



# Apollo Hospitals Enterprise

## New beds impacting margin

### Q4FY24 marginally better than expectations

Apollo Hospitals Enterprise' (APHS IN) Q4FY24 revenue/EBITDA/PAT came in 1%/6%/1% above our estimates. Revenue from the Hospitals business grew 17% YoY, but EBITDA margin contracted 130bps. Continued high ARPOB growth and revenue from new bed additions helped topline growth, while cost pressure and low leverage in the newly opened beds explain the margin contraction. The Pharmacy business turned EBITDA positive, helped by better margin and lower spent on the "Apollo 24/7" online business.

### Hospitals segment: Softening growth and margin

We believe that the high ARPOB growth of 11-16% across various clusters in FY24 is not sustainable – it may likely come off to 5-7% range. Together with gradual occupancy improvement, we expect revenue growth from existing beds to moderate to 9-10% range from 13.7% in FY24. Large bed additions could push up revenue growth rate in FY26, but could hit EBITDA. We expect EBITDA margin for the Hospitals segment to be lower than FY24 levels for 2-4 years due to operating losses in new facilities.

### Pharmacy / AHLL businesses: Signs of improvement

Pharmacy business delivered a 13% growth and a 100bps EBITDA margin expansion (excluding "Apollo 24/7" expenses) YoY in Q4. Recently, APHS entered into a deal to merge the promoter's pharma distribution business with the existing pharmacy business, along with investment of INR 24.8bn by PE player, Advent. AHLL business also delivered a good quarter with 15% topline growth and 180bps EBITDA margin expansion YoY.

### Valuation: Upgrade to Accumulate; TP maintained at INR 6,183

We raise FY25E/26E core EPS by 1-5% and introduce FY27E estimates. APHS trades at 65.6x FY25E core P/E and 30.1x FY25E EV/EBITDA. We retain our TP at INR 6,183, which is 66x (earlier 70x) FY26E core EPS plus cash per share. After the ~15% correction in the past three months, we see limited downside to the stock from these levels – Upgrade to Accumulate from Reduce. Slower-than-expected ramp-up in occupancy in the new facilities may be key risk.

## Rating: Accumulate

Target Price: INR 6,183

Upside: 6%

CMP: INR 5,839 (as on 31 May 2024)

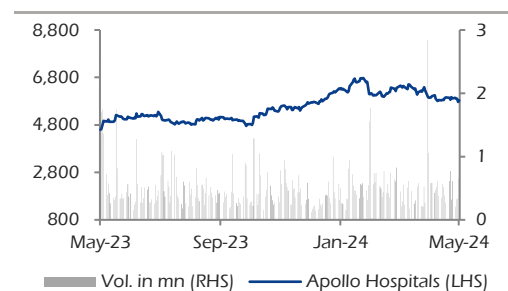
### Key data\*

Bloomberg/Reuters Code	APHS IN/APLH.BO
Current/Dil. Shares O/S (mn)	144/144
Mkt Cap (INR bn/USD mn)	840/10,056
Daily Volume (3M NSE Avg)	515,947
Face Value (INR)	5

1 USD = INR 83.5

Note: \*as on 31 May 2024; Source: Bloomberg

### Price & volume



Source: Bloomberg

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Promoter	29.3	29.3	29.3	29.3
Institutional Investors	65.0	64.8	65.1	65.2
Other Investors	1.8	1.9	1.9	1.8
General Public	3.9	4.0	3.7	3.7

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	2.5	11.9	21.6
Apollo Hospitals	(4.3)	5.6	26.3
Fortis Healthcare	16.4	23.1	73.0
Narayana Hrudayalaya	(11.4)	(3.0)	33.1
HCG	0.1	(2.1)	14.8

Source: Bloomberg

Y/E Mar (INR mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	49,439	43,022	14.9	48,506	1.9	190,592	166,125	14.7
Gross Profit	25,457	22,342	13.9	25,331	0.5	98,055	85,742	14.4
Gross Margins (%)	51.5	51.9	(44.0)	52.2	(73.1)	51.4	51.6	(16.6)
EBITDA	6,405	4,882	31.2	6,137	4.4	23,907	20,496	16.6
EBITDA Margins (%)	13.0	11.3	160.9	12.7	30.3	12.5	12.3	20.6
Other Income	281	164	71.9	278	1.1	1,063	903	17.7
Interest	1,193	954	25.0	1,126	6.0	4,494	3,808	18.0
Depreciation	1,897	1,591	19.3	1,670	13.6	6,870	6,152	11.7
PBT	3,596	2,500	43.8	3,619	(0.6)	13,606	11,439	18.9
Tax	1,098	1,080	1.7	1,089	0.8	4,455	2,562	73.9
Tax Rate (%)	30.5	43.2	(1,264.5)	30.1	44.3	32.7	22.4	1,034.6
PAT	2,498	1,421	75.8	2,530	(1.3)	9,151	8,877	3.1
Minority Interest	40	25	63.3	(77)	(151.9)	(184)	(687)	(73.2)
PAT	2,538	1,445	75.6	2,453	3.5	8,966	8,191	9.7
Adjusted Net Income	2,538	1,445	75.6	2,453	3.5	8,967	8,191	9.5
NPM (%)	5.1	3.4	177.4	5.1	7.6	4.7	4.9	(22.6)

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY24	190,592	14.7	23,907	12.5	8,967	9.5	62.0	13.7	18.2	94.3	36.1
FY25E	212,251	11.4	28,645	13.5	13,540	51.0	93.6	18.5	20.2	62.5	30.1
FY26E	236,961	11.6	32,449	13.7	14,033	3.6	97.0	14.0	20.4	60.3	26.6
FY27E	267,339	12.8	37,792	14.1	17,202	22.6	118.9	15.0	22.8	49.2	22.8

Note: pricing as on 31 May 2024; Source: Company, Elara Securities Estimate

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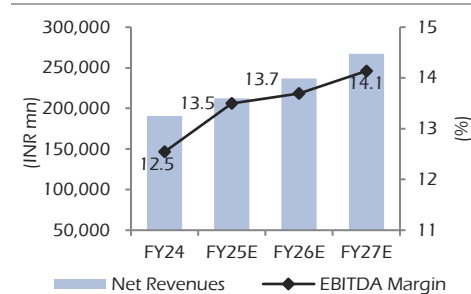
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## Financials (YE March)

Income Statement (INR mn)	FY24	FY25E	FY26E	FY27E
Net Revenues	190,592	212,251	236,961	267,339
<b>EBITDA</b>	<b>23,907</b>	<b>28,645</b>	<b>32,449</b>	<b>37,792</b>
Add:- Non operating Income	1,063	1,000	1,000	1,000
OPBIDTA	24,970	29,645	33,449	38,792
Less:- Depreciation & Amortization	6,870	7,456	8,629	9,604
<b>EBIT</b>	<b>18,100</b>	<b>22,188</b>	<b>24,821</b>	<b>29,187</b>
Less:- Interest Expenses	4,494	4,578	3,345	3,041
<b>PBT</b>	<b>13,606</b>	<b>17,610</b>	<b>21,476</b>	<b>26,146</b>
Less:- Taxes	4,455	3,170	6,443	7,844
Add/Less:- Extra-ordinaries	19	-	-	-
Add/Less:- Minority Interest	(184)	(900)	(1,000)	(1,100)
<b>Reported PAT</b>	<b>8,986</b>	<b>13,540</b>	<b>14,033</b>	<b>17,202</b>
<b>Adjusted PAT</b>	<b>8,967</b>	<b>13,540</b>	<b>14,033</b>	<b>17,202</b>
Balance Sheet (INR mn)	FY24	FY25E	FY26E	FY27E
Shareholder's Equity	69,354	79,694	91,433	106,097
Minority Interests	3,851	20,822	23,247	24,347
Borrowings	31,619	16,083	9,174	3,913
Other Non-current Liabilities	25,325	25,325	25,325	25,325
<b>Total Liabilities</b>	<b>130,149</b>	<b>141,923</b>	<b>149,179</b>	<b>159,682</b>
Net Fixed Assets	93,886	100,421	106,518	112,334
Intangibles and Goodwill	11,481	11,481	11,481	11,481
Investments	3,021	3,021	3,021	3,021
Cash and Cash Equivalents	16,178	16,130	16,670	20,467
Net Working Capital	(763)	4,524	5,143	6,033
Other Non-current Assets	6,346	6,346	6,346	6,346
<b>Total Assets</b>	<b>130,149</b>	<b>141,923</b>	<b>149,179</b>	<b>159,682</b>
Cash Flow Statement (INR mn)	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	21,130	21,305	21,223	24,620
Add/Less : Working Capital Changes	(1,928)	(5,287)	(618)	(890)
Operating Cash Flow	19,202	16,018	20,604	23,730
Less:- Capex	(11,349)	(12,500)	(13,000)	(13,500)
Free Cash Flow	7,853	3,518	7,604	10,230
Financing Cash Flow	(2,318)	(19,637)	(8,489)	(6,433)
Investing Cash Flow	(37)	16,071	1,425	-
<b>Net change in Cash</b>	<b>5,498</b>	<b>(48)</b>	<b>541</b>	<b>3,797</b>
Ratio Analysis	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)				
Revenue Growth	14.7	11.4	11.6	12.8
EBITDA Growth	15.0	17.8	12.0	14.8
PAT Growth	10.2	54.1	4.8	23.8
EBITDA Margin	12.5	13.5	13.7	14.1
Net Margin	4.7	6.4	5.9	6.4
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.2	(0.0)	(0.1)	(0.1)
ROE (%)	13.7	18.5	14.0	15.0
ROCE (%)	18.2	20.2	20.4	22.8
Per Share data & Valuation Ratios				
Diluted EPS (INR)	62.0	93.6	97.0	118.9
EPS Growth (%)	10.2	54.1	4.8	23.8
DPS (INR)	16.0	9.0	10.0	10.0
P/E (x)	94.3	62.5	60.3	49.2
EV/EBITDA (x)	36.1	30.1	26.6	22.8
EV/Sales (x)	4.5	4.1	3.6	3.2
Price/Book (x)	6.5	6.0	5.7	5.3
Dividend Yield (%)	0.3	0.2	0.2	0.2

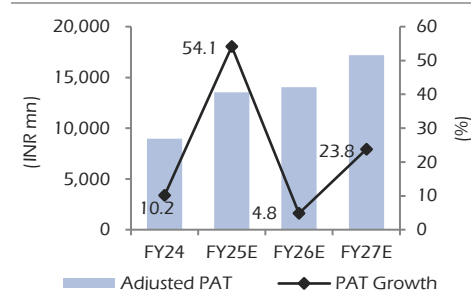
Note: pricing as on 31 May 2024; Source: Company, Elara Securities Estimate

## Revenue & margin trend



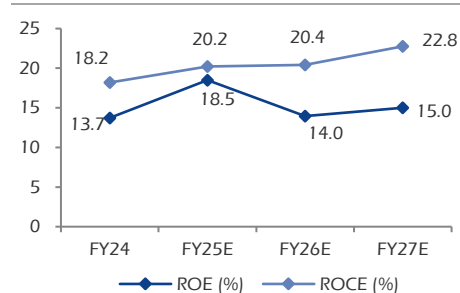
Source: Company, Elara Securities Estimate

## Adjusted PAT trend



Source: Company, Elara Securities Estimate

## Return ratios



Source: Company, Elara Securities Estimate

## Exhibit 1: Valuation based on core earnings

	FY22	FY23	FY24	FY25E	FY26E
Core EPS (INR)	49.2	51.8	57.0	87.9	92.2
Core EPS growth (%)	936.5	5.1	10.2	54.1	4.8
Cash per share (INR)	106.3	73.8	111.8	111.5	115.2
Current core P/E (x)	117.2	111.5	101.2	65.6	62.6
Core ROIC (%)	26.8	20.5	20.5	23.9	23.7

Source: Company, Elara Securities Estimate

## Conference call highlights

### Business highlights

- APHS debuts the ZAP-X Gyroscopic Radiosurgery, a pioneering advancement in South Asia, providing patients with a non-invasive, pain-free alternative to traditional brain tumor surgeries. The sessions last just 30 minutes and eliminate the need for anesthesia.
- In Bengaluru, APHS inaugurated India's premier AI-precision oncology center at the Apollo Cancer Centre.
- The Apollo Proton Cancer Centre (APCC) introduced the Apollo Rectal Cancer (ARC) Program, the nation's inaugural integrated organ and disease-specific initiative for rectal cancer management.
- APHS unveiled a cutting-edge, multi-specialty emergency medical Center at Ayodhya.
- Operationalized this quarter were Apollo facilities at Rourkela (50), Indore (50), and Lucknow (60).
- The inclusion of recent procedures such as robotic surgery, oncology surgeries, and CART-T technology in insurance schemes may drive insurance revenue growth in FY25.

### Healthcare services

- Revenues in the Tamil Nadu cluster grew by 12%, IP volumes grew by 1%. ARPOB grew by 14% to INR 75,050. Overall occupancy in the cluster was 1,288 beds (63% occupancy) as compared with 1,332 beds (63% occupancy) in FY24.
- For Andhra Pradesh and Telangana regions, revenue grew by 16% and IP volumes by 3%. ARPOB grew by 13% to INR 60,574. Occupancy in the cluster was 712 beds (56% occupancy) as compared with 705 beds (54 % occupancy) in FY24.
- For Karnataka, revenue grew by 19% and IP volumes by 7%. ARPOB grew by 14% to INR 63,952. Occupancy in the cluster was 512 beds (68% occupancy) as compared with 495 beds (65% occupancy) in FY24.
- For the Eastern region, revenues grew by 18% and IP volumes by 11%. ARPOB grew by 11% to INR 45,245.

Occupancy in the cluster was 1,347 beds (74% occupancy) as compared with 1,280 beds (72% occupancy) in FY24.

- For the Western region, revenues grew by 23% and IP volumes by 21%. ARPOB grew by 5% to INR 48,575. Occupancy in the cluster was 492 beds (57% occupancy) as compared with 425 beds (53% occupancy) in FY24.
- In the Northern region, revenues grew by 14% and IP volumes by 4%. ARPOB grew by 13% to INR 61,447. Occupancy in the cluster was 801 beds (66% occupancy) as compared with 804 beds (72% occupancy) in FY24.
- Revenue from international patients accounted for 7% of the total revenue, while in Delhi, it contributed to ~20% of the revenue.
- The YoY decline in margin by 122bps is attributed to investments in onboarding 150 doctors and escalated marketing expenditures.
- The PAYOR mix for FY24 is distributed as follows: 39% cash, 43% insurance, 7% international, and 10% government schemes.
- The management anticipates an increase in Central government health scheme rates following the Supreme Court hearing scheduled on September 10.

### AHLL

- Diagnostics business added 220+ collection centers, taking the overall network to 2,300+ centers and spread across 300 cities serving 15,000+ customers daily.

### Apollo HealthCo

- Apollo HealthCo entered into a binding agreement to raise equity capital of ~USD 300mn (INR 24.75bn) from private equity investor, Advent International.
- Revenue from offline pharmacy distribution was INR 17,880mn in Q4FY24 while from Digital platform was at INR 2,387mn.
- About 240 net new stores were opened in this quarter, taking the total number to 6,030 stores.
- Apollo 24/7 achieved a GMV of INR 6,810mn in Q4FY24, marking a growth of 35% compared with Q4FY23.
- In Q4, 24\*7 acquired 2mn new customers.
- Upon the opening of a new store, an inventory worth INR 0.10-0.12mn is stocked, which increases to INR 0.18mn as the store ages.
- The B2B:B2C mix currently stands at 30:70.

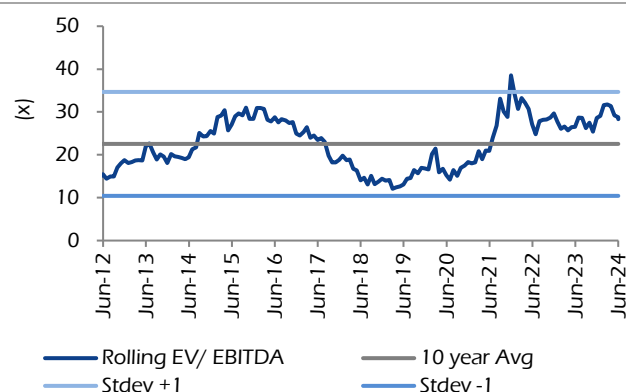
- Private label and generic business collectively contribute ~16% of the total pharmacy revenue.

### Guidance

- In FY25-26, four new hospitals totaling ~1,500 beds may commence operations, situated in Gurgaon, Kolkata, Hyderabad, and Pune, with most facilities becoming operational in Q4FY25.
- The management aims to achieve an overall occupancy rate of ~68-70% in FY25. The management aims to enhance the occupancy rate by increasing the volume of in-patients and enhancing the quality of care.
- The break-even point for the 24\*7 business is targeted to be reached in the next 6-8 quarters, with the total GMV expected to reach ~INR 17bn. The management anticipates GMV growth starting from Q2FY25.
- In healthcare services, the management anticipates a 15% growth in FY25, driven by increased private insurance penetration, augmented revenue from international patients, and contributions from new physicians.
- Healthcare service margins are forecasted to reach ~25% in FY25.
- Consolidated margins are projected to expand by 150bps, reaching ~15% in FY25.

- Approximately 500-550 offline pharmacies are slated to be added in FY25, with an estimated 20% growth from offline pharmacies.
- The management expects robust growth in diagnostics through an expanded test menu and improved margins.
- The target for generating INR 10bn from the pharmacy business is set for the upcoming year.
- Around 100 beds will be added to the Delhi Indraprastha center within the next two years.
- In terms of PAYOR mix contribution, the share from international patients and insurance is expected to rise in FY25.

**Exhibit 2 APHS trades at 25% premium to its 10-year average EV/EBITDA of 22.4x**



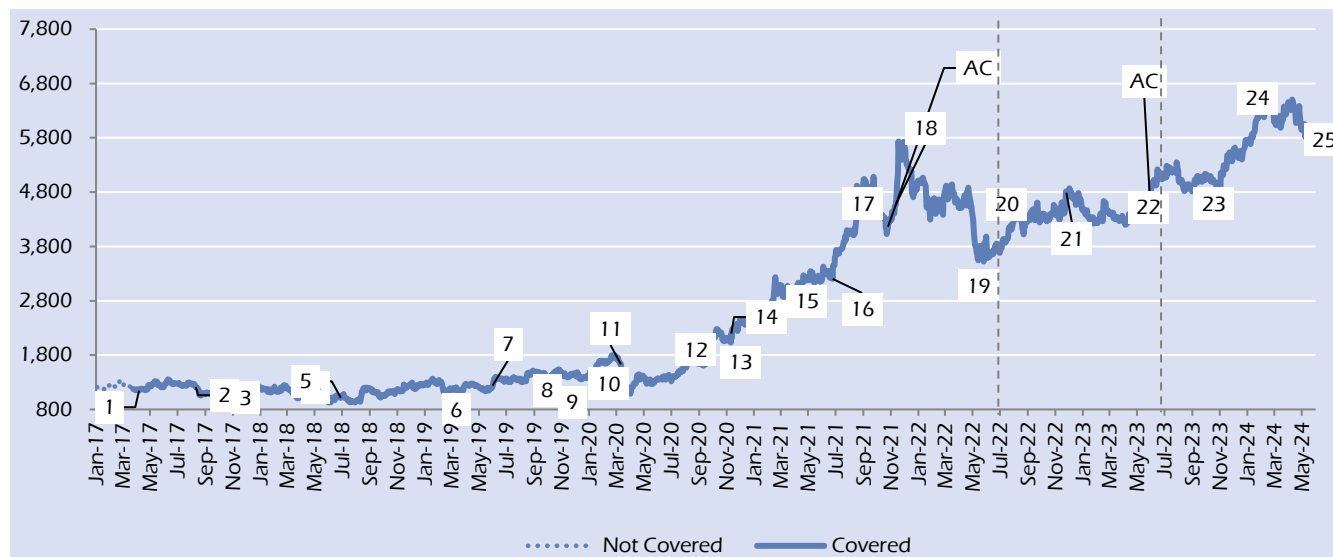
Source: Bloomberg, Company, Elara Securities Estimate

**Exhibit 3: Change in estimates**

(INR mn)	Old		Revised		% change		New
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Sales	209,929	234,334	212,251	236,961	1.1	1.1	267,339
EBITDA	23,824	27,138	28,645	32,449	20.2	19.6	37,792
PAT	9,547	10,316	13,540	14,033	41.8	36.0	17,202
EPS (INR)	66.0	71.3	93.6	97.0	41.8	36.0	118.9
<b>Rating</b>		<b>Reduce</b>		<b>Accumulate</b>			

Source: Elara Securities Estimate

### Coverage History



AC=Analyst change

Date	Rating	Target Price	Closing Price	
19	26-May-2022	Buy	INR 5,125	INR 3,663
20	12-Aug-2022	Accumulate	INR 4,750	INR 4,313
21	25-Nov-2022	Accumulate	INR 5,150	INR 4,789
22	31-May-2023	Accumulate	INR 5,001	INR 4,622
23	11-Aug-2023	Reduce	INR 5,001	INR 4,906
24	9-Feb-2024	Reduce	INR 6,183	INR 6,437
25	31-May-2024	Accumulate	INR 6,183	INR 5,839

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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