Apollo Hospitals Enterprise | BUY

Strategic restructuring in play

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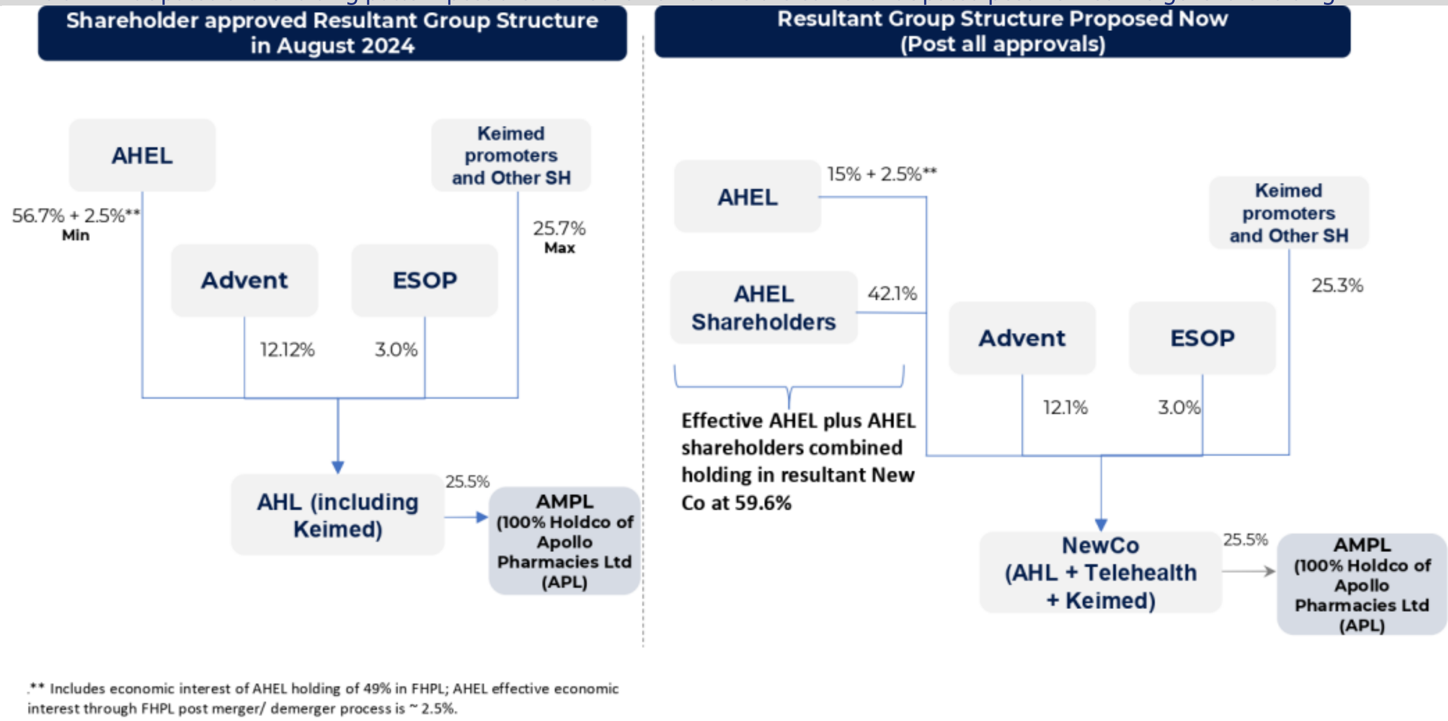
Apollo Hospitals Enterprise Limited (AHEL) is undergoing a strategic restructuring involving the demerger of its offline pharmacy distribution and Apollo 24|7 (encompassing its digital platform, online pharmacy, and telehealth services) into a new entity, with Keimed merging into this new company. Subject to NCLT approval by November 2026, the scheme is expected to be effective by the end of 2026, with the new entity listed within 18-21 months. This restructuring aims to establish an Indian-owned and controlled company, enabling AHEL shareholders to potentially acquire the remaining 74.5% stake in the front-end pharmacy distribution currently held under Apollo Medicals Pvt. Ltd., aligning with FDI regulations. The new entity targets an FY27 exit run rate of INR 250 billion revenue with 7% margins. The restructuring will ensure automatic listing, dedicated leadership for focused growth, and sustained financial performance across AHEL's hospital, diagnostics, and specialty businesses. With an expected market valuation of INR 330bn at the time of likely listing on March'27, the AHEL shareholders will be holding 59.6% stake in the entity representing ~INR 195bn valuation. Assuming this we are likely to see a ~40% absolute return for AHEL shareholders by March'27. (For more detailed understanding, kindly refer to the IC note)

- **Details of restructuring:** Demerger of offline pharmacy distribution and Apollo 24|7 (digital platform, online pharmacy and remote telehealth) into new company and merger of Keimed into the new company. NCLT approval is planned by November 2026, with the scheme being planned to be effective from 2026 end. Listing of the combined entity is expected in the next 18-21 months. The resultant shareholding from the perspective of Apollo Hospital Enterprise shareholder is largely to be the same post the scheme becoming effective. (Exhibit 1)
- **Rationale:**
  i. Automatic listing of the new company.
  ii. To make the new company 'Indian owned and controlled company' thereby enabling the AHEL shareholders to potentially acquire the remaining 74.5% stake in the front-end pharmacy distribution currently parked under Apollo Medicals Pvt. Ltd (subject to regulatory approvals). AHEL divested its 74.5% stake in front-end pharmacy in FY 2021, owing to FDI norm complications in further fund raising. The front-end pharmacy was parked under Apollo Medicals Pvt Ltd, of which ~25% was owned by AHEL via Apollo HealthCo Ltd (which houses Offline Pharmacy distribution and Apollo 24/7). Apollo entered into exclusive supply agreement with the front-end pharmacy via Apollo HealthCo itself, thereby retaining flow of ~85% of revenue of front-end pharmacy in AHEL.
  iii. This scheme also allows dedicated leadership and management teams, thereby enabling focus on strong and sustained growth.
- **Key financial targets:** The group maintained its FY27 targets announced at the time of Keimed merger. The new company (which is equivalent of Apollo HealthCo. + Keimed) has FY 27 exit run rate target of INR 250bn with ~7% margins.
- **New company valuation:** We estimate the new entity to have a market cap of INR 330bn at end of FY27, with AHEL shareholder owning ~59% of the same i.e. INR 195bn. We arrived at INR 330bn basis our FY 28 EBITDA estimates for Apollo HealthCo. and Keimed, excluding potential impact from Apollo Medicals Pvt Ltd. acquisition. We estimate the EBITDA at 23x, premium over its closest listed peer MedPlus owing to scale, relatively more hybrid presence and future growth potential. (Exhibit 2)

- **Upside potential:** Valuing the remainder of the Apollo business using SOTP, we arrive at ~40% absolute upside return from current market cap over the next 21 months. We value the hospital business at 30x EV/EBITDA—at par with Max Healthcare and Medanta—owing to size of business, on par or better clinical excellence and comparable operational excellence; Apollo Health & Lifestyle, this business is expected to grow at a rate exceeding market averages, we assign a 20% discount to listed diagnostic and single-specialty peers for valuation purposes as this business is currently subscale. (Exhibit 3) At current market prices, this deal implies a 20x FY28 trading multiple to the hospital business which is a ~56% discount to that for larger peer such as Max.

Exhibit 1. Anticipated shareholding pattern post the new scheme vis-à-vis the earlier anticipated post Keimed merger shareholding



Source: Company

Exhibit 2. New company market cap calcultaion

Particulars	Period	INR Mn
Apollo Health Co. + Keimed EBITDA	FY28	14,787
Multiple	FY28	23
EV	FY27	3,40,109
Net Debt	FY27	10,000
Market Cap	FY27	3,30,109
Stake of AHEL	FY27	59%
Value of AHEL Stake	FY27	1,95,424

Source: JM Financial

Exhibit 3. Upside from proposed scheme

Particulars	Period	Multiple	EBITDA	Ownership	Holding Co. Discount	INR Mn
Hospital EBITDA	FY28	30	40,366	100%		12,10,968
Indraprastha EBITDA	FY28	12	3,571	22%	20%	7,553
AHLL EBITDA	FY28	20	3,055	69%	20%	33,653
EV	FY27					12,52,173
Net Debt excl AHL	FY27					-418
Market Cap of remainder AHEL	FY27					12,52,591
Value from Apollo Health co. & Keimed on listing	FY27					1,95,424
Combined market cap	FY27					14,48,015
Total upside	FY27					39%

Source: JM Financial

APPENDIX I

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