

Company update and
reco change

Pharmaceuticals

Target price: Rs5,211

Target price revision

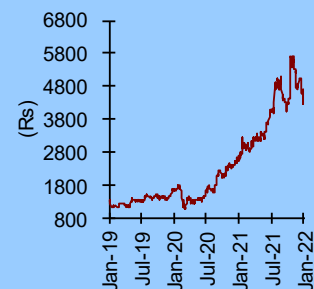
Rs5,211 from Rs4,994

Shareholding pattern

| | Jun '21 | Sep '21 | Dec '21 |
|-------------------------|---------|---------|---------|
| Promoters | 29.8 | 29.8 | 29.8 |
| Institutional investors | 64.1 | 63.8 | 64.6 |
| MFs and others | 6.6 | 7.3 | 6.6 |
| Banks/FIs | 0.1 | 0.0 | 0.0 |
| Insurance Co | 4.2 | 5.0 | 5.5 |
| FII | 53.2 | 51.5 | 52.5 |
| Exports Others | 6.1 | 6.4 | 5.6 |

Source: BSE India

Price chart



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Apollo Hospitals Enterprises

BUY

Upgrade from *Hold*

Apollo Pharmacy on Amazon platform

Rs4,484

Apollo Hospitals Enterprises' (AHEL) associate company Apollo Pharmacies would be listing its products on Amazon India. With this listing of products, Amazon India's customers shall have access to pharmacy products across India. This is a non-exclusive deal and no infusion of capital. With this deal, Apollo Pharmacy seeks to leverage Amazon's reach in the regions where it does not have strong presence, like in western part – especially Mumbai – and hence it is likely to augment the company's online pharmacy growth. However, it may have some cannibalization impact on the company's existing business as well. Overall, we are positive on the long-term outlook of AHEL, given its strong brand and pan-India presence in the hospital segment, margin expansion potential, and aggressive focus on creating a digital network for pharmacy, doctor consultation, clinics and diagnostics. Also, the recent correction in the price makes valuation reasonable. Upgrade to BUY from Hold with a revised target price of Rs5,211/share.

► Highlights from management interaction on Apollo Pharmacies listing its products on Amazon:

- The company will start with a pilot project to list its product in Amazon platform in next 30 days and gradually increase the geographical spread.
- Apollo 24/7 grew 5x in past two years.
- Aspiration is to reach US\$2.3bn in Apollo Healthco revenues in next 2-3 years with more than 30% compounding growth.
- Apollo 24/7 is the second largest home pharmacy delivery channel with more than 45,000 deliveries per day (~21,000 through online platform and ~25,000 offline home delivery).
- However, with the listing of its products on Amazon, the company is expected to be a largest pharmacy delivery channel in India.
- Blended current cost of acquisition of Apollo 24/7 is Rs150 per user.
- The company is continuously looking for strategic investors in Apollo HealthCo to accelerate growth and unlock value.
- Apollo is also working with Google on the digitalization front

► **Outlook:** We expect the improvement in performance to continue in the ensuing quarters supported by higher occupancy, cost-control initiatives and continuous growth momentum in the pharmacy segment. We expect 23.6% revenue and 42.5% EBITDA CAGRs over FY21-FY24E on low base of FY21.

► **Valuations:** We have maintained our estimates, but the recent correction in the price makes valuation reasonable and also we roll over to Sep'23E. Hence, we **upgrade AHEL to BUY** (from Hold) with a revised TP of Rs5,211/share based on SoTP on Sep'23E (earlier Rs4,994/share). Key downside risks are: higher competition and further delay in elective surgeries.

| | |
|-------------------------|------------------|
| Market Cap | Rs645bn/US\$86bn |
| Reuters/Bloomberg | APLH.BO/APHS IN |
| Shares Outstanding (mn) | 143.8 |
| 52-week Range (Rs) | 5931/2531 |
| Free Float (%) | 70.2 |
| FII (%) | 52.5 |
| Daily Volume (USD/'000) | 64261 |
| Absolute Return 3m (%) | 4.5 |
| Absolute Return 12m (%) | 71.0 |
| Sensex Return 3m (%) | (4.6) |
| Sensex Return 12m (%) | 23.3 |

| Year to Mar | FY21 | FY22E | FY23E | FY24E |
|--------------------|----------|----------|----------|----------|
| Revenue (Rs mn) | 1,05,600 | 1,53,719 | 1,76,240 | 1,99,398 |
| Net Income (Rs mn) | 1,129 | 9,297 | 12,377 | 15,836 |
| EPS (Rs) | 7.8 | 64.0 | 85.2 | 109.1 |
| % Chg YoY | (65.2) | 723.3 | 33.1 | 28.0 |
| P/E (x) | 576.6 | 70.0 | 52.6 | 41.1 |
| CEPS (Rs) | 47.3 | 105.3 | 128.2 | 154.0 |
| EV/E (x) | 60.4 | 29.3 | 24.1 | 19.9 |
| Dividend Yield (%) | 0.1 | 0.1 | 0.1 | 0.1 |
| RoCE (%) | 4.9 | 12.5 | 14.5 | 16.1 |
| RoE (%) | 2.8 | 18.4 | 20.3 | 21.2 |

Valuations

We expect AHEL's EBITDA to grow at a CAGR of 42.5% over FY21-FY24E driven by revenue CAGR of 23.6% and EBITDA margin expansion to 16.5% by FY24E from 10.8% in FY21. Economies of scale on increased occupancy, improved case mix, reduced ALOS and lower losses in newer segments are expected to drive margin expansion. Further, return ratios are likely to recover from current depressed levels with strong growth in net profit and reduced capex.

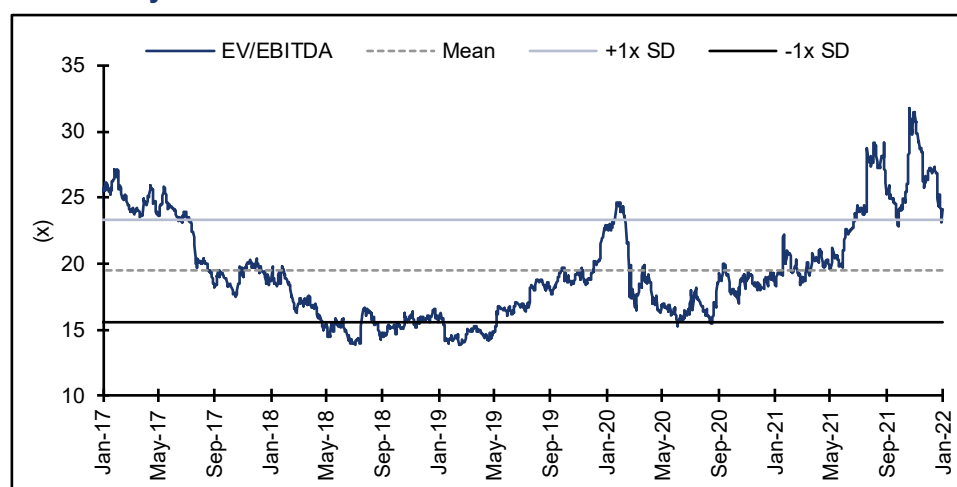
The stock currently trades at EV/EBITDA of 24.1x FY23E and 19.9x FY24E. We remain positive on AHEL's long-term outlook considering its strong brand and pan-India presence in the hospital segment, margin expansion potential, and potential upside from online platform and AHLL. Also, the recent correction in the stock price makes valuation reasonable. Upgrade to **BUY** from Hold with a revised target price of Rs5,211/share. based on SoTP valuation (earlier: 4,994/share). The stock has traded at an average forward EV/EBITDA of 19.5x over the past five years. We now consider EBITDA and debt as per IND-AS-116 for the valuation purpose.

Table 1: Sum of the parts (SoTP) valuation

| Segments | Rs mn | (x) | Value (Rs mn) | AHEL's stake | Value (Rs mn) |
|-----------------------------------|--------|------|---------------|--------------|-----------------|
| Hospitals - EBITDA (Sep'23) | 21,133 | 20.0 | 4,22,665 | 100% | 4,22,665 |
| Pharmacy - Sales (Sep'23) | 71,574 | 4.0 | 2,86,295 | 100% | 2,86,295 |
| AHLL - EBITDA (Sep'23) | 4,350 | 20.0 | 86,998 | 70% | 61,116 |
| Indraprastha Medical - Market cap | 6,949 | 0.8 | 5,559 | 22% | 1,225 |
| Total EV | | | | | 7,71,300 |
| Less: Net Debt (Sep'23) | | | | | 10,706 |
| Minority Interest | | | | | 3,998 |
| Implied M-Cap | | | | | 7,56,596 |
| Value per share (Rs) | | | | | 5,211 |

Source: Company data, I-Sec research

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Summary financials (consolidated)

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

| | FY21 | FY22E | FY23E | FY24E |
|-------------------------|-----------------|-----------------|-----------------|-----------------|
| Hospitals | 49,040 | 75,159 | 83,679 | 92,138 |
| Pharmacy | 48,760 | 55,155 | 65,968 | 77,179 |
| AHLL & Proton | 7,800 | 16,865 | 21,362 | 25,895 |
| Others | - | 6,540 | 5,232 | 4,186 |
| Total Revenue | 1,05,600 | 1,53,719 | 1,76,240 | 1,99,398 |
| YoY Growth% | (6.1) | 45.6 | 14.7 | 13.1 |
| Total Op. Exp. | 94,226 | 1,30,508 | 1,48,483 | 1,66,497 |
| EBITDA | 11,374 | 23,212 | 27,758 | 32,901 |
| Margins % | 10.8 | 15.1 | 15.8 | 16.5 |
| YoY Growth% | (28.3) | 104.1 | 19.6 | 18.5 |
| Depreciation | 5,731 | 5,984 | 6,239 | 6,523 |
| EBIT | 5,643 | 17,228 | 21,519 | 26,378 |
| Other Income | 458 | 450 | 450 | 450 |
| Interest | 4,492 | 3,802 | 3,497 | 3,191 |
| Exceptional Items (net) | 607 | - | - | - |
| PBT | 2,215 | 13,876 | 18,472 | 23,636 |
| Tax | 847 | 4,579 | 6,096 | 7,800 |
| Tax Rate (%) | 38.2 | 33.0 | 33.0 | 33.0 |
| Minority Interest | (136) | - | - | - |
| Reported PAT | 1,504 | 9,297 | 12,377 | 15,836 |
| Adj PAT | 1,129 | 9,297 | 12,377 | 15,836 |
| Net Margins (%) | 1.1 | 6.0 | 7.0 | 7.9 |

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

| | FY21 | FY22E | FY23E | FY24E |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
| Paid-up Capital | 719 | 719 | 719 | 719 |
| Reserves & Surplus | 45,307 | 54,221 | 66,215 | 81,669 |
| Total Equity | 46,026 | 54,940 | 66,934 | 82,387 |
| Minority Interest | 1,999 | 1,999 | 1,999 | 1,999 |
| Total Debt | 52,997 | 48,997 | 44,997 | 40,997 |
| Deferred Liabilities | 2,353 | 2,353 | 2,353 | 2,353 |
| Capital Employed | 1,03,375 | 1,08,289 | 1,16,283 | 1,27,737 |
| Current Liabilities | 10,542 | 16,557 | 19,192 | 21,989 |
| Total Liabilities | 1,13,917 | 1,24,846 | 1,35,476 | 1,49,726 |
| Net Fixed Assets | 70,122 | 68,138 | 66,899 | 65,376 |
| Investments | 3,448 | 3,448 | 3,448 | 3,448 |
| Inventory | 2,495 | 3,455 | 3,931 | 4,408 |
| Debtors | 13,312 | 19,377 | 22,216 | 25,136 |
| Other Current Assets | 7,319 | 10,573 | 12,096 | 13,662 |
| Cash and Equivalents | 17,222 | 19,855 | 26,885 | 37,696 |
| Total Cur. Assets | 43,795 | 56,708 | 68,577 | 84,350 |
| Total Assets | 1,13,917 | 1,24,846 | 1,35,476 | 1,49,726 |

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

| | FY21 | FY22E | FY23E | FY24E |
|------------------------------|----------------|----------------|----------------|----------------|
| PBT (Adj. for Extraordinary) | 2,215 | 13,876 | 18,472 | 23,636 |
| Depreciation | 5,731 | 5,984 | 6,239 | 6,523 |
| Net Chg in WC | (4,065) | (2,189) | (1,230) | (1,166) |
| Taxes | 353 | (4,579) | (6,096) | (7,800) |
| Others | 4,009 | (2,077) | (972) | (999) |
| CFO | 8,243 | 11,015 | 16,413 | 20,194 |
| Capex | 2,434 | (4,000) | (5,000) | (5,000) |
| Net Investments made | (11,376) | - | - | - |
| Others | 218 | - | - | - |
| CFI | (8,723) | (4,000) | (5,000) | (5,000) |
| Change in Share capital | 11,520 | - | - | - |
| Change in Debts | (9,858) | (4,000) | (4,000) | (4,000) |
| Div. & Div Tax | (383) | (383) | (383) | (383) |
| Others | 1,778 | - | - | - |
| CFF | 3,057 | (4,383) | (4,383) | (4,383) |
| Total Cash Generated | 2,577 | 2,633 | 7,030 | 10,811 |
| Cash Opening Balance | 4,668 | 7,244 | 9,877 | 16,907 |
| Cash Closing Balance | 7,244 | 9,877 | 16,907 | 27,719 |

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

| | FY21 | FY22E | FY23E | FY24E |
|------------------------|--------|-------|-------|-------|
| Adj EPS | 7.8 | 64.0 | 85.2 | 109.1 |
| YoY Growth% | (65.2) | 723.3 | 33.1 | 28.0 |
| Cash EPS | 47.3 | 105.3 | 128.2 | 154.0 |
| EBITDA - Core (%) | 10.8 | 15.1 | 15.8 | 16.5 |
| NPM (%) | 1.1 | 6.0 | 7.0 | 7.9 |
| Net Debt to Equity (x) | 0.8 | 0.5 | 0.3 | 0.0 |
| P/E (x) | 576.6 | 70.0 | 52.6 | 41.1 |
| EV/EBITDA Core (x) | 60.4 | 29.3 | 24.1 | 19.9 |
| P/BV (x) | 14.1 | 11.9 | 9.7 | 7.9 |
| EV/Sales (x) | 6.5 | 4.4 | 3.8 | 3.3 |
| RoCE (%) | 4.9 | 12.5 | 14.5 | 16.1 |
| RoE (%) | 2.8 | 18.4 | 20.3 | 21.2 |
| RoIC (%) | 5.3 | 14.7 | 17.8 | 21.5 |
| Book Value (Rs) | 317.0 | 378.4 | 461.0 | 567.5 |
| DPS (Rs) | 2.6 | 2.6 | 2.6 | 2.6 |
| Dividend Payout (%) | 33.9 | 4.1 | 3.1 | 2.4 |
| Div Yield (%) | 0.1 | 0.1 | 0.1 | 0.1 |
| Asset Turnover Ratio | 0.9 | 1.3 | 1.4 | 1.4 |
| Avg Collection days | 19 | 8 | 9 | 9 |
| Avg Inventory days | 40 | 39 | 43 | 43 |

Source: Company data, I-Sec research

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