

CMP: ₹ 5865

Target: ₹ 6530(11%)

Target Period: 12 months

June 4, 2024

**HOLD**

## Good set of numbers 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:

- Q4FY24- Revenue growth strong across segment: Revenues grew ~15% YoY to ₹ 4945 crore, driven by growth across segments. EBITDA grew 31% to ₹ 642 crore and EBITDA Margins improved 163 bps to 13%, driven by improved profitability at AHLL (Diagnostic and Retail Healthcare) and Apollo HealthCo. Healthcare services division (Hospitals) revenues grew 17% YoY to ₹ 2563 crore on the back of new beds addition and 12% increase in ARPOB to ₹ 59523. EBITDA growth was slightly muted at 11% due to cost overrun on account of new doctor's hire, marketing and IT expenses. EBITDA margins stood at 23.1%. Apollo HealthCo grew 12% YoY to ₹ 2027 crore drive by 12% growth in Offline Pharmacy distribution to ₹ 1788 crore, and 20% growth in Online Pharmacy Distribution & Apollo 247 to ₹ 239 crore. This segment has turned EBITDA positive with EBITDA of ₹ 12 crore. AHLL revenues stood at ₹ 355 crore up 15% YoY driven by primary care and diagnostics and EBITDA margins stood at 10%.
- 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 247 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 ₹ 6530. We assign HOLD rating as the embedded values of each segment have captured growth potential.

### 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	21835.1	24977.2	14.6
EBITDA	1583.4	1137.4	2185.1	2049.6	9.0	2391.0	3045.1	3677.5	21.5
EBITDA margins (%)	14.1	10.8	14.9	12.3		12.5	13.9	14.7	
PAT	454.9	113.0	850.4	819.6	21.7	932.9	1439.3	1907.9	32.5
EPS (₹)	22.5	7.8	59.1	56.9		64.8	100.0	132.5	
PE (x)	185.6	561.6	80.0	102.9		90.4	58.7	44.3	
P/BV (x)	25.3	18.3	15.0	13.6		12.2	10.3	8.5	
RoE (%)	9.7	2.5	15.1	13.2		13.5	17.5	19.2	
RoCE (%)	10.2	6.3	15.1	12.9		13.9	17.5	19.9	

Source: Company, ICICI Direct Research



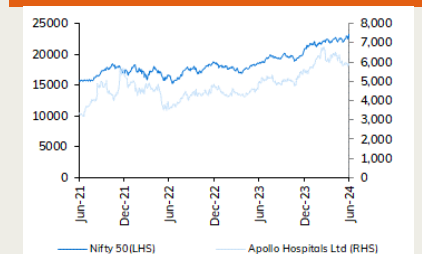
### Particulars

Particular	Amount
Market Capitalisation	₹84456 crore
Debt (FY24)	₹5143 crore
Cash (FY24)	₹506 crore
EV	₹89094 crore
52 week H/L (₹)	6875/4525
Equity capital	₹72 crore
Face value	₹ 5

### Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	29.3	29.3	29.3	29.3
FII's	47.9	46.2	46.3	45.6
DII's	17.0	18.6	18.9	19.6
Others	5.7	5.9	5.6	5.5

### 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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**Exhibit 2: Quarterly Summary**

Particulars (₹ crore)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Total Operating Income	2868.0	3760.2	3717.1	3638.9	3546.4	3795.6	4251.1	4263.6	4302.2	4417.8	4846.8	4850.6	4944.3	14.9	1.9
Raw Material Expenses as % revenues	1475.0	2062.0	1872.3	1823.5	1815.7	1952.1	2171.9	2216.1	2234.2	2268.2	2458.5	2533.1	2545.7	13.9	0.5
Gross Profit	1392.9	1698.3	1844.7	1815.4	1730.8	1843.5	2079.2	2047.5	2068.0	2149.6	2388.3	2317.5	2398.6	16.0	3.5
GPM (%)	48.6	45.2	49.6	49.9	48.8	48.6	48.9	48.0	48.1	48.7	49.3	47.8	48.5		
Employee Expenses as % revenues	388.4	443.5	456.8	439.6	446.6	447.4	540.8	564.8	590.8	591.8	644.1	612.9	644.9	9.2	5.2
Other expenditure as % revenues	13.5	11.8	12.3	12.1	12.6	11.8	12.7	13.2	13.7	13.4	13.3	12.6	13.0		
Total expenditure	592.7	734.9	772.9	788.8	820.9	905.3	973.0	977.4	989.1	1048.8	1116.8	1090.9	1112.8	12.5	2.0
EBITDA	2456.1	3240.3	3102.1	3051.9	3083.2	3304.9	3685.7	3758.2	3814.1	3908.8	4219.4	4236.9	4303.4	12.8	1.6
EBITDA Margins (%)	411.8	519.9	615.0	587.0	463.2	490.7	565.4	505.3	488.2	509.0	627.4	613.7	640.9	31.3	4.4
Depreciation	14.4	13.8	16.5	16.1	13.1	12.9	13.3	11.9	11.3	11.5	12.9	12.7	13.0	162 bps	31 bps
Interest	138.5	140.6	144.8	149.0	166.4	147.8	155.0	153.4	159.1	166.9	163.4	167.0	189.7	19.3	13.6
Other Income	98.6	94.7	95.4	93.7	94.9	92.7	92.7	100.0	95.4	106.2	111.3	112.6	119.3	25.0	6.0
PBT	20.5	24.6	5.6	17.2	30.7	16.1	22.6	35.4	16.4	28.2	22.2	27.8	27.0	65.1	-2.9
Less: Exceptional Items	195.2	309.3	380.5	361.5	232.7	266.3	340.2	287.4	250.0	264.1	374.9	361.9	358.9	43.5	-0.8
Total Tax	25.2	294.1	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	1.9	0.0	0.0		
Tax rate (%)	67.7	98.6	115.6	124.2	138.7	-69.5	114.2	103.5	108.0	96.6	130.2	108.9	109.8	1.7	0.8
PAT	34.7	31.9	30.4	34.4	59.6	-26.1	33.6	36.0	43.2	36.6	34.7	30.1	30.6		
Net Profit Margin (%)	167.9	489.3	247.8	228.4	90.1	317.1	206.0	153.6	144.5	173.4	248.7	254.4	257.7	78.4	1.3
EPS (Adjusted)	5.9	13.0	6.7	6.3	2.5	8.4	4.8	3.6	3.4	3.9	5.1	5.2	5.2		
	11.7	34.0	17.2	15.9	6.3	22.1	14.3	10.7	10.0	12.0	17.3	17.7	17.9		

Source: Company, ICICI Direct Research

**Exhibit 1: SoTP valuation summary**

Particulars	FY26E (₹ cr)	Multiple (x)	EV (₹ cr)
Healthcare EBITDA	3134.5	25.0	78,362
Apollo HealthCo Sales	10616.9	1.5	15,925
AHLL (68.84%) EBITDA	224.6	15.0	2,319
Net Debt FY26E (₹ cr)			2,545.5
Targeted MCap (₹ cr)			94,061
No of shares (cr)			14.4
<b>Per Share Value (₹)</b>			<b>6,530</b>

Source: Company, ICICI Direct Research

**Q4FY24 Results / Conference call highlights**

**Hospitals-**

- Payor mix break-up- Cash-39%, Private Insurance- 43%, Medical tourists- 7%, Schemes and others- 11%
- The management expects ~15% growth in FY25 based on expansion, improvement in payor mix and improving occupancies.
- It expects occupancies to reach at 68-70% at the blended level.
- EBITDA margins impacted mainly on account of doctor's hiring (150)
- Expects 100-150 bps margins improvement based on better payor mix and cost optimisation
- As per management, the Hon. Supreme Court has opined that hospital rates are driven by market forces. Thus, it is unlikely to enforce CGHS rate across hospital chains in India. Besides, the government may increase CGHS reimbursement rates in the near term.
- ARPOB for FY24 stood at ₹ 57488.

**Apollo HealthCo**

- Expects to add 500-550 frontend (offline) stores in FY25.
- Expects 20-22% growth in offline pharmacies in FY25.
- GMV of 24/7 grew 35%. Pharmacy sales accounted for 46% of GMV and the share is likely to rise to 65% in a couple of years.
- 24/7 platform GMV is likely to grow 50% in FY25.

## Financial Tables

Exhibit 2: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Revenues</b>	<b>16,612.5</b>	<b>19,059.5</b>	<b>21,835.1</b>	<b>24,977.2</b>
Growth (%)	13.3	14.7	14.6	14.4
Raw Material Expenses	8,574.2	9,805.5	11,135.9	12,613.5
Employee Expenses	2,143.8	2,493.7	2,838.6	3,371.9
Other expenditure	3,844.8	4,369.3	4,815.5	5,314.2
Total Operating Expenditu	14,562.8	16,668.5	18,790.0	21,299.6
<b>EBITDA</b>	<b>2,049.6</b>	<b>2,391.0</b>	<b>3,045.1</b>	<b>3,677.5</b>
Growth (%)	-6.2	16.7	27.4	20.8
Depreciation	615.2	687.0	727.6	768.2
Interest	380.8	449.4	430.8	384.4
Other Income	90.3	105.2	87.3	99.9
PBT before exceptionals	<b>1,143.9</b>	<b>1,359.8</b>	<b>1,974.1</b>	<b>2,624.9</b>
Less: Exceptional Items	-2.0	-1.9	0.0	0.0
<b>PBT</b>	<b>1,145.9</b>	<b>1,361.7</b>	<b>1,974.1</b>	<b>2,624.9</b>
Total Tax	256.2	445.5	552.7	735.0
MI & Profit from Associates	-68.6	18.0	18.0	18.0
<b>Adjusted PAT</b>	<b>819.6</b>	<b>932.9</b>	<b>1,439.3</b>	<b>1,907.9</b>
Growth (%)	-3.6	13.8	54.3	32.6
<b>EPS (Adjusted)</b>	<b>56.9</b>	<b>64.8</b>	<b>100.0</b>	<b>132.5</b>

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	462.6	468.3	1,439.3	1,907.9
Add: Depreciation & Amortizati	615.2	687.0	727.6	768.2
Working Capital Changes	299.3	764.9	-39.9	-458.9
<b>CF from operating activities</b>	<b>1,377.1</b>	<b>1,920.2</b>	<b>2,127.0</b>	<b>2,217.2</b>
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
<b>CF from investing activities</b>	<b>-870.8</b>	<b>-1,537.2</b>	<b>-903.1</b>	<b>-1,003.3</b>
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
<b>CF from financing activities</b>	<b>-633.3</b>	<b>-310.9</b>	<b>-672.8</b>	<b>-672.8</b>
Net Cash flow	-127.0	72.1	551.1	541.1
Opening Cash	560.4	433.4	505.5	1,056.6
<b>Closing Cash</b>	<b>433.4</b>	<b>505.5</b>	<b>1,056.6</b>	<b>1,597.8</b>
<b>Free Cash Flow</b>	<b>252.7</b>	<b>785.3</b>	<b>927.0</b>	<b>1,017.2</b>

Source: Company, ICICI Direct Research

Exhibit 4: 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	8,130.0	9,865.1
Total Shareholders funds	6,197.1	6,935.4	8,201.9	9,937.0
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
<b>Total Liabilities</b>	<b>11,875.7</b>	<b>13,014.9</b>	<b>13,792.4</b>	<b>15,038.8</b>
Gross Block - Fixed Assets	9,346.1	9,876.9	10,576.9	11,276.9
Accumulated Depreciation	3,048.0	3,203.0	3,930.6	4,698.7
Net Block	6,298.1	6,673.9	6,646.3	6,578.2
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	10,977.6	11,409.5
Investments	577.7	989.5	689.5	489.5
Inventory	390.2	459.8	506.8	574.0
Debtors	2,234.2	2,514.9	2,632.2	3,359.2
Loans & Advances, & other	332.1	294.9	258.0	340.2
Cash	433.4	505.5	1,056.6	1,597.8
Total Current Assets	3,699.8	4,595.7	5,333.5	6,691.5
Creditors	1,915.7	2,368.6	2,488.0	2,818.1
Provisions & Other CL	426.2	474.9	521.3	684.9
Total Current Liabilities	2,314.4	3,738.1	3,884.9	4,242.9
Net Current Assets	1,385.4	857.6	1,448.6	2,448.6
Long term loans & advance	783.2	651.7	664.7	678.0
Deferred Tax Assets	12.1	10.9	12.0	13.2
<b>Application of Funds</b>	<b>11,875.6</b>	<b>13,014.9</b>	<b>13,792.4</b>	<b>15,038.8</b>

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
Adjusted EPS	56.9	64.8	100.0	132.5
BV per share	430.4	481.6	569.6	690.1
Dividend per share	9.0	10.0	12.0	12.0
Cash Per Share	30.1	35.1	73.4	111.0
<b>Operating Ratios (%)</b>				
Gross Profit Margins	48.4	48.6	49.0	49.5
EBITDA margins	12.3	12.5	13.9	14.7
Net Profit margins	4.9	4.9	6.6	7.6
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	86.2	40.3	69.9	60.3
<b>Return Ratios (%)</b>				
RoE	13.2	13.5	17.5	19.2
RoCE	12.9	13.9	17.5	19.9
RoIC	13.4	14.8	20.6	26.0
<b>Valuation Ratios (x)</b>				
P/E	102.9	90.4	58.7	44.3
EV / EBITDA	43.0	37.2	28.9	23.6
EV / Net Sales	5.3	4.7	4.0	3.5
Market Cap / Sales	5.1	4.4	3.9	3.4
Price to Book Value	13.6	12.2	10.3	8.5
<b>Solvency Ratios</b>				
Debt / EBITDA	2.1	2.2	1.5	1.1
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

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