

27 April 2024

India | Equity Research | Company Update

Apollo Hospital

Healthcare

Deal with Advent a step towards integration of retail and distribution business

Advent International is investing INR 24.75bn for 16.8% stake (12% post-merger) in the pharmacy retail business of Apollo HealthCo (AHL). The deal values AHL at an enterprise value of INR 145bn, 1.9x on 9MFY24 annualised sales. The company would merge its privately held pharmaceutical distribution business under Keimed with Apollo HealthCo over the next 2-2.5 years, valuing Keimed at INR 80bn or 0.8x/22.9x 9MFY24 annualised sales/EBITDA. As per management, over the next 3 years, sales of combined business may grow at 22% CAGR to INR 250bn and EBITDA between INR 17.5-20bn. We believe the deal valued Apollo HealthCo at a significant discount as compared to our expectations (of INR 215bn), and hence, we lower our rating to **HOLD** (Add earlier) with a revised target price of INR 6,275 (INR 6,800).

Post-merger, Advent will hold 12% in combined entity

Advent will invest INR 24.75bn in two tranches. Tranche 1 will include an investment of INR 17.3bn. AHL will issue full paid class A compulsory convertible preference share (CCPS) worth INR 14.9bn, partly paid class B CCPS worth INR 2.5bn and 1 equity share of AHL. Tranche 1 investment will happen post CCI nod and within 75 days post the signing of agreement. Tranche 2 will include an investment of INR 7.4bn of class B CCPS (now fully paid). Tranche 2 will be invested post 12 months of tranche 1. Post-merger with Keimed, Advent's holding in AHL will come down to 12.1% from 16.8%. Advent will have the right to nominate one director on the Board of AHL. AHL may provide an exit to Advent through IPO over the next 7 years.

Proceeds will be used for growth, debt repayment and acquisition of 11% stake in Keimed

Out of INR 24.75bn infused by Advent, INR 8.6bn will be used as growth capital for AHL. AHL owes INR 12.9bn to parent Apollo Hospital Enterprise (AHEL) for past slump sale transaction. AHL will pay the parent INR 8.9bn and for the balance INR 4bn it will issue fresh equity share to AHEL before the execution of merger with Keimed. The remaining INR 7.25bn will be used to acquire 11.1% stake in Keimed of which it will purchase 9.7% stake from Ms. Shobana Kamineni (promoter of AHEL) for INR 6.25bn and fresh infusion of ~INR 1bn for 1.4% stake.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	1,66,125	1,90,545	2,24,110	2,57,373
EBITDA	20,496	24,009	30,031	37,062
EBITDA Margin (%)	12.3	12.6	13.4	14.4
Net Profit	8,191	9,104	13,399	17,822
EPS (INR)	56.4	62.7	92.3	122.8
EPS % Chg YoY	(3.6)	11.2	47.2	33.0
P/E (x)	107.6	96.2	65.8	49.6
EV/EBITDA (x)	45.0	37.7	29.9	24.0
RoCE (%)	9.5	10.3	13.8	15.4
RoE (%)	13.8	13.7	17.4	19.3

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Market Data

Market Cap (INR)	900bn
Market Cap (USD)	10,802mn
Bloomberg Code	APHS IN
Reuters Code	APLH.BO
52-week Range (INR)	6,874 / 4,365
Free Float (%)	70.0
ADTV-3M (mn) (USD)	38.0

Price Performance (%)	3m	6m	12m
Absolute	1.5	31.5	41.9
Relative to Sensex	(2.8)	14.7	19.6

Previous Reports

10-11-2023: [Q3FY24 results review](#)10-11-2023: [Q2FY24 results review](#)

AHL-Keimed merger likely be complete in next 2-2.5 years

The merger process will be initiated in less than 15 months post 1 tranche investment and completed within 24-30 months from the date of signing of the deal with Advent. The merger ratio before infusion of INR 4bn by AHEL, issue of ESOPs and bonus share stands at 0.81 share of AHL for every 1 share of Keimed (swap ratio post all issuance stands at 33.41 shares of AHL for 1 share of Keimed). AHL will issue its shares worth INR 57.6bn to Keimed shareholders for the balance 88.9% stake of Keimed. Post the merger, AHEL's shareholding in the merged entity will be minimum 59.2% with Advent at 12.1%, promoters group of AHEL will hold 22.7%, minority shareholders of Keimed will hold 3%, and the balance 3% would be ESOP holding. Keimed shareholders will be bound by share transfer restrictions. AHL will have the right to appoint two directors on the Board of Keimed.

Merged entity to clock revenue of INR 250bn in next 3 years

On a pro-forma basis, the merger with Keimed will likely boost AHL's revenue by 76% to INR 136bn (9MFY24 revenue annualised). It will likely have positive EBITDA of INR 2bn (1.5% margins) as against an EBITDA loss of INR 1.08bn of HealthCo currently in 9MFY24. 24/7 is likely to turn EBITDA positive in next 6-8 quarters. In the next 3 years, revenue of the combined entity is likely to grow at a CAGR of 22% to INR 250bn with EBITDA between INR 17.5-20bn and EBITDA margin between 7-8%. Improvement in EBITDA margin is likely to be fuelled by offline pharmacy distribution (9-10% margin from 7.3% currently) and turnaround in 24/7. Besides, Keimed has existing debt of INR 16bn. Management expects the deal to be EPS accretive from the first year of the merger.

Valuation and risks

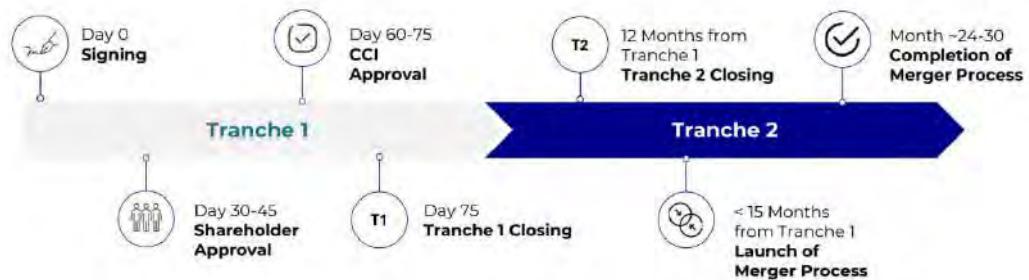
Entry of Advent is a step towards unifying the pharmacy retail and distribution business of Apollo group which was otherwise scattered in different entities. The proceeds from fresh issue in AHL are largely committed towards growth needs of AHL, repayment of its debt to the parent entity AHEL and acquiring 12% stake in Keimed. The INR 12.9bn slump sale payment to AHEL will help it fund the bed expansion programme, whereby, it aims to incur a capex of INR 34.35bn over the next 3 years.

Merger with Keimed will help the shareholders of AHEL to have a hold on the entire pharmacy retail and distribution of Apollo group. Besides, the management has set an aggressive target of achieving revenue growth of 22% and improve margins of the combined entity by 550-650bps over the next 3 years.

While the business of AHL is set for a turnaround, its valuation of INR 144.8bn based on current financial performance, is 33% lower than our expectation of INR 215bn. We maintain our estimates. The stock currently trades at EV/EBITDA of 30.8x FY25E and 24.7x FY26E. We lower our rating to **HOLD** (from Add) with a lower target price of INR 6,275/share (from INR 6,800). We now value AHL at 1.6x (2x earlier) FY26E EV/sales but continue to value Hospitals/AHLL at 24x/18 FY26E EV/EBITDA, respectively.

Upside risks: Faster turnaround in profitability of 24/7, higher-than-anticipated improvement in ARPOB and occupancy of hospitals. **Downside risks:** Higher competition in pharmacy business, lower margins in new hospitals.

Exhibit 1: Timeline of events



Source: Company data, I-Sec research

Exhibit 2: Pro-forma financials - 9MFY24

Particulars (INR mn)	Offline pharmacy distribution	Online pharmacy distribution & Apollo 24/7	Total Healthco	Keimed	Consolidation adjustments	Combined (Proforma)
Revenue	51,390	6,610	58,000	77,560	-33,480	1,02,080
Operating profit before ESOP and 24/7 cost (pre IND-AS)	3,750	740	4,490	2,620	0	7,110
margins (%)	7.3	11.2	7.7	3.4	-	7.0
24/7 operating cost	0	-4,780	-4,780	0	0	-4,780
ESOP charge	0	-790	-790	0	0	-790
EBITDA (pre IND-AS)	3,750	-4,830	-1,080	2,620	0	1,540
margins (%)	7.3	11.2	7.7	3.4	-	7.0

Source: Company data, I-Sec research

Exhibit 3: Combined pharmacy revenue likely to surge 22% in next 3 years

Particulars (INR bn)	9MFY24 annualized (INR mn)	FY27	3 yr CAGR (%)
Revenue	136	250	22.3
EBITDA	2	17.5-20	100-110
Margins (%)	1.5	7-8	

Source: Company data, I-Sec research

Exhibit 4: Financial comparative of Keimed with Entero

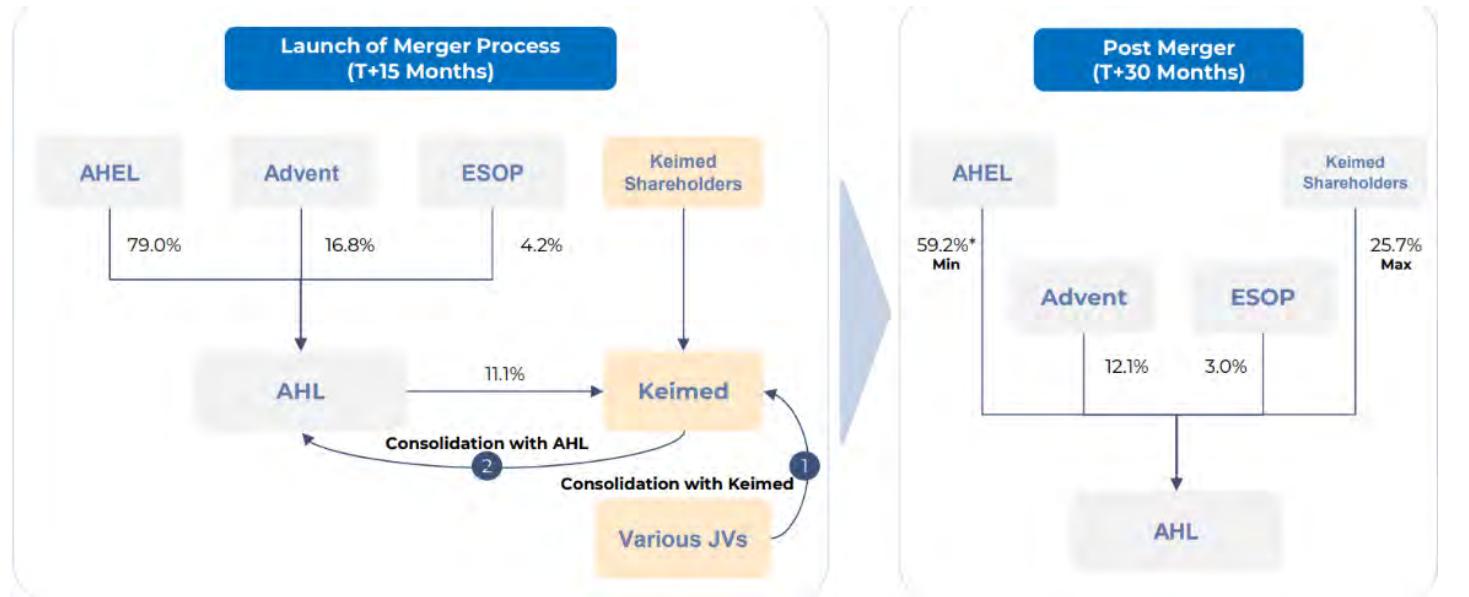
Revenue (INR mn)	FY21	FY22	FY23	9MFY24
Keimed	59,360	76,230	93,650	77,560
Entero	17,797	25,221	33,002	28,881
EBITDA (INR mn)				
Keimed	2,140	2,820	3,390	2,620
margins (%)	3.6	3.7	3.6	3.4
Entero	215	244	640	830
margins (%)	1.2	1.0	1.9	2.9

Source: Company data, I-Sec research

Exhibit 5: Apollo HealthCo to benefit from current network of Keimed

Unmatched Scale	High Quality Customer Base	Preferred Sales Partner	State-of-the-art Infrastructure	Trusted Manufacturer Relationships	Experienced Management
Revenues of INR 10,341 Cr* (with 5% market share Pan-India)	Deepest network in India covering 18 states and presence across all key markets	Go-to partner for launch of new formulations. Offers widest assortment of SKUs compared to peers	With primary focus on safety and quality, has built a robust cold chain and supply infrastructure to ensure 24 hrs Pan-India delivery	Direct relationship with most manufacturers - Single largest customer for all major pharma companies	Led by a group of industry veterans with decades of relevant experience
~15% Market share in core regions	70,000+ high performing pharmacies serviced	45,000+ SKUs	96 Distribution centres	300+ Manufacturers	~6,000 Employees

Source: Company data, I-Sec research

Exhibit 6: Post-merger holding structure of Apollo HealthCo


Source: Company data, I-Sec research

Exhibit 7: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	29.3	29.3	29.3
Institutional investors	65.0	65.1	65.4
MFs and others	12.0	13.9	14.3
FIIs/Banks	0.0	0.0	0.0
Insurance	4.2	4.1	4.5
FIIs	48.6	47.1	46.6
Others	5.7	5.6	5.3

Source: Bloomberg

Exhibit 8: Price chart


Source: Bloomberg

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	1,66,125	1,90,545	2,24,110	2,57,373
Operating Expenses	59,886	68,406	79,335	89,566
EBITDA	20,496	24,009	30,031	37,062
EBITDA Margin (%)	12.3	12.6	13.4	14.4
Depreciation & Amortization	6,152	6,645	7,082	7,838
EBIT	14,344	17,363	22,949	29,223
Interest expenditure	3,808	4,377	3,484	3,086
Other Non-operating Income	903	1,003	1,033	1,074
Recurring PBT	11,008	14,097	20,608	27,332
Profit / (Loss) from Associates	(432)	108	110	121
Less: Taxes	2,562	4,652	6,801	9,020
PAT	8,446	9,445	13,808	18,313
Less: Minority Interest	(255)	(341)	(409)	(491)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	8,191	9,104	13,399	17,822
Net Income (Adjusted)	8,191	9,104	13,399	17,822

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	40,450	42,499	52,708	62,028
of which cash & cash eqv.	7,758	9,779	14,273	17,957
Total Current Liabilities & Provisions	25,521	31,748	36,665	41,422
Net Current Assets	14,929	10,752	16,043	20,606
Investments	5,777	5,777	5,777	5,777
Net Fixed Assets	62,004	60,358	63,277	71,438
ROU Assets	12,317	12,317	12,317	12,317
Capital Work-in-Progress	6,017	6,017	6,017	6,017
Total Intangible Assets	10,917	10,917	10,917	10,917
Other assets	4,497	5,158	6,066	6,966
Deferred Tax Assets	2,216	2,524	2,947	3,366
Total Assets	1,18,757	1,13,903	1,23,444	1,37,489
Liabilities				
Borrowings	27,103	13,103	9,103	5,103
Deferred Tax Liability	4,424	4,424	4,424	4,424
provisions	574	658	774	889
other Liabilities	21,342	21,342	21,342	21,342
Equity Share Capital	61,971	70,693	83,709	1,01,148
Reserves & Surplus	3,341	3,682	4,091	4,582
Total Net Worth	65,313	74,375	87,800	1,05,730
Minority Interest	-	-	-	-
Total Liabilities	1,18,757	1,13,903	1,23,444	1,37,489

Source Company data, I-Sec research

Exhibit 11: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	13,771	25,781	22,360	27,153
Working Capital Changes	11,744	17,653	10,363	10,635
Capital Commitments	(11,245)	(5,000)	(10,000)	(16,000)
Free Cashflow	2,526	20,781	12,360	11,153
Other investing cashflow	2,538	-	-	-
Cashflow from Investing Activities	(8,706)	(5,000)	(10,000)	(16,000)
Issue of Share Capital	45	-	-	-
Interest Cost	(3,808)	(4,377)	(3,484)	(3,086)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(2,579)	(383)	(383)	(383)
Others	(1,323)	(14,000)	(4,000)	(4,000)
Cash flow from Financing Activities	(7,665)	(18,760)	(7,866)	(7,469)
Chg. in Cash & Bank balance	(2,600)	2,021	4,493	3,684
Closing cash & balance	7,758	9,779	14,273	17,957

Source Company data, I-Sec research

Exhibit 12: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	58.2	65.1	95.1	126.1
Adjusted EPS (Diluted)	56.4	62.7	92.3	122.8
Cash EPS	98.8	108.5	141.1	176.7
Dividend per share (DPS)	17.8	2.6	2.6	2.6
Book Value per share (BV)	426.9	486.9	576.6	696.7
Dividend Payout (%)	30.5	4.1	2.8	2.1
Growth (%)				
Net Sales	13.3	14.7	17.6	14.8
EBITDA	(6.2)	17.1	25.1	23.4
EPS (INR)	(3.6)	11.2	47.2	33.0
Valuation Ratios (x)				
P/E	107.6	96.2	65.8	49.6
P/CEPS	63.3	57.7	44.4	35.4
P/BV	14.7	12.9	10.9	9.0
EV / EBITDA	45.0	37.7	29.9	24.0
P / Sales	5.5	4.8	4.1	3.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	48.4	48.5	48.8	49.2
EBITDA Margins (%)	12.3	12.6	13.4	14.4
Effective Tax Rate (%)	23.3	33.0	33.0	33.0
Net Profit Margins (%)	4.9	4.8	6.0	6.9
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.2	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	0.7	(0.1)	(0.4)	(0.5)
Profitability Ratios				
RoCE (%)	9.5	10.3	13.8	15.4
RoE (%)	13.8	13.7	17.4	19.3
RoIC (%)	10.1	10.9	15.0	17.3
Fixed Asset Turnover (x)	2.7	3.1	3.6	3.8
Inventory Turnover Days	9	9	9	9
Receivables Days	52	43	43	43
Payables Days	45	51	51	50

Source Company data, I-Sec research

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