Equity Research

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BSE Sensex: 55437

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Q1FY22 result review and earnings revision

Pharmaceuticals

Target price Rs4,312

Earnings revision

(%)	FY22E	FY23E
Sales	7.3	5.8
EBITDA	2.0	4.1

Target price revision

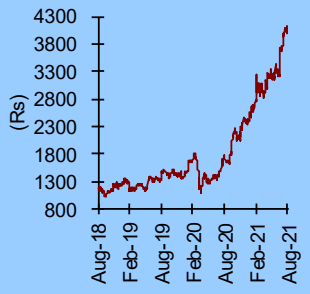
Rs4,312 from Rs3,466

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	30.8	29.8	29.8
Institutional investors	62.6	63.8	64.1
MFs and other	7.3	5.9	6.6
Banks/FIs	0.1	0.1	0.1
Insurance co	3.4	3.2	4.2
FIIs	51.8	54.6	53.2
Others	6.6	6.4	6.1

Source: BSE

Price chart



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INDIA

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Apollo Hospitals Enterprises

ADD
Maintained

Strong revenue growth; focus on digital network

Rs4,060

Apollo Hospitals Enterprises' (AHEL) Q1FY22 performance was better than estimate led by strong recovery in occupancies along with ARPOB, stock piling by pharmacy customers during 2nd covid-19 wave and incremental revenue from vaccination. However, margins were low due to lower margins in vaccination business and costs relating to 24x7 initiative. Overall, revenues grew 73.2% YoY to Rs37.6bn (I-Sec: Rs31.4bn). EBITDA margin stood at 13.8% vs estimated 15.0% due to additional cost of Rs370mn for 24x7 initiative and lower margin in pharmacy business. 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.

- **Hospital occupancy improves, pharmacy benefited by 2nd covid-19 wave:** Hospitals business grew 18.2% QoQ (145% YoY) as occupancy level improved QoQ and ARPOB also improved. Occupancy level increased to 67% vs 63% QoQ and we expect it to improve in coming quarters as situation normalises. We expect strong 57.5% growth in hospitals business in FY22 on a low base, consolidation of Kolkata hospital and incremental revenue from vaccination. Vaccination business contributed Rs1.9bn revenue in Q1FY22. The company's digital outreach for consultations and OPDs would help in accelerating growth. Pharmacy business continues to grow strong on like-to-like basis (+43% YoY).
- **Margins to improve:** Hospital business margin stood at 20.3% vs 21.1% YoY and the decline was due to higher contribution of covid-19 patients. Gradual improvement in occupancy level and various cost control exercises (human resource, administrative expenses etc.) undertaken by the company would aid gradual margin expansion. Pharmacy business margin improved 20bps QoQ to 5.2% but down YoY due to incremental cost of Rs370mn on account of 24/7 initiative. The consolidated margin was 13.8% in Q4FY21 and we expect it to increase to 16.5% by FY23E.
- **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 25.5% revenue and 51.8% 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 would look to get investor in this for growing the same and unlock value.
- **Valuations:** We raise EBITDA estimates by 2-4% to factor in higher growth. Maintain **ADD** with a revised target of Rs4,312/share based on SoTP on FY23E (earlier Rs3,466/share). We now value pharmacy business at 3x sales (vs EBITDA earlier) considering potential value of 24x7 platform which is currently contributing negative EBITDA. Key downside risks are: higher competition and further delay in elective surgeries.

Market Cap	Rs584bn/US$7.9bn
Reuters/Bloomberg	APLH.BO/APHS IN
Shares Outstanding (mn)	143.8
52-week Range (Rs)	4133/1606
Free Float (%)	70.2
FII (%)	53.2
Daily Volume (US$'000)	42,509
Absolute Return 3m (%)	27.1
Absolute Return 12m (%)	136.0
Sensex Return 3m (%)	14.6
Sensex Return 12m (%)	46.2

Year to March	FY20	FY21	FY22E	FY23E
Net Revenue (Rs mn)	112,468	105,600	144,818	166,360
Net Profit (Rs mn)	3,246	1,129	7,815	11,333
Dil. EPS (Rs)	22.4	7.8	53.8	78.1
% Chg YoY	37.5	(65.2)	592.1	45.0
P/E (x)	181.6	522.0	75.4	52.0
CEPS (Rs)	65.0	47.3	95.0	121.0
EV/EBITDA (x)	40.9	54.9	29.4	23.2
Dividend Yield (%)	0.3	0.1	0.1	0.1
RoCE (%)	5.8	4.9	11.1	13.7
RoE (%)	9.7	2.8	15.7	19.2

Highlights of Q1FY22 result and earnings call

- **AHEL's net sales** grew 73.2% YoY and 31.1% QoQ to Rs36.6bn during the quarter.
- **Hospital segment revenues** grew 145% YoY and 26% QoQ to Rs19.4bn led by increased occupancy levels and higher ARPOB. The company saw increased contribution from COVID-19 cases due to the 2nd wave which led to higher occupancy level across all regions.
  - **TN region** sales grew 146% YoY to Rs6.3bn. ARPOB was higher 8.6% YoY and occupancy levels increased to 62% from 32%.
  - **AP & Telangana region** sales grew 170% YoY to Rs4.2bn. ARPOB grew 13.7% YoY and occupancy was at 63% for the quarter
  - **Karnataka region** sales grew 153% YoY to Rs2.8bn. The region saw higher occupancy levels at 75% but ARPOB was flat YoY.
  - **Other regions** sales grew 86.6% YoY to Rs2.6bn. ARPOB was higher 18.7% YoY with increased occupancy levels to 77% from 58%.
  - **Significant subsidiaries/JVs/Associate revenues** grew 131% YoY to Rs3.1bn

  Proton Cancer Centre, revenues improved 42.1% QoQ to Rs439mn.The center recorded an EBITDA of Rs.106mn with sequential improvement in margins at 24.1%.

  AHLL segment registered a healthy performance during the quarter with revenues growing 202% YoY (+46.8% QoQ) to Rs3bn.The diagnostics segment saw a significant uptick due to the 2nd wave. The company intends to scale up the diagnostics business with an addition of ~200-300 collection centers per quarter and significant ramp up of the home collection segment. AHLL will see growth coming from diagnostics and clinics going forward

  Apollo 24/7 delivered a healthy performance with 10mn new registrations and ~1.6mn online medicines delivered. The company expects revenues of ~US$50-60mn for FY22 primarily driven by the pharmacy business

  New hospitals reported a revenue growth of 175% YoY (+39.9% QoQ) with an EBITDA margin of 16.3% during the quarter. Company expects the margins to remain at the current levels
- **Pharmacy business** revenues grew 17.7% YoY to Rs15.1bn. Company is targeting an addition of 300-350 stores in FY22 with high double digit growth supported by Apollo 24/7.
- Company has reorganized its segments; Apollo 24/7, backend pharmacies and pharmacy retail business into a new department called Apollo HealthCo. The company is currently awaiting shareholders' approval (to be held on 14th August) on the reorganization through slump sale

Table 1: Q1FY22 result review

(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	YoY % Chg	Q4FY21	QoQ % Chg
Net Sales	**37,602**	**21,715**	**73.2**	**27,599**	**36.2**
EBITDA	5,199	355	1,365.2	3,903	33.2
Other income (incl. JV/Assoc.)	205	(149)		210	(2.6)
PBIDT	**5,404**	**206**	**2,526.9**	**4,113**	**31.4**
Depreciation	1,406	1,602	(12.2)	1,250	12.4
Interest	947	1,274	(25.7)	1,010	(6.2)
Extra ordinary income/ (exp.)	-	-		-	
PBT	**3,051**	**(2,670)**		**1,853**	**64.6**
Tax	986	(408)		512	92.6
Minority Interest	114	(181)		37	
Reported PAT	**1,952**	**(2,082)**		**1,305**	**49.6**
Adjusted PAT	**1,952**	**(2,082)**		**1,305**	**49.6**
EBITDA margins (%)	13.8	1.6	1220bps	14.1	(30)bps

Source: Company data, I-Sec research

Table 2: Revenue mix

(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	YoY % Chg	Q4FY21	QoQ % Chg
Hospitals	19,392	7,900	145.5	14,362	35.0
Pharmacy	15,120	12,792	18.2	11,263	34.2
Total	**34,512**	**20,691**	**66.8**	**25,625**	**34.7**
EBITDA					
Hospitals	3,936	(838)	(569.6)	2,880	36.7
% margin	20.3	(10.6)	3090bps	20.1	20bps
Pharmacy	783	1,220	(35.8)	745	5.1
% margin	5.2	9.5	(430)bps	6.6	(140)bps

Source: Company data, I-Sec research

Valuations

We expect AHEL's EBITDA to grow at a CAGR of 51.8% over FY21-FY23E driven by revenue CAGR of 25.5% and EBITDA margin expansion to 15.8% by FY23E from 10.8% in FY21. Economies of scale on increased occupancy 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.

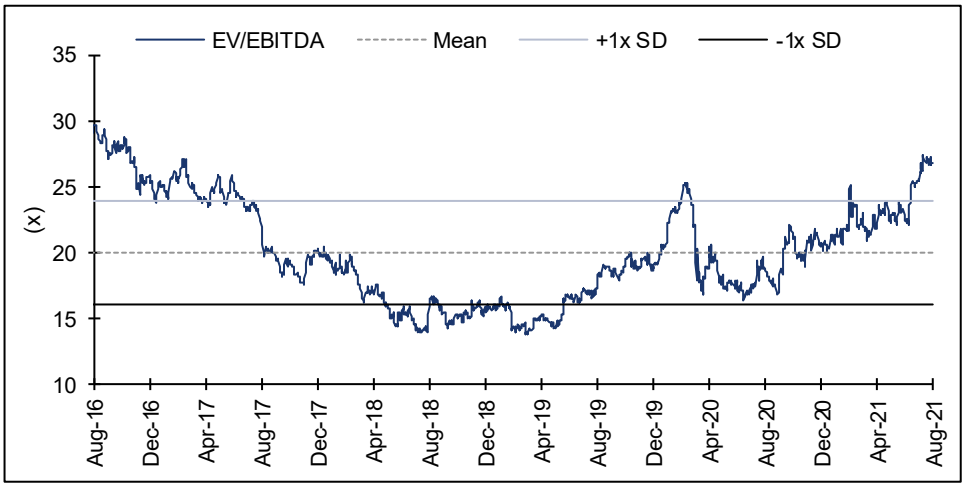
The stock currently trades at EV/EBITDA of 29.4xFY22E and 23.2xFY23E. We remain positive on AHEL's long-term outlook considering its strong brand and pan-India presence in the hospital segment, margin expansion potential and potential upside from vaccine administration for covid-19. Reiterate our **ADD** rating on the stock with a revised target price of Rs4,312/share based on SoTP valuation (earlier: 3,466/share). The stock has traded at an average forward EV/EBITDA of 20.0x 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)	19,080	21.0	400,679	100%	400,679
Pharmacy - Revenue (FY23E)	64,310	3.0	192,931	100%	192,931
AHLL - EBITDA (FY23E)	2,945	25.0	73,634	70%	51,728
Indraprastha Medical - Market cap	7,118	0.8	5,694	22%	1,254
Total EV					**646,593**
Less: Net Debt					18,598
Minority Interest					1,999
Implied MCap					**625,996**
Value per share (Rs)					**4,312**

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	72,405	81,046
Pharmacy	48,206	48,760	53,769	64,310
AHLL & Proton	7,550	7,800	14,236	17,476
Others	-	-	4,408	3,526
Total Revenue	**112,468**	**105,600**	**144,818**	**166,360**
YoY Growth%	16.9	(6.1)	37.1	14.9
Total Op. Exp.	**96,595**	**94,226**	**123,820**	**140,158**
EBITDA	**15,873**	**11,374**	**20,999**	**26,202**
Margins %	14.1	10.8	14.5	15.8
YoY Growth%	49.2	(28.3)	84.6	24.8
Depreciation	6,197	5,731	5,983	6,239
EBIT	**9,676**	**5,643**	**15,016**	**19,962**
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**	**11,664**	**16,915**
Tax	2,252	847	3,849	5,582
Tax Rate (%)	34.3	38.2	33.0	33.0
Minority Interest	(231)	(136)	-	-
Reported PAT	**4,549**	**1,504**	**7,815**	**11,333**
Adj PAT	**3,246**	**1,129**	**7,815**	**11,333**
Net Margins (%)	2.9	1.1	5.4	6.8

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	52,739	63,690
Total Equity	**33,390**	**46,026**	**53,458**	**64,409**
Minority Interest	1,307	1,999	1,999	1,999
Total Debt	**65,896**	**51,811**	**47,811**	**43,811**
Deferred Liabilities	2,445	2,353	2,353	2,353
Capital Employed	**103,038**	**102,189**	**105,621**	**112,572**
Current Liabilities	9,850	11,728	16,603	19,098
Total Liabilities	**112,889**	**113,917**	**122,224**	**131,670**
Net Fixed Assets	**76,677**	**70,122**	**68,139**	**66,900**
Investments	3,592	3,448	3,448	3,448
Inventory	7,378	2,495	3,278	3,711
Debtors	10,272	13,312	18,255	20,971
Other Current Assets	9,552	7,319	9,971	11,428
Cash and Equivalents	5,416	17,222	19,132	25,213
Total Cur. Assets	**36,211**	**43,795**	**54,085**	**64,771**
Total Assets	**112,889**	**113,917**	**122,224**	**131,670**

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	11,664	16,915
Depreciation	6,197	5,731	5,983	6,239
Net Chg in WC	(471)	(4,065)	(1,812)	(1,180)
Taxes	(3,061)	353	(3,849)	(5,582)
Others	(1,635)	4,009	(1,692)	(930)
CFO	**7,600**	**8,243**	**10,293**	**15,463**
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**	**1,911**	**6,081**
Cash Opening Balance	**3,470**	**4,668**	**7,244**	**9,155**
Cash Closing Balance	**4,668**	**7,244**	**9,155**	**15,235**

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	22.4	7.8	53.8	78.1
YoY Growth%	37.5	(65.2)	592.1	45.0
Cash EPS	65.0	47.3	95.0	121.0
EBITDA - Core (%)	14.1	10.8	14.5	15.8
NPM (%)	2.9	1.1	5.4	6.8
Net Debt to Equity (x)	1.8	0.8	0.5	0.3
P/E (x)	181.6	522.0	75.4	52.0
EV/EBITDA Core (x)	40.9	54.9	29.4	23.2
P/BV (x)	17.7	12.8	11.0	9.2
EV/Sales (x)	5.8	5.9	4.3	3.7
RoCE (%)	5.8	4.9	11.1	13.7
RoE (%)	9.7	2.8	15.7	19.2
RoIC (%)	6.0	5.3	13.0	16.8
Book Value (Rs)	230.0	317.0	368.2	443.6
DPS (Rs)	10.7	2.6	2.6	2.6
Dividend Payout (%)	47.8	33.9	4.9	3.4
Div Yield (%)	0.3	0.1	0.1	0.1
Asset Turnover Ratio	1.1	0.9	1.2	1.3
Avg Collection days	25	19	9	9
Avg Inventory days	31	40	40	43

Source: Company data, I-Sec research

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