

Retail Equity Research

Apollo Hospitals Enterprise Limited

Health Care Providers & Services

BSE CODE: 508869

NSE CODE: APOLLOHOSP

Bloomberg CODE: APHS:IN

SENSEX: 55,629

REDUCE

12 Months Investment period Rating as per Mid Cap
CMP Rs. 4,787 TARGET Rs. 4,042 RETURN -16%
(Closing: 18-08-21)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Momentum sustained; Valuations expensive

Apollo Hospitals Enterprise Ltd operates the largest hospital network and pharmacy chain in India. The hospital owns 71 Hospitals and operates 4,163 pharmacy outlets in India.

- During Q1FY22, standalone revenue continued onto its growth trajectory rising 24.1% QoQ owing to higher sales achieved via its digital platform and partly aided by rising participation by the public in vaccination drives for COVID vaccines. Inpatient volume up 53% YoY.
- EBITDA margin however could not remain immune to lockdown impact declining 90bps sequentially to 13.0%, owing to higher input costs and slightly lower footfall. Adj. PAT grew 26.9% QoQ despite higher taxes.
- Company's omni-channel approach with strong adoption of its digital platform should help steer growth in the long-term, with steady margin. As such, business prospects remain bright. However, the stock currently looks overvalued and due for correction. Hence, we downgrade our rating to REDUCE with a revised TP of Rs. 4,042 based on SOTP.

Strong growth across verticals drives topline

Standalone revenue rose 24.1% QoQ to Rs. 3,003cr (+53.0% YoY) on the back of strong performance recorded in both healthcare and pharmacy distribution business. Healthcare revenue grew 14.8% QoQ to Rs. 1,483cr (+117.3% YoY), aided by higher occupancy with average revenue per occupied bed (ARPOB) improving to Rs. 41,102 (vs. Rs. 38,065 in prior year period). Pharmacy business revenue surged to Rs. 1,512cr (+35.2% QoQ). Overall occupancy stood at 5,108 beds (67% occupancy), with that of mature hospitals at 3,500 beds (64%) and of new hospitals at 1,607 beds (73%). EBITDA grew 16.3% QoQ to Rs. 391cr, though EBITDA margin took 90bps hit on QoQ basis coming in at 13.0% due to hike in input costs owing to higher stock purchases. On the back of strong operational performance, Adj. PAT grew 26.9% QoQ to Rs. 157cr.

Key highlights

- APHS expects the offline pharmacy business to grow to more than 5,000 stores while maintaining a healthy topline growth of 18-20% over the next 3 years.
- Apollo 24/7 is already the highest-earning tele-consulting platform within India, and is expected to serve 100mn+ registered users over the next 5 years, as per mgmt.

Pharmacy business hived off; focus on digital transformation

APHS board recently approved proposal to transfer company's backend pharmacy distribution business (excl. hospital-based pharmacies) to a newly setup, wholly owned subsidiary, Apollo Healthco Ltd. with a focus on rendering tech-enabled healthcare services. Under the reorganization, company's offline business and Apollo 24/7 online platform as well as its investment in retail pharmacy business (AMPL), with the Apollo Pharmacy and other private label brands have been transferred over.

Valuation

Higher traction amidst loosening up of lockdowns with increased awareness in terms of health among the public, and a steady rise in number of people responding to vaccination drives for COVID should improve company performance further in the coming months. Additionally, its omni-channel approach, along with a focus on driving growth via its digital platform will continue to deliver healthy revenue growth rate as well as bolster margins. Although we remain positive on the long-term performance, the stock looks overvalued post recent price rally. Hence, we downgrade our rating on the stock to REDUCE with a revised target price of Rs. 4,042 based on SOTP.

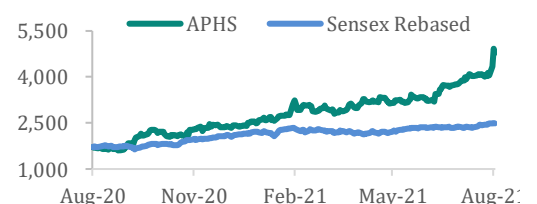
Company Data

Market Cap (cr)	Rs. 67,080
Enterprise Value (cr)	Rs. 70,590
Outstanding Shares (cr)	14.4
Free Float	70.0%
Dividend Yield	0.1%
52 week high	Rs. 4,960
52 week low	Rs. 1,585
6m average volume (lacs)	0.4
Beta	0.5
Face value	Rs. 5

Shareholding %	Q3FY21	Q4FY21	Q1FY22
Promoters	30.8	29.8	29.8
FII's	51.7	54.5	53.2
MFs/Insti	11.1	9.5	11.1
Public	4.6	4.2	4.1
Others	1.8	2.0	1.8
Total	100.0	100.0	100.0
Promoters' pledge	30.1	27.9	30.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	51.4%	54.2%	181.9%
Absolute Sensex	10.8%	8.4%	44.4%
Relative Return*	40.5%	45.8%	137.5%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	9,153	11,927	13,154
Growth (%)	(6.5)	30.3	10.3
EBITDA	947	1,873	2,067
EBITDA Margin (%)	10.4	15.7	15.7
Adj. PAT	114	883	1,026
Growth (%)	(62.7)	672.8	16.3
Adj. EPS	7.9	61.3	71.3
Growth (%)	(63.9)	672.8	16.3
P/E	365.9	78.1	67.2
P/B	8.0	11.5	10.0
EV/EBITDA	45.9	37.7	33.8
ROE (%)	2.0	14.6	14.8
D/E	0.4	0.3	0.2

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY22	Q1FY21	YoY Growth %	Q4FY21	QoQ Growth %
Revenue	2,995	1,962	53.0	2,410	24.1
EBITDA	391	41	842.3	336	16.3
EBITDA margins	13.0	2.1	1090bps	13.9	(90bps)
Depreciation	96	126	(24.1)	101	(5.3)
EBIT	295	(85)	n.m.	234	25.7
Interest	64	103	(37.9)	68	(6.6)
Other Income	9	2	417.2	11	(18.7)
Exceptional Items	(7)	-	n.m.	(8)	15.8
PBT	233	(186)	n.m.	169	37.9
Tax	83	(37)	n.m.	53	55.1
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	150	(149)	n.m.	116	29.9
Adjustments	7	-	n.m.	8	(15.8)
Adj. PAT	157	(149)	n.m.	124	26.9
No. of shares	14.4	13.9	3.6	14.3	0.8
Adj. EPS (Rs.)	10.9	(10.7)	n.m.	8.7	26.0

Segment revenue

	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %
Healthcare Services	1,483	682	117.3	1,291	14.8
Pharmacy (& Distribution)	1,512	1,279	18.2	1,119	35.2

SOTP valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr.)	Value/share (Rs.)
Apollo Hospitals	FY23E EV/EBITDA	28.5x	100%	57,199	3,980
Apollo Health and Lifestyle	FY23E AEPS	1.0x	68%	229	16
Imperial Hospital & Research Centre Ltd	FY23E AEPS	8.5x	90%	894	62
Others	FY23E AEPS	0.5x		(7)	(0)
Total value of subsidiaries				1,116	78
(20% holding discount)				(223)	(16)
Total Value				58,092	4,042

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	11,895	13,085	11,927	13,154	0.3	0.5
EBITDA	1,844	2,028	1,873	2,067	1.6	1.9
Margins (%)	15.5	15.5	15.7	15.7	20bps	20bps
Adj. PAT	593	712	883	1,026	48.8	44.2
Adj. EPS	42.7	51.2	61.3	71.3	43.7	39.3

PROFIT & LOSS

Y.E December (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	8,337	9,794	9,153	11,927	13,154
% change	16.1	17.5	(6.5)	30.3	10.3
EBITDA	1,018	1,415	947	1,873	2,067
% change	22.7	39.0	(33.1)	97.7	10.3
Depreciation	300	482	436	383	377
EBIT	718	933	511	1,491	1,690
Interest	268	426	344	251	244
Other Income	12	175	9	12	20
PBT	462	682	177	1,252	1,466
% change	40.1	47.5	(74.1)	608.2	17.2
Tax	160	212	72	375	440
Tax Rate (%)	34.5	31.1	40.5	30.0	30.0
Reported PAT	303	470	105	876	1,026
Adj*	-	(164)	9	7	-
Adj PAT	303	306	114	883	1,026
% change	29.8	1.0	(62.7)	672.8	16.3
No. of shares (cr)	13.9	13.9	14.4	14.4	14.4
Adj EPS (Rs.)	21.8	22.0	7.9	61.3	71.3
% change	29.8	1.0	(63.9)	672.8	16.3
DPS (Rs.)	6.0	6.0	3.0	6.0	6.5
CEPS (Rs.)	43.3	56.7	38.2	87.9	97.4

CASH FLOW

Y.E December (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	603	953	541	1,259	1,403
Non-cash adj.	478	225	788	300	129
Changes in W.C	(173)	(82)	(414)	(480)	(134)
C.F. Operation	907	1,096	916	1,079	1,399
Capital exp.	(583)	(437)	(194)	(299)	(329)
Change in inv.	(205)	163	(582)	(370)	(81)
Other invest.CF	12	10	11	(0)	0
C.F - Investment	(776)	(264)	(765)	(668)	(411)
Issue of equity	-	-	1,152	-	-
Issue/repay debt	235	(58)	(872)	(25)	(375)
Dividends paid	(84)	(155)	(38)	(86)	(94)
Other finance.CF	(310)	(558)	(418)	(251)	(244)
C.F - Finance	(160)	(771)	(176)	(363)	(713)
Chg. in cash	(28)	62	(25)	48	276
Closing cash	219	280	239	287	562

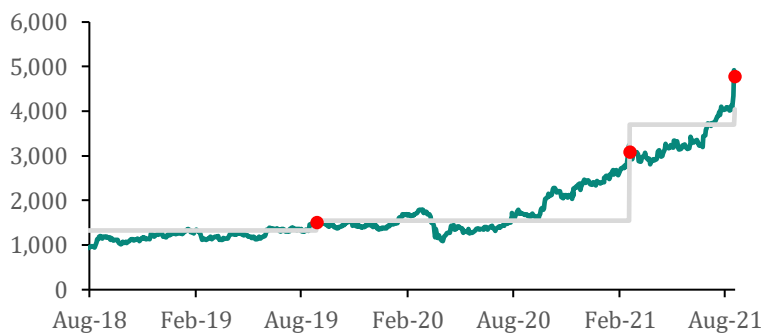
BALANCE SHEET

Y.E December (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	219	280	239	287	562
Accounts Receivable	909	966	1,204	1,219	1,370
Inventories	561	707	210	818	895
Other Cur. Assets	314	361	1,384	1,619	1,969
Investments	1,073	1,049	1,135	1,313	1,165
Gross Fixed Assets	4,704	5,140	5,334	5,633	5,962
Net Fixed Assets	3,845	4,649	4,307	4,253	4,238
CWIP	819	200	197	200	200
Intangible Assets	125	1,434	754	720	688
Def. Tax (Net)	174	194	125	119	113
Other Assets	390	304	175	164	155
Total Assets	8,428	10,144	9,729	10,710	11,355
Current Liabilities	1,178	1,486	1,521	1,697	1,814
Provisions	96	108	98	107	118
Debt Funds	3,053	2,957	1,965	1,940	1,565
Other Liabilities	218	1,605	943	974	933
Equity Capital	70	70	72	72	72
Reserves & Surplus	3,814	3,919	5,130	5,919	6,852
Shareholder's Fund	3,883	3,988	5,202	5,991	6,924
Minority Interest	-	-	-	-	-
Total Liabilities	8,428	10,144	9,729	10,710	11,355
BVPS (Rs.)	279	287	361	416	481

RATIOS

Y.E December	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	12.2	14.4	10.4	15.7	15.7
EBIT margin (%)	8.6	9.5	5.6	12.5	12.9
Net profit mgn.(%)	3.6	4.8	1.1	7.3	7.8
ROE (%)	7.8	11.8	2.0	14.6	14.8
ROCE (%)	10.4	13.4	7.1	18.8	19.9
W.C & Liquidity					
Receivables (days)	39.8	36.0	48.0	37.3	38.0
Inventory (days)	46.9	49.8	14.3	47.5	47.1
Payables (days)	44.8	51.2	57.9	57.5	57.2
Current ratio (x)	1.2	1.2	2.0	2.3	2.6
Quick ratio (x)	0.7	0.7	1.6	1.6	1.8
Turnover & Leverage					
Gross asset T.O (x)	1.9	2.0	1.7	2.2	2.3
Total asset T.O (x)	1.0	1.1	0.9	1.2	1.2
Int. coverage ratio (x)	2.7	2.2	1.5	5.9	6.9
Adj. debt/equity (x)	0.8	0.7	0.4	0.3	0.2
Valuation					
EV/Sales (x)	2.3	1.9	4.8	5.9	5.3
EV/EBITDA (x)	18.9	13.1	45.9	37.7	33.8
P/E (x)	54.4	51.8	365.9	78.1	67.2
P/BV (x)	4.2	4.0	8.0	11.5	10.0

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
14-Jun-16	BUY	1,497
9-Mar-17	BUY	1,425
21-Dec-17	BUY	1,327
28-Aug-19	HOLD	1,551
18-Feb-21	ACCUMULATE	3,694
20-Aug-21	REDUCE	4,042

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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