

Sector	Health care
Recommendation	BUY
Upside	21%

Stock Data	
Sensex	51942
52 Week h/l (₹)	3432 / 1308
Market cap (₹Cr)	48,605
BSE code	508869
NSE code	APOLLOHOSP
FV (₹)	5
Div. yield (%)	0.18

Shareholding Pattern			
	Sep-20	Dec-20	Mar-21
Promoters	30.82	30.82	29.82
DII+FII	62.52	62.55	63.76
Others	6.66	6.63	6.42

Source: www.bseindia.com

Share Price Trend



Prices as on 09/06/2021

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Profile

Apollo Hospitals is an integrated healthcare provider, with services ranging from hospitals, retail pharmacies, health insurance, clinics, etc. The company is a pioneer in corporate hospitals and forms the largest chain in India with more than 10,200 beds across 71 hospitals. With more than 4,000 pharmacy outlets across the country, Apollo Pharmacy also forms the largest organized retail pharmacy chain in India. The company is on a massive expansion drive, wherein it has plans to expand its hospital presence in Tier I cities in addition to entering newer Tier II/III cities through its 'REACH' initiative

Investment Rationale

Capital raise to fuel growth

Apollo Hospitals recently concluded QIP of Rs11.7 bn of which Rs4.1 bn will be utilized for acquiring balance 50% stake in Apollo Gleneagles Hospital Kolkata, Rs1.4 bn will be invested in strengthening digital initiatives through Apollo 24/7, Rs1.5 bn towards diagnostics business and balance for any potential inorganic opportunity & reducing debt.

Through these investments management aims to achieve preventive healthcare (ProHealth) revenue of Rs10 bn in the next 3 years, from current Rs2.5 bn. It also aims to scale diagnostics revenues to Rs5 bn in next 3-4 years from current Rs1.6 bn.

Potential value unlocking in pharmacy segment

Apollo Hospitals has completed the divestment of its front-end retail pharmacy business into Apollo Pharmacies (APL). APL is a wholly-owned subsidiary of Apollo Medicals Pvt Ltd. (AMPL), in which Apollo Hospitals owns 25.5% stake. However, the back-end of the retail pharmacy business continues to be retained by Apollo Hospitals which would capture 85% of the cash flows and 80% of the EBITDA of the erstwhile pharmacy business (front-end + back-end). This structure has taken Apollo Hospitals one step closer to a potential *unlocking of value in the pharmacy segment*.

Margin improvement through cost optimization initiatives and rise in occupancy rate

The company has been implementing a cost rationalization exercise along with an external consulting agency and has guided for structural cost savings of 12-15% in the long term. The management continues to focus on cost optimization and has maintained the guidance that they will sustain a cost saving of Rs100-200cr in FY22. The company has witnessed rise in patient footfalls and occupancy rates with the economy moving towards pre-COVID levels.

Risks

Price Regulation: Regulating prices for critical treatments remains a major risk on revenues and margins.

High competition: Private hospitals are facing high competition from existing and new hospitals. Improvement in services from government hospitals might also lead to increased competition.

Heavy capex: New hospitals require high capex, any delay in commissioning or ramping-up will impact margins, cash flows and overall growth.

Outlook & Valuation

Apollo Hospitals reported strong sequential recovery in its quarterly earnings led by improvement in overall occupancy levels and average revenue per operating bed (ARPOB). Improvement in ARPOB was mainly because of increase in non-covid occupancy and surgical volumes. We expect normalcy in operations from Q2/Q3 FY22 which will lead to higher margins and ARPOB. **Improvement in ARPOB and margins will continue for both, new and mature hospitals, led by high-end surgical procedures across specialties and normalization in international patient flow.** Management has also indicated that margin expansion will be aided by consolidation & further ramp-up in the Kolkata/Lucknow hospitals in FY22.

We believe Hospital segment to steadily recover from Q2FY22 onward while pharmacy business continues to remain on strong footing. Apollo 24/7 and diagnostics are likely to be the next frontiers of growth. We remain positive on the company given strong healthcare pedigree, strict cost control measures, faster maturity of new hospitals and investments in 24/7 & diagnostics business. Thus, we initiate a Buy with a TP of Rs3,940 based on SOTP valuation.

Financial Summary

Consolidated (INR in cr)	FY19	FY20	FY21 E	FY22 E	FY23 E
Revenue	9,617	11,247	10,744	13,331	15,489
YoY growth (%)	16.7%	16.9%	-4.5%	24.1%	16.2%
EBITDA	1,064	1,587	1,164	1,972	2,358
EBITDA margin (%)	11.1%	14.1%	10.8%	14.8%	15.2%
PAT	199.2	434.9	119.1	656.6	910.3
EPS	16.9	32.7	6.3	46	63.8
ROCE (%)	9	11.2	6.2	13.4	15.3
ROE (%)	6.9	7.4	2.3	14.4	17.4
P/E (x)	200	103	537	73	53
P/B (x)	11.0	11.0	8.9	8.1	6.9
EV/EBITDA (x)	39.1	26.1	34.7	20.8	17.1
Net Debt/Equity (x)	0.9	0.9	0.4	0.3	0.1

[Click here](#) to watch the video.

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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