

Apollo Hospitals Enterprise

Steady growth in hospitals; HealthCo margin to improve

EBITDA grew 33% YoY on 15% YoY sales growth as hospital business grew 15% YoY, led by higher occupancy at 68% (vs 62% in Q1FY24); ARPOB was muted (2% YoY), HealthCo grew 15% (offline/ online +15/ 19%), and AHLL grew 15%. Hospital EBITDA grew 15% YoY, and the margin was at 23.6% (-7 bps), and lower Apollo 24/7 spending (-26%) led to a better margin in HealthCo. APHS expects (1) Hospitals: mid-teen growth with 100 bps margin expansion over next 3-4 quarters; new bed additions are on track (~1,500 beds) and it will dilute margin by ~100-150 bps in FY26; (2) occupancy at 68+% and 7% ARPOB growth in FY25; and (3) HealthCo: GMV growth to be at 50% and online business margin at 18-20% by Q4FY25 end. Factoring Q1, we have tweaked estimates and revised TP to INR 7,550 (27x Q1FY27E EV/E vs 26x earlier). BUY stays, given growth visibility across – (1) Hospitals: improving occupancy, ARPOB growth and capacity expansion, (2) HealthCo: steady growth in offline and scale-up in Apollo 24/7, and (3) AHLL: steady growth on network expansion.

- Q1 highlights:** Sales grew 15% YoY to INR 50.8 bn, led by 15% YoY growth in hospitals (52% of sales) which was driven by higher occupancy of 68%, while ARPOB was muted (2% YoY). HealthCo (41%) and AHLL (7%) grew 15% YoY. Higher staff (+11% YoY; incl. ESOP of INR 196 mn), moderate SG&A (+8%; Apollo 24/7 spend at INR 1.3 bn, -26%), and flat GM of 48.4% led to EBITDA of INR 6.7 bn (+33) and margin came in at 13.3% (+175 bps). PAT was at ~INR 3 bn (+83% YoY).
- EBITDA performance:** (1) Hospital: +15% YoY, margin at 23.6% (-7 bps YoY); (2) HealthCo: EBITDA at INR 225 mn (loss of INR 566 mn in Q1FY24) – (a) Offline pharmacy: +11% YoY and margin at 7.6% (-26 bps YoY), (b) Online Pharmacy: sales grew 19% YoY, EBITDA grew 50% YoY and margin at 13.6% (+276 bps YoY); (3) AHLL: +33% YoY and margin at 8.4% (+115 bps YoY).
- Operating metrics: Hospital:** Muted ARPOB (+2% YoY) of INR 59,073 due to a higher secondary care mix; occupancy at 68% (62% in Q1FY24). IP/OPD volume grew 11/14% YoY. ALOS was steady at 3.34 days. **HealthCo:** GMV grew 12% YoY to INR 6.9 bn, omnichannel sales grew 16%, added 44 stores (6,074 as of Jun'24), registrations at 35 mn (+30%), AOV at INR 1,072 (+15%).
- Key takeaways from con call:** APHS expects for hospital business (1) to sustain volume growth and ARPOB to improve (higher surgery mix and 4% price hike) and (2) margin expansion on better payor mix (higher insurance share), scale-up in international business, better case mix, and tariff hike. For HealthCo, it sees 50% growth in GMV to be led by pharmacy, consultant in pharmacy/diagnostic, digital therapeutics, corporate tie-ups, and insurance (expects to get a corporate license by Oct'24). It expects a change in strategy from marketing-led customer acquisition to omnichannel, to drive GMV from Q3FY25, and hopes to break even its online business in 6-7 quarters.

Quarterly financial summary

(INR mn)	1Q FY25	1Q FY24	YoY (%)	4Q FY24	QoQ (%)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	50,856	44,178	15	49,439	3	1,66,125	1,90,592	2,20,156	2,63,113	3,15,251
EBITDA	6,751	5,090	33	6,405	5	20,496	23,907	30,926	38,529	48,551
APAT	3,052	1,666	83	2,621	16	6,725	9,054	14,250	19,192	25,973
EPS (INR)	21.2	11.6	83	18.2	16	46.8	63.0	99.1	133.5	180.6
P/E (x)						139.4	103.6	65.8	48.9	36.1
EV/EBITDA (x)						47.5	40.9	31.5	25.1	19.6
RoCE (%)						13	15	18	21	25

Source: Company, HSIE Research, PAT adjusted for one-offs.

BUY

CMP (as on 14 Aug 2024) INR 6,516

Target Price INR 7,550

NIFTY 24,144

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 7250	INR 7550
	FY25E	FY26E
EPS %	1.4	1.3

KEY STOCK DATA

Bloomberg code	APHS IN
No. of Shares (mn)	144
MCap (INR bn) / (\$ mn)	937/11,166
6m avg traded value (INR mn)	3,002
52 Week high / low	INR 6,874/4,726

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.1	(3.5)	35.2
Relative (%)	2.9	(13.7)	14.2

SHAREHOLDING PATTERN (%)

	Mar-24	Jun-24
Promoters	29.33	29.33
FIs & Local MFs	19.55	21.14
FPIs	45.63	43.92
Public & Others	5.49	5.61
Pledged Shares	16.09	16.09

Source: BSE

Mehul Sheth

mehul.sheth@hdfcsec.com

+91-22-6171-7349