HOLD (Maintain)

CMP: **INR 6,516** Target Price: **INR 6,215 (INR 6,100)** ▼ -5%

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15 August 2024

India | Equity Research | Q1FY25 results review

Apollo Hospitals Enterprise

Healthcare

In-line quarter; striving to improve margins

Apollo Hospitals' (Apollo) Q1FY25 revenue and EBITDA were in-line with our estimates. Apollo is aiming for a 100bps improvement in its hospital margins driven by a 7% YoY increase in its ARPOB in FY25 and better occupancy. Hospital occupancy touched 68% in Q1FY25 vs. 65% in Q4FY24; seasonality will likely elevate it in the next two quarters. The addition of 1,170 greenfield beds has been pushed up from Q4FY25 to Apr–June'25 – the delay may dent hospitals' EBITDA margins by 100–150bps in FY26E. GMV growth in 24/7 slowed to 9% in Q1FY25 while operating cost dipped a mere 7% QoQ to INR 1.3bn. Management continues to expect a 50% rise in GMV in FY25 and an EBITDA breakeven of 24/7 in the next 6–7 quarters. We retain **HOLD**, but raise our SoTP-based TP to INR 6,215 (from INR 6,100).

Healthy revenue growth across segments

Revenues grew 15.1% YoY (+2.9% QoQ) to INR 50.9bn (I-Sec: INR 50.7bn). Gross margin contracted 20bps YoY (-10bps QoQ) to 48.4%. EBITDA grew 32.6% YoY (5.4% QoQ) to INR 6.8bn (I-Sec: INR 6.7bn). EBITDA margin expanded 180bps YoY (+30bps QoQ) at 13.3%. Adjusted PAT grew 83.2% YoY (+20.3% QoQ) to INR 3.1bn (I-Sec: INR 2.5bn) driven by higher other income and lower taxes.

Occupancy lifts growth in hospitals; 24/7 grows in single-digit

Hospitals' revenue surged 15.0% YoY (+2.9% QoQ) to INR 26.4bn. Occupancy rose to 68% in Q1FY25 vs. 62% in Q1FY24 (65% in Q4FY24). ARPOB improved ~2.3% YoY (-0.8% QoQ) to INR 59,073, mainly due to change in case and surgical mix. HealthCo revenue grew 15.3% YoY (+2.7% QoQ) to INR 20.8bn. Apollo 24/7 recorded GMV of INR 6.9bn, up 9% YoY. AHLL business grew 3.5% QoQ (14.8% YoY) to INR 3.7bn. Diagnostic revenue rose 8.3% YoY (-0.4% QoQ) to INR 1.2bn.

Hospital margins flattish; marginal cut in 24/7 cost

Hospital margins were marginally down by 10bps YoY (+40bps QoQ) to 23.6% due to rise in doctor fees and IT spends. Management expects a 100bps expansion in hospital margins YoY in FY25. Offline pharmacy margin, at 7.6%, expanded 10bps QoQ. Operating cost of 24/7 stood at INR 1.3bn, down 7% QoQ/26% YoY. AHLL margin expanded 110bps YoY (-170bps QoQ) at 8.4%.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,66,125	1,90,592	2,26,634	2,56,964
EBITDA	20,496	23,907	30,369	37,003
EBITDA Margin (%)	12.3	12.5	13.4	14.4
Net Profit	8,191	8,973	13,068	17,188
EPS (INR)	56.4	61.8	90.0	118.4
EPS % Chg YoY	(3.6)	9.5	45.6	31.5
P/E (x)	112.0	101.2	70.1	53.4
EV/EBITDA (x)	47.6	41.0	32.0	26.1
RoCE (%)	9.4	9.4	11.8	13.8
RoE (%)	13.8	13.7	17.3	19.0

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Market Data

Market Cap (INR)	937bn
Market Cap (USD)	11,168mn
Bloomberg Code	APHS IN
Reuters Code	APLH.BO
52-week Range (INR)	6,874 /4,726
Free Float (%)	70.0
ADTV-3M (mn) (USD)	30.8

Price Performance (%)	3m	6m	12m
Absolute	11.1	(3.5)	35.2
Relative to Sensex	2.9	(13.7)	14.2

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.0)	(0.1)
EBITDA	(0.0)	(0.1)
EPS	1.8	1.3

Previous Reports

01-06-2024: Q4FY24 results review
11-02-2024: Q3FY24 results review

Valuation and risks

Apollo's management is trying to improve its operating margins by focusing on bettering surgical and payor mix in hospitals. Further, it has also been curtailing operating costs at 24/7 in the last couple of quarters. Its quarterly EBITDA margins have improved by 180bps from 11.3% in Q1FY24 to ~13.3% in Q1FY25, largely on the back of improvement in pharmacy and AHLL.

Ahead, in hospitals, the company aims to take a 4% hike in tariffs and overall ARPOB is set to likely increase by 7% (+2.3% YoY in Q1) in FY25 while occupancy is expected to move over to above 70% in the next couple of quarters. The company has deferred its greenfield bed expansion plan from Q4FY25 to H1FY26, which could inflate its FY25E EBITDA for the hospitals segment – a 100-150bps impact is expected in FY26.

Apollo achieved operational breakeven for its entire pharmacy business in Q3FY24; however, there has been only marginal improvement in curbing cost of 24/7 ever since. Management is steadfast in achieving breakeven for its online operations in the next 6–8 quarters. Besides, the pending merger with Keimed shall help AHEL's shareholders to have a hold Apollo group's entire pharmacy retail/distribution. Management has set an aggressive target of achieving revenue growth of 22% in the combined entity and improving margins of the combined entity by 550–650bps over the next three years.

We maintain our FY25–26E revenue and EBITDA estimates for Apollo. The stock currently trades at EV/EBITDA of 32.4x FY25E and 26.4x FY26E. We retain our **HOLD** rating with a higher target price of INR 6,215 (earlier INR 6,100). We now value AHL at 1.5x (unchanged) FY26E EV/Sales and AHLL at 16x EV/EBITDA while we continue to value hospitals at 24x FY26E EV/EBITDA.

Upside risks: Faster turnaround in profitability of 24/7; and higher-than-anticipated improvement in ARPOB and occupancy of hospitals.

Downside risks: Higher competition in pharmacy business; and lower margins at new hospitals.

Exhibit 1: Sum of the parts valuation

Segments	INR mn	(x)	Value (INR mn)	AHEL's stake	Value (INR mn)
Hospitals - EBITDA (Mar26)	32,980	24	7,91,388	100%	7,90,388
HealthCo - Sales (Mar26)	99,805	1.5	1,49,707	79%	1,18,269
AHLL - EBITDA (Mar26)	2,018	16	31,488	69%	21,676
Indraprastha Medical - Market cap	29,533	0.5	14,766	22%	3,253
Total EV					**9,33,586**
Less: Net Debt (Mar26)					31,210
Implied M-Cap					**9,02,377**
Value per share (INR)					**6,215**

Source: Company data, I-Sec research

Q1FY25 conference call highlights

Hospitals

- Revenue from insured patients rose 17% YoY and was driven by better footfalls in tier-1/2 markets.
- IP volumes rose 11% due to rise in insurance patients.
- Blended occupancy stood at 68% in Q1 vs. 62% last year. Occupancy further picked up in Jul–Aug'24. Higher occupancy will likely boost profitability in the next couple of quarters.
- ARPOB increased ~2% YoY in Q1FY25 and is expected to improve by 7% due to case mix improvement and rise in surgical volumes in FY25.

- Apollo is the largest oncology operator in India. Its ARPOB in chemotherapy is lower than the surgical segment's ARPOB.
- In metros, its ARPOB is much higher at INR 79,000.
- APROB in insurance and self-paying patients is identical.
- Nearly 4% patients at primary care centres are getting admitted in hospitals and using Apollo's diagnostic services.
- Higher IT and cyber security cost has marred hospitals' margins by 25–30bps.
- Management anticipates a 100bps improvement in its hospital margins in the next 3–4 quarters driven by better payor mix (rise in insurance), international patients, case mix (surgical volumes to pick up) and tariff hike of 4%.
- In FY26, it aims to add 1,570 greenfield beds across four new hospitals across Gurgaon, Hyderabad, Kolkata and Pune. It will also add 290 brownfield beds at Mysore and Bangalore. New bed addition will impact its hospital margins by 100-150bps in FY26.
- Patients from Bangladesh account for ~2% of its overall revenue and ~30% of international revenue. Patient flow has been impacted due to unrest in the country.
- In Q4, it had added 102 doctors at its key hospitals, which has increased salary cost by INR 500mn in Q1.

Healthco

- It added 44 offline stores in Q1. Delay in government approvals due to elections has impacted new store addition. It aims to add 500–550 stores in FY25.
- 2mn new users were added in 24/7 in Q1FY25.
- 24/7 is on track to breakeven in next 6–7 quarter led by improvement in GMV.
- GMV growth earlier was driven by higher marketing spend to acquire new customer; the company has now moved to an omni-channel approach, which has improved profitability and is driving growth. GMV growth will pick up in Q3FY25. Management has maintained its 50% GMV growth guidance for FY25.
- The company is also working on a differentiated loyalty program between online and offline pharmacy to boost GMV.
- It is aiming to procure corporate license for insurance in the next two quarters. It will likely offer customised insurance plans bundled with Apollo Care.

AHLL

- Diagnostic growth ahead will be driven by investment in capacity and expanded test menu.
- Growth in diagnostics was impacted due to seasonality. Besides in Q4FY24 it had one-off sales pertaining to year-end adjustments (INR 26–30mn) due to which growth had slowed in Q1FY25.
- Besides, the company has expanded its network in Q1FY25, which has impacted margins and is expected to recover in Q2FY25.

Guidance

- Overall, revenue is expected to grow in mid-teens.
- EBITDA margins are likely to touch 18–20% in the next couple of quarters.
- Hospital ARPOB shall continue to grow at 4–5% due to medical inflation.
- Operating expenses of 24/7 will likely stay at current levels for a while, as it is investing in newer segments.

Exhibit 2: Q1FY25 quarterly review

Particulars (INR mn)	Q1FY25	Q1FY24	YoY % Chg	Q4FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Net Sales	**50,856**	**44,178**	**15.1**	**49,439**	**2.9**	**1,90,592**	**1,66,125**	**14.7**
Gross Profit	**24,626**	**21,496**	**14.6**	**23,982**	**2.7**	**92,537**	**80,382**	**15.1**
Gross margins (%)	48.4	48.7	-20bps	48.5	-10bps	48.6	48.4	20bps
EBITDA	6,751	5,090	32.6	6,405	5.4	23,907	20,496	16.6
EBITDA margins (%)	13.3	11.5	180bps	13.0	30bps	12.5	12.3	20bps
Other income	487	341	42.8	367	32.7	1,063	903	17.7
PBIDT	**7,238**	**5,431**	**33.3**	**6,772**	**6.9**	**24,970**	**21,400**	**16.7**
Depreciation	1,774	1,669	6.3	1,897	(6.5)	6,870	6,152	11.7
Interest	1,164	1,062	9.6	1,193	(2.4)	4,494	3,808	18.0
Extra ordinary income/ (exp.)	-	-		-		19	-	
PBT	**4,300**	**2,700**	**59.3**	**3,682**	**16.8**	**13,625**	**11,439**	**19.1**
Tax	1,145	966	18.5	1,098	4.3	4,455	2,562	73.9
Minority Interest	103	68		46		184	687	
Reported PAT	**3,052**	**1,666**	**83.2**	**2,538**	**20.3**	**8,986**	**8,191**	**9.7**
Adjusted PAT	**3,052**	**1,666**	**83.2**	**2,538**	**20.3**	**8,973**	**8,191**	**9.6**

Source: Company data, I-Sec research

Exhibit 3: Business mix

Sales break-up (INR mn)	Q1FY25	Q1FY24	YoY % Chg	Q4FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Hospitals	26,373	22,937	15.0	25,635	2.9	98,679	86,769	13.7
Health Co	20,821	18,054	15.3	20,267	2.7	78,268	67,045	16.7
AHLL	3,661	3,187	14.9	3,537	3.5	13,643	12,311	10.8
Total	**50,855**	**44,178**	**15.1**	**49,439**	**2.9**	**1,90,590**	**1,66,125**	**14.7**

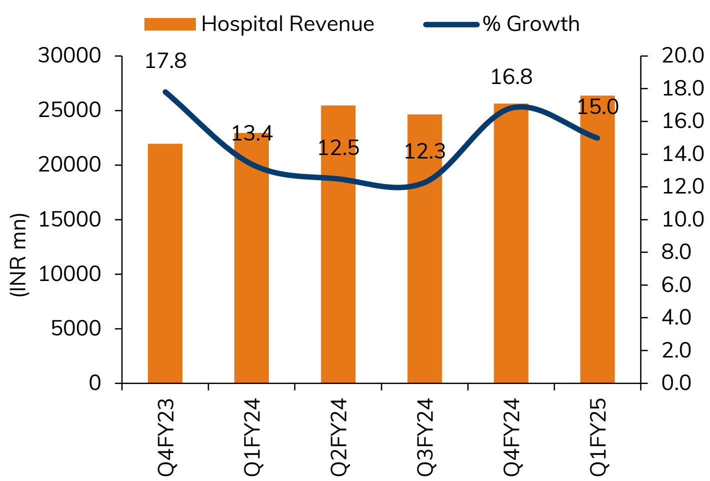
Source: Company data, I-Sec research

Exhibit 4: EBITDA breakup

EBITDA (INR mn)	Q1FY25	Q1FY24	YoY % Chg	Q4FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Hospitals	6,217	5,423	14.6	5,931	4.8	23,558	20,832	13.1
% margin	23.6	23.6	-10bps	23.1	40bps	23.9	24.0	-10bps
Health Co	225	(566)	(139.8)	117	92.3	(817)	(1,518)	(46.2)
% margin	1.1	(3.1)	420bps	0.6	50bps	(1.0)	(2.3)	120bps
AHLL	309	233	32.6	360	(14.2)	1,169	1,182	(1.1)
% margin	8.4	7.3	110bps	10.2	-170bps	8.6	9.6	-100bps

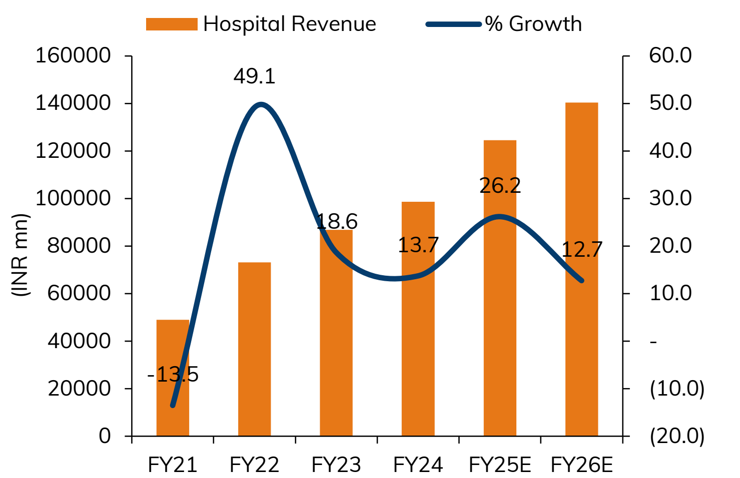
Source: Company data, I-Sec research

Exhibit 5: Growth attributed to better case and surgical mix



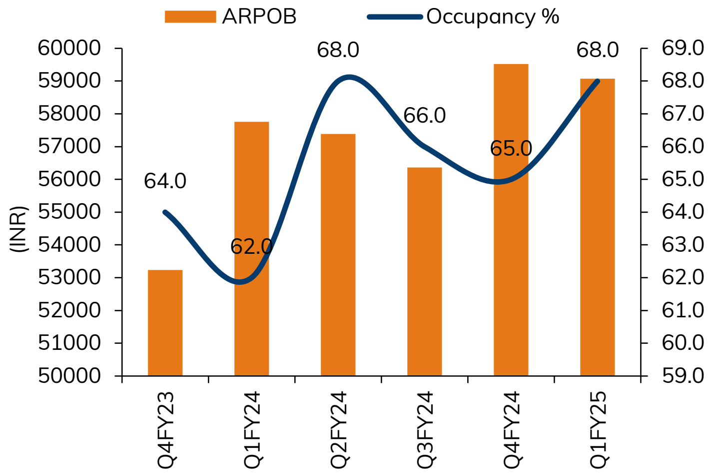
Source: I-Sec research, Company data

Exhibit 6: Healthy traction in hospitals likely to continue with improvement in occupancies



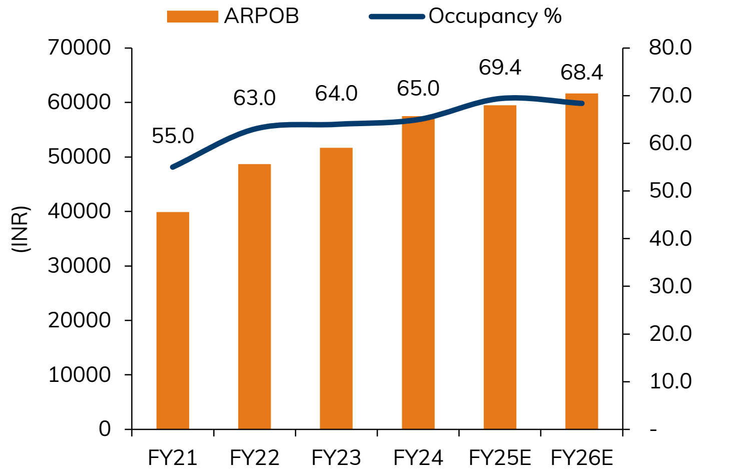
Source: I-Sec research, Company data

Exhibit 7: Occupancy rose 300bps QoQ



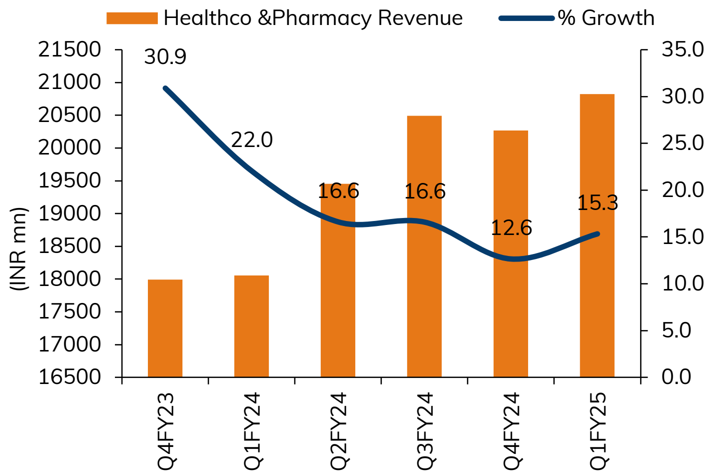
Source: I-Sec research, Company data

Exhibit 8: Occupancy and ARPOB may increase from current levels



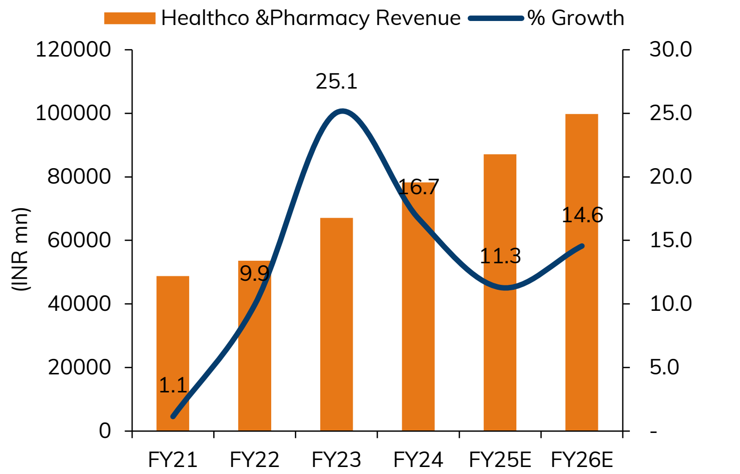
Source: I-Sec research, Company data

Exhibit 9: Omnichannel approach driving growth



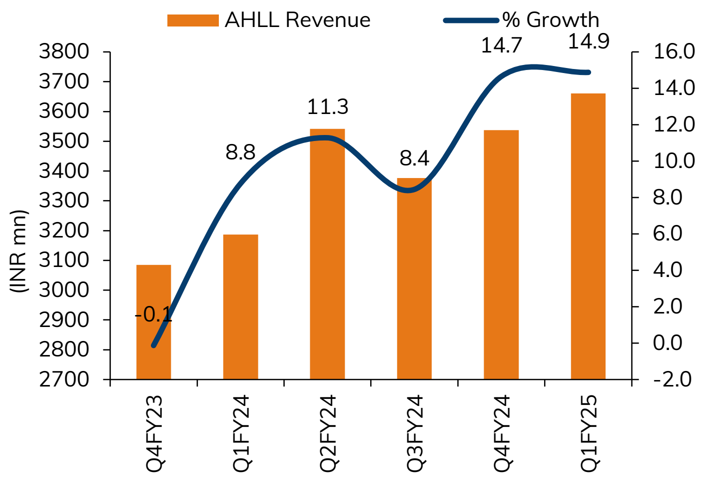
Source: I-Sec research, Company data

Exhibit 10: Store addition and 24/7 to boost pharmacy revenue



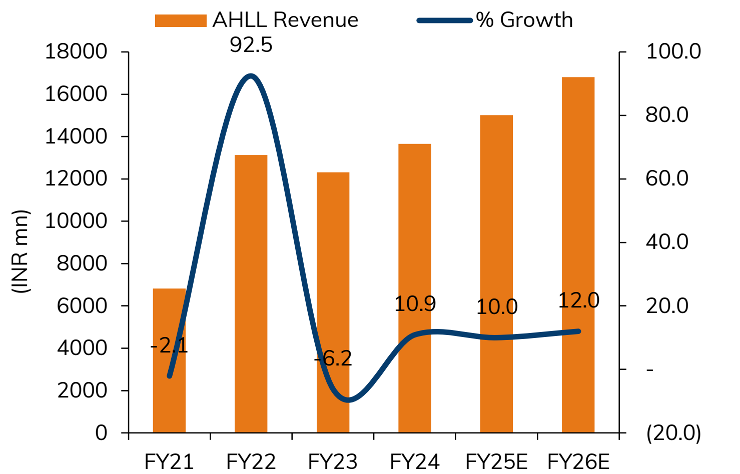
Source: I-Sec research, Company data

Exhibit 11: Specialty care drives growth



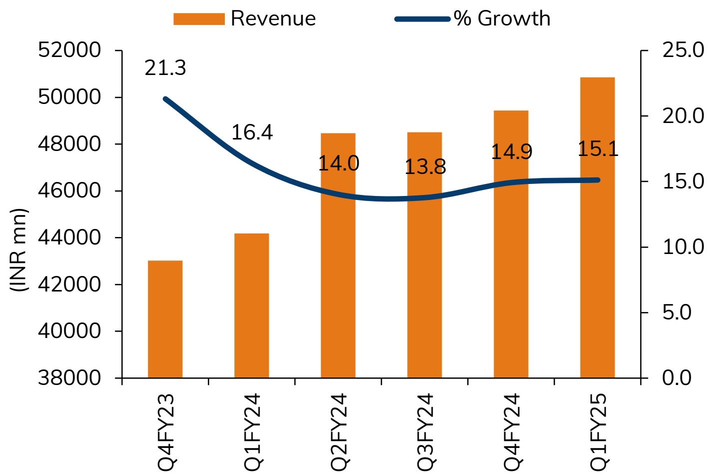
Source: I-Sec research, Company data

Exhibit 12: AHLL's revenue to grow at 11% CAGR over FY24-26E



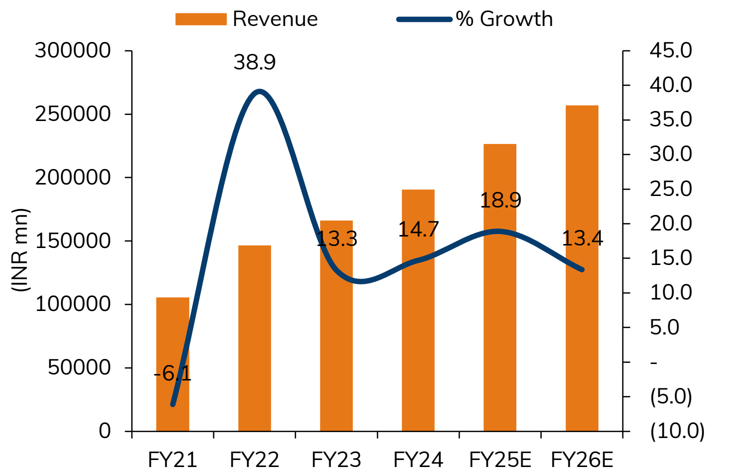
Source: I-Sec research, Company data

Exhibit 13: Growth driven by good performance across verticals



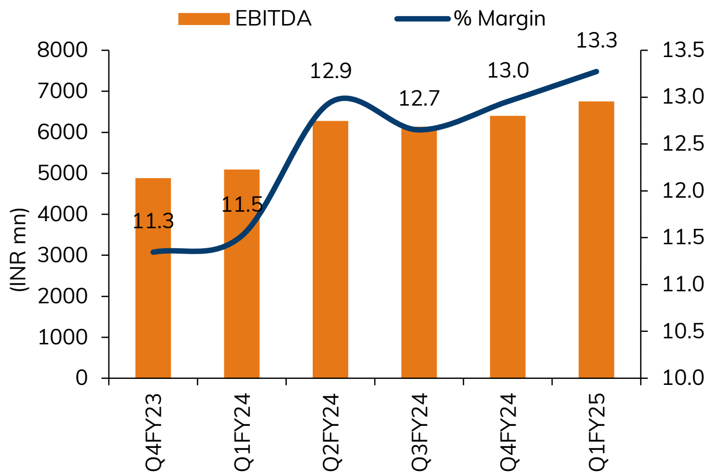
Source: I-Sec research, Company data

Exhibit 14: Revenue to grow at 16.1% CAGR over FY23-26E



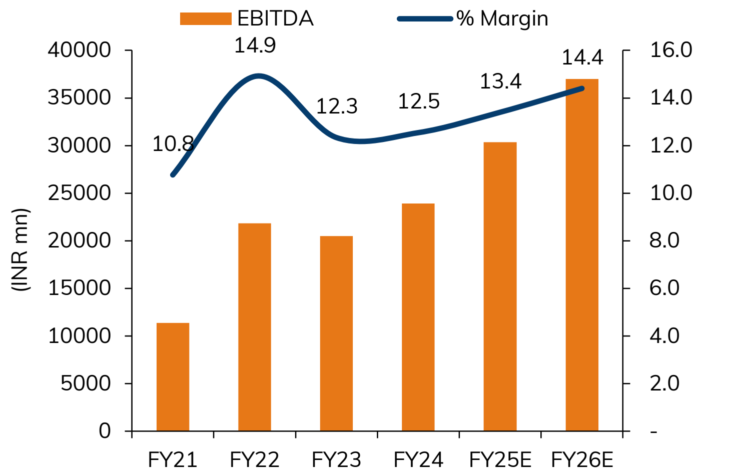
Source: I-Sec research, Company data

Exhibit 15: EBITDA margin expanded 180bps YoY



Source: I-Sec research, Company data

Exhibit 16: Curbs in 24/7 losses to boost EBITDA margin



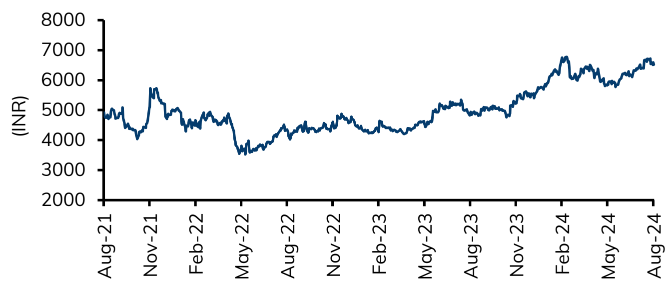
Source: I-Sec research, Company data

Exhibit 17: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	29.3	29.3	29.3
Institutional investors	65.1	65.2	65.2
MFs and others	13.9	14.3	15.8
FIs/Banks	0.0	0.0	0.2
Insurance	4.1	4.2	5.2
FIIs	47.1	46.7	44.0
Others	5.6	5.5	5.5

Source: Bloomberg

Exhibit 18: Price chart



Source: Bloomberg

Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	**1,66,125**	**1,90,592**	**2,26,634**	**2,56,964**
Operating Expenses	59,886	68,630	80,229	89,423
EBITDA	**20,496**	**23,907**	**30,369**	**37,003**
EBITDA Margin (%)	12.3	12.5	13.4	14.4
Depreciation & Amortization	6,152	6,870	7,082	7,838
EBIT	14,344	17,037	23,287	29,164
Interest expenditure	3,808	4,494	4,747	4,427
Other Non-operating Income	903	1,063	1,329	1,382
Recurring PBT	**11,008**	**13,805**	**20,157**	**26,436**
Profit / (Loss) from Associates	**(432)**	**180**	**288**	**317**
Less: Taxes	2,562	4,455	6,652	8,724
PAT	8,446	9,350	13,505	17,712
Less: Minority Interest	(255)	(364)	(437)	(524)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**8,191**	**8,986**	**13,068**	**17,188**
Net Income (Adjusted)	**8,191**	**8,973**	**13,068**	**17,188**

Source Company data, I-Sec research

Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	40,450	45,957	56,196	64,606
of which cash & cash eqv.	7,758	9,338	12,705	15,366
Total Current Liabilities & Provisions	24,283	35,489	40,552	44,660
Net Current Assets	**16,166**	**10,468**	**15,644**	**19,946**
Investments	5,777	9,895	9,895	9,895
Net Fixed Assets	62,004	65,662	68,580	76,742
ROU Assets	12,317	19,743	19,743	19,743
Capital Work-in-Progress	6,017	8,447	8,447	8,447
Total Intangible Assets	10,917	11,481	11,481	11,481
Other assets	4,497	3,747	4,456	5,052
Deferred Tax Assets	2,216	2,533	2,991	3,377
Total Assets	**1,19,994**	**1,32,042**	**1,41,303**	**1,54,749**
Liabilities				
Borrowings	**43,324**	**53,326**	**49,326**	**45,326**
Deferred Tax Liability	**4,424**	**4,498**	**4,498**	**4,498**
provisions	574	732	870	987
other Liabilities	6,359	281	281	281
Equity Share Capital	61,971	69,354	82,040	98,845
Reserves & Surplus	3,341	3,851	4,288	4,812
Total Net Worth	**65,313**	**73,205**	**86,328**	**1,03,657**
Minority Interest	-	-	-	-
Total Liabilities	**1,19,994**	**1,32,042**	**1,41,303**	**1,54,749**

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	**13,771**	**19,202**	**22,497**	**27,471**
Working Capital Changes	11,744	11,428	10,601	11,113
Capital Commitments	(11,245)	(11,349)	(10,000)	(16,000)
Free Cashflow	**2,526**	**7,853**	**12,497**	**11,471**
Other investing cashflow	**2,538**	**(4,023)**	**-**	**-**
Cashflow from Investing Activities	(8,706)	(15,372)	(10,000)	(16,000)
Issue of Share Capital	45	25	-	-
Interest Cost	(3,808)	(4,494)	(4,747)	(4,427)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(2,579)	(2,209)	(383)	(383)
Others	12	3,567	(4,000)	(4,000)
Cash flow from Financing Activities	(6,330)	(3,111)	(9,130)	(8,810)
Chg. in Cash & Bank balance	**(1,266)**	**719**	**3,367**	**2,661**
Closing cash & balance	9,093	8,477	12,705	15,366

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	58.2	64.4	93.0	122.0
Adjusted EPS (Diluted)	56.4	61.8	90.0	118.4
Cash EPS	98.8	109.1	138.8	172.4
Dividend per share (DPS)	17.8	15.2	2.6	2.6
Book Value per share (BV)	426.9	477.6	565.0	680.7
Dividend Payout (%)	30.5	23.6	2.8	2.2
Growth (%)				
Net Sales	13.3	14.7	18.9	13.4
EBITDA	(6.2)	16.6	27.0	21.8
EPS (INR)	(3.6)	9.5	45.6	31.5
Valuation Ratios (x)				
P/E	112.0	101.2	70.1	53.4
P/CEPS	66.0	59.7	47.0	37.8
P/BV	15.3	13.6	11.5	9.6
EV / EBITDA	47.6	41.0	32.0	26.1
P / Sales	5.7	5.0	4.2	3.7
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	48.4	48.6	48.8	49.2
EBITDA Margins (%)	12.3	12.5	13.4	14.4
Effective Tax Rate (%)	23.3	32.2	33.0	33.0
Net Profit Margins (%)	4.9	4.7	5.8	6.7
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.5	0.5	0.3	0.2
Net Debt / EBITDA (x)	1.5	1.4	0.9	0.5
Profitability Ratios				
RoCE (%)	9.4	9.4	11.8	13.8
RoE (%)	13.8	13.7	17.3	19.0
RoIC (%)	10.0	10.0	12.9	15.3
Fixed Asset Turnover (x)	2.7	3.0	3.4	3.5
Inventory Turnover Days	9	9	9	9
Receivables Days	52	51	52	51
Payables Days	45	48	49	48

Source Company data, I-Sec research

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