

**BSE Code: 508869**
**NSE Code: APOLLOHOSP**
**Reuters Code: ALPH.NS**
**Bloomberg Code: APHS:IN**

### Margin to gain traction

Apollo Hospitals Enterprise Ltd. (AHEL) is India's largest private healthcare services provider with a network of 9,957 beds spread across the country.

### Investment Rationale

☞ **Decent revenue growth:** Driven by 10.8%/16.2% YoY growth in revenue from healthcare services/pharmacy business, Apollo Hospital reported 13% YoY growth in revenue on standalone basis in Q2FY18. Increase in both number of stores and revenue per store resulted in strong improvement in pharmacy revenue. Healthcare services growth was driven by strong growth in AP & Telengana region and new hospitals. Notably, revenue from new hospitals grew by 37% YoY in Q2FY18. The company has added 11 new hospitals during the quarter taking the overall hospitals count to 70 with total bed capacity of 9,957 beds as on Sep 30, 2017. Additionally, it has added 99 net pharmacy stores during the quarter under consideration, taking the total number of stores to 2,742.

☞ **EBITDA margin to improve going forward:** AHEL reported a flat EBITDA performance despite healthy revenue growth owing to higher operating expenses due to low occupancy rate in newly added hospitals along with loss in Navi Mumbai unit and impact of stent price regulation. Resultantly, EBITDA margin plunged by 163bps YoY to 11.9%. In line with weak operating performance coupled with higher depreciation & interest charges (on account of expansion and addition of new hospitals) and higher tax rate, net profit further declined by 23% YoY. We expect improvement in EBITDA margin going ahead as new beds mature leading to better operating leverage coupled with break-even of Navi Mumbai hospital by FY19. Hence, we factor EBITDA margin of 10.1%/11.3%/12.3% in FY18E/19E/20E.

☞ **Revenue to grow at 14% CAGR over FY17-20E:** Given its robust expansion drive (added 2,430 beds over the last 3 years), we expect healthcare segment to witness a revenue CAGR of 14.2% over FY17-19E led by higher contribution from new hospitals which displayed strong growth momentum (revenues from new hospitals surged by 36% YoY in H1FY18). Further AHEL has managed to reduce average length of stay (ALOS) to 3.92 days in H1FY18 from 4.03 days in H1FY17, thus resulting in higher average revenue per occupied bed (ARPOB) which increased by 3.5% YoY in H1FY18. Additionally, AHEL's pharmacy is expected to grow at a CAGR of 13.5% over FY17-20E on the back of traction in stores count and growth in revenue per store. Hence, we factor overall consolidated revenue CAGR of 14% over FY17-20E driven by ramp up in contribution from new hospitals led by higher occupancy coupled with continued traction in pharmacy business.

**Outlook and Valuation:** We remain positive on the stock driven by higher occupancy rate leading to better operating leverage, break-even of Navi Mumbai hospital by FY19 and scope for margin expansion in both hospitals & pharmacy businesses. We project EBITDA/PAT to witness a CAGR of 22%/36% over FY17-20E. Hence, we maintain our 'BUY' rating on the stock with a revised TP of Rs. 1,326 based on a target multiple of 16x EV/EBITDA.

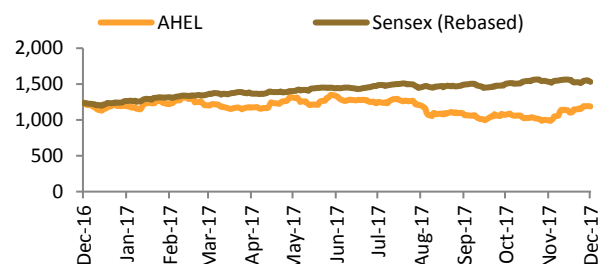
### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	1,176
<b>Target (Rs.)</b>	1,327
<b>Potential Upside</b>	13%
<b>Duration</b>	Long Term
Face Value (Rs.)	5
52 week H/L (Rs.)	1,357/959
Decline from 52WH (%)	13.3
Rise from 52WL (%)	22.6
Beta	0.7
Mkt. Cap (Rs.Cr)	16,354

### Fiscal Year Ended

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	7,255	8,444	9,526	10,719
Adj. profit (Rs.Cr)	221	294	422	559
Adj. EPS (Rs.)	15.9	21.1	30.4	40.3
P/E (x)	74.0	55.7	38.7	29.2
P/BV (x)	4.5	4.3	3.9	3.6
ROE (%)	6.3	7.8	10.6	12.8

### One year Price Chart



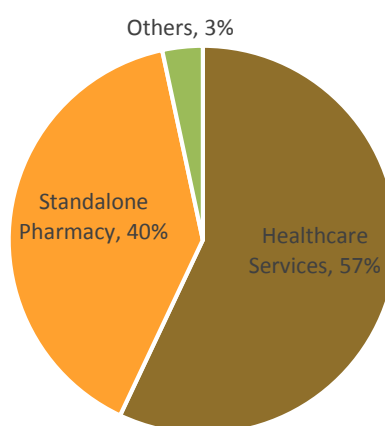
### Shareholding Pattern

	Dec-17	Sep-17	Chg.
Promoters	34.4	34.4	0
FII's	47.8	48.2	(0.4)
MFs/Insti	8.8	8.6	0.2
Public	5.5	5.2	0.3
Others	3.5	3.6	(0.1)

### Apollo Hospitals Enterprise Ltd: Business overview

Apollo Hospitals Enterprise Ltd. (AHEL) is India's largest private healthcare services provider with a network of 9,957 beds spread across the country. Currently, the company owns 70 hospitals. Of which 43 are owned hospitals including JVs/ Subsidiaries and Associates with 8,333 beds, 11 Day care/ short surgical stay centres with 229 beds and 10 Cradles with 311 beds and 6 Managed hospitals with 1,084 beds. Out of the 8,333 owned hospital beds capacity, 7,014 beds were operational and had an occupancy of 65%. Apart from hospitals, Apollo has the largest branded pharmacy chain in the country. Apart from hospitals, Apollo has the largest branded pharmacy chain in the country. Currently, the company runs 2,742 stores countrywide.

#### Segmental revenue breakup (FY17)



Source: Company, In-house research

#### Quarterly financial performance (Standalone)

(Rs cr)	Q2FY18		Q2FY17		YoY Growth %		QoQ Growth %		YoY Growth %	
	Q2FY18	Q2FY17	Q1FY18	Q1FY17	Q1FY18	Q1FY17	H1FY18	H1FY17	H1FY18	H1FY17
<b>Sales</b>	<b>1,852</b>	<b>1,634</b>	<b>13.3</b>	<b>1,684</b>	<b>9.9</b>	<b>3,536</b>	<b>3,100</b>	<b>14.1</b>		
<b>EBITDA</b>	<b>221</b>	<b>222</b>	<b>(0.3)</b>	<b>174</b>	<b>27.4</b>	<b>395</b>	<b>410</b>	<b>(3.7)</b>		
EBITDA Margin (%)	11.9	13.6	(163)	10.3	164	11.2	13.2	(206)		
Depreciation	66	60	10.2	65	2.8	131	116	13.0		
<b>EBIT</b>	<b>155</b>	<b>162</b>	<b>(4.2)</b>	<b>109</b>	<b>42.0</b>	<b>264</b>	<b>294</b>	<b>(10.2)</b>		
Interest	59	47	25.3	55	5.9	114	91	25.1		
Other Income	3	9	(72.1)	(4)	-	(1)	14	-		
Exceptional Items	-	-	-	-	-	-	-	-		
<b>PBT</b>	<b>99</b>	<b>124</b>	<b>(20.6)</b>	<b>50</b>	<b>98.2</b>	<b>148</b>	<b>216</b>	<b>(31.4)</b>		
Tax	28	32	(13.8)	15	90.4	42	52	(18.8)		
<b>PAT</b>	<b>71</b>	<b>92</b>	<b>(22.9)</b>	<b>35</b>	<b>101.4</b>	<b>106</b>	<b>164</b>	<b>(35.4)</b>		
Minority Interest/P&L from associates	-	-	-	-	-	-	-	-		
<b>Reported PAT</b>	<b>71</b>	<b>92</b>	<b>(22.9)</b>	<b>35</b>	<b>101.4</b>	<b>106</b>	<b>164</b>	<b>(35.4)</b>		
Adjustment	-	-	-	-	-	-	-	-		
<b>Adj PAT</b>	<b>71</b>	<b>92</b>	<b>(22.9)</b>	<b>35</b>	<b>101.4</b>	<b>106</b>	<b>164</b>	<b>(35.4)</b>		

Source: Company, In-house research

### Decent revenue growth

Driven by 10.8%/16.2% YoY growth in revenue from healthcare services/pharmacy business, Apollo Hospital reported 13% YoY growth in revenue on standalone basis in Q2FY18. Increase in both number of stores and revenue per store resulted in strong improvement in pharmacy revenue. Healthcare services growth was driven by strong growth in AP & Telengana region and new hospitals. Notably, revenue from new hospitals grew by 37% YoY in Q2FY18. The company has added 11 new hospitals during the quarter taking the overall hospitals count to 70 with total bed capacity of 9,957 beds as on Sep 30, 2017. Additionally, it has added 99 net pharmacy stores during the quarter under consideration, taking the total number of stores to 2,742.

#### Segment-wise Revenue

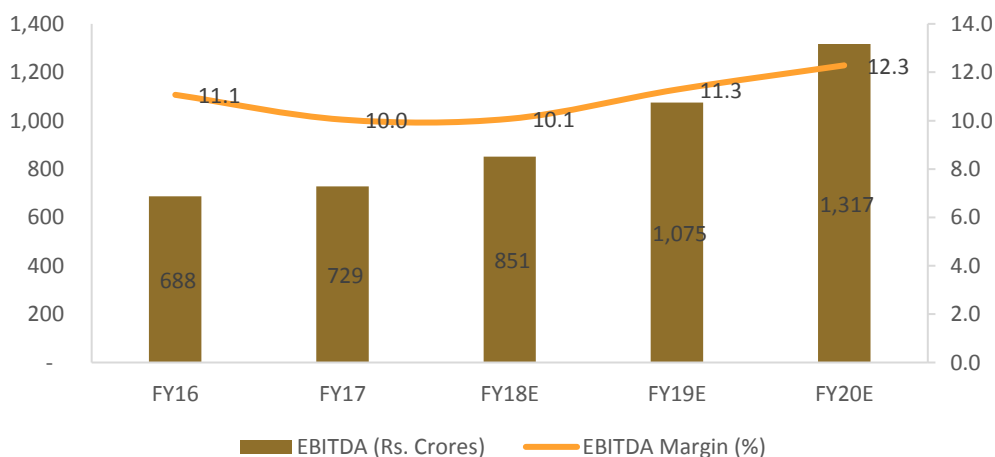
(Rs cr)	Q2FY18	Q2FY17	YoY Growth		QoQ Growth		H1FY18	H1FY17	YoY Growth %
			%	Q1FY18	%	H1FY18			
Healthcare Services	1,024	924	10.7	920	11.2	1,944	1,757	10.6	
Pharmacy	828	710	16.7	764	8.4	1,592	1,342	18.6	

Source: Company, In-house research

### EBITDA margin to improve going forward

AHEL reported a flat EBITDA performance despite healthy revenue growth owing to higher operating expenses due to low occupancy rate in newly added hospitals along with loss in Navi Mumbai unit and impact of stent price regulation. Resultantly, EBITDA margin plunged by 163bps YoY to 11.9%. In line with weak operating performance coupled with higher depreciation & interest charges (on account of expansion and addition of new hospitals) and higher tax rate, net profit further declined by 23% YoY. We expect improvement in EBITDA margin going ahead as new beds mature leading to better operating leverage coupled with break-even of Navi Mumbai hospital by FY19. Hence, we factor EBITDA margin of 10.1%/11.3%/12.3% in FY18E/19E/20E.

#### EBITDA to grow at 22% CAGR over FY17-20E

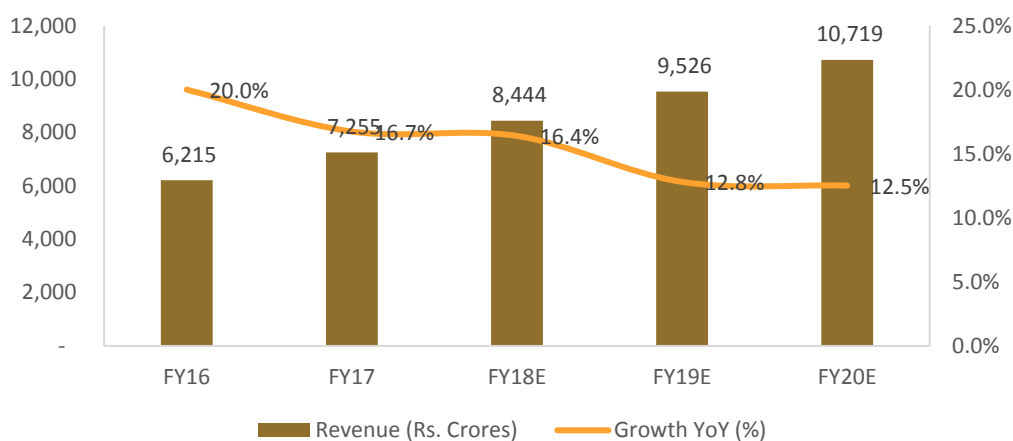


Source: Company, In-house research

### Revenue to grow at 14% CAGR over FY17-20E

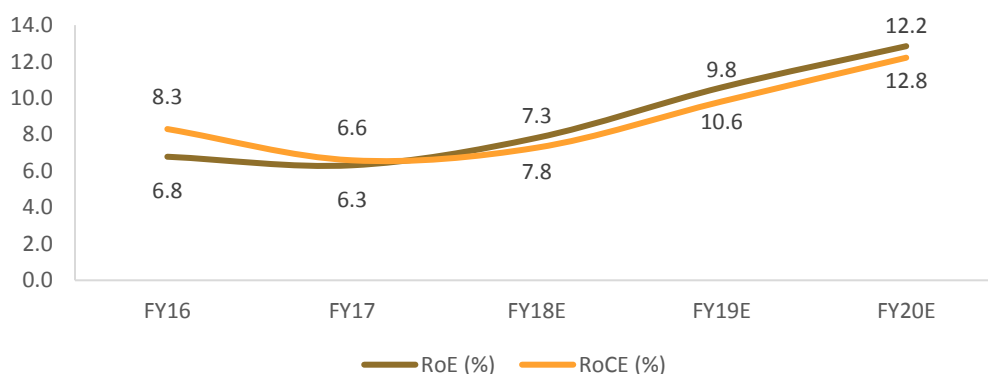
Given its robust expansion drive (added 2,430 beds over the last 3 years), we expect healthcare segment to witness a revenue CAGR of 14.2% over FY17-19E led by higher contribution from new hospitals which displayed strong growth momentum (revenues from new hospitals surged by 36% YoY in H1FY18). Further AHEL has managed to reduce average length of stay (ALOS) to 3.92 days in H1FY18 from 4.03 days in H1FY17, thus resulting in higher average revenue per occupied bed (ARPOB) which increased by 3.5% YoY in H1FY18. Additionally, AHEL's pharmacy is expected to grow at a CAGR of 13.5% over FY17-20E on the back of traction in stores count and growth in revenue per store. Hence, we factor overall consolidated revenue CAGR of 14% over FY17-20E driven by ramp up in contribution from new hospitals led by higher occupancy coupled with continued traction in pharmacy business.

#### Revenue to grow at 14% CAGR over FY17-20E



Source: Company, In-house research

#### Return ratios to remain healthy



Source: Company, In-house research

### Key Risks

- Shortage of healthcare professionals.
- Delay in occupancy ramp-up across new hospitals.
- Increase in competition from new and existing players could affect ARPOB.

### Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
<b>Total operating Income</b>	<b>7255</b>	<b>8444</b>	<b>9526</b>	<b>10719</b>
<b>EBITDA</b>	<b>729</b>	<b>851</b>	<b>1075</b>	<b>1317</b>
Depreciation	314	358	389	421
EBIT	415	492	685	895
Interest cost	257	271	271	271
Other Income	22	23	24	25
<b>Profit before tax</b>	<b>180</b>	<b>245</b>	<b>438</b>	<b>649</b>
Tax	91	78	141	208
<b>Profit after tax</b>	<b>89</b>	<b>166</b>	<b>298</b>	<b>441</b>
Minority Interests	(90)	(81)	(73)	(62)
P/L from Associates	42	47	51	56
<b>Adjusted PAT</b>	<b>221</b>	<b>294</b>	<b>422</b>	<b>559</b>
E/o income / (Expense)	-	-	-	-
<b>Reported PAT</b>	<b>221</b>	<b>294</b>	<b>422</b>	<b>559</b>

### Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	70	69.6	69.6	69.6
Reserves and Surplus	3,602	3,778	4,076	4,511
<b>Net worth</b>	<b>3,671</b>	<b>3,848</b>	<b>4,145</b>	<b>4,580</b>
Minority interest	216	136	63	1
Total Debt	3,145	3,145	3,145	3,145
Other non-current liabilities	253	256	259	262
<b>Total Liabilities</b>	<b>7,286</b>	<b>7,384</b>	<b>7,612</b>	<b>7,988</b>
Total fixed assets	4,770	4,912	5,023	5,101
Goodwill	227	227	227	227
Investments	415	415	415	415
Net Current assets	1,243	1,200	1,316	1,614
Deferred tax assets (Net)	-	-	-	-
Other non-current assets	631	631	631	631
<b>Total Assets</b>	<b>7,286</b>	<b>7,384</b>	<b>7,612</b>	<b>7,988</b>

### Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
<b>Pre-tax profit</b>	<b>183</b>	<b>291</b>	<b>491</b>	<b>707</b>
Depreciation	314	358	389	421
Changes in W.C	(70)	(121)	(114)	(116)
Others	265	248	247	245
Tax paid	(117)	(78)	(141)	(208)
<b>C.F.O</b>	<b>576</b>	<b>698</b>	<b>871</b>	<b>1,049</b>
Capital exp.	(736)	(500)	(500)	(500)
Change in inv.	(269)	-	-	-
Other invest.CF	31	23	24	25
<b>C.F - investing</b>	<b>(975)</b>	<b>(477)</b>	<b>(476)</b>	<b>(475)</b>
Issue of equity	606	-	-	-
Issue/repay debt	209	-	-	-
Dividends paid	-	(117)	(126)	(126)
Other finance.CF	(267)	(271)	(271)	(271)
<b>C.F - Financing</b>	<b>547</b>	<b>(388)</b>	<b>(396)</b>	<b>(396)</b>
Chg. in cash	148	(167)	(1)	178

### Key Ratios (Consolidated)

Y/E	FY17	FY18E	FY19E	FY20E
<b>Growth (%)</b>				
Net Sales	16.7	16.4	12.8	12.5
EBITDA	5.9	16.8	26.4	22.5
Net profit	0.2	33.0	43.9	32.5
<b>Margin (%)</b>				
EBITDA	10.0	10.1	11.3	12.3
EBIT	5.7	5.8	7.2	8.4
NPM	3.0	3.5	4.4	5.2
<b>Return Ratios (%)</b>				
RoE	6.3	7.8	10.6	12.8
RoCE	6.6	7.3	9.8	12.2
<b>Per share data (Rs.)</b>				
EPS	15.9	21.1	30.4	40.3
DPS	6.0	7.0	7.5	7.5
<b>Valuation(x)</b>				
P/E	74.0	55.7	38.7	29.2
EV/EBITDA	26.3	22.7	17.9	14.4
EV/Net Sales	2.6	2.3	2.0	1.8
P/B	4.5	4.3	3.9	3.6
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	1.5	1.5	1.6	1.6
Sales/Total Assets	0.9	1.0	1.1	1.2

#### Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* AHEL is a large-cap company.

#### Disclaimer:

The SEBI registration number is INH200000394.

The analyst for this report certifies that all the views expressed in this report accurately reflect his / her personal views about the subject company or companies, and its / their securities. No part of his / her compensation was / is / will be, directly / indirectly related to specific recommendations or views expressed in this report.

This material is for the personal information of the authorized recipient, and no action is solicited on the basis of this. It is not to be construed as an offer to sell, or the solicitation of an offer to buy any security, in any jurisdiction, where such an offer or solicitation would be illegal.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable, though its accuracy or completeness cannot be guaranteed. Neither Wealth India Financial Services Pvt. Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance.

We and our affiliates, officers, directors, and employees worldwide:

1. Do not have any financial interest in the subject company / companies in this report;
2. Do not have any actual / beneficial ownership of one per cent or more in the company / companies mentioned in this document, or in its securities at the end of the month immediately preceding the date of publication of the research report, or the date of public appearance;
3. Do not have any other material conflict of interest at the time of publication of the research report, or at the time of public appearance;
4. Have not received any compensation from the subject company / companies in the past 12 months;
5. Have not managed or co-managed the public offering of securities for the subject company / companies in the past 12 months;
6. Have not received any compensation for investment banking, or merchant banking, or brokerage services from the subject company / companies in the past 12 months;
7. Have not served as an officer, director, or employee of the subject company;
8. Have not been engaged in market making activity for the subject company;

This document is not for public distribution. It has been furnished to you solely for your information, and must not be reproduced or redistributed to any other person.

#### Contact Us:

#### Funds India

Uttam Building, Third Floor |  
No. 38 & 39 | Whites Road |  
Royapettah | Chennai – 600014 |

T: +91 7667 166 166

Email: [contact@fundsindia.com](mailto:contact@fundsindia.com)

## **Dion's Disclosure and Disclaimer**

I, Abhijit Kumar Das, employee of Dion Global Solutions Limited (Dion) is engaged in preparation of this report and hereby certify that all the views expressed in this research report (report) reflect my personal views about any or all of the subject issuer or securities.

### **Disclaimer**

This report has been prepared by Dion and the report & its contents are the exclusive property of the Dion and the client cannot tamper with the report or its contents in any manner and the said report, shall in no case, be further distributed to any third party for commercial use, with or without consideration.

Recipient shall not further distribute the report to a third party for a commercial consideration as this report is being furnished to the recipient solely for the purpose of information.

Dion has taken steps to ensure that facts in this report are based on reliable information but cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this report. It is hereby confirmed that wherever Dion has employed a rating system in this report, the rating system has been clearly defined including the time horizon and benchmarks on which the rating is based.

Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this report is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. Dion has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. This report is not to be relied upon in substitution for the exercise of independent judgment. Opinions or estimates expressed are current opinions as of the original publication date appearing on this report and the information, including the opinions and estimates contained herein, are subject to change without notice. Dion is under no duty to update this report from time to time.

Dion or its associates including employees engaged in preparation of this report and its directors do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of securities, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

The investments or services contained or referred to in this report may not be suitable for all equally and it is recommended that an independent investment advisor be consulted. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to individual circumstances or otherwise constitutes a personal recommendation of Dion.

### **REGULATORY DISCLOSURES:**

Dion is engaged in the business of developing software solutions for the global financial services industry across the entire transaction lifecycle and inter-alia provides research and information services essential for business intelligence to global companies and financial institutions. Dion is listed on BSE Limited (BSE) and is also registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH100002771. Dion's activities were neither suspended nor has it defaulted with requirements under the Listing Agreement and / or SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the BSE in the last five years. Dion has not been debarred from doing business by BSE / SEBI or any other authority.

In the context of the SEBI Regulations, we affirm that we are a SEBI registered Research Analyst and in the course of our business, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership

Dion *confirms that:*

- (i) Dion/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein at the time of publication of this report.
  
- (ii) It/its associates have no actual / beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

*Further, the Research Analyst confirms that:*

- (i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company at the time of publication of this report.
  
- (ii) he, his associates and his relatives have no actual/beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

2. Disclosures regarding Compensation:

During the past 12 months, Dion or its Associates:

- (a) Have not managed or co-managed public offering of securities for the subject company
- (b) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company
- (c) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject.
- (d) Have not received any compensation or other benefits from the subject company or third party in connection with this report

3. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Abhijit Kumar Das employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

4. Disclosure regarding Market Making activity:

Neither Dion /its Research Analysts have engaged in market making activities for the subject company.

Copyright in this report vests exclusively with Dion.