

CMP: ₹ 7400

Target: ₹ 7260(-2%)

Target Period: 12 months

HOLD

November 8, 2024

Strong print continues; embarks on next expansion phase...

About the stock: Apollo is a leading integrated healthcare service provider with group capacity of ~10130 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 + 3.6 crore registered users (~7.7 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), specialty formats (Apollo Cradle) and Apollo Spectra.

Investment Rationale:

- Q2FY25 Results- well-rounded growth with margin expansion - Revenues grew ~15% YoY to ₹ 5589 crore, driven by growth across segments. EBITDA grew 30% to ₹ 816 crore and EBITDA Margins improved 165 bps to 14.6%, driven by improved profitability at AHLL (Diagnostic and Retail Healthcare) and Apollo HealthCo (Digital Healthcare and Omni-channel Pharmacy platform). Hospitals revenues grew 14% YoY to ₹ 2903 crore on the back of new beds addition (up 3%), increase in occupancy (up 500 bps to 73%) and 3% increase in ARPOB to ₹ 59011. EBITDA growth was at 14% and EBITDA margins stood at 24.9%. Apollo HealthCo grew 17% YoY to ₹ 2282 crore drive by 18% growth in Offline Pharmacy distribution to ₹ 2014 crore, and 16% growth in Online Pharmacy Distribution & Apollo 24X7 to ₹ 268 core. This segment has turned EBITDA positive with EBITDA of ₹ 52.1 crore. AHLL revenues stood at ₹ 404 crore, up 14% YoY driven by primary care and specialty care and EBITDA margins stood at 10.3%.
- The company has embarked upon a new capex plan to add 3560 beds with a spend of over ₹ 5000 crore in the next 4 years across India. Apollo HealthCo post 24x7 and ESOP charges has already turned EBITDA positive during Q1. Structurally, cost reduction drives, expanding of complex procedures and profitability of new hospitals remain key management focus areas. On the HealthCo front, besides improving financials, proposed integration of promoters-owned Keimed Private Limited would be the key exercise to watch for.

Rating and Target price

- Our SoTP based target price is ₹ 7260. We maintain HOLD as the current price has factored in growth potentials of each segment.



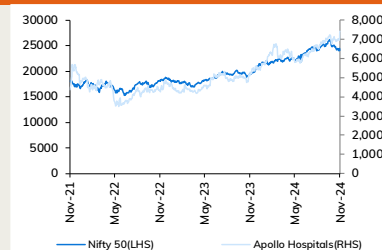
Particulars

Particular	Amount
Market Capitalisation	₹106560 crore
Debt (FY24)	₹5143 crore
Cash (FY24)	₹506 crore
EV	₹111198 crore
52 week H/L (₹)	6875/4525
Equity capital	₹72 crore
Face value	₹ 5

Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	29.3	29.3	29.3	29.3
FII	46.3	45.6	43.9	45.4
DII	18.9	19.6	21.1	19.9
Others	5.6	5.5	5.6	5.4

Price Chart



Key risks

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

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Key Financial Summary

Key Financials (₹ crore)	FY22	FY23	FY24	2 year CAGR (FY22-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	14662.6	16612.5	19059.5	14.0	21884.6	25037.5	14.6
EBITDA	2185.1	2049.6	2391.0	4.6	3119.1	3657.5	23.7
EBITDA margins (%)	14.9	12.3	12.5		14.3	14.6	
PAT	850.4	819.6	932.9	4.7	1499.6	1840.0	40.4
EPS (₹)	59.1	56.9	64.8		104.1	127.8	
PE (x)	100.9	129.8	114.1		71.1	57.9	
P/BV (x)	18.9	17.2	15.4		14.2	11.6	
RoE (%)	15.1	13.2	13.5		20.0	20.1	
RoCE (%)	15.1	12.9	13.9		15.7	17.1	

Source: Company, ICICI Direct Research

Exhibit 3: Quarterly Summary

Particulars (₹ crore)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Total Operating Income	3717.1	3638.9	3546.4	3795.6	4251.1	4263.6	4302.2	4417.8	4846.8	4850.6	4944.3	5085.6	5589.3	15.3	9.9
Raw Material Expenses	1872.3	1823.5	1815.7	1952.1	2171.9	2216.1	2234.2	2268.2	2458.5	2533.1	2545.7	2623.0	2857.7	16.2	8.9
as % revenues	50.4	50.1	51.2	51.4	51.1	52.0	51.9	51.3	50.7	52.2	51.5	51.6	51.1	40 bps	-45 bps
Gross Profit	1844.7	1815.4	1730.8	1843.5	2079.2	2047.5	2068.0	2149.6	2388.3	2317.5	2398.6	2462.6	2731.6	14.4	10.9
GPM (%)	49.6	49.9	48.8	48.6	48.9	48.0	48.1	48.7	49.3	47.8	48.5	48.4	48.9	-40 bps	45 bps
Employee Expenses	456.8	439.6	446.6	447.4	540.8	564.8	590.8	591.8	644.1	612.9	644.9	658.1	700.1	8.7	6.4
as % revenues	12.3	12.1	12.6	11.8	12.7	13.2	13.7	13.4	13.3	12.6	13.0	12.9	12.5	-76 bps	-41 bps
Other expenditure	772.9	788.8	820.9	905.3	973.0	977.4	989.1	1048.8	1116.8	1090.9	1112.8	1129.4	1216.0	8.9	7.7
as % revenues	20.8	21.7	23.1	23.9	22.9	22.9	23.0	23.7	23.0	22.5	22.5	22.2	21.8	-129 bps	-45 bps
Total expenditure	3102.1	3051.9	3083.2	3304.9	3685.7	3758.2	3814.1	3908.8	4219.4	4236.9	4303.4	4410.5	4773.8	13.1	8.2
EBITDA	615.0	587.0	463.2	490.7	565.4	505.3	488.2	509.0	627.4	613.7	640.9	675.1	815.5	30.0	20.8
EBITDA Margins (%)	16.5	16.1	13.1	12.9	13.3	11.9	11.3	11.5	12.9	12.7	13.0	13.3	14.6	165 bps	132 bps
Depreciation	144.8	149.0	166.4	147.8	155.0	153.4	159.1	166.9	163.4	167.0	189.7	177.4	184.5	12.9	4.0
Interest	95.4	93.7	94.9	92.7	92.7	100.0	95.4	106.2	111.3	112.6	119.3	116.4	117.5	5.6	0.9
Other Income	5.6	17.2	30.7	16.1	22.6	35.4	16.4	28.2	22.2	27.8	27.0	37.2	38.2	72.1	2.7
PBT	380.5	361.5	232.7	266.3	340.2	287.4	250.0	264.1	374.9	361.9	358.9	418.5	551.7	47.2	31.8
Less: Exceptional Items	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0	0.0		
Total Tax	115.6	124.2	138.7	-69.5	114.2	103.5	108.0	96.6	130.2	108.9	109.8	114.5	161.7	24.2	41.2
Tax rate (%)	30.4	34.4	59.6	-26.1	33.6	36.0	43.2	36.6	34.7	30.1	30.6	27.4	29.3	-542 bps	195 bps
PAT	247.8	228.4	90.1	317.1	206.0	153.6	144.5	173.4	248.7	254.4	257.7	315.5	395.7	59.1	25.4
Net Profit Margin (%)	6.7	6.3	2.5	8.4	4.8	3.6	3.4	3.9	5.1	5.2	5.2	6.2	7.1	195 bps	88 bps
EPS (Adjusted)	17.2	15.9	6.3	22.1	14.3	10.7	10.0	12.0	17.3	17.7	17.9	21.9	27.5		

Source: Company, ICICI Direct Research

Exhibit 2: SoTP valuation summary

Particulars	FY26E (₹ cr)	Multiple (x)	EV (₹ cr)
Healthcare EBITDA	3120.2	28.0	87,366
Apollo HealthCo Sales	10547.3	2.0	21,095
AHLL (68.84%) EBITDA	193.5	18.0	2,397
Net Debt FY26E (₹ cr)			6,367.0
Targeted MCap (₹ cr)			1,04,491
No of shares (cr)			14.4
Per Share Value (₹)			7,260

Source: Company, ICICI Direct Research

Q2FY25 Results / Conference call highlights

- The management expects a revenue growth of mid-teens.
- International revenue accounted for 6% of hospital revenue and management aims to scale up international patients to 9% of hospital revenue.
- ARPOB growth target is around 6%
- Margin expansion of 50-60bps is expected in FY25.
- Increase in hospital occupancy was due to increased surgical, payor and case mix
- 24/7 likely to breakeven by the Q3 FY26 end due to the improvement in GMV.
- Company plans to establish a 500-bed hospital in Worli and add 200 beds at its existing facility at Lucknow (total 500 beds).
- Management is focussing on driving growth in metros and Top tier cities.
- Commercialisation of Pune hospital. (1,400 beds: 700 next year and half the year after).
- Bed addition expense in Delhi and Mumbai is ~Rs 2.25 crore/bed mainly due to increase in cost of material, construction etc.
- New bed addition shall impact hospital margins by 100-120bps
- Company has received first tranche of the INR 17.3bn from Advent and is making progress towards NCLT approval for Keimed merger.
- Company has initiated 90 minutes delivery in Delhi and Noida and will soon introduce this facility in other cities.
- Company has applied for corporate agency with IRDA and expects to receive approval by Q3FY25, after which they can add partners. At present company has tieup with NIVA Bupa.
- The company has launched its private label brands for vitamins and is looking to launch other OTC products

Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	16,612.5	19,059.5	21,884.6	25,037.5
Growth (%)	13.3	14.7	14.8	14.4
Raw Material Expenses	8,574.2	9,805.5	11,197.7	12,643.9
Employee Expenses	2,143.8	2,493.7	2,815.5	3,380.1
Other expenditure	3,844.8	4,369.3	4,752.4	5,356.0
Total Operating Expenditu	14,562.8	16,668.5	18,765.6	21,380.0
EBITDA	2,049.6	2,391.0	3,119.1	3,657.5
Growth (%)	-6.2	16.7	30.5	17.3
Depreciation	615.2	687.0	730.9	800.5
Interest	380.8	449.4	468.9	439.5
Other Income	90.3	105.2	152.0	100.2
PBT before exceptionals	1,143.9	1,359.8	2,071.3	2,517.7
Less: Exceptional Items	-2.0	-1.9	0.0	0.0
PBT	1,145.9	1,361.7	2,071.3	2,517.7
Total Tax	256.2	445.5	598.9	705.0
MI & Profit from Associates	-68.6	18.0	27.2	27.2
Adjusted PAT	819.6	932.9	1,499.6	1,840.0
Growth (%)	-3.6	13.8	60.7	22.7
EPS (Adjusted)	56.9	64.8	104.1	127.8

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	1,499.6	1,840.0
Add: Depreciation & Amortizati	615.2	687.0	730.9	800.5
Working Capital Changes	299.3	764.9	-880.5	-225.4
CF from operating activities	1,377.1	1,920.2	1,350.0	2,415.1
Change in Capex	-1,124.5	-1,134.9	-2,000.0	-2,000.0
(Inc)/dec in Investments	206.5	-444.0	-25.1	200.0
Others	47.2	41.7	18.2	-3.2
CF from investing activities	-870.8	-1,537.2	-2,006.9	-1,803.2
Issue of Equity	4.5	2.5	0.0	0.0
Inc/(dec) in loan funds	-128.5	224.6	2,557.7	-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	2,384.9	-672.8
Net Cash flow	-127.0	72.1	389.4	-60.9
Opening Cash	560.4	433.4	505.5	894.9
Closing Cash	433.4	505.5	894.9	834.0
Free Cash Flow	252.7	785.3	-650.0	415.1

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	7,429.2	9,096.4
Total Shareholders funds	6,197.1	6,935.4	7,501.1	9,168.3
Total Debt	4,208.6	5,143.3	7,701.0	7,201.0
Deferred Tax Liability	442.4	449.8	451.5	460.5
Minority Interest	334.1	385.1	413.5	413.5
Long term provisions	57.4	73.2	81.4	83.0
Other Non Current Liabilitie	635.9	28.1	27.1	27.6
Total Liabilities	11,875.7	13,014.9	16,175.6	17,354.0
Gross Block - Fixed Assets	9,346.1	9,876.9	11,256.4	12,556.4
Accumulated Depreciation	3,048.0	3,203.0	3,356.4	4,156.9
Net Block	6,298.1	6,673.9	7,900.0	8,399.5
Capital WIP	601.7	844.7	1,041.7	1,741.7
Goodwill on Consolidation	985.8	1,012.3	1,012.3	1,012.3
Total Fixed Assets	9,117.3	10,505.2	12,351.8	13,551.3
Investments	577.7	989.5	1,014.6	814.6
Inventory	390.2	459.8	448.2	575.4
Debtors	2,234.2	2,514.9	2,880.4	3,367.3
Loans & Advances, & other	332.1	294.9	258.0	340.2
Cash	433.4	505.5	894.9	834.0
Total Current Assets	3,699.8	4,595.7	6,099.8	6,690.5
Creditors	1,915.7	2,368.6	2,429.5	2,824.9
Provisions & Other CL	426.2	474.9	521.3	684.9
Total Current Liabilities	2,314.4	3,738.1	3,972.3	4,398.6
Net Current Assets	1,385.4	857.6	2,127.5	2,292.0
Long term loans & advance	783.2	651.7	672.3	685.7
Deferred Tax Assets	12.1	10.9	9.4	10.3
Application of Funds	11,875.6	13,014.9	16,175.6	17,354.0

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	104.1	127.8
BV per share	430.4	481.6	520.9	636.7
Dividend per share	9.0	10.0	12.0	12.0
Cash Per Share	30.1	35.1	62.1	57.9
Operating Ratios (%)				
Gross Profit Margins	48.4	48.6	48.8	49.5
EBITDA margins	12.3	12.5	14.3	14.6
Net Profit margins	4.9	4.9	6.9	7.3
Inventory days	17	17	15	17
Debtor days	49	48	48	49
Creditor days	82	88	79	82
Asset Turnover	1.8	1.9	1.9	2.0
EBITDA Conversion Rate	67.2	80.3	43.3	66.0
Return Ratios (%)				
RoE	13.2	13.5	20.0	20.1
RoCE	12.9	13.9	15.7	17.1
RoIC	13.4	14.8	16.9	20.2
Valuation Ratios (x)				
P/E	129.8	114.1	71.1	57.9
EV / EBITDA	53.8	46.5	36.3	30.8
EV / Net Sales	6.6	5.8	5.2	4.5
Market Cap / Sales	6.4	5.6	4.9	4.3
Price to Book Value	17.2	15.4	14.2	11.6
Solvency Ratios				
Debt / EBITDA	2.1	2.2	2.5	2.0
Debt / Equity	0.7	0.7	1.0	0.8
Net Debt / Equity	0.7	0.7	1.0	0.8
Current Ratio	1.4	1.1	1.3	1.3
Quick Ratio	1.2	1.0	1.2	1.2
Working Capital Cycle	-16	-23	-17	-16
Standalone EBITDA margins	11.4	12.2	14.6	14.8

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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