

# Apollo Hospital

SELL

CMP Rs2757

Target Rs 1300

Downside 53%

## New initiatives on anvil but sell stays

**Our view:** New initiatives like ProHealth, Apollo 24/7 and diagnostics can account for meaningful share of incremental revenues and EBIDTA. Hospitals business is firmly on path towards recovery; reiteration of no greenfield capex is a positive but capex spends on bolt on acquisitions need to be watched for quantum of capital allocated. Focus on value unlocking in back end pharmacy business, combined with potential scalability of new initiatives (relatively capital light compared to hospitals) have led to stock outperformance as against our stance and expectation. We would evaluate the potential value accretion from ProHealth and 24/7 looking at comparable and revisit our estimates in a separate update. Albeit, sell call stays on the stock.

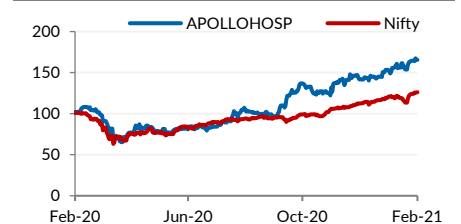
### Q3 FY21 Conference Call Highlights

- ✓ Bed occupancy rate at the end of the quarter stood at 63%(vs. 56% in Q2 FY21 & 71% in Q3 FY20). Once the air and road travel opens the management expects the occupancy rates to increase. In-patient volumes at +21% QoQ
- ✓ At the end of Q3FY21 Covid beds reduced to 1500 bed and further in January 2021, it is around 800 beds.
- ✓ Covid-19 revenue has started to taper off and it is being taken over by non- Covid-19 services revenue. Net debt is Rs25.9 bn at the end of the quarter.
- ✓ Maintained guidance of cost saving of Rs1-1.25bn in FY21E. Want to maintain current EBITDA margins and expect to grow on that.
- ✓ ARPOB growth is due to surgical revenue which has gone up and COVID-19 revenue share gone down; will look at Rs 36,000-39,000 ARPOB on a consolidated basis
- ✓ Expect revenue of Rs10bn from Pro Health program in the next 3 years.
- ✓ Mature Hospitals business- expect to get margin of 22-23% in FY22E on the back of international patient's business coming back. New Hospitals margin- maintained its guidance of 13-15% in FY22E.
- ✓ Kolkata Apollo Gleneagles Hospital revenue for FY22E is expected to be around Rs 4-5bn and EBITDA around Rs400-500mn.
- ✓ Apollo Medics(Lucknow) revenue for FY22E is expected to be around Rs 2.5bn and EBITDA around Rs 400 mn.
- ✓ Pharmacy business margin for year should be around 6.3-6.5% and for FY22E it should be around 7%.
- ✓ Number of pharmacies- 4000 pharmacies are operational (250 were added in 9MFY21 and will add 300 more stores in rest of FY21E).
- ✓ International patients are 10% of the overall out- patients.
- ✓ Employee cost reduction- Apollo pharmacy front end has got shifted out + some cost savings
- ✓ Capital allocation for next few years will focus on existing assets and get more presence in Delhi market. Capex for 24/7 business will be to spend on Tele consultancy business and condition management.
- ✓ Diagnostic - looking to grow at 30-35% in the diagnostic business for next few years.
- ✓ Home care- business is doing Rs 600mn per year
- ✓ Covid-19 bed occupancy- 73% in Q3 FY21, non-COVID occupancy-60% in Q3 FY21.

### Stock data (as on Feb 12, 2021)

Nifty	15,173
52 Week h/l (Rs)	2837 / 1047
Market cap (Rs/USD mn)	396342 / 5440
Outstanding Shares (mn)	144
6m Avg t/o (Rs mn):	2980
Div yield (%):	0.2
Bloomberg code:	APHS IN
NSE code:	APOLLOHOSP

### Stock performance



	1M	3M	1Y
Absolute return	8.1%	25.6%	62.9%

### Shareholding pattern (As of Dec'20 end)

Promoter	30.8%
FII+DII	62.6%
Others	6.6%

### Δ in stance

(1-Yr)	New	Old
Rating	-	SELL
Target Price	-	1,300

### Δ in earnings estimates

	FY21e	FY22e	FY23e
EPS (New)	-	-	-
EPS (Old)	5.0	44.0	58.5
% change	-	-	-

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