APOLLO HOSPITALS

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	7,496
12 month price target (INR)	8,635
52 Week High/Low	7,585/6,001
Market cap (INR bn/USD bn)	1,078/12.6
Free float (%)	70.7
Avg. daily value traded (INR mn)	3,011.5

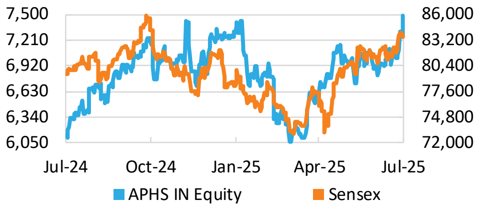
SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	29.34%	29.33%	29.33%
FII	42.74%	45.27%	45.37%
DII	22.29%	19.98%	20.18%
Pledge	13.47%	13.47%	13.99%

FINANCIALS (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	1,90,592	2,17,940	2,53,653	2,98,579
EBITDA	23,907	30,218	37,225	45,346
Adjusted profit	8,973	14,459	18,611	24,931
Diluted EPS (INR)	62.4	100.6	129.4	173.4
EPS growth (%)	25.0	61.1	28.7	34.0
RoAE (%)	13.7	19.1	20.4	22.0
P/E (x)	120.1	74.5	57.9	43.2
EV/EBITDA (x)	46.6	37.3	29.9	24.1
Dividend yield (%)	0.2	0	0	0

PRICE PERFORMANCE



Unlocking value through restructuring

Apollo Hospitals (APHS) has unveiled plans to restructure its pharmacy business and list the omni-channel pharmacy business in 18–21 months, offering 195.2 shares of NewCo for every 100 shares of APHS.

We appreciate the listing plans and proposal to acquire front-end pharmacy operations as it establishes a value unlocking timeline for APHS investors and provides access to an end-to-end pharmacy chain. Management's guidance of a 20%+ CAGR in revenue to INR250bn with a 7% margin (+350bp) is aggressive; however, if achieved, it might well trigger a re-rating. That said, 24/7 breakeven by end-FY26E and any uptick in the insurance business shall be closely watched. Retain 'BUY' with a revised TP of INR8,635 (earlier INR8,200) on rollover to Jun-27E.

Omni-channel pharmacy listing plans unveiled

APHS has unveiled plans to restructure its pharmacy business and list the omni-channel pharmacy business (NewCo) in 18–21 months. For every 100 shares of AHEL, AHEL shareholders will receive 195.2 shares of the new entity. AHEL will continue to hold ~15% of NewCo directly and AHEL shareholders will have 42.1% (together 59.6%; similar to last deal). NewCo will house: i) the backend pharmacy distribution business; ii) digital 24/7 and telehealth business; iii) Keimed; and iv) a ~25% stake in the front-end business. Moreover, subject to regulatory approvals, it plans to acquire the balance ~75% stake in the front-end pharmacy business as well.

Value unlocking opportunity with access to full pharmacy value chain

The pharmacy restructuring and the announced listing plans are welcome developments for AHEL shareholders as it: i) secures the value unlocking opportunity; ii) provides access to a fully integrated pharmacy chain via the acquisition of front-end operations, thereby enhancing the potential for retail valuation multiples; and iii) allows for sharper focus on the hospital business and a better reflection of fair value of the hospital business. While the last deal involving Advent—valued at USD2.7bn for the combined entity (HealthCo + Keimed)—fell short of expectations, we argue successful execution of the combined entity's guidance (22% revenue CAGR to INR250bn in revenue with margins improving from 3.5% to 7% over two years) could drive a re-rating (refer to our last report). We value the pharmacy business at USD3.7bn in our SotP.

Many pieces must fall in place for successful value creation

While the plans look promising, a lot hinges on successful execution of both 24/7 and Keimed merger including: i) consistent 20% growth across channels; ii) 24/7 breakeven by end-FY26E (earlier Q3 guided); iii) pickup in the insurance business driving up GMV; and iv) higher private label share on the digital side (from 4% currently to 8–10% in FY26). The improvement in front-end pharmacy EBITDA and ad monetisation are additional growth levers. We value APHS on an SotP basis valuing the hospital business at 26x Jun-27E EBITDA and pharmacy at 22x EBITDA (exhibit 1), yielding a TP of INR8,635 (earlier INR8,200); retain '**BUY**'.

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	1,90,592	2,17,940	2,53,653	2,98,579
Gross profit	92,537	1,04,840	1,23,022	1,44,811
Employee costs	24,937	27,692	31,430	35,768
Other expenses	43,693	46,930	54,367	63,697
EBITDA	23,907	30,218	37,225	45,346
Depreciation	6,870	7,575	8,230	8,443
Less: Interest expense	4,494	4,585	5,543	5,757
Add: Other income	1,063	2,003	2,487	3,465
Profit before tax	13,786	20,391	26,277	35,032
Prov for tax	4,455	5,340	6,905	9,213
Less: Other adj	19	0	0	0
Reported profit	8,986	14,459	18,611	24,931
Less: Excp.item (net)	13	0	0	0
Adjusted profit	8,973	14,459	18,611	24,931
Diluted shares o/s	144	144	144	144
Adjusted diluted EPS	62.4	100.6	129.4	173.4
DPS (INR)	15.0	0	0	0
Tax rate (%)	32.3	26.2	26.3	26.3

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	719	719	719	719
Reserves	68,635	81,404	1,00,015	1,24,945
Shareholders funds	69,354	82,123	1,00,734	1,25,664
Minority interest	3,851	4,406	5,167	6,056
Borrowings	31,619	52,752	52,752	52,752
Trade payables	23,686	22,405	27,558	32,439
Other liabs & prov	18,194	19,382	21,164	24,101
Total liabilities	1,67,531	2,06,574	2,32,881	2,66,519
Net block	65,662	73,504	80,774	87,831
Intangible assets	11,481	13,197	13,197	13,197
Capital WIP	8,447	7,710	7,710	7,710
Total fixed assets	85,590	94,411	1,01,681	1,08,738
Non current inv	3,087	10,817	10,817	10,817
Cash/cash equivalent	16,178	27,925	43,198	61,520
Sundry debtors	25,149	30,161	32,187	37,888
Loans & advances	1,708	1,873	1,873	1,873
Other assets	9,871	10,461	12,199	14,757
Total assets	1,67,531	2,06,574	2,32,881	2,66,519

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Gross margin (%)	48.6	48.1	48.5	48.5
Net debt/EBITDA	0.6	0.8	0.3	(0.2)
Working cap (% of sales)	3.2	5.8	4.1	4.2
EBITDA margin (%)	12.5	13.9	14.7	15.2
Net profit margin (%)	4.7	6.6	7.3	8.3
Revenue growth (% YoY)	14.7	14.3	16.4	17.7
EBITDA growth (% YoY)	16.6	26.4	23.2	21.8
Adj. profit growth (%)	25.0	61.1	28.7	34.0

Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Reported profit	8,986	14,459	18,611	24,931
Add: Depreciation	6,870	7,575	8,230	8,443
Interest (net of tax)	4,494	4,585	5,543	5,757
Others	5,447	(822)	7,666	10,102
Less: Changes in WC	(1,928)	427	3,171	(441)
Operating cash flow	19,202	21,364	36,316	39,578
Less: Capex	(11,368)	(17,127)	(15,500)	(15,500)
Free cash flow	7,834	4,237	20,816	24,078

Assumptions (%)

Year to March	FY24A	FY25A	FY26E	FY27E
GDP (YoY %)	6.5	6.3	6.5	6.5
Repo rate (%)	6.5	5.3	5.3	5.3
USD/INR (average)	84.0	82.0	81.0	81.0
Hospitals Sales growth	13.7	13.0	14.9	18.2
ARPOB Growth	11.3	5.4	3.0	5.5
No. of operating beds	7,945.0	8,025.0	9,397.0	9,702.0
Occupancy rate	65.0	68.0	72.8	68.0
Offline Pharmacy growth	15.5	15.7	16.6	16.6
AHLL sales growth	10.9	13.8	14.5	14.3

Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	13.7	19.1	20.4	22.0
RoCE (%)	18.4	20.2	21.1	23.5
Inventory days	16	15	15	15
Receivable days	45	46	45	43
Payable days	80	74	70	71
Working cap (% sales)	(0.4)	2.4	0.8	0.8
Gross debt/equity (x)	0.4	0.6	0.5	0.4
Net debt/equity (x)	0.2	0.3	0.1	(0.1)
Interest coverage (x)	3.8	4.9	5.2	6.4

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	120.1	74.5	57.9	43.2
Price/BV (x)	15.5	13.1	10.7	8.6
EV/EBITDA (x)	46.6	37.3	29.9	24.1
Dividend yield (%)	0.2	0	0	0

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	25.0	61.1	28.7	34.0
RoE (%)	13.7	19.1	20.4	22.0
EBITDA growth (%)	16.6	26.4	23.2	21.8
Payout ratio (%)	24.0	0	0	0

Conference call takeaways

Rationale/details of transaction

- Plans to achieve INR250bn in revenue by end-FY27E with an EBITDA margin of ~7% (post-Ind AS).
- AHEL and AHL have agreed to the terms of business framework (provides clarity on each business area and the flexibility offered to run each segment).
- Market approach has not been used; income approach has been used (DCF). Relative valuation of AHL to Keimed stands the same (2.2x). 59.2% has gone up to 59.6% due to the telehealth business.
- SPA has been entered into already to acquire a 74.5% stake in AMPL. The approximate value will be INR3bn. The investors had infused INR1.08bn in 2018.
- AHL will be the digital window for communication with consumers while healthcare services will remain in AHEL. Non-compete for AHEL is on retail pharmacies, and for them on the healthcare services side. They will continue to refer customers.
- AHEL will continue to focus on hospitals. AHLL diagnostics’ portfolio is expected to grow and there is no plan to spin off AHLL. 24/7 is the channel partner for the diagnostics business. There is revenue sharing of ~15%. All the cooperation and collaboration will continue. Overall, there is no change in arrangement post this transaction as well.
- The composite scheme is good because it allows for a speedy restructuring with lesser time in getting approvals. This will accelerate the listing as well, and investors wanted value unlocking.
- Advent is sharing upside with executive chairperson and management when they achieve their targeted return. At 2.5x, upside translates to 0.6% of m-cap and 0.8% of m-cap at 4.5x (AHL m-cap).
- **NewCo management** – There is already a strong professional team in place. The board is independent.
- **NewCo capital strategy** – No capital requirement foreseen.
- Keimed does not have a large trade Gx business as of now, but it can be looked at going ahead. The trade Gx margin structure is better but challenges are different (discounts are higher and realisation is lower).
- No changes are expected in the hospital expansion plan.
- Listing of NewCo is expected in 18–21 months from now.

Financials

- **Revenue drivers –** FY24 was a softer year, but FY25 bounced back well and 22–23% YoY growth is possible. In Q4FY25 and Q1FY26, target growth number has been beaten. E-Pharmacies’ business (INR1.65–1.7bn monthly run-rate touched) has been doing well. Consultation business and diagnostics are also showing an uptick. Insurance will also contribute to this.
- **Margin drivers –** The digital business breakeven is expected by the end of FY26E: driven by GMV increase, higher PL and generics share and insurance being a high

margin business. New teams have been put in place (with a new CEO) to have a relook at the private label portfolio. Lot of new products are being brought to the table. A 7–9% share is expected in FY26E. There is already a strong supply chain in place, but only a revamp is taking place. A good pipeline is in place. The focus is on branded generics. There is no intention to manufacture drugs on own.

- Offline's 7.6% margin will move up due to operating leverage and scale (to 8–8.5%). Online will break even in four quarters. For Keimed, from 3.2% to 3.7% is being targeted.
- Keimed, once it gets consolidated, will almost halve while EBITDA would remain the same. The guidance given is net of elimination, which means in reality the margin would be 6–7%.
- In FY26, the insurance business should break even or incur only a small loss. No bottom-line contribution is expected in FY26E. In FY27E, numbers should grow much faster (double revenue from FY26). Insurance is not a major GMV contributor, but aids in margin improvement. INR120mn ad monetixation is planned for FY26 and this is expected to double in FY27.
- Front-end pharmacies are EBITDA-positive for FY25 and should continue to be so over coming years. It is a small number now.
- Private label is targeted to be taken to 8–10% in FY26 and 12% in FY27. Offline pharmacy is in the range of 17–18% and digital line of business at 3.5–4%. The last two quarters have seen a steady increase.
- NewCo debt is the working capital availed by all companies from banks and financial institutions. Nothing is owed to AHEL.
- Online GMV should grow 25–30% YoY. INR45–50bn GMV is expected in two years.
- INR100mn royalty would be paid to the main company by the new company, and it will be moving up over a period of time.
- Online was getting funded by offline profits. INR800mn was a cash loss in Q4FY25 of Apollo 24/7, and this would keep coming down over coming quarters.

Exhibit 1: SotP valuation

Valuation	**Jun-27**
Healthcare services business	
Multiple (EV/EBITDA)	26
EBITDA post Ind AS 116	37,220
EV	9,75,168
Less: Net debt	(6,821)
Equity value	9,81,989
Apollo HealthCo business	
Multiple (EV/EBITDA)	22
EBITDA post 24/7 (incl Keimed) (proforma)	14,797
EV	3,28,489
Less: Net debt	19,340
Equity value	3,09,149
~60% stake	1,85,489
AHLL (67% stake) (30x EBITDA)	62,816
Equity value	61,663
Other JVs and associates	6,600
Total EV	13,73,073
Total Equity Value	12,35,741
No. of shares	144
Value per share	**8,635**

Source: Nuvama Research

Exhibit 2: *Pro forma* estimates of combined entity

	FY24	FY25	FY26E	FY27E	CAGR %
Revenue	1,37,801	1,61,970	1,98,971	2,36,324	20%
EBITDA post 24/7 cost	2,537	5,818	9,374	13,738	76%
Margin	1.8%	3.6%	4.7%	5.8%	
Revenue Breakup					
Apollo HealthCo	78,269	90,930	1,07,829	1,26,953	17%
Keimed	1,03,513	1,25,540	1,51,903	1,82,284	21%
Inter company	43,981	54,500	60,761	72,914	
Combined Entity	1,37,801	1,61,970	1,98,971	2,36,324	20%
EBITDA breakup					
Apollo HealthCo pre 24/7	6,053	7,532	9,738	12,136	
Keimed	3,561	4,143	5,317	6,562	
Combined Entity	9,614	11,675	15,054	18,698	
24/7 cost	7,077	5,857	5,680	4,960	
Combined Entity post 24/7	2,537	5,818	9,374	13,738	
EBITDA margin					
Apollo HealthCo	7.7%	8.3%	9.0%	9.6%	
Keimed	3.4%	3.3%	3.5%	3.6%	
Combined Entity	7.0%	7.2%	7.6%	7.9%	
Combined Entity post 24/7	1.8%	3.6%	4.7%	5.8%	

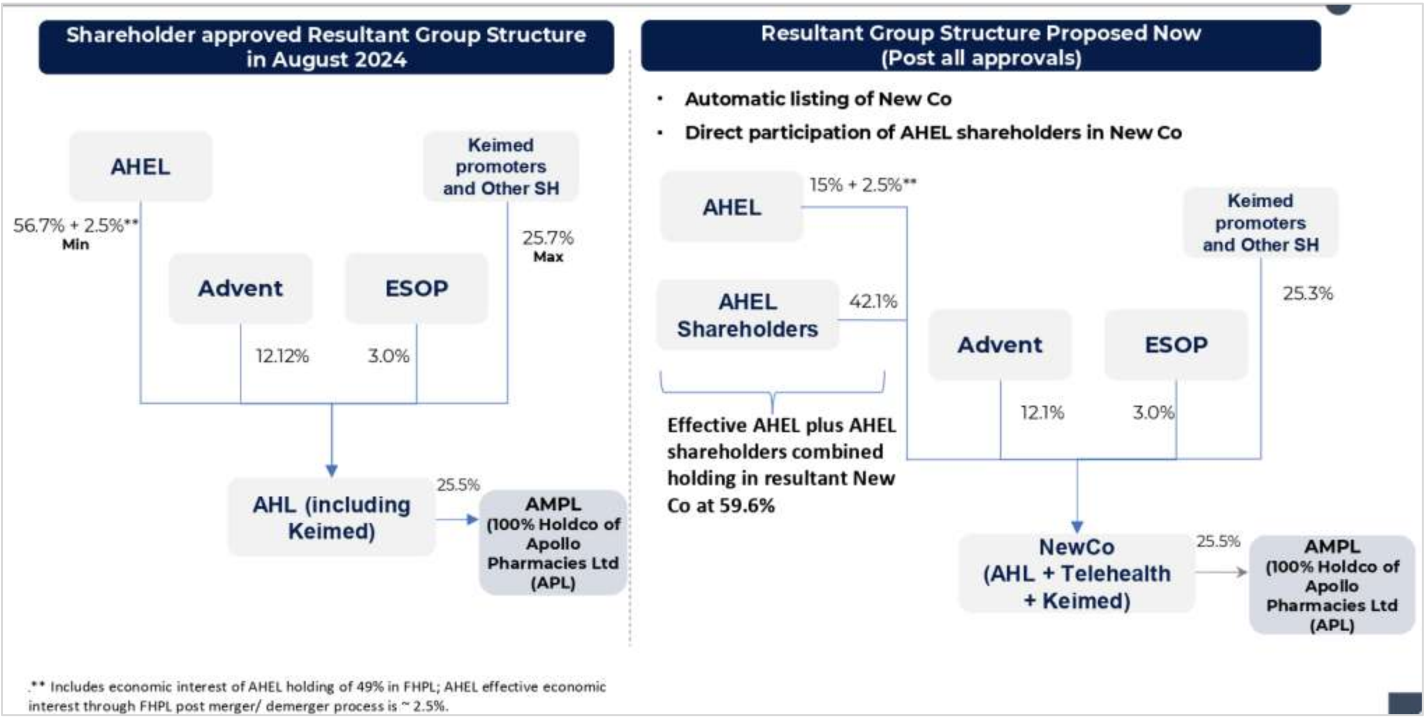
Source: Company, Nuvama Research

Exhibit 3: Combined entity's financial snapshot (FY25)

FY25 (INR mn)	Offline	+	Online + Telehealth*	=	AHL	+	Keimed (2,3)	=	NewCo (4)
Revenue	80140		11490		91630		125540		162670
EBITDA (post IND AS)#	6120		1430		7560		4060		11550
EBITDA margin (post IND AS)#	7.6%		12.4%		8.3%		3.2%		7.1%
24/7 operating costs	-		-4780		-4780		-		-4780
ESOP non-cash charge	-		-1080		-1080		-		-1080
EBITDA (post IND AS)	6120		-4420		1700		4060		5760
EBITDA margin (post IND AS)	7.6%		-		1.9%		3.2%		3.5%
PAT	5340		-4850		490		1710		2210
PAT margin	6.7%		-		0.5%		1.4%		1.4%

Source: Company
 # Pre 24/7 Operating Cost and ESOP Non-Cash Charge
**GMV at INR30770mn*
2: excludes surgicals
3: includes full year impact of FY25 acqusitions
4: post elimination for Keimed's AHL business

Exhibit 4: Transaction structure (before and after)



Source: Company

Exhibit 5: Steps and timelines

Source: Company

Company Description

Apollo Hospitals is widely recognised as the pioneer of private healthcare in India, and was the country's first corporate hospital. The Apollo Hospitals Group, which started as a 150-bed hospital in Chennai in 1983 and today operates 7,000-plus beds across 70 hospitals. The Group has emerged as the foremost integrated healthcare provider in Asia with mature group companies that specialise in insurance, pharmacy, consultancy, clinics and many such key touch points of the ecosystem.

The group includes hospitals, pharmacies, primary care and diagnostic clinics, and telemedicine centres panning the length and breadth of India. As an integrated healthcare services provider—health insurance services, global projects consultancy capability, medical education centres and a research foundation—with focus on global clinical trials, epidemiological studies, stem cell & genetic research, Apollo has been at the forefront of medical breakthroughs. Its most recent investment went towards commissioning the first Proton Therapy Center in Chennai, India.

Investment Theme

APHS hospital business is on a solid footing as it: i) focuses on high-end surgical work, optimises payor mix and reconfigures beds to drive ARPOB growth; ii) aims to sustain 70%-plus occupancy; and iii) has a detailed ~3,000 bed addition plan for the next five years, which offers visibility. This capex cycle is backed by a healthy balance sheet with a net cash position.

The pharmacy business should grow in double-digits given new stores and product mix. The equity-raise strengthens its balance sheet for bolt-ons and has resulted in a net cash position. APHS's focus on the 24x7 digital app not only puts it ahead of the competition, but also act as a feeder for existing businesses.

Key Risks

- Not able to garner share in newer geographies; specialist physicians could disassociate or unable to attract talent.
- Upcoming capex cycle to dilute margin and RoCE
- Pharmacy business may underperform vis-à-vis expectations
- Regulatory intervention
- Subsidiaries may be unable to sustain profitability ahead

Additional Data

Management

Chairman	Dr. Prathap C Reddy
Vice Chairperson	Smt. Preetha Reddy
Vice Chairperson	Smt. Shobana Kamineni
Managing Director	Smt. Suneeta Reddy
Auditor	Deloitte Haskins & Sells LLP

Holdings – Top 10*

	% Holding		% Holding
Sands Capital	6.96	Blackrock	2.72
LIC	3.77	Mirae	2.06
Schroders	3.09	FundRock	1.86
Vanguard	2.96	HDFC AMC	1.59
Franklin Resour	2.90	SBI Funds	1.56

**Latest public data*

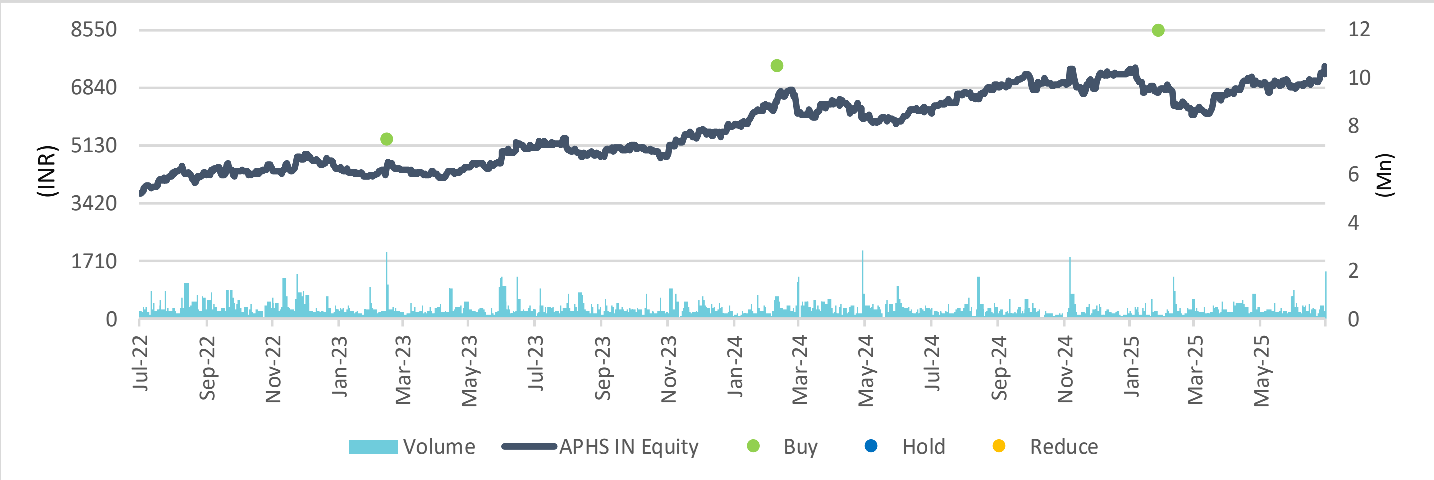
Recent Company Research

Date	Title	Price	Reco
31-May-25	Pulse steady; horizons expanding; *Result Update*	7050	Buy
11-Feb-25	Hospitals steady; 24/7 yet to pick up pa; *Result Update*	6317	Buy
27-Jan-25	Expansion regimen: Profitable growth; *Company Update*	6727	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
24-Jun-25	Dr Lal Pathlabs	Resilient and rising; *Company Update*
03-Jun-25	Healthcare	Soft quarter impacts healthcare earnings; *Sector Update*
28-May-25	MedPlus Health Services	Profits firm; gearing up for growth; *Result Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	203
Hold	<15% and >-5%	63
Reduce	<-5%	36

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