,734	15.8%	1,484	74.5%	100.2	24.9%	18.1%	43.0	23.8
FY24e	20,121	16.3%	3,239	16.1%	1,940	30.8%	131.1	19.5%	19.5%	32.9	20.1

Source: AceEquity, SMIFS research

Rating: Accumulate Upside: 14%
 Current Price: 4,310 Target Price: 4,913

Earlier recommendation

Previous Rating: Buy
 Previous Target Price: 4,636
 Source: SMIFS Research

Market data

Bloomberg: APHS IN
 52-week H/L (Rs): 4,878/3,366
 Mcap (Rs bn/USD mn): 620/7,780
 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 (%)

	Jun-22	Mar-22	Dec-21	Sept-21
Promoter	29.3	29.3	29.3	29.8
Institutions	64.4	64.0	64.6	63.8
Non Insti	6.3	6.7	6.1	6.4
Total	100.0	100.0	100.0	100.0

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE 500	9.9	12.4	8.4	68.3
APHS IN	9.7	20.4	4.3	217.3

*as on 12th Aug 2022; Source: AceEquity, SMIFS research

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Q1FY23— Key takeaways from the management call

Hospitals Segment:

- There has been a significant improvement in ARPOB (excluding vaccination) from Rs 41,102 in Q1FY22 to Rs 51,999 in Q1FY23 primarily because of a change in case mix with more high-end cases and focus on Centre of Excellence.
- There has been an improvement in EBITDA margins of new and existing hospitals both on a YoY and QoQ basis. **The management has guided for mid-teens growth in hospitals in FY2023. On margins, it is guiding for margin expansion of 150-200 bps in FY2023, led by improved mix and cost optimization**
- **According to the Management, 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. Reduction in ALOS would further support the headroom for occupancy growth without much capex investment. Improvement in ARPOB at 8-10% p.a. can also happen from here onwards. Thus, mid-teens growth in the Hospitals segment is possible in the next 2-3 years, according to the Management.**
- While nothing has been crystalised as of now, 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. Recourse to debt, if at all will be minimal.
- As on June 30, 2022, Apollo Hospitals had 7,864 operating beds across the network (excluding AHLL & managed beds), out of which 2,421 were in new hospitals, with 1,331 occupied beds. The Mature hospitals had an occupancy of 62% in Q1FY23 and the new hospitals had occupancy of 55%.

Pharmacy Distribution Segment:

- The combined pharmacy business degrew by 1% YoY. Accelerated pharmacy distribution revenue growth is expected through both offline and online channels.
- **The private label sales in the Pharmacy Distribution business was 10.3% during the quarter.**
- **GMV Guidance:** Apollo 24/7 had a GMV of Rs 215 cr in Q1FY2023 and the company is on track to deliver GMV of 1500 cr in FY22-23. The management expects the GMV run rate to double GMV by FY2023. GMV includes revenue share of front-end pharmacy business as well. 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.
- For Apollo 24/7, number of orders are 35k per day as compared to 25k in Mar Q1FY22.
- 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 diagnostics business within AHLL degrew by 5% over Q1FY22. Expansion of network and phlebotomist count continues. There is a lot of headroom for growth given the shift from unorganized to organized segment plus gain in market share given the brand strength of Apollo. B2C segment is now contributing to 55% of revenue. After 3 years the contribution is expected to rise to 60%. Rs 1000 cr revenue**

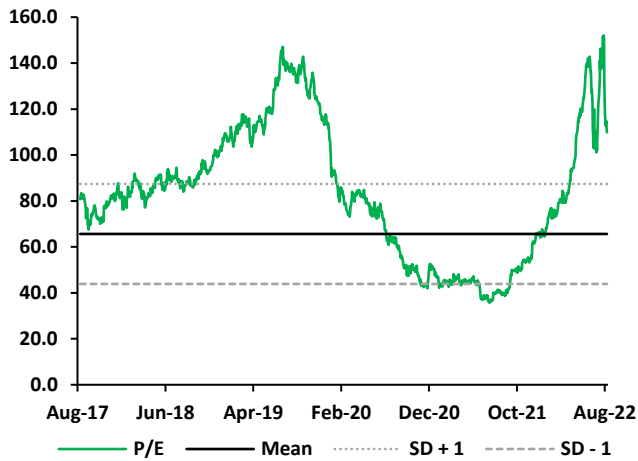
from diagnostics segment is achievable in the next 3-4 years.

- Despite lower vaccine sales, revival in primary and secondary care, along with continued strong performance in diagnostics led to AHLL EBITDA of Rs 294 mn.
- The dialysis and fertility wings in AHLL are also expected to perform well in the next 3-4 years' time.

Outlook and Valuation

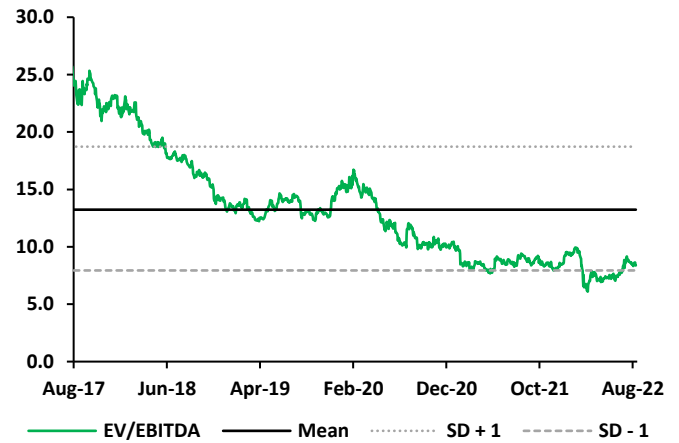
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Fig 1: 1-year forward P/E



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

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Research

Quarterly financials

Fig 3: Quarterly Financials

Y/E March (Rs Cr)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Sales	2,761	2,760	2,868	3,760	3,717	3,639	3,546	3,796
COGS	1,505	1,487	1,475	2,062	1,872	1,824	1,816	1,952
Employee Costs	412	352	388	443	457	440	447	447
Other Expenditure	544	531	593	735	773	789	821	905
EBITDA	300	390	412	520	615	586	463	491
Depreciation	149	125	138	141	145	149	166	148
Interest	122	101	99	95	95	94	95	93
Other Income	11	6	20	25	6	17	31	16
Share of profit/loss of asso.	(9)	16	17	(4)	3	6	3	(12)
Extraordinary items	35	-	25	294	-	-	-	-
Reported PBT	66	185	238	599	383	366	236	254
Tax	7	51	68	99	116	124	139	(70)
Tax rate (%)	10.1%	27.6%	28.5%	16.4%	30.2%	33.8%	58.8%	-27.3%
PAT	59	134	170	501	267	242	97	324
Minority Interest	(1)	4	2	11	20	15	7	7
Consolidated PAT	60	130	168	489	248	228	90	317
YoY Growth (%)								
Revenue	-2.8%	-5.2%	-1.9%	73.2%	34.6%	31.9%	23.7%	0.9%
EBITDA	-27.5%	-9.2%	8.4%	1365.2%	105.1%	50.1%	12.5%	-5.6%
PAT	-31.6%	46.2%	-18.9%	NA	353.4%	80.7%	-42.9%	-35.3%
QoQ Growth (%)								
Revenue	27.1%	0.0%	3.9%	31.1%	-1.1%	-2.1%	-2.5%	7.0%
EBITDA	745.1%	30.2%	5.5%	26.2%	18.3%	-4.7%	-20.9%	5.9%
PAT	-126.1%	127.5%	26.6%	194.7%	-46.6%	-9.3%	-60.0%	233.7%
Margin (%)								
RMC/revenue (%)	54.5%	53.9%	51.4%	54.8%	50.4%	50.1%	51.2%	51.4%
Gross margin (%)	45.5%	46.1%	48.6%	45.2%	49.6%	49.9%	48.8%	48.6%
Employee cost/revenue (%)	14.9%	12.8%	13.5%	11.8%	12.3%	12.1%	12.6%	11.8%
Other expenses/revenue (%)	19.7%	19.2%	20.7%	19.5%	20.8%	21.7%	23.1%	23.9%

Source: AceEquity, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	11,247	10,560	14,663	17,302	20,121
COGS	5,499	5,684	7,573	8,911	10,262
% of sales	48.9%	53.8%	51.7%	51.5%	51.0%
Personnel	1853	1601	1787	2163	2515
% of sales	16.5%	15.2%	12.2%	12.5%	12.5%
Other Exp.	2308	2137	3118	3495	4105
% of sales	20.5%	20.2%	21.3%	20.2%	20.4%
EBITDA	1,587	1,137	2,185	2,734	3,239
EBITDA Margin (%)	14.1%	10.8%	14.9%	15.8%	16.1%
Depreciation & Amortisation	620	573	601	590	574
EBIT	967	564	1,584	2,144	2,665
Interest Expenses	533	449	379	288	273
EBT	434	115	1,206	1,856	2,392
Other Income	27	45	78	103	177
PBT	656	221	1,585	1,998	2,613
Tax-Total	225	85	477	500	653
Effective tax rate (%)	34.3%	38.2%	30.1%	25.0%	25.0%
Extraord. items - Adj.	198	61	294	-	-
PAT	431	137	1108	1499	1960
Minority Interest	-23	-14	53	15	20
Consol PAT	454	150	1056	1484	1940
Consol PAT Margin (%)	4.0%	1.4%	7.2%	8.6%	9.6%
Adjusted PAT	324	113	850	1484	1940
Adjusted PAT Margin (%)	2.9%	1.1%	5.8%	8.6%	9.6%

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23E	FY24E
Growth ratios (%)					
Net sales	16.9%	-6.1%	38.9%	18.0%	16.3%
EBITDA	49.2%	-28.3%	92.1%	25.1%	18.5%
Adjusted PAT	37.1%	-65.1%	652.8%	74.5%	30.8%
Margin Ratio (%)					
EBITDA Margin	14.1%	10.8%	14.9%	15.8%	16.1%
EBIT Margin	8.6%	5.3%	10.8%	12.4%	13.2%
PBT (Adjusted) Margin	4.1%	1.5%	8.8%	11.5%	13.0%
PAT (Adjusted) Margin	2.9%	1.1%	5.8%	8.6%	9.6%
Return Ratio (%)					
ROE	9.7%	2.5%	15.1%	24.9%	24.7%
ROCE	10.4%	6.0%	14.6%	18.1%	19.5%
Turnover Ratio days (days)					
Inventory Period	24	9	15	15	15
Debtors Period	33	46	38	38	38
Creditors	60	74	60	60	60
Cash Conversion Cycle	-3	-20	-7	-7	-7
Solvency Ratio (%)					
Debt-equity (x) (Ex IND AS 116)	1.2	0.7	0.4	0.3	0.2
Net Debt-equity (x) (Ex IND AS 116)	1.0	0.5	0.2	0.0	-0.2
Liquidity ratio (x)	1.3	1.8	1.7	2.9	3.7
Interest coverage ratio (x)	1.8	1.3	4.2	7.5	9.8
Per share (Rs)					
Adjusted EPS	22.6	7.9	57.4	100.2	131.1
CEPS	65.8	47.9	98.0	140.1	169.9
Book value	225.6	311.0	381.4	403.1	530.2
Dividend per share	6.0	3.0	3.0	6.5	6.5
Dividend Payout (%)	27%	38%	5%	6%	5%
Dividend Yield (%)	0.2%	0.1%	0.1%	0.2%	0.2%
Valuation					
P/E	171.1	490.2	67.2	43.0	32.9
P/BV	17.1	12.4	10.1	10.7	8.1
P/S	5.1	5.4	3.9	3.7	3.2
EV/EBITDA	36.8	51.4	26.8	23.8	20.1

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Capital	70	72	72	72	72
Reserves & Surplus	3,270	4,531	5,573	7,168	9,050
Shareholders' Funds	3,339	4,603	5,645	7,240	9,122
Minority Interest	131	200	254	269	289
Total Debt	3,279	2,495	2,735	1,895	1,795
Deferred Tax Liabilities	294	260	530	530	530
Other Non-Current Liabilities	2,512	1,843	1,975	1,930	1,976
Total Liabilities	9,556	9,400	11,139	11,865	13,712
Application of funds					
Net Block	7,089	6,425	7,347	6,611	6,394
Capital WIP	233	212	44	44	44
Non-current Asset	665	418	478	482	464
Net Non-Current Assets	7,986	7,055	7,869	7,137	6,902
Investments	434	1,343	802	823	1,024
Goodwill	346	375	923	923	923
Inventories	738	249	432	711	827
Sundry Debtors	1,027	1,331	1,768	1,801	2,095
Other Current Assets	340	339	385	353	358
Cash & Bank Balances	467	724	1,036	1,954	3,628
Total Current Assets	2,572	2,644	3,620	4,819	6,908
Creditors	909	1,160	1,632	1,465	1,687
Other Current Liabilities	751	747	325	256	244
Current Provisions	123	109	119	117	115
Total Current Liabilities	1,783	2,017	2,076	1,837	2,046
Net Current Assets	789	627	1,544	2,982	4,863
Total Assets	9,556	9,400	11,139	11,865	13,712

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes					
Net change in working capital	-83	-72	-463	-589	-242
Cash flow from operating activities (a)	1,289	1,274	1,616	1,748	2,521
Capital expenditure (organic)	-510	-280	-652	-514	-320
FCF	779	993	964	1,234	2,200
Cash flow from investing activities (b)	-286	-872	-791	-324	-541
Cash flow from financing activities (c)	-910	-340	-768	-332	-370
Net change in cash (a+b+c)	94	61	57	1,091	1,610
Opening cash balance	286	380	425	583	1,674
Adjustments	-	-17	101	-	-
Ending cash balance	380	425	583	1,674	3,284
Other bank balances	86	299	453	279	344
Cash and Bank on balance sheet	466	724	1,036	1,954	3,628

Source: Company, SMIFS Research Estimates

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