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Hospitals best placed in overall healthcare theme...

After a muted FY21 due to Covid-led lockdowns, the hospital industry (I-direct coverage universe) has bounced back with 32% revenue growth in FY22 to ₹ 30,713 crore while EBITDA margins also improved by 404 bps to 15.2%. This turnaround in fortunes was mainly due to 1) higher in-patient volume post-Covid, 2) surge in occupancy due to pent-up demand and 3) mix of high end elective surgeries driving ARPOB levels for hospital chains.

Covid-19 handling experience has changed the way hospitals function with a more nimble-footed approach e.g. converting doctors from fixed pay to variable-pay regime, separate zoning for patients, higher emphasis on tele-medicine, digital app based drives for treating patients at remote locations and incremental home care treatments. This has culminated into resilient performances by almost all players in FY22, thus seamlessly reconnecting to the pre-pandemic story of improving profitability and return ratios.

Structurally, hospitals are well placed amid growing demand due to both awareness and affordability, expected revival in medical tourism as well as brownfield and greenfield expansion by hospitals to tap into newer markets. Hospitals are increasingly looking to grow into adjacent businesses like pharmacy, diagnostics and clinics to capture the whole value chain of patient life-cycle management.

We estimate I-direct hospital coverage universe revenues will grow at CAGR of 12% over FY22-24E to ₹ 38,196 crore. EBITDA margins are projected to expand by 194 bps to 17.2% in FY24.

We have earmarked top picks – **Apollo Hospitals (BUY rating; target price: ₹ 4,500)**, and **Aster DM (BUY rating; target price: ₹ 270)**.

Sector View: Positive

Top Picks

Company	CMP (₹/share)	Target (₹/share)	Upside (%)	Rating
Apollo Hospitals	3802	4500	18%	BUY
Aster DM	178	270	52%	BUY

Key risks to our call

- New capex cycle to weigh on return profile in medium term more than anticipated
- Increased competition in high value geographies could lead to market saturation

Research Analysts

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Raunak Thakur
raunak.thakur@icicisecurities.com

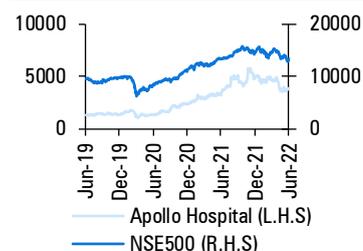
Kush Mehta
kush.mehta@icicisecurities.com

Top bets in Hospital Coverage Universe

Apollo Hospitals

Apollo is one of the leading integrated healthcare service providers with avenues like hospitals, pharmacies, primary care & diagnostic clinics. The company is undergoing optical transformational journey towards creating an omni-channel healthcare platform with group capacity of 9911 beds across 71 hospitals in India, digital presence with "Apollo 24/7", India's largest standalone pharmacy chain with 4529 outlets and clinics and diagnostics businesses under Apollo Health & Lifestyle. Structurally, cost reduction drives, expanding of complex procedures and profitability of new hospitals remain key management focus areas. Apollo Diagnostics has set an aspirational target to achieve ₹ 1000 crore revenues mark over the next three years while pharmacy business remains a steady growth engine. We retain **BUY** rating and value Apollo Hospitals at ₹ 4500 based on SOTP valuation.

Price Chart



Particulars

Particular	Amount
Market Capitalisation	₹ 54661 crore
Debt (FY22)	₹ 2636 crore
Cash (FY22)	₹ 1036 crore
EV	₹ 56261 crore
52 week H/L (₹)	5931/3123
Equity capital	₹ 71.9 crore
Face value	₹ 5

Exhibit 1: Financial Summary

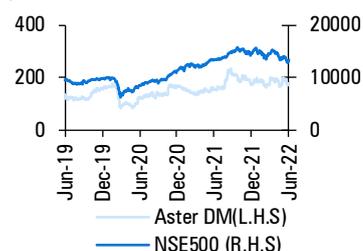
Key Financials (₹ crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	11246.8	10560.0	14662.6	15.1	16544.9	18884.0	13.5
EBITDA	1583.4	1137.4	2185.1	24.6	2555.1	3056.1	18.3
EBITDA margins (%)	14.1	10.8	14.9		15.4	16.2	
PAT	454.9	113.0	850.4	36.7	1163.2	1544.3	34.8
EPS (₹)	22.6	7.9	59.1		80.9	107.4	
PE (x)	120.2	363.5	51.8		47.0	35.4	
P/BV (x)	16.4	11.9	9.7		8.3	7.0	
RoE (%)	9.7	2.5	15.1		17.7	19.9	
RoCE (%)	10.2	6.3	15.1		16.7	19.3	

Source: Company, ICICI Direct Research

Aster DM

Aster DM Healthcare is one of the largest integrated healthcare service providers in the Middle East and an emerging player in India. It has operations in seven countries including GCC and India. Aster DM's integrated model covers the entire life cycle of healthcare, starting from primary to quaternary care through its state-of-the-art hospitals, clinics and pharmacies. The company is focused on expansion via asset light model (~1000 beds through O&M) in India. The management is targeting India expansion with low capex investment but high potential opportunity. We expect gradual margins and RoCE improvement on the back of higher occupancy and capacity optimisation in newer assets. We retain **BUY** rating and value Aster DM at ₹ 270 based on SOTP valuation.

Price Chart



Particulars

Particular	Amount
Market Capitalisation	₹ 8886 crore
Debt (FY22)	₹ 4907 crore
Cash (FY22)	₹ 45 crore
EV	₹ 13749 crore
52 week H/L (₹)	237/142
Equity capital	₹ 499.5 crore
Face value	₹ 10

Exhibit 2: Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	8717.1	8608.4	10253.3	11.6	10838.9	12040.6	8.4
EBITDA	1265.6	1062.8	1483.3	34.9	1822.8	2087.9	18.6
EBITDA margins (%)	14.5	12.3	14.5		16.8	17.3	
Net Profit	284.9	147.7	526.0	38.9	718.5	919.2	32.2
EPS (₹)	5.7	3.0	10.5		14.4	18.4	
PE (x)	31.2	60.1	16.9		12.4	9.7	
EV to EBITDA (x)	11.3	12.6	9.0		6.9	5.5	
RoCE (%)	7.2	5.4	9.0		11.4	12.9	
ROE	8.7	4.4	13.3		15.4	16.4	

Source: Company, ICICI Direct Research

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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