

Apollo Hospitals Enterprise Ltd. (AHEL)

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Apollo Hospitals Enterprise Ltd. (AHEL) is one of the major private healthcare services provider in India with a network of 9,064 beds spread across the country. In FY15, AHEL derived 64% and 34% of its turnover from healthcare services and pharmacy segments respectively.

Key Developments

Operationalisation of the enhanced capacities:

As on December 2015, AHEL had a total bed capacity of 9,064 beds in 65 hospitals. The healthcare services segment has posted revenue CAGR of 12.6% over FY11-15, driven by 7.3% and 8.3% CAGR in number of operating beds & ARPOB (Average revenue per occupied bed day) respectively. Besides, there has been a decline in ALOS (Average length of stay) from 4.79 to 4.43 days. However, the occupancy rates dropped from 73% in FY11 to 68% in FY15, owing to capacity additions (over the last 24 months, AHEL has added 1,300 beds in 9 locations).

Pharmacy business:

Apollo with 2,263 stores is one of the largest branded pharmacy chains in the country. In FY15, the pharmacy business contributed 34% to the consolidated revenues. During FY11-FY15, the pharmacy business has grown at a CAGR of ~28% on the back of consistent addition of new pharmacies and timely shut down of non-performing stores. In the last three fiscals revenue per store has increased from Rs. 73 lakhs in FY13 to Rs. 97 lakhs in FY15. During 9MFY16, this segment reported overall EBITDA margin of 3.8% as against the EBITDA margin of 3.3% in FY15. Sales from private labels account for 6.4% of the overall segment (pharmacy) revenues.

Focus on clinical excellence & innovation:

AHEL has been able to establish its brands on the basis of excellence in clinical delivery. Over the years, AHEL has performed a wide range of complex procedures for the first time in India & Asia. Few examples of such complex procedures which were performed for the first time in India included: a) first ceramic knee replacement in India, b) first in India for G4 Cyberknife Robotic Radiosurgery, c) first in SE Asia to introduce Proton beam therapy for cancer, etc.

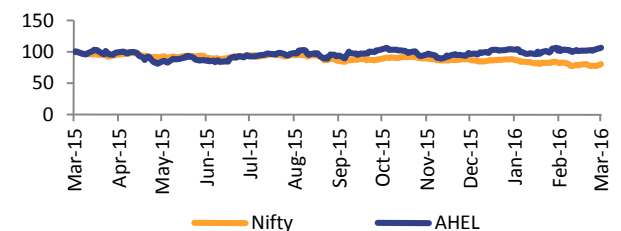
Market Data

CMP (Rs.)	1,396
Face Value	5.0
52 week H/L (Rs.)	1,545/1,130
Adj. all time High (Rs.)	1,545
Decline from 52WH (%)	9.6
Rise from 52WL (%)	23.6
Beta	0.6
Mkt. Cap (Rs.Cr)	19,428
Enterprise Value(Rs. Cr)	21,221

Fiscal Year Ended

	FY13	FY14	FY15
Total revenue (Rs.cr)	3,769	4,384	5,178
Adj. Net Profit (Rs.cr)	298	317	326
Share Capital (Rs.Cr)	70	70	70
Adj. EPS (Rs.)	21.4	22.8	23.5
P/E (x)	39.2	40.3	58.4
P/BV (x)	4.2	4.3	6.0
ROE (%)	11.0	11.1	10.6

One year Price Chart



Shareholding	Dec15	Sep15	Diff.
Promoters (%)	34.4	34.4	0.0
Public (%)	65.7	65.0	0.7
Others (%)	0.0	0.6	(0.6)

AHEL is India's prominent private healthcare services provider with 64% of the consolidated revenues coming from the healthcare segment.

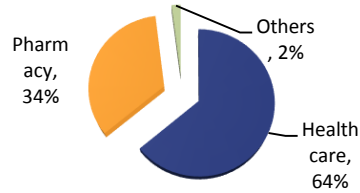
High-end tertiary care contributed 64% to the total revenues in FY15.

Apollo Hospitals Enterprise Ltd. (AHEL): Business overview

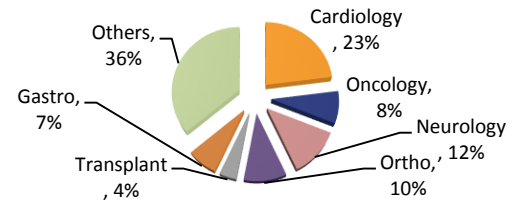
AHEL is India's major private healthcare services provider with a network of 9,064 beds across 65 hospitals (57 owned & 8 managed). In FY15, AHEL derived 64% and 34% of its turnover from healthcare services and pharmacy segments respectively.

The standalone healthcare segment has been segregated into three clusters: 1) Chennai, 2) Hyderabad and 3) Others which include hospitals located in Madurai, Karur, Karaikudi, Trichy, Mysore, Vizag, Bhubaneswar, Jayanagar etc. Besides hospitals, Apollo runs the biggest branded pharmacy chain in India with 2,263 stores spread across 21 states. AHEL is also present in other healthcare businesses such as health insurance, medical education and hospital consultancy. Apollo Health and Lifestyle Limited (AHL), a 100% retail healthcare subsidiary of AHEL operates a network of primary care and specialty care formats clinics across India.

Segment-wise revenue mix (FY15)



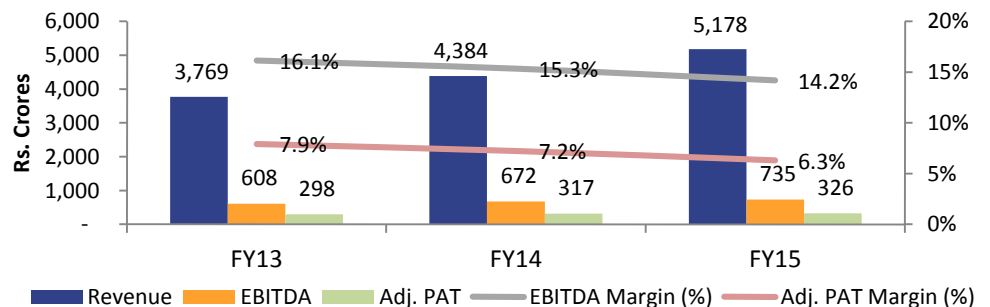
Specialty-wise In-Patient Revenues (FY15)



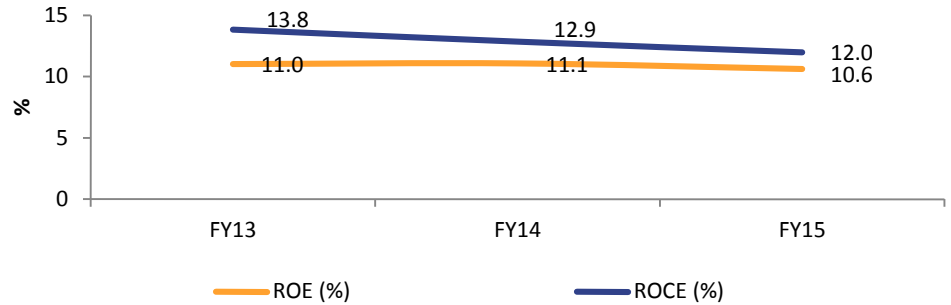
Diversified bed capacity mix by geography

Categorywise	Capacity beds	Operational	No. of Hospitals
Owned	7,630	6,454	57
Managed	1,434	1,434	8
Grand Total	9,064	7,888	65
Cluster wise (Owned)			
Chennai	1,696	1,526	11
Hyderabad	959	930	5
Kolkata	600	600	2
Delhi	875	714	2
Bangalore	437	378	2
Ahmedabad	320	314	2
Tamilnadu (outside Chennai)	808	593	6
Bhubaneswar	290	264	1
Other India	1,198	1,135	9
Day surgery centers/ CRADLE	447	0	17
Grand Total	7,630	6,454	57

Financial snapshot of AHEL



Return Ratios Trend



Source: Company, In-house research

Healthcare segment's performance

In FY15, the healthcare services segment contributed 64% to the total revenues. As on December 2015, AHEL had a total bed capacity of 9,064 beds in 65 hospitals. This segment has posted revenue CAGR of 12.6% over FY11-15, driven by 7.3% and 8.3% CAGR in number of operating beds & ARPOB respectively. Besides, the decline in ALOS from 4.79 to 4.43 days has further fuelled the growth. However, the occupancy rates dropped from 73% in FY11 to 68% in FY15, owing to capacity additions (over the last 24 months, AHEL has added 1,300 beds in 9 locations).

FY15 Summary at Apollo Hospitals* (Better case mix led to increase in ARPOB)

350,000+ Admission	3.2 mn+ Outpatients	250,000+ Prevention Health Check-ups
11,000+	5,000+	14,000+
Heart Surgeries	Joint Replacements	Neuro-Surgical operations
500	1,100+	400+
Robotic Surgeries	Kidney Transplants	Liver Transplants
120	170	155,000+ Radiotherapy
Countries Medical Value	Bone Marrow Transplants	Sessions
Travel		47,000+ Chemotherapy
		sittings

*FY15 info for owned hospitals only. Doesn't include managed hospitals; Source: Company

Focus on clinical excellence

Over the years, AHEL has performed a wide range of complex procedures for the first time in India and Asia. Few examples of such complex procedures which were performed for the first time in India included: a) first ceramic knee replacement in India, b) first in India for G4 Cyberknife Robotic Radiosurgery, c) first in SE Asia to introduce Proton beam therapy for cancer, etc.

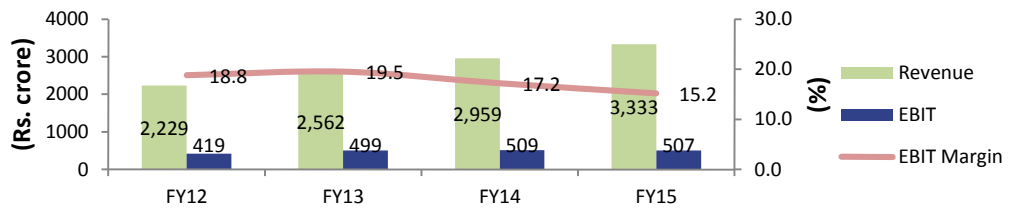
The company focuses on clinical excellence and high quality healthcare services.

Focus on clinical excellence and innovation

	<ul style="list-style-type: none"> Over 1,50,000+ Cardiac Surgeries Success rate of 99.60% in Cardiac Bypass Introduced off-pump & beating heart surgeries
	<ul style="list-style-type: none"> High success rate in – TKR, Illizarov procedure & hip resurfacing 1st time use of restorable screws for congenital spine problems 1st ceramic coated knee replacement in South India
	<ul style="list-style-type: none"> Transsphenoidal surgery for pituitary tumors, spinal fusions, X-knife for fractionated treatment of benign and malignant tumours (Stereo Tactic Radiotherapy) Ably supported by modern Neuro Radiology services, Neuro-Intensive care facilities and Medical & Radiation Oncology services
	<ul style="list-style-type: none"> Pick up time of <10 minutes, 200+ Ambulances, 500+ calls daily, 900-1,000 monthly pick-ups 1,20,000+ emergency footfalls annually & 5,00,000+ calls served in 10 years+ Well-equipped ambulances manned by trained personnel Air ambulance services for remote areas & life-threatening emergencies Effective communication systems internally
	<ul style="list-style-type: none"> 1st in India to introduce Stereotactic Radiotherapy & Radiosurgery for cancer treatment. 1st hospital group in South-East Asiato introduce the 16 Slice PET-CT Scan Introduced the most advanced CyberKnife Robotic Radio surgery system in Asia Pacific region 1st in South East Asia to introduce Proton Beam Therapy (Scheduled in 2018)
	<ul style="list-style-type: none"> 1400+ solid organtransplants in 2013 Harvested 23 organs from 5 brain dead donors & conducted 10 transplants in a day and gave 23 individuals the priceless gift of life Wide range of services offered - Heart transplants, Liver & Kidney transplants ,Corneal transplants, Intestinal & GI Transplants & Pediatric Transplants
	<ul style="list-style-type: none"> Apollo's infection control protocols pertain to wide spectrum of interventions and have been developed jointly with intensivists & anesthetists Standardized procedures for clinical handover Bedside Analysis- checklist use has reduced ALOS &improved infection control indices technology excellence

Source: Company, In-house research

New bed additions led to decline in EBIT margins of healthcare services segment



Source: Company, In-house research

Operationalising the new capacity

Over the last 24 months, AHEL has added 1,300 beds in 9 locations including Vanagaram (260 beds), Jayanagar (140), Trichy (200), Nashik (125), Women and Child - OMR (60), Indore (120), Nellore (190), Perungudi (150) and Women & Child - SMR (50). Further, in FY16, it is adding 495 beds across three locations including North Bangalore (180), Indore (65) & Vizag (250).

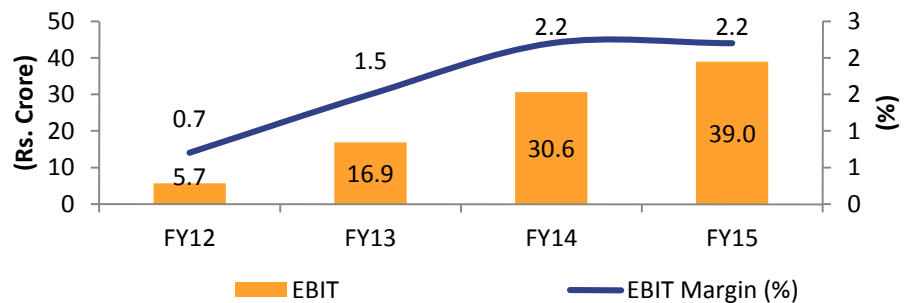
AHEL has added 1,300 beds in 9 locations over the last 24 months.

Pharmacy business of the company

Apollo Pharmacy is one of the major branded pharmacy chains in the country. Currently, the company runs 2,263 stores countrywide. The pharmacy offers a wide range of medicines, surgical products, hospital consumables and over-the-counter products. In FY15, the pharmacy business contributed 34% to the consolidated revenues. During FY11-FY15, this business has grown at a CAGR of ~28% on the back of consistent addition of new pharmacies and timely shut down of non-performing stores. In the last three fiscals, revenue per store has increased from Rs. 73 lakhs in FY13 to Rs. 97 lakhs in FY15.

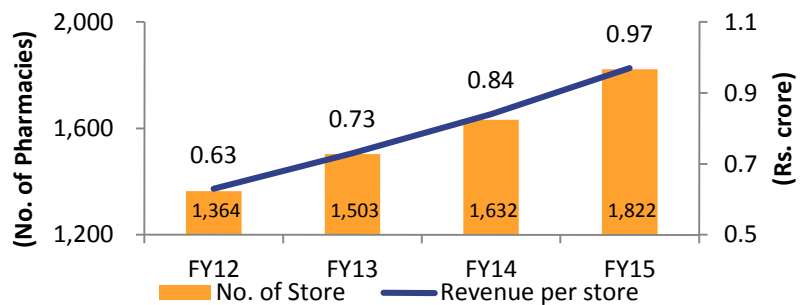
While the pharmacy business reported overall EBITDA margins of 3.3% in FY15, the mature cohort of pre-2008 stores posted EBITDA margins of 5.9% in FY15. During 9MFY16, the pharmacy business reported overall EBITDA margins of 3.8% which included the impact of Hetero acquisition. More importantly, sales from private labels account for 6.4% of the overall segment (pharmacy) revenues.

Mature stores driving the growth of the pharmacy segment



Source: Company, In-house research

Number of pharmacy stores has grown at CAGR of 10.1% over FY12-15



Source: Company, In-house research

Balance Sheet (Consolidated)

(Rs.Cr)	FY13	FY14	FY15
Share Capital	70	70	70
Reserve and surplus	2,677	2,907	3,102
Net Worth	2,747	2,977	3,171
Minority Interest	17	19	73
Total Debt	1,137	1,285	1,814
Deferred tax liability (net)	229	329	402
Other non-current liabilities	7	6	8
Total Equity & Liabilities	4,138	4,615	5,469
Net Fixed Assets	2,599	3,023	3,612
Goodwill	145	150	165
Investments	527	322	311
Net current assets	498	611	803
Other non-current assets	369	510	578
Total Assets	4,138	4,615	5,469

Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY13	FY14	FY15
Net profit/loss before tax & extraordinary items	399	407	455
Net cashflow from operating activities	443	372	469
Net cash used in investing activities	(733)	(356)	(759)
Net cash used from financing activities	373	(63)	392
Net inc/dec in cash and cash equivalents	83	(47)	102

Financial performance snapshot

Net sales of the company stood at Rs. 5,178 Crores in FY15, a growth of 18.1% as compared to Rs. 4,384 Crores in FY14. The operating expenses of the company increased by 19.7% YoY to Rs. 4,444 Crores from Rs. 3,712 Crores during the year. The company's EBITDA grew by 9.3% YoY to Rs. 735 Crores in FY15 from Rs. 672 Crores in FY14. EBITDA margins contracted by 115 bps to 14.2% in FY15 from 15.3% in FY14. Adjusted profit increased by 3.1% to Rs. 326 Crores in FY15 from Rs. 317 Crores in FY14. The NPM contracted by 92 bps to 6.3% from 7.2% during the above period.

Profit & Loss Account (Consolidated)

(Rs.Cr)	FY13	FY14	FY15
Net revenue	3,769	4,384	5,178
Expenses	3,161	3,712	4,444
EBITDA	608	672	735
Depreciation	142	168	212
EBIT	466	505	523
Interest cost	103	119	118
Other Income	30	21	37
Profit Before Tax	393	407	442
Tax	105	102	130
Profit After Tax	288	305	312
Minority Interest	(2)	(1)	(5)
P/L from Associates	9	10	9
Adjusted PAT	298	317	326
E/o expense / (income)	6	0	13
Reported Profit	304	317	340

Key Ratios (Consolidated)

	FY13	FY14	FY15
EBITDA Margin (%)	16.1	15.3	14.2
EBIT Margin (%)	13.2	12.0	10.8
Adj. NPM (%)	7.9	7.2	6.3
ROCE (%)	13.8	12.9	12.0
ROE (%)	11.0	11.1	10.6
Adj. EPS (Rs.)	21.4	22.8	23.5
P/E (x)	39.2	40.3	58.4
BVPS(Rs.)	197.4	214.0	227.9
P/BVPS (x)	4.2	4.3	6.0
EV/EBITDA (x)	20.3	20.7	28.2



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