

## Value Unlock via Pharmacy-Digital Spinoff

Apollo Hospitals (APHS IN) has announced a composite scheme of arrangement involving the demerger of its pharmacy distribution and digital businesses into a new listed entity ("NewCo"). This includes the *Apollo 24/7* platform, the pharmacy distribution business under Apollo HealthCo (AHL), and the merger of Keimed—India's largest pharma distributor—into the same entity. This strategic realignment aims to unlock value, enhance operational focus, and establish India's most comprehensive pharmacy and digital healthcare platform.

**Transaction mechanics and structure:** The transaction will be executed in three phases: 1) demerger of APHS' digital and pharmacy distribution units into NewCo, 2) merger of AHL into NewCo, and (3) merger of Keimed into NewCo. AHEL shareholders will receive 195.2 shares of NewCo for every 100 shares held in AHEL. The listing of NewCo is expected within 18–21 months, post NCLT and regulatory approvals. Separately, AHL also has entered into agreements to acquire the remaining 74.5% stake in Apollo Medicals (AMPL), making Apollo Pharmacies (APL) a wholly owned arm of NewCo post transaction.

**Strategic rationale and growth ambitions:** The restructuring aligns businesses by vertical—hospitals and diagnostics under AHEL, and retail + digital under NewCo—enabling sharper capital allocation and governance. NewCo will target INR 250bn revenue and ~7% EBITDA margin by FY27, driven by consolidation of Keimed's scale (~15% distribution market share), APL's offline retail network (6,600+ stores), and *Apollo 24/7's* growing digital traction. The structure also enables AHEL to retain a 15% direct stake (17.5% including FHPL economic interest) in NewCo while having a nominee on its board.

**Implications and key considerations:** The deal removes holding company discount on the pharmacy business and enables direct public participation. It also improves transparency and benchmarking vs digital and offline pharmacy peers. However, execution risks remain, particularly integration timelines, regulatory clearances, and margin discipline amid high Gross Merchandise Value (GMV) growth targets. *Apollo 24/7's* independent monetization prospects also remain unproven. Focused leadership, arm's-length commercial agreements between AHEL and NewCo, and a formal business framework agreement offer comfort on governance and synergies.

**Valuation:** We view the transaction as a structurally positive step toward value unlocking and capital efficiency. While we await further clarity on balance sheet details and listing timeline, the proforma structure offers visibility into each vertical's earnings potential. AHEL's effective 17.5% stake in NewCo also provides an indirect upside. We retain our **Accumulate** rating on [APHS](#) with a TP of INR 7,479 based on 56.0x FY27E core EPS plus cash per share (27.3x FY27E EV/EBITDA).

### Exhibit 1: Proforma financial snapshot

FY25 (INR mn)	Offline	Online + Telehealth	AHL	Keimed	NewCo
Revenue	80,140	11,490	91,630	125,540	162,670
GMV	-	30,770	110,910	-	181,960
EBITDA <sup>1</sup> Post Ind AS	6,120	1,430	7,560	4,060	11,550
EBITDA Margin (%)	7.6	12.5	8.2	3.2	7.1
24/7 operating cost	-	(4,780)	(4,780)	-	(4,780)
ESOP non-cash charge	-	(1,080)	(1,080)	-	(1,080)
EBITDA Post Ind AS (Post 24/7 and ESOP cost)	6,120	(4,420)	1,700	4,060	5,760
EBITDA Margin (%)	7.6	NA	1.9	3.2	3.5
PAT	5,340	(4,850)	490	1,710	2,210
PAT Margin (%)	6.7	NA	0.5	1.4	1.4

Source: Company, Elara Securities Research

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## Exhibit 2: Balance sheet & return metrics

As on March 31, 2025 (INR mn)	AHL	Keimed	NewCo
Net Worth	23,210	11,430	34,250
Net Debt / (Cash)	3,830	15,510	19,340
Other liabilities	2,000	820	2,830
<b>Total Liabilities</b>	<b>29,040</b>	<b>27,760</b>	<b>56,420</b>
Net Working Capital	16,280	22,960	39,250
Other assets	12,760	4,790	17,170
<b>Total Assets</b>	<b>29,040</b>	<b>27,760</b>	<b>56,420</b>
Debt / Equity Ratio (x)	0.2	1.4	0.6
ROCE (%)	26.1	13.8	20.1

Source: Company, Elara Securities Research

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