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Q2FY22 result review
and earnings revision

Pharmaceuticals

Target price Rs4,994

Earnings revision

(%)	FY22E	FY23E
Sales	6.1	5.9
EBITDA	10.5	5.9

Target price revision

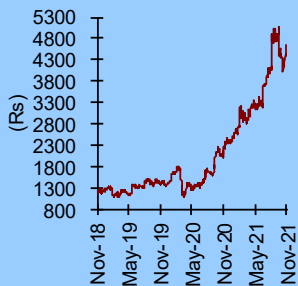
Rs4,994 from Rs4,312

Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	29.8	29.8	29.8
Institutional investors	63.8	64.1	63.8
MFs and other	5.9	6.6	7.3
Banks/FIs	0.1	0.1	0.0
Insurance co	3.2	4.2	5.0
FII	54.6	53.2	51.5
Others	6.4	6.1	6.4

Source: BSE

Price chart



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INDIA

ICICI Securities

Apollo Hospitals Enterprises

ADD

Maintained

Strong performance; reported best ever ARPOB **Rs4,670**

Apollo Hospitals Enterprises' (AHEL) Q2FY22 performance was better than estimate led by strong recovery in occupancies along with robust ARPOB. Margins improved 570bps/270bps YoY/QoQ to 16.5% vs estimated 14.0% led by improvement in case mix. Overall, revenues grew 34.6% YoY to Rs37.2bn (I-Sec: Rs35.1bn). We remain positive on AHEL's long-term outlook considering its strong brand and pan-India presence in the hospital segment, margin expansion potential and aggressive focus on creating digital network for pharmacy, doctor consultation, clinics and diagnostics. **Maintain ADD.**

- **Business review:** Hospitals business grew 11.8% QoQ (75.3% YoY) mainly due to strong improvement in ARPOB (+15.0% YoY) which stood at Rs44,186/day. Management expects ARPOB to further improve with change in case mix and decline in ALOS. Occupancy level remained healthy at ~66% in H1FY22 and is expected to improve further as situation normalises. We expect strong 53.3% growth in hospitals business in FY22 on a low base and consolidation of Kolkata and Guwahati hospitals. The company's digital outreach for consultations and OPDs would help in accelerating growth. Pharmacy business excluding spurt in COVID-19 in Q1, grew 11% QoQ and the trend should continue with addition of new pharmacies. Hospital business margin stood at 21.1% vs 20.3% QoQ. Improving occupancy, ARPOB and various cost control exercises would further aid margin expansion. Pharmacy Margin (excluding 24/7 operational cost) stood at 8.1% vs 8.6% YoY. The consolidated margin stood at 16.5% in Q2FY22 and expected to remain healthy at 15-16% range despite additional cost of online platform and digitalization.
- **Key Concall Call Highlights:** 1) Acquired 180-bed Excelcare Hospitals in Guwahati to enhance focus in north east 2) looking for 300 beds hospital in central Mumbai in next 3 years 3) Guided for ~400 pharmacy addition annually and 20% growth in offline pharmacy 4) expects 25%+ annual growth in diagnostic and Rs10bn revenues in next 3 years 5) expects 24/7 to reach breakeven in 2-3 years.
- **Outlook:** We expect improvement in performance to continue in the ensuing quarters supported by higher occupancy, cost control initiatives and continuous growth momentum in pharmacy segment. We expect 29.2% revenue and 56.2% EBITDA CAGRs over FY21-FY23E on low base of FY21. Company has put backend pharmacy business and Apollo 24/7 into a separate subsidiary, Apollo HealthCo, and is looking to get a strategic investor in the company to accelerate growth and unlock value.
- **Valuations:** We raise rev and EBITDA estimates by ~6% and 6-11% respectively to factor in improvement in ARPOB and occupancy. **Maintain ADD** with a revised target of Rs4,994/share based on SoTP on FY23E (earlier Rs4,312/share). Key downside risks are: higher competition and further delay in elective surgeries.

Market Cap	Rs671bn/US\$9bn	Year to March	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	APLH.BO/APHS IN	Net Revenue (Rs mn)	112,468	105,600	153,719	176,240
Shares Outstanding (mn)	143.8	Net Profit (Rs mn)	3,246	1,129	9,297	12,377
52-week Range (Rs)	5084/2110	Dil. EPS (Rs)	22.4	7.8	64.0	85.2
Free Float (%)	70.2	% Chg YoY	37.5	(65.2)	723.3	33.1
FII (%)	51.5	P/E (x)	208.9	600.4	72.9	54.8
Daily Volume (US\$'000)	47,476	CEPS (Rs)	65.0	47.3	105.3	128.2
Absolute Return 3m (%)	13.0	EV/EBITDA (x)	46.5	62.8	30.5	25.1
Absolute Return 12m (%)	121.4	Dividend Yield (%)	0.2	0.1	0.1	0.1
Sensex Return 3m (%)	10.9	RoCE (%)	5.8	4.9	12.5	14.5
Sensex Return 12m (%)	41.4	RoE (%)	9.7	2.8	18.4	20.3

Please refer to important disclosures at the end of this report

Table 1: Q2FY22 result review*(Rs mn, year ending March 31)*

	Q2FY22	Q2FY21	YoY % Chg	Q1FY22	QoQ % Chg
Net Sales	37,171	27,607	34.6	37,602	(1.1)
EBITDA	6,150	2,998	105.1	5,199	18.3
Other income (incl. JV/Assoc.)	82	(149)		210	(61.3)
PBIDT	6,231	2,849	118.7	5,409	15.2
Depreciation	1,448	1,602	(9.6)	1,250	15.8
Interest	954	1,274	(25.1)	1,010	(5.5)
Extra ordinary income/ (exp.)	-	1,602	(100.0)	1,250	(100.0)
PBT	3,830	1,575	143.1	4,399	(12.9)
Tax	1,156	(408)		512	125.8
Minority Interest	196	(181)		37	
Reported PAT	2,478	2,163	14.6	3,851	(35.6)
Adjusted PAT	2,478	(2,082)		1,305	90.0
EBITDA margins (%)	16.5	10.9	570bps	13.8	270bps

Source: Company data, I-Sec research

Table 2: Revenue mix*(Rs mn, year ending March 31)*

	Q2FY22	Q2FY21	YoY % Chg	Q1FY22	QoQ % Chg
Hospitals	21,686	12,373	75.3	19,392	11.8
Pharmacy	11,671	13,519	(13.7)	15,120	(22.8)
Total	33,357	25,892	28.8	34,512	(3.3)
EBITDA					
Hospitals	4,584	1,630	181.2	3,936	16.5
% margin	21.1	13.2	800bps	20.3	80bps
Pharmacy	945	1,156	(18.3)	783	20.7
% margin	8.1	8.6	(50)bps	5.2	290bps

Source: Company data, I-Sec research

Valuations

We expect AHEL's EBITDA to grow at a CAGR of 56.2% over FY21-FY23E driven by revenue CAGR of 29.2% and EBITDA margin expansion to 15.8% by FY23E from 10.8% in FY21. Economies of scale on increased occupancy, improve case mix, reduce ALOS and reduction in losses in newer segments would drive margin expansion. Further, return ratios would recover from current depressed levels with strong growth in net profit and reduced capex.

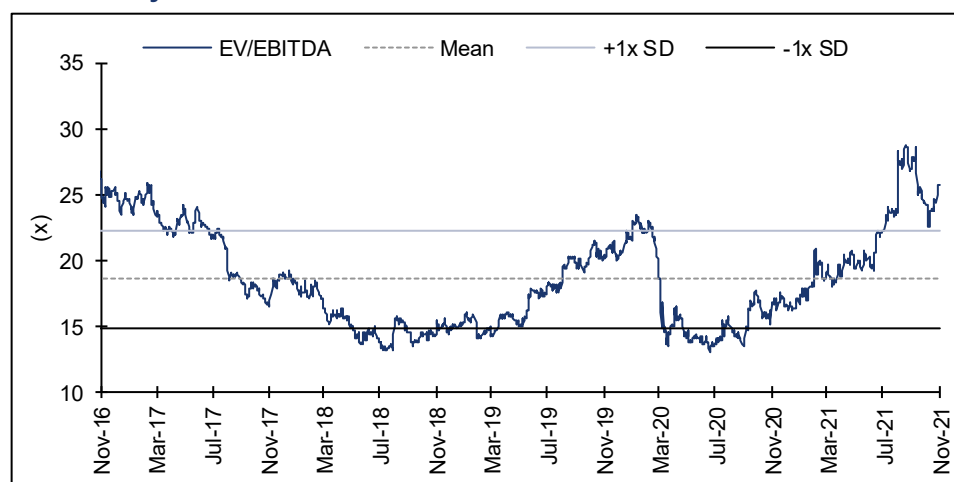
The stock currently trades at EV/EBITDA of 30.5x FY22E and 25.1x FY23E. We remain positive on AHEL's long-term outlook considering its strong brand and pan-India presence in the hospital segment, margin expansion potential and potential upside from online platform and AHLL. Reiterate our **ADD** rating on the stock with a revised target price of Rs4,994/share based on SoTP valuation (earlier: 4,312/share). The stock has traded at an average forward EV/EBITDA of 18.6x over the past five years. We now consider EBITDA and debt as per IND-AS-116 for the valuation purpose.

Table 3: Sum of the parts (SoTP) valuation

Segments	Rs mn	(x)	Value (Rs mn)	AHEL's stake	Value (Rs mn)
Hospitals - EBITDA (FY23E)	19,719	21.0	4,14,100	100%	4,14,100
Pharmacy - Revenue (FY23E)	65,968	4.0	2,63,873	100%	2,63,873
AHLL - EBITDA (FY23E)	3,750	25.0	93,748	70%	65,858
Indraprastha Medical - Market cap	7,118	0.8	5,694	22%	1,254
Total EV					7,45,085
Less: Net Debt					18,112
Minority Interest					1,999
Implied MCap					7,24,974
Value per share (Rs)					4,994

Source: Company data, I-Sec research

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Summary financials (consolidated)

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Hospitals	56,712	49,040	75,159	83,679
Pharmacy	48,206	48,760	55,155	65,968
AHLL & Proton	7,550	7,800	16,865	21,362
Others	-	-	6,540	5,232
Total Revenue	112,468	105,600	153,719	176,240
YoY Growth%	16.9	(6.1)	45.6	14.7
Total Op. Exp.	96,595	94,226	130,508	148,483
EBITDA	15,873	11,374	23,212	27,758
Margins %	14.1	10.8	15.1	15.8
YoY Growth%	49.2	(28.3)	104.1	19.6
Depreciation	6,197	5,731	5,984	6,239
EBIT	9,676	5,643	17,228	21,519
Other Income	239	458	450	450
Interest	5,328	4,492	3,802	3,497
Exceptional Items (net)	1,983	607	-	-
PBT	6,570	2,215	13,876	18,472
Tax	2,252	847	4,579	6,096
Tax Rate (%)	34.3	38.2	33.0	33.0
Minority Interest	(231)	(136)	-	-
Reported PAT	4,549	1,504	9,297	12,377
Adj PAT	3,246	1,129	9,297	12,377
Net Margins (%)	2.9	1.1	6.0	7.0

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	696	719	719	719
Reserves & Surplus	32,695	45,307	54,221	66,215
Total Equity	33,390	46,026	54,940	66,934
Minority Interest	1,307	1,999	1,999	1,999
Total Debt	65,896	52,997	48,997	44,997
Deferred Liabilities	2,445	2,353	2,353	2,353
Capital Employed	103,038	103,375	108,289	116,283
Current Liabilities	9,850	10,542	16,557	19,192
Total Liabilities	112,889	113,917	124,846	135,476
Net Fixed Assets	76,677	70,122	68,138	66,899
Investments	3,592	3,448	3,448	3,448
Inventory	7,378	2,495	3,455	3,931
Debtors	10,272	13,312	19,377	22,216
Other Current Assets	9,552	7,319	10,573	12,096
Cash and Equivalents	5,416	17,222	19,855	26,885
Total Cur. Assets	36,211	43,795	56,708	68,577
Total Assets	112,889	113,917	124,846	135,476

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	6,570	2,215	13,876	18,472
Depreciation	6,197	5,731	5,984	6,239
Net Chg in WC	(471)	(4,065)	(2,189)	(1,230)
Taxes	(3,061)	353	(4,579)	(6,096)
Others	(1,635)	4,009	(2,077)	(972)
CFO	7,600	8,243	11,015	16,413
Capex	(5,106)	2,434	(4,000)	(5,000)
Net Investments made	2,317	(11,376)	-	-
Others	(99)	218	-	-
CFI	(2,888)	(8,723)	(4,000)	(5,000)
Change in Share capital	-	11,520	-	-
Change in Debts	(1,827)	(9,858)	(4,000)	(4,000)
Div. & Div Tax	(1,551)	(383)	(383)	(383)
Others	(136)	1,778	-	-
CFF	(3,514)	3,057	(4,383)	(4,383)
Total Cash Generated	1,198	2,577	2,633	7,030
Cash Opening Balance	3,470	4,668	7,244	9,877
Cash Closing Balance	4,668	7,244	9,877	16,907

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	22.4	7.8	64.0	85.2
YoY Growth%	37.5	(65.2)	723.3	33.1
Cash EPS	65.0	47.3	105.3	128.2
EBITDA - Core (%)	14.1	10.8	15.1	15.8
NPM (%)	2.9	1.1	6.0	7.0
Net Debt to Equity (x)	1.8	0.8	0.5	0.3
P/E (x)	208.9	600.4	72.9	54.8
EV/EBITDA Core (x)	46.5	62.8	30.5	25.1
P/BV (x)	20.3	14.7	12.3	10.1
EV/Sales (x)	6.6	6.8	4.6	3.9
RoCE (%)	5.8	4.9	12.5	14.5
RoE (%)	9.7	2.8	18.4	20.3
RoIC (%)	6.0	5.3	14.7	17.8
Book Value (Rs)	230.0	317.0	378.4	461.0
DPS (Rs)	10.7	2.6	2.6	2.6
Dividend Payout (%)	47.8	33.9	4.1	3.1
Div Yield (%)	0.2	0.1	0.1	0.1
Asset Turnover Ratio	1.1	0.9	1.3	1.4
Avg Collection days	25	19	8	9
Avg Inventory days	31	40	39	43

Source: Company data, I-Sec research

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