

Apollo Hospitals Enterprises

BUY

Maintained

Rs1,673

Recovering well from COVID-19 impact

Apollo Hospitals Enterprises' (AHEL) Q1FY21 performance was impacted by lockdown across the country, however, pharmacy business remained strong cushioning COVID-19 impact on company's performance. Overall, revenues declined 15.6% YoY to Rs21.7bn due to 41.2% fall in the hospital business, although pharmacy business reported revenue growth of 21.0%. EBITDA margin (pre-Ind-AS 116 adjustment) stood at (2)%, down 1610bps YoY with significant drop in revenue. We expect performance to improve gradually in the coming quarters as occupancy level improves. We remain positive on AHEL's long-term outlook considering its strong brand and pan-India presence in the hospital segment, margin expansion also supported by cost control, and 13.5% EBITDA CAGR over FY20-FY23E. Maintain BUY.

- **Revenue growth impacted by lockdown, expect gradual recovery:** Hospitals business witnessed significant fall in revenue of 41.2% owing to reduced occupancy at 38% vs 66% YoY. This fall in occupancy was visible across the states post implementation of lockdown and postponement of elective surgeries by patients. The company's digital outreach for consultations and OPDs has supported growth. The occupancy level has risen gradually in Jul-Aug-Sep and Q2FY21 occupancy is expected to be above 50%. Pharmacy business continued to grow strong with revenues rising 21.0%. Addition of 284 new stores (YoY) to 3,780, and 11.9% increase in revenue per store to Rs3.4mn were the key triggers. We expect 300 store additions each year and 7.3% CAGR in revenue per store.
- **Margins to recover but gradually:** Hospital business margin stood at (12.7)% vs 17.8% YoY due to significant decline in sales. Gradual improvement in occupancy level (~50% currently) and various cost control exercises (human resource, administrative expenses etc.) undertaken by the company would help in gradual margin expansion. The consolidated margin (pre-Ind-AS 116) was negative in Q1FY21 and we expect positive margin Q2FY21 onwards. Overall, we estimate EBITDA margin to improve by 190bps over FY20-FY23E.
- **Outlook:** We expect the performance to improve in coming quarters supported by higher occupancy, cost control initiatives and continued growth momentum in pharmacy segment. We expect 8.8% revenue and 13.5% EBITDA CAGRs over FY20-FY23E. Minimal capex requirement in the near term would help generate FCF of ~Rs31bn over FY21E-FY23E which would help reduce leverage.
- **Valuations:** We lower FY21 revenue/EBITDA estimates by 5.5/26.1% to factor in lockdown impact and weak Q1FY21 but largely maintain FY22 estimates. Maintain **BUY** with a revised target price of Rs1,936/share based on SoTP valuation (earlier Rs1,666/share). Key downside risks are: higher competition in areas where AHEL has dominant position, prolonged lockdown and longer breakeven for newer hospitals.

Market Cap	Rs233bn/US\$3.2bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	APLH.BO/APHS IN	Net Revenue (Rs mn)	111,882	104,701	128,987	145,032
Shares Outstanding (mn)	139.1	Net Profit (Rs mn)	2,727	189	6,057	7,920
52-week Range (Rs)	1801/1089	Dil. EPS (Rs)	23.1	1.3	43.1	56.3
Free Float (%)	69.2	% Chg YoY	37.5	(94.2)	3,105.9	30.8
FII (%)	46.6	P/E (x)	72.5	1,245.1	38.8	29.7
Daily Volume (US\$'000)	22,859	CEPS (Rs)	67.2	47.7	91.3	106.8
Absolute Return 3m (%)	18.6	EV/EBITDA (x)	18.6	26.0	14.5	12.2
Absolute Return 12m (%)	14.9	Dividend Yield (%)	0.6	0.6	0.6	0.6
Sensex Return 3m (%)	18.2	RoCE (%)	5.8	4.0	10.6	12.1
Sensex Return 12m (%)	5.6	RoE (%)	9.7	0.6	17.7	20.1

Q1FY21 result review and earnings revision

Pharmaceuticals

Target price Rs1,936

Earnings revision

(%)	FY21E	FY22E
Sales	(5.5)	(0.7)
EBITDA	(26.1)	2.6

Target price revision

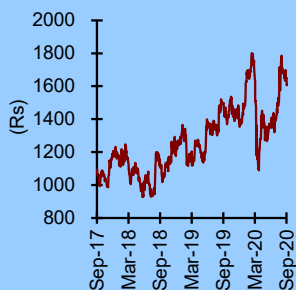
Rs1,936 from Rs1,666

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	30.8	30.8	30.8
Institutional investors	62.2	61.7	61.7
MFs and other	8.1	8.9	8.3
Banks/FIs	3.9	4.0	4.7
Insurance co	1.4	1.9	2.1
FIs	48.8	46.9	46.6
Others	7.0	7.5	7.5

Source: BSE

Price chart



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Highlights of Q1FY21 result and earnings call

- **AHEL's net sales** declined 15.6% YoY to Rs21.7bn during the quarter due to weak performance in the hospital segment.
- **Hospital segment revenues** declined 41.2% YoY to Rs7.9bn. This was largely due to the lockdown implemented in the wake of the pandemic in the country which caused a sharp decline in occupancy. However, there has been a MoM improvement and Q2 is expected to have ~50-52% occupancy.
 - **TN region** sales declined 52.1% YoY to Rs2.6bn driven by lower ARPOB and occupancy ratio.
 - **AP & Telangana region** sales declined 40.6% YoY to Rs1.6bn driven by occupancy. ARPOB was higher due to improved payor mix (lower contribution from government sponsored patients).
 - **Karnataka region** sales declined 38.1% YoY to Rs1.1bn driven by lower occupancy. ARPOB was higher as the contribution from COVID-19 patients was lower.
 - **Other regions** sales declined 18.0% YoY to Rs1.4bn driven by lower occupancy ratio.
 - **Significant subsidiaries/JVs/Associate revenues** declined 42.7% YoY to Rs2.8bn driven by lower occupancy ratio.
 - **Proton Cancer Centre**, AHEL's oncology unit, is witnessing strong demand from domestic patients who would generally travel overseas for treatment. Revenue remained flat QoQ at Rs192mn while EBITDA loss declined to Rs34mn from Rs74mn. ~40% of its patients were international pre-COVID level.
 - **AHLL** was also severely impacted due to the lockdown resulting in 36.9% YoY decline in revenue and net loss during the quarter.
 - New hospitals reported a revenue decline of 28.9% YoY with EBITDA loss of Rs251mn during the quarter.
- **Pharmacy business** revenues grew by a strong 21.0% YoY to Rs12.8bn driven by higher proportion of private label sales (~9% of sales). Company is focusing on store-level growth. Revenue/store increased by 11.9% YoY to Rs3.4mn/store. Mature stores have reached EBITDA margin of ~8%. Company expects this segment to grow in double digits excluding e-pharmacy sales via its **24/7** application which is covering ~13,500 pincodes spread across the country.
- Company has secured NCLT approval for de-merger of the front-end of the pharmacy segment. This would be effective from 1st Sep'20.
- Company has managed to save Rs1bn during the quarter and is expected to save Rs1.8-2bn for FY21 by implementing several cost saving initiatives. Some portion would be structural and sustainable in the future.

Table 1: Q1FY21 result review*(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	YoY % Chg	Q4FY20	QoQ % Chg
Net Sales	21,715	25,719	(15.6)	29,224	(25.7)
EBITDA	355	3,637	(90.2)	3,801	(90.7)
Other income (incl. JV/Assoc.)	(149)	5	NA	44	NA
PBIDT	206	3,642	(94.4)	3,845	(94.7)
Depreciation	1,602	1,440	11.2	1,639	(2.3)
Interest	1,274	1,258	1.3	1,352	(5.8)
Extra ordinary income/ (exp.)	-	-	-	-	-
PBT	(2,670)	944	NA	854	NA
Tax	(408)	453	NA	740	NA
Minority Interest	(181)	(81)	-	(98)	-
Reported PAT	(2,082)	572	NA	211	NA
Adjusted PAT	(2,082)	572	NA	211	NA
EBITDA margins (%)	1.6	14.1	(1250)bps	13.0	(1140)bps

Source: Company data, I-Sec research

Table 2: Revenue mix*(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	YoY % Chg	Q4FY20	QoQ % Chg
Hospitals	7,953	13,529	(41.2)	13,966	(43.1)
Pharmacy	12,792	10,568	21.0	13,585	(5.8)
Total	20,744	24,097	(13.9)	27,551	(24.7)
EBITDA					
Hospitals	(1,007)	2,410	NA	2,221	NA
% margin	(12.7)	17.8	NA	15.9	NA
Pharmacy	804	584	37.7	847	(5.1)
% margin	6.3	5.5	80bps	6.2	10bps

Source: Company data, I-Sec research

Revising sales and earnings estimates

For FY20-FY23E, we forecast net sales and EBITDA to increase at CAGRs of 8.8% and 13.5% respectively. We lower FY21 revenue/EBITDA estimates by 5.5/26.1% to factor in lockdown impact and weak Q1FY21, though we largely maintain FY22 estimates. We also introduce FY23 estimates with revenue growth of 12.4% and EBITDA growth of 16.1%.

Table 3: Earnings revision

	FY21E	FY22E
Total sales (Rs mn)		
Sales – new	104,701	128,987
Sales – old	110,785	129,922
Change (%)	(5.5)	(0.7)
EBITDA (Rs mn)		
EBITDA – new	11,255	19,993
EBITDA – old	15,233	19,488
Change (%)	(26.1)	2.6

Source: I-Sec research

Valuations

We expect AHEL's EBITDA to grow at a CAGR of 13.5% over FY20-FY23E driven by revenue CAGR of 8.8% and EBITDA margin expansion to 16.0% by FY23E from 14.1% in FY20. Economies of scale on increased occupancy and reduction in loss at AHLL would drive margin expansion. Further, return ratios would recover from current depressed levels with strong growth in net profit and reduced capex.

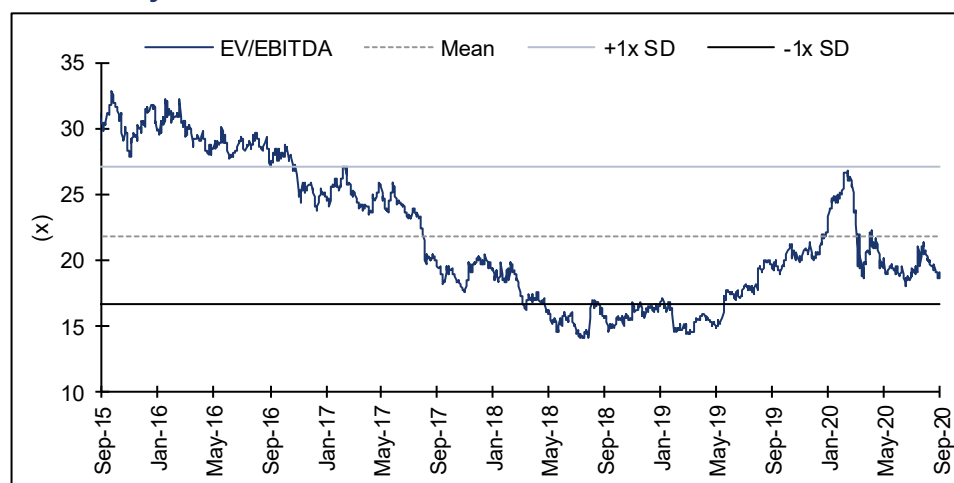
The stock currently trades at EV/EBITDA of 14.5x FY22E and 12.2x FY23E. We believe the valuation has upside potential considering the recovery in margins, strong bottomline growth and attractive valuations. We reiterate our **BUY** rating on the stock with a revised target price of Rs1,936/share based on SoTP valuation (earlier: 1,666/share). The stock has traded at an average forward EV/EBITDA of 21.8x over the past five years.

Table 4: Sum of the parts (SoTP) valuation

Segments	Rs mn	(x)	Value (Rs mn)	AHEL's stake	Value (Rs mn)
Hospitals - EBITDA (Sep'22E)	13,876	16.0	222,023	100%	222,023
Pharmacy - EBITDA (Sep'22E)	59,325	1.0	59,325	100%	59,325
AHLL - Revenue (Sep'22E)	7,287	2.0	14,574	70%	10,238
Indraprastha Medical - Market cap	4,800	0.8	3,840	22%	846
Apollo Gleneagles Kolkata (50% JV)	746	12.0	8,954	50%	4,477
Total EV					296,910
Less: Net Debt					23,849
Minority Interest					844
Implied MCap					272,216
Value per share (Rs)					1,936

Source: Company data, I-Sec research

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Summary financials (consolidated)

Table 5: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Hospitals	56,712	51,034	65,249	73,032
Pharmacy	48,206	47,335	55,910	62,739
Others	6,964	6,333	7,828	9,260
Total Revenue	111,882	104,701	128,987	145,032
YoY Growth%	16.3	(6.4)	23.2	12.4
Total Op. Exp.	96,595	93,446	108,994	121,827
EBITDA	15,287	11,255	19,993	23,205
Margins %	13.7	10.8	15.5	16.0
YoY Growth%	43.7	(26.4)	77.6	16.1
Depreciation	6,197	6,517	6,777	7,102
EBIT	9,090	4,739	13,216	16,103
Other Income	239	270	270	270
Interest	5,328	5,072	4,792	4,552
Exceptional Items (net)	1,983	-	-	-
PBT	5,984	(63)	8,694	11,821
Tax	2,252	(21)	2,869	3,901
Tax Rate (%)	37.6	33.0	33.0	33.0
Minority Interest	(231)	(231)	(231)	-
Reported PAT	3,963	189	6,057	7,920
Adj PAT	2,727	189	6,057	7,920
Net Margins (%)	2.4	0.2	4.7	5.5

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	696	696	696	696
Reserves & Surplus	32,695	31,241	35,655	41,933
Total Equity	33,391	31,937	36,351	42,629
Minority Interest	1,307	1,076	844	844
Total Debt	65,896	60,896	58,896	54,896
Deferred Liabilities	2,446	2,446	2,446	2,446
Capital Employed	103,040	96,355	98,537	100,815
Current Liabilities	9,849	9,364	11,573	13,318
Total Liabilities	112,889	105,719	110,110	114,133
Net Fixed Assets	76,677	73,160	71,383	69,281
Investments	3,592	3,592	3,592	3,592
Inventory	7,378	7,137	8,325	9,305
Debtors	10,272	9,563	11,781	13,246
Other Current Assets	9,553	8,909	10,922	12,252
Cash and Equivalents	5,417	3,357	4,107	6,456
Total Cur. Assets	36,212	32,559	38,727	44,851
Total Assets	112,889	105,719	110,110	114,133

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	6,570	(63)	8,694	11,821
Depreciation	6,197	6,517	6,777	7,102
Net Chg in WC	(475)	687	(1,892)	(1,159)
Taxes	(1,716)	21	(2,869)	(3,901)
Others	(2,976)	422	(1,318)	(871)
CFO	7,600	7,583	9,392	12,992
Capex	(5,100)	(3,000)	(5,000)	(5,000)
Net Investments made	2,317	-	-	-
Others	(104)	-	-	-
CFI	(2,888)	(3,000)	(5,000)	(5,000)
Change in Share capital	-	-	-	-
Change in Debts	(1,827)	(5,000)	(2,000)	(4,000)
Div. & Div Tax	(1,551)	(1,643)	(1,643)	(1,643)
Others	(136)	-	-	-
CFE	(3,514)	(6,643)	(3,643)	(5,643)
Total Cash Generated	1,198	(2,060)	750	2,349
Cash Opening Balance	3,470	4,668	2,608	3,358
Cash Closing Balance	4,668	2,608	3,358	5,707

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	23.1	1.3	43.1	56.3
YoY Growth%	37.5	(94.2)	3,105.9	30.8
Cash EPS	67.2	47.7	91.3	106.8
EBITDA - Core (%)	13.7	10.8	15.5	16.0
NPM (%)	2.4	0.2	4.7	5.5
Net Debt to Equity (x)	1.8	1.8	1.5	1.1
P/E (x)	72.5	1,245.1	38.8	29.7
EV/EBITDA Core (x)	18.6	26.0	14.5	12.2
P/BV (x)	7.0	7.4	6.5	5.5
EV/Sales (x)	2.6	2.8	2.2	2.0
RoCE (%)	5.8	4.0	10.6	12.1
RoE (%)	9.7	0.6	17.7	20.1
RoIC (%)	6.0	4.0	10.8	12.6
Book Value (Rs)	237.5	227.1	258.5	303.2
DPS (Rs)	9.7	9.7	9.7	9.7
Dividend Payout (%)	42.0	722.4	22.5	17.2
Div Yield (%)	0.6	0.6	0.6	0.6
Asset Turnover Ratio	1.1	1.0	1.2	1.3
Avg Collection days	25	28	26	26
Avg Inventory days	31	35	32	33

Source: Company data, I-Sec research

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