

# Apollo Hospitals

BSE SENSEX

73,730

S&P CNX

22,420



Bloomberg	APHS IN
Equity Shares (m)	139
M.Cap.(INRb)/(USD\$b)	899.9 / 10.8
52-Week Range (INR)	6874 / 4365
1, 6, 12 Rel. Per (%)	-3/13/16
12M Avg Val (INR M)	2552
Free float (%)	70.7

### Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	189.9	215.7	252.1
EBITDA	23.7	28.0	36.3
Adj. PAT	8.9	13.9	19.6
EBIT Margin (%)	12.5	13.0	14.4
Cons. Adj. EPS (INR)	62.2	96.4	136.1
EPS Gr. (%)	29.2	55.0	41.1
BV/Sh. (INR)	503.8	597.4	732.0

### Ratios

Net D:E	0.1	-0.1	-0.3
RoE (%)	13.5	18.1	21.2
RoCE (%)	13.4	17.3	20.4
Payout (%)	9.4	6.1	4.3

### Valuations

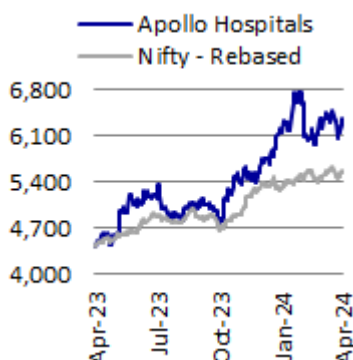
P/E (x)	103.4	66.7	47.3
EV/EBITDA (x)	39.6	33.0	24.9
Div. Yield (%)	0.1	0.1	0.1
FCF Yield (%)	1.0	2.1	2.6
EV/Sales (x)	4.9	4.3	3.6

### Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	29.3	29.3	29.3
DII	19.8	19.1	18.0
FII	45.6	46.3	47.0
Others	5.3	5.3	5.7

FII Includes depository receipts

### Stock Performance (1-year)



**CMP: INR6,259 TP: INR7,280 (+16%)**

**Buy**

## Part-stake sale at 'Healthco' infuses growth capital

### Deal integrates Keimed (distribution) business with AHL

- Apollo Hospitals Enterprises (AHEL) has proposed to infuse equity capital (INR24.8b) from Advent international at Apollo healthco level (AHL) and integrate Keimed private ltd (distribution arm of Apollo group) with AHL.
- The deal values AHL at INR145b (USD1.8b) at an expected valuation of EV/sales of 1.9x. Keimed is valued at INR80b (23x FY24E EBITDA of INR3.5b).
- The deal establishes a strong pharmacy franchise that spans the entire value chain from distribution to direct and online customer engagement. This expansion not only increases scale but also boosts efficiency throughout the value chain, leading to enhanced profitability.
- AHEL has been expanding across the healthcare services comprising hospitals and both offline and online pharmacy businesses. Overall, we expect 48% earnings CAGR over FY24-26. We value AHEL on an SOTP basis (26x EV/EBITDA for hospitals, 12x EV/EBITDA for retained pharmacy, 20x EV/EBITDA for front-end pharmacy, 25x EV/EBITDA for AHL and 2x EV/sales for Apollo 24/7) to arrive at a PT of INR7,280. Maintain BUY.

### Transaction details

- AHL proposes to raise equity capital of INR24.8b (USD300m) from Advent International for a stake of 16.9% in two tranches.
- In the first tranche, 70% of the 16.9% stake will be acquired for INR17b. In the second tranche, Advent plans to invest around INR7.4b to acquire the remaining 30% of the 16.9% stake in the next 12M.
- The funds will be utilized for a) Growth capital in AHL: INR8.6b, b) retirement of INR8.9b of the INR12.9b slump sale consideration owed to AHEL and c) Acquisition of 11.2% stake in Keimed for INR7.3b.
- As a part of the transaction, Keimed would be merged in AHL with the swap ratio capped at 0.81 shares of AHL for every 1 share of Keimed.
- Post completion of transaction, the AHL would have 59% holding by AHEL, 12% holding by Advent, and the remaining by Keimed shareholders.
- AHL (pre-merger of Keimed) is valued at INR145b (USD1.8b). Effectively, valuing AHL at EV/sales of 1.9x. Keimed is valued at INR80b, effectively at the valuation of 23x FY24E EBITDA of INR3.5b.
- The combined entities value would be INR225b (USD2.7b).
- Proforma 12M ending Dec'23 sales of combined entity are INR136b. Effectively, valuing the combined entity at EV/Sales of 1.7x.
- Proforma 12M ending Dec'23 EBITDA (pre-24/7 operating cost) would be INR9.5b (7%). After 24/7 operating cost, 12M ending Dec'23 EBITDA would be INR2b (1.5%). The transaction is expected to be completed in 24-30M.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

### Integration of AHL and Keimed to drive synergies over medium term

- This transaction would enable AHL to establish an integrated pharmacy distribution business, complemented by a fast-growing omnichannel digital health segment.
- Following integration with Keimed, growth would be driven by a) faster expansion into Tier 2/3 markets by leveraging on existing infrastructure b) broadened channels for AHL's private label promotion, and c) an end-to-end supply chain capabilities with a wide array of product selections.
- Further, the merged entity targets to a) achieve EBITDA breakeven for the digital business in 6-8 quarters, b) higher margin realization through supply chain efficiencies and c) accelerated growth in private label business, which would drive margin expansion.
- Additionally, Keimed's vast network and a library of historical data, combined with AHL's digital capabilities, will contribute to a robust digital analytics engine, enhancing the reliability of data analytics.

### Highlights from management commentary

- Management intends to scale up the combined business (Healthco and Keimed) to INR250b over the next three years from its current annual sales of INR136b.
- From the current 1.5% EBITDA margin at the merged entity level, management intends to expand margins to 7-8% on the back of:
  - On-going margin strengthening in off-line pharmacies
  - Enhancing GMV and improving efficiencies at Apollo 24/7 (digital business) to achieve EBITDA break-even in 6-8 quarters
  - Apollo private label push through Keimed as well
  - Scaling volumes at Keimed
- Ms. Shobana would continue to drive the business post merger of AHL and Keimed.
- Out of the capital infused by Advent, INR8.6b would be used for the expansion of stores, working capital and repayment of debts at Apollo Healthco.
- About 55% of Apollo hospitals Enterprise (AHEL) required is currently met by Keimed. Keimed caters to almost 64K pharmacies, including 6K pharmacies of the Apollo group.
- Keimed has witnessed doubling of sales over FY19-23 at stable operating margins.
- Keimed has almost 45K SKUs and holds a 15% market share in the regions where it operates.
- Keimed paid INR6b to buy a 20% stake of Mistui in Keimed.
- Net debt at the Keimed level stands at INR16b.

### Valuation and view

AHEL has been expanding across the healthcare services, comprising hospitals and both offline/online pharmacy businesses. Overall, we expect 48% earnings CAGR over FY24-26. We value AHEL on an SOTP basis (26x EV/EBITDA for hospitals, 12x EV/EBITDA for retained pharmacy, 20x EV/EBITDA for front-end pharmacy, 25x EV/EBITDA for AHLL, and 2x EV/sales for Apollo 24/7) to arrive at a PT of INR7,280. Maintain BUY.

**Exhibit 1: Apollo 24/7 key business parameters snapshot**

As of Dec'23	Parameters
Daily Consultations	6000+
GMV (9MFY24; INRm)	2000+
Daily Online Medicine Orders Booked	38000
Daily Sample Collections	2300+
Pin-Codes Serviced	19000
Registrations (No in Millions)	31m+

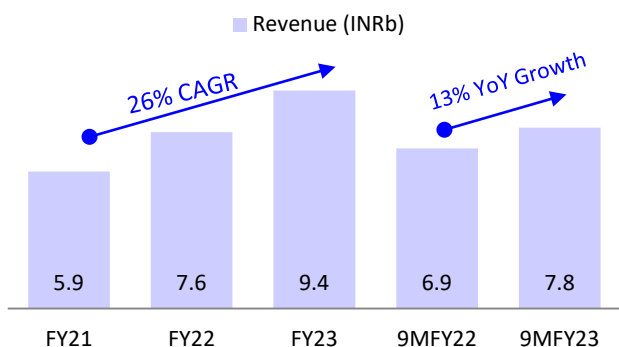
Source: MOFSL, Company

**Exhibit 2: Combined (AHL+Keimed) financial snapshot for 9MFY24**

INRM	Offline Pharmacy Distribution	+	Online Pharmacy Distribution + Apollo 24/7	=	Total Healthco	+	Keimed	=	Combined
Revenue	51,390		6,610		58,000		77,560		102,080**
EBITDA pre INDAS 116*	3,750		740		4,490		2,620		7,110
EBITDA margin %pre INDAS 116	7.3		11.2		7.7		3.4		7.0
24/7 operating cost	0		4,780		4,780		0		4,780
ESOP Non Cash Charge	0		790		790		0		790
EBITDA pre INDAS 116	3,750		-4,830		-1,080		2,620		1,540
EBITDA margin %pre INDAS 116	7.3		NA		NA		3.4		1.5

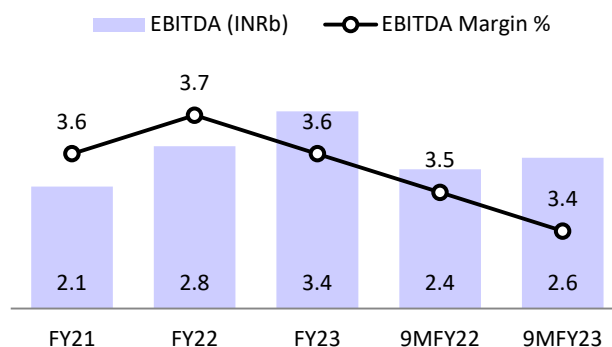
Note: \* EBITDA before 24/7 operating cost and ESOP, \*\* Revenue adjusted for intersegment sales (Keimed & AHL) Source: MOFSL, Company

**Exhibit 3: Keimed registered 26% CAGR over FY21-23**



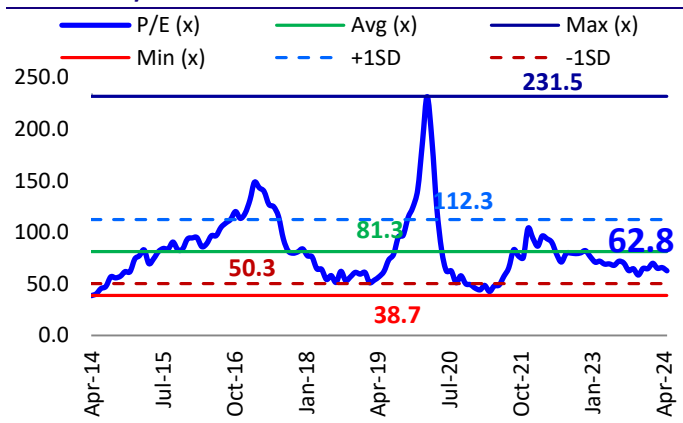
Source: MOFSL, Company

**Exhibit 4: EBITDA margin on a slight downtrend for Keimed**



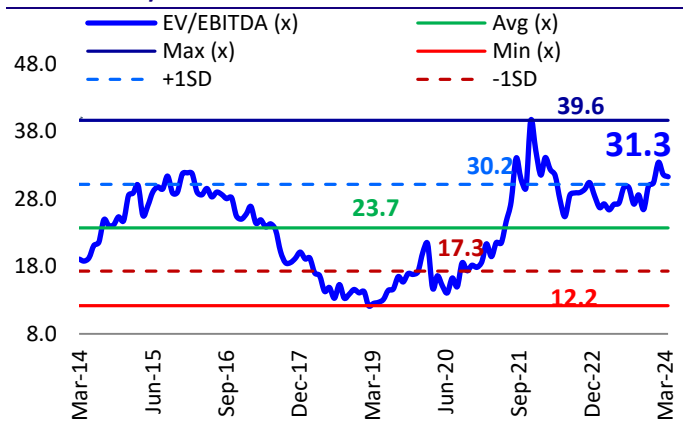
Source: MOFSL, Company

**Exhibit 5: P/E chart**



Source: MOFSL, Company, Bloomberg

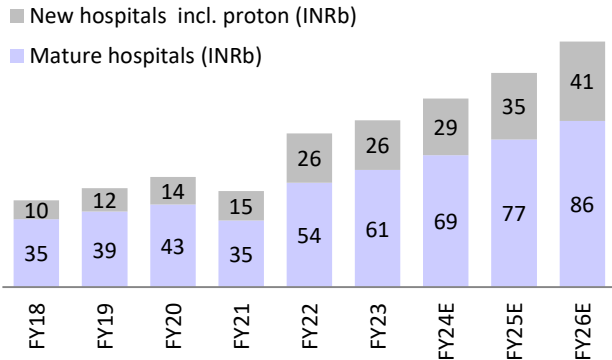
**Exhibit 6: EV/EBITDA chart**



Source: MOFSL, Company, Bloomberg

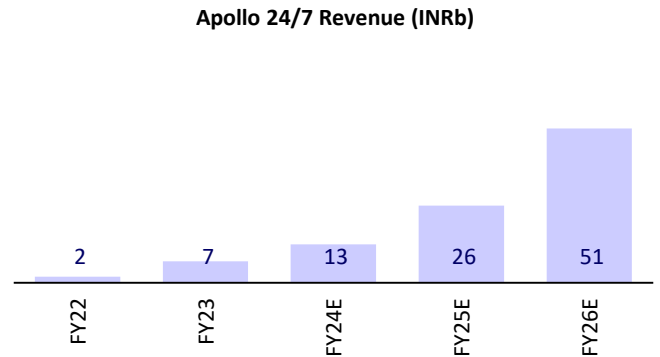
## Story in charts

**Exhibit 7: Expect 14% sales CAGR over FY24-26 in hospitals segment**



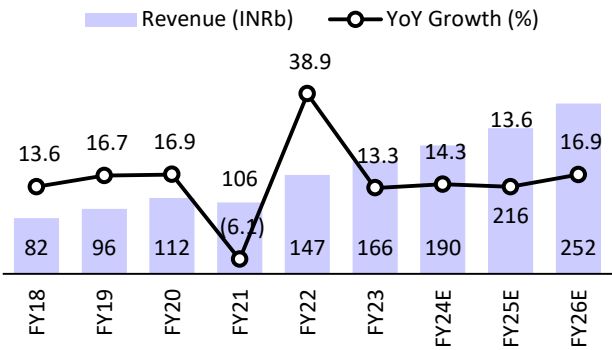
Source: Company, MOFSL

**Exhibit 8: Expect Apollo 24/7 to grow 2x over FY24-26**



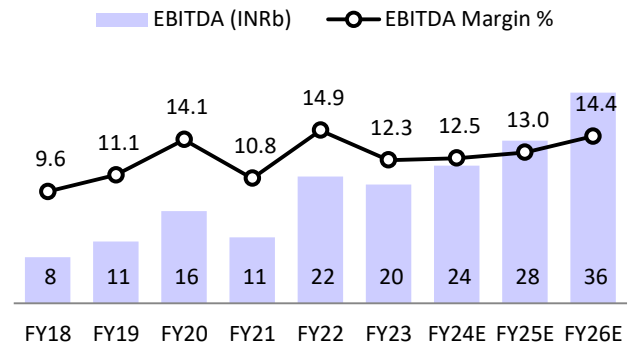
Source: Company, MOFSL

**Exhibit 9: Expect 15% overall revenue CAGR over FY24-26**



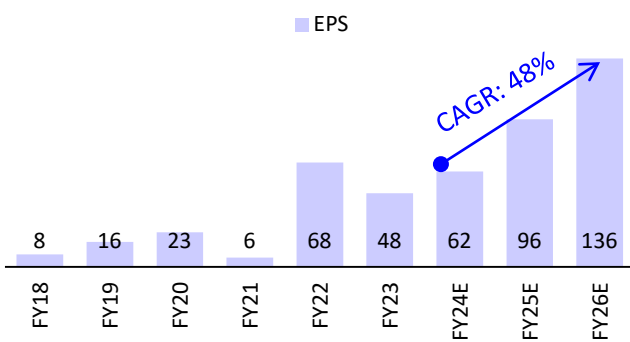
Source: Company, MOFSL

**Exhibit 10: Expect EBITDA margin to improve over FY24-26**



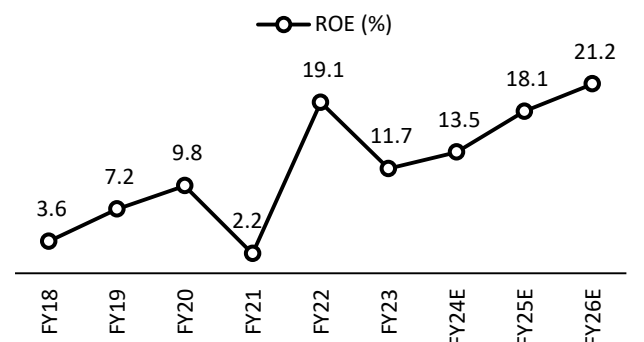
Source: Company, MOFSL

**Exhibit 11: Expect EPS to clock 48% CAGR over FY24-26**



Source: Company, MOFSL

**Exhibit 12: Expect ROE to rise over FY24-26**



Source: Company, MOFSL

## Financials and valuations

Consolidated - Income Statement								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Total Income from Operations</b>	<b>96,174</b>	<b>1,12,468</b>	<b>1,05,600</b>	<b>1,46,626</b>	<b>1,66,124</b>	<b>1,89,851</b>	<b>2,15,673</b>	<b>2,52,113</b>
Change (%)	16.7	16.9	-6.1	38.9	13.3	14.3	13.6	16.9
<b>Total Expenditure</b>	<b>85,538</b>	<b>96,596</b>	<b>94,226</b>	<b>1,24,775</b>	<b>1,45,628</b>	<b>1,66,120</b>	<b>1,87,635</b>	<b>2,15,809</b>
% of Sales	88.9	85.9	89.2	85.1	87.7	87.5	87.0	85.6
<b>EBITDA</b>	<b>10,637</b>	<b>15,872</b>	<b>11,374</b>	<b>21,851</b>	<b>20,496</b>	<b>23,731</b>	<b>28,037</b>	<b>36,304</b>
Margin (%)	11.1	14.1	10.8	14.9	12.3	12.5	13.0	14.4
Depreciation	3,955	6,197	5,731	6,007	6,152	6,630	6,413	6,656
<b>EBIT</b>	<b>6,681</b>	<b>9,675</b>	<b>5,643</b>	<b>15,844</b>	<b>14,343</b>	<b>17,102</b>	<b>21,624</b>	<b>29,649</b>
Int. and Finance Charges	3,270	5,328	4,492	3,786	3,808	4,314	3,688	3,274
Other Income	324	270	450	781	903	1,101	1,251	1,261
<b>PBT bef. EO Exp.</b>	<b>3,736</b>	<b>4,617</b>	<b>1,601</b>	<b>12,839</b>	<b>11,439</b>	<b>13,889</b>	<b>19,187</b>	<b>27,635</b>
EO Items	0	1,952	614	2,941	0	19	0	0
<b>PBT after EO Exp.</b>	<b>3,736</b>	<b>6,569</b>	<b>2,215</b>	<b>15,781</b>	<b>11,439</b>	<b>13,908</b>	<b>19,187</b>	<b>27,635</b>
Total Tax	1,734	2,252	847	4,770	2,562	4,450	4,797	7,517
Tax Rate (%)	46.4	34.3	38.2	30.2	22.4	32.0	25.0	27.2
Minority Interest	-359	-231	-8	454	687	500	525	551
<b>Reported PAT</b>	<b>2,361</b>	<b>4,548</b>	<b>1,368</b>	<b>10,557</b>	<b>8,190</b>	<b>8,957</b>	<b>13,865</b>	<b>19,567</b>
<b>Adjusted PAT</b>	<b>2,361</b>	<b>3,265</b>	<b>870</b>	<b>9,787</b>	<b>6,923</b>	<b>8,944</b>	<b>13,865</b>	<b>19,567</b>
Change (%)	101.5	38.3	-73.4	1,024.9	-29.3	29.2	55.0	41.1
Margin (%)	2.5	2.9	0.8	6.7	4.2	4.7	6.4	7.8

Consolidated - Balance Sheet								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	696	696	719	719	719	719	719	719
Total Reserves	32,639	32,695	45,306	55,733	61,253	69,369	82,392	1,01,119
<b>Net Worth</b>	<b>33,335</b>	<b>33,390</b>	<b>46,025</b>	<b>56,452</b>	<b>61,971</b>	<b>70,088</b>	<b>83,111</b>	<b>1,01,838</b>
Minority Interest	1,355	1,307	1,999	2,543	3,341	3,341	3,341	3,341
Total Loans	41,534	38,567	30,846	26,357	27,103	25,103	20,203	15,303
Non-Current Lease Liabilities	0	18,676	12,301	13,333	14,983	14,983	14,983	14,983
Deferred Tax Liabilities	2,975	2,447	2,354	5,215	4,303	4,303	4,303	4,303
<b>Capital Employed</b>	<b>79,198</b>	<b>94,387</b>	<b>93,525</b>	<b>1,03,900</b>	<b>1,11,702</b>	<b>1,17,818</b>	<b>1,25,942</b>	<b>1,39,769</b>
Gross Block	62,594	98,760	92,371	1,07,815	1,15,853	1,25,231	1,31,307	1,34,922
Less: Accum. Deprn.	16,240	27,960	28,395	34,402	40,554	47,184	53,598	60,253
<b>Net Fixed Assets</b>	<b>46,354</b>	<b>70,800</b>	<b>63,976</b>	<b>73,413</b>	<b>75,298</b>	<b>78,047</b>	<b>77,709</b>	<b>74,668</b>
Goodwill on Consolidation	3,462	3,462	3,753	9,235	9,858	9,858	9,858	9,858
Capital WIP	8,218	2,356	2,339	455	6,098	5,720	2,644	2,029
<b>Total Investments</b>	<b>4,617</b>	<b>4,631</b>	<b>13,659</b>	<b>8,063</b>	<b>5,777</b>	<b>5,777</b>	<b>5,777</b>	<b>5,777</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>29,007</b>	<b>31,639</b>	<b>30,188</b>	<b>40,893</b>	<b>47,125</b>	<b>55,467</b>	<b>71,901</b>	<b>96,006</b>
Inventory	5,848	7,378	2,495	4,318	3,902	4,451	5,027	5,782
Account Receivables	10,232	10,272	13,311	17,676	22,342	25,533	29,006	33,907
Cash and Bank Balance	3,470	4,668	7,244	10,359	7,758	10,465	20,810	36,381
Loans and Advances	9,457	9,321	7,138	8,541	13,123	15,017	17,057	19,935
<b>Curr. Liability &amp; Prov.</b>	<b>12,459</b>	<b>18,501</b>	<b>20,390</b>	<b>28,159</b>	<b>32,454</b>	<b>37,049</b>	<b>41,946</b>	<b>48,569</b>
Account Payables	8,351	9,898	12,328	16,318	19,157	21,852	24,682	28,388
Other Current Liabilities	2,961	7,271	6,746	10,420	11,597	13,253	15,056	17,600
Provisions	1,147	1,331	1,316	1,421	1,701	1,943	2,208	2,581
<b>Net Current Assets</b>	<b>16,548</b>	<b>13,138</b>	<b>9,798</b>	<b>12,734</b>	<b>14,671</b>	<b>18,418</b>	<b>29,955</b>	<b>47,437</b>
<b>Appl. of Funds</b>	<b>79,198</b>	<b>94,387</b>	<b>93,525</b>	<b>1,03,900</b>	<b>1,11,702</b>	<b>1,17,819</b>	<b>1,25,943</b>	<b>1,39,769</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>16.4</b>	<b>22.7</b>	<b>6.1</b>	<b>68.1</b>	<b>48.2</b>	<b>62.2</b>	<b>96.4</b>	<b>136.1</b>
Cash EPS	45.4	68.0	47.4	113.5	94.0	111.9	145.8	188.5
BV/Share	239.6	240.0	330.8	405.8	445.5	503.8	597.4	732.0
DPS	6.0	6.7	3.0	5.0	5.0	5.0	5.0	5.0
Payout (%)	42.6	22.4	31.5	8.0	10.3	9.4	6.1	4.3
<b>Valuation (x)</b>								
P/E	391.8	283.2	1,063.1	94.5	133.6	103.4	66.7	47.3
Cash P/E	141.7	94.6	135.6	56.7	68.4	57.5	44.1	34.1
P/BV	26.8	26.8	19.4	15.9	14.4	12.8	10.8	8.8
EV/Sales	9.7	8.3	9.0	6.4	5.7	4.9	4.3	3.6
EV/EBITDA	87.7	58.5	83.4	43.1	46.1	39.6	33.0	24.9
Dividend Yield (%)	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
FCF per share	16.7	56.2	69.1	67.0	17.3	64.4	132.5	166.1
<b>Return Ratios (%)</b>								
RoE	7.2	9.8	2.2	19.1	11.7	13.5	18.1	21.2
RoCE	5.1	8.9	5.1	14.5	13.8	13.4	17.3	20.4
RoIC	5.8	8.7	4.6	14.2	12.6	12.4	16.8	22.4
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.5	1.1	1.1	1.4	1.4	1.5	1.6	1.9
Inventory (Days)	22	24	9	11	9	9	9	8
Debtor (Days)	39	33	46	44	49	49	49	49
Creditor (Days)	32	32	43	41	42	42	42	41
<b>Leverage Ratio (x)</b>								
Current Ratio	2.3	1.7	1.5	1.5	1.5	1.5	1.7	2.0
Interest Cover Ratio	2.0	1.8	1.3	4.2	3.8	4.0	5.9	9.1
Net Debt/Equity	1.0	0.9	0.2	0.1	0.2	0.1	-0.1	-0.3

### Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	2,002	4,317	1,368	11,084	8,446	13,889	19,187	27,635
Depreciation	3,955	6,197	5,731	6,007	6,152	6,630	6,413	6,656
Interest & Finance Charges	3,125	5,155	4,274	3,786	3,808	3,213	2,437	2,013
Direct Taxes Paid	-1,924	-3,061	353	-2,043	-3,820	-4,450	-4,797	-7,517
(Inc)/Dec in WC	-458	-703	-721	-4,630	-4,500	-1,020	-1,192	-1,911
<b>CF from Operations</b>	<b>6,700</b>	<b>11,905</b>	<b>11,005</b>	<b>14,204</b>	<b>10,087</b>	<b>18,261</b>	<b>22,049</b>	<b>26,876</b>
Others	2,350	1,024	1,729	1,953	3,684	0	0	0
<b>CF from Operating incl EO</b>	<b>9,050</b>	<b>12,929</b>	<b>12,734</b>	<b>16,156</b>	<b>13,771</b>	<b>18,261</b>	<b>22,049</b>	<b>26,876</b>
(Inc)/Dec in FA	-6,720	-5,106	-2,804	-6,518	-11,285	-9,000	-3,000	-3,000
<b>Free Cash Flow</b>	<b>2,329</b>	<b>7,823</b>	<b>9,930</b>	<b>9,639</b>	<b>2,485</b>	<b>9,261</b>	<b>19,049</b>	<b>23,876</b>
(Pur)/Sale of Investments	376	2,043	-6,207	-1,859	2,065	0	0	0
Others	-761	175	288	469	515	1,101	1,251	1,261
<b>CF from Investments</b>	<b>-7,106</b>	<b>-2,888</b>	<b>-8,723</b>	<b>-7,907</b>	<b>-8,706</b>	<b>-7,899</b>	<b>-1,749</b>	<b>-1,739</b>
Issue of Shares	0	0	11,520	0	45	0	0	0
Inc/(Dec) in Debt	0	-571	-8,985	-2,866	688	-2,000	-4,900	-4,900
Interest Paid	-3,620	-5,645	-4,676	-3,764	-2,514	-4,314	-3,688	-3,274
Dividend Paid	-837	-1,551	-383	-433	-2,579	-841	-841	-841
<b>CF from Fin. Activity</b>	<b>-2,145</b>	<b>-9,095</b>	<b>-3,567</b>	<b>-7,677</b>	<b>-5,582</b>	<b>-7,655</b>	<b>-9,954</b>	<b>-9,566</b>
<b>Inc/Dec of Cash</b>	<b>-201</b>	<b>946</b>	<b>444</b>	<b>572</b>	<b>-518</b>	<b>2,707</b>	<b>10,345</b>	<b>15,571</b>
Opening Balance	3,064	2,862	3,808	4,252	4,824	4,306	7,013	17,359
Closing Balance	2,863	3,808	4,252	4,824	4,306	7,013	17,359	32,929
Bank Balance	606	860	2,992	5,535	3,452	3,452	3,452	3,452
<b>Total Cash and Cash Equivalent</b>	<b>3,470</b>	<b>4,668</b>	<b>7,244</b>	<b>10,359</b>	<b>7,758</b>	<b>10,465</b>	<b>20,810</b>	<b>36,381</b>

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Explanation of Investment Rating	
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