

CMP: ₹ 6515

Target: ₹ 6680(3%)

Target Period: 12 months

August 16, 2024

HOLD

Well-rounded growth with margin expansion...

About the stock: Apollo is a leading integrated healthcare service provider with group capacity of ~9500 beds across 45 owned hospitals and 6 managed hospitals in India.

- Apollo HealthCo is India's Largest Omni-channel Healthcare Platform combining a network of ~6000 off-line pharmacies and a digital network of Apollo 247 encompassing + 3.1 crore registered users (~6.2 lakh daily users).
- Apollo Health & Lifestyle (AHLL) runs the largest chain of standardised primary healthcare models, multi-specialty clinics (Apollo Clinics) diabetes management clinics (Apollo Sugar), diagnostic centres (Apollo Diagnostics), speciality formats (Apollo Cradle) and Apollo Spectra.

Investment Rationale:

- Q1FY25- Revenue growth decent across segment: Revenues grew ~15% YoY to ₹ 5086 crore, driven by growth across segments. EBITDA grew 33% to ₹ 675 crore and EBITDA Margins improved 175 bps to 13.3%, driven by improved profitability at AHLL (Diagnostic and Retail Healthcare) and Apollo HealthCo (Digital Healthcare and Omni-channel Pharmacy platform). Healthcare services division (Hospitals) revenues grew 15% YoY to ₹ 2637 crore on the back of new beds addition (up 2%), increase in occupancy (up 600 bps to 68%) and 2% increase in ARPOB to ₹ 59073. EBITDA growth was at 15% and EBITDA margins stood at 23.6%. Apollo HealthCo grew 15% YoY to ₹ 2082 crore drive by 15% growth in Offline Pharmacy distribution to ₹ 1837 crore, and 20% growth in Online Pharmacy Distribution & Apollo 24X7 to ₹ 245 core. This segment has turned EBITDA positive with EBITDA of ₹ 22.5 crore. AHLL revenues stood at ₹ 366 crore up 15% YoY driven by primary care and diagnostics. and EBITDA margins stood at 8.4%.
- Expansion, profitability improvement plans in place for all segments – The company has embarked upon a new capex plan to add 2860 beds with a spend of over ₹ 3400 crore in the next 4 years across India. For Apollo HealthCo, expansion of off-line pharmacies and improvement in gross merchandise value (GMV) on 24x7 digital platform is expected to drive the growth. AHLL traction would be stemming from better prospects for Diagnostics business. The management is focusing on EBITDA improvement by improvement in payor mix in hospitals, improving number count and unit economics in Apollo HealthCo and AHLL.

Rating and Target price

- Our SoTP based target price is ₹ 6680. We maintain HOLD as the current price has factored in growth potentials of each segment.



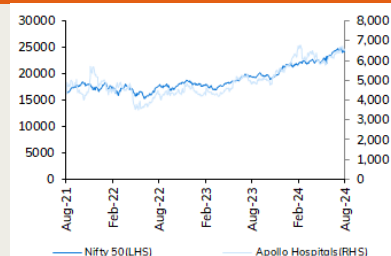
Particulars

Particular	Amount
Market Capitalisation	₹93816 crore
Debt (FY24)	₹5143 crore
Cash (FY24)	₹506 crore
EV	₹98454 crore
52 week H/L (₹)	6875/4525
Equity capital	₹72 crore
Face value	₹ 5

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	29.3	29.3	29.3	29.3
FIIs	46.2	46.3	45.6	43.9
DIIIs	18.6	18.9	19.6	21.1
Others	5.9	5.6	5.5	5.6

Price Chart



Key risks

- Negative- Cost over-run in newly commissioned / greenfield hospitals.
- Positive- Better profitability and seamless integration with Keimed.

Research Analyst

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Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	11246.8	10560.0	14662.6	16612.5	13.9	19059.5	21859.5	25025.2	14.6
EBITDA	1583.4	1137.4	2185.1	2049.6	9.0	2391.0	3013.3	3598.6	20.6
EBITDA margins (%)	14.1	10.8	14.9	12.3		12.5	13.8	14.4	
PAT	454.9	113.0	850.4	819.6	21.7	932.9	1433.1	1859.4	31.4
EPS (₹)	22.5	7.8	59.1	56.9		64.8	99.5	129.1	
PE (x)	206.2	623.8	88.9	114.3		100.4	65.5	50.5	
P/BV (x)	28.1	20.4	16.6	15.1		13.5	11.4	9.5	
RoE (%)	9.7	2.5	15.1	13.2		13.5	17.5	18.8	
RoCE (%)	10.2	6.3	15.1	12.9		13.9	17.4	19.4	

Exhibit 1: Quarterly Summary

Particulars (₹ crore)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Total Operating Income	3760.2	3717.1	3638.9	3546.4	3795.6	4251.1	4263.6	4302.2	4417.8	4846.8	4850.6	4944.3	5085.6	15.1	2.9
Raw Material Expenses	2062.0	1872.3	1823.5	1815.7	1952.1	2171.9	2216.1	2234.2	2268.2	2458.5	2533.1	2545.7	2623.0	15.6	3.0
as % revenues	54.8	50.4	50.1	51.2	51.4	51.1	52.0	51.9	51.3	50.7	52.2	51.5	51.6	23 bps	9 bps
Gross Profit	1698.3	1844.7	1815.4	1730.8	1843.5	2079.2	2047.5	2068.0	2149.6	2388.3	2317.5	2398.6	2462.6	14.6	2.7
GPM (%)	45.2	49.6	49.9	48.8	48.6	48.9	48.0	48.1	48.7	49.3	47.8	48.5	48.4	-23 bps	-9 bps
Employee Expenses	443.5	456.8	439.6	446.6	447.4	540.8	564.8	590.8	591.8	644.1	612.9	644.9	658.1	11.2	2.0
as % revenues	11.8	12.3	12.1	12.6	11.8	12.7	13.2	13.7	13.4	13.3	12.6	13.0	12.9	-46 bps	-10 bps
Other expenditure	734.9	772.9	788.8	820.9	905.3	973.0	977.4	989.1	1048.8	1116.8	1090.9	1112.8	1129.4	7.7	1.5
as % revenues	19.5	20.8	21.7	23.1	23.9	22.9	22.9	23.0	23.7	23.0	22.5	22.5	22.2	-153 bps	-30 bps
Total expenditure	3240.3	3102.1	3051.9	3083.2	3304.9	3685.7	3758.2	3814.1	3908.8	4219.4	4236.9	4303.4	4410.5	12.8	2.5
EBITDA	519.9	615.0	587.0	463.2	490.7	565.4	505.3	488.2	509.0	627.4	613.7	640.9	675.1	32.6	5.3
EBITDA Margins (%)	13.8	16.5	16.1	13.1	12.9	13.3	11.9	11.3	11.5	12.9	12.7	13.0	13.3	175 bps	31 bps
Depreciation	140.6	144.8	149.0	166.4	147.8	155.0	153.4	159.1	166.9	163.4	167.0	189.7	177.4	6.3	-6.5
Interest	94.7	95.4	93.7	94.9	92.7	92.7	100.0	95.4	106.2	111.3	112.6	119.3	116.4	9.6	-2.4
Other Income	24.6	5.6	17.2	30.7	16.1	22.6	35.4	16.4	28.2	22.2	27.8	27.0	37.2	31.9	37.8
PBT	309.3	380.5	361.5	232.7	266.3	340.2	287.4	250.0	264.1	374.9	361.9	358.9	418.5	58.5	16.6
Less: Exceptional Items	294.1	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0		
Total Tax	98.6	115.6	124.2	138.7	-69.5	114.2	103.5	108.0	96.6	130.2	108.9	109.8	114.5	18.5	4.3
Tax rate (%)	31.9	30.4	34.4	59.6	-26.1	33.6	36.0	43.2	36.6	34.7	30.1	30.6	27.4	-922 bps	-323 bps
PAT	489.3	247.8	228.4	90.1	317.1	206.0	153.6	144.5	173.4	248.7	254.4	257.7	315.5	81.9	22.4
Net Profit Margin (%)	13.0	6.7	6.3	2.5	8.4	4.8	3.6	3.4	3.9	5.1	5.2	5.2	6.2	228 bps	99 bps
EPS (Adjusted)	34.0	17.2	15.9	6.3	22.1	14.3	10.7	10.0	12.0	17.3	17.7	17.9	21.9		

Source: Company, ICICI Direct Research

Exhibit 2: SoTP valuation summary

Particulars	FY26E (₹ cr)	Multiple (x)	EV (₹ cr)
Healthcare EBITDA	3113.3	26.0	80,947
Apollo HealthCo Sales	10559.2	1.5	15,839
AHLL (68.84%) EBITDA	193.9	15.0	2,902
Net Debt FY26E (₹ cr)			2,611.1
Targeted MCap (₹ cr)			96,177
No of shares (cr)			14.4
Per Share Value (₹)			6,680

Source: Company, ICICI Direct Research

Q1FY25 Results / Conference call highlights

- The management expects a revenue growth in mid-teens.
- Medical inflation growth will drive a growth in ARPOB of around 4-5%.
- Due to the investment in new segments, operating expenses of 24/7 business likely to stay on the similar levels as of this quarter.
- 24/7 likely to breakeven by the end of FY26 on the back of improvement in GMV.
- A loyalty program is being developed between the offline and online pharmacy aiming to improvement in GMV.
- Hospital margins are expected to grow by 100 bps in the coming periods, driving factors being the payor mix, medical tourism, case mix and the tariff hike.
- The profitability growth in hospitals likely to come owing to higher occupancy in the coming quarter.
- The addition of 102 doctors in Q4FY25 has increased the salary cost by ₹50 crore in Q1FY25.
- Greenfield expansion of 1570 beds across the four new hospitals in Gurgaon, Kolkata, Pune and Hyderabad. Brownfield expansion of around 290 beds to be done in Mysuru and Bengaluru.
- ARPOB of ₹79000+ is registered in metro cities. Also, ARPOB of self-paying and insurance patients are almost similar.
- Bangladesh patients accounted for 30% of the international revenue where as it accounted for only 2% of the overall revenue.
- Apollo Health co is working on a differentiated loyalty program between its online and offline pharmacy to boost GMV.
- AHLL margins have been impacted by the expansion of networks in Q1FY25 and are likely to recover in the next quarter.
- Apollo Health co aims to add 500-550 pharmacy stores in FY25.

Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	16,612.5	19,059.5	21,859.5	25,025.2
Growth (%)	13.3	14.7	14.7	14.5
Raw Material Expenses	8,574.2	9,805.5	11,177.7	12,637.7
Employee Expenses	2,143.8	2,493.7	2,838.7	3,378.4
Other expenditure	3,844.8	4,369.3	4,829.8	5,410.4
Total Operating Expenditu	14,562.8	16,668.5	18,846.2	21,426.5
EBITDA	2,049.6	2,391.0	3,013.3	3,598.6
Growth (%)	-6.2	16.7	26.0	19.4
Depreciation	615.2	687.0	723.4	763.7
Interest	380.8	449.4	440.3	385.3
Other Income	90.3	105.2	104.3	100.1
PBT before exceptionals	1,143.9	1,359.8	1,953.9	2,549.7
Less: Exceptional Items	-2.0	-1.9	0.0	0.0
PBT	1,145.9	1,361.7	1,953.9	2,549.7
Total Tax	256.2	445.5	544.4	713.9
MI & Profit from Associates	-68.6	18.0	23.6	23.6
Adjusted PAT	819.6	932.9	1,433.1	1,859.4
Growth (%)	-3.6	13.8	53.6	29.7
EPS (Adjusted)	56.9	64.8	99.5	129.1

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit/(Loss) after taxation	462.6	468.3	1,433.1	1,859.4	
Add: Depreciation & Amortizati	615.2	687.0	723.4	763.7	
Working Capital Changes	299.3	764.9	-35.4	-465.5	
CF from operating activities	1,377.1	1,920.2	2,121.1	2,157.6	
Change in Capex	-1,124.5	-1,134.9	-1,200.0	-1,200.0	
(Inc)/dec in Investments	206.5	-444.0	300.0	200.0	
Others	47.2	41.7	-3.1	-3.3	
CF from investing activities	-870.8	-1,537.2	-903.1	-1,003.3	
Issue of Equity	4.5	2.5	0.0	0.0	
Inc/(dec) in loan funds	-128.5	224.6	-500.0	-500.0	
Dividend paid & dividend tax	-257.9	-235.3	-172.8	-172.8	
Others	-251.4	-302.7	0.0	0.0	
CF from financing activities	-633.3	-310.9	-672.8	-672.8	
Net Cash flow	-127.0	72.1	545.2	481.5	
Opening Cash	560.4	433.4	505.5	1,050.7	
Closing Cash	433.4	505.5	1,050.7	1,532.2	
Free Cash Flow	252.7	785.3	921.1	957.6	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	71.9	71.9	71.9	71.9	
Reserve and Surplus	6,125.3	6,863.5	8,123.8	9,810.4	
Total Shareholders funds	6,197.1	6,935.4	8,195.7	9,882.3	
Total Debt	4,208.6	5,143.3	4,643.3	4,143.3	
Deferred Tax Liability	442.4	449.8	458.8	468.0	
Minority Interest	334.1	385.1	385.1	385.1	
Long term provisions	57.4	73.2	74.7	76.2	
Other Non Current Liabilitie	635.9	28.1	28.7	29.2	
Total Liabilities	11,875.7	13,014.9	13,786.2	14,984.0	
Gross Block - Fixed Assets	9,346.1	9,876.9	10,576.9	11,276.9	
Accumulated Depreciation	3,048.0	3,203.0	3,926.4	4,690.1	
Net Block	6,298.1	6,673.9	6,650.5	6,586.8	
Capital WIP	601.7	844.7	1,344.7	1,844.7	
Goodwill on Consolidation	985.8	1,012.3	1,012.3	1,012.3	
Total Fixed Assets	9,117.3	10,505.2	10,981.8	11,418.1	
Investments	577.7	989.5	689.5	489.5	
Inventory	390.2	459.8	508.7	575.1	
Debtors	2,234.2	2,514.9	2,635.2	3,365.7	
Loans & Advances, & other	332.1	294.9	258.0	340.2	
Cash	433.4	505.5	1,050.7	1,532.2	
Total Current Assets	3,699.8	4,595.7	5,332.4	6,633.6	
Creditors	1,915.7	2,368.6	2,497.3	2,823.5	
Provisions & Other CL	426.2	474.9	521.3	684.9	
Total Current Liabilities	2,314.4	3,738.1	3,894.2	4,248.3	
Net Current Assets	1,385.4	857.6	1,438.2	2,385.2	
Long term loans & advance	783.2	651.7	664.7	678.0	
Deferred Tax Assets	12.1	10.9	12.0	13.2	
Application of Funds	11,875.6	13,014.9	13,786.2	14,984.1	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Adjusted EPS	56.9	64.8	99.5	129.1
BV per share	430.4	481.6	569.1	686.3
Dividend per share	9.0	10.0	12.0	12.0
Cash Per Share	30.1	35.1	73.0	106.4
Operating Ratios (%)				
Gross Profit Margins	48.4	48.6	48.9	49.5
EBITDA margins	12.3	12.5	13.8	14.4
Net Profit margins	4.9	4.9	6.6	7.4
Inventory days	17	17	17	17
Debtor days	49	48	44	49
Creditor days	82	88	82	82
Asset Turnover	1.8	1.9	2.1	2.2
EBITDA Conversion Rate	67.2	80.3	70.4	60.0
Return Ratios (%)				
RoE	13.2	13.5	17.5	18.8
RoCE	12.9	13.9	17.4	19.4
RoIC	13.4	14.8	20.3	25.3
Valuation Ratios (x)				
P/E	114.3	100.4	65.5	50.5
EV / EBITDA	47.6	41.1	32.3	26.8
EV / Net Sales	5.9	5.2	4.5	3.8
Market Cap / Sales	5.6	4.9	4.3	3.7
Price to Book Value	15.1	13.5	11.4	9.5
Solvency Ratios				
Debt / EBITDA	2.1	2.2	1.5	1.2
Debt / Equity	0.7	0.7	0.6	0.4
Net Debt / Equity	0.7	0.7	0.6	0.4
Current Ratio	1.4	1.1	1.1	1.2
Quick Ratio	1.2	1.0	1.0	1.1
Working Capital Cycle	-16	-23	-21	-16
Standalone EBITDA margins	11.4	12.2	14.6	14.8

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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