

Apollo Hospitals (APOHOS)

₹ 1262

Revenues in line; margins improve...

- Q2FY19 results were operationally in line with I-direct estimates. However, net profit was lower mainly due to lower other income and higher tax rate (33% vs. I-direct estimate of 21%)
- Revenues grew 12.9% YoY to ₹ 2090 crore (I-direct estimate: ₹ 2092.4 crore) on the back of 16.4% YoY growth in pharmacy business to ₹ 963.7 crore and 10.1% YoY growth in healthcare business to ₹ 1126.6 crore
- EBITDA margins improved 39 bps YoY to 12.3% (I-direct estimate: 12.0%) mainly due to lower other expenditure. Net profit grew 11.4% to ₹ 79 crore (I-direct estimate: ₹ 98.0 crore)
- The Apollo board has proposed to segregate the front-end pharmacy business into a separate company - Apollo Pharmacies (APL), which would carry out the front-end operations

Expansions to drive healthcare but margin expansion to happen with lag

The healthcare services segment (55% of FY18 revenues) has grown at a CAGR of 13% in FY13-18 on account of incremental hospital addition in all three clusters i.e. Tamil Nadu, AP/Telangana and others. Rapid expansion and maturity of older hospitals has kept the overall growth tempo at 12-14% per annum. Constant addition of new hospitals and aggressive ramp up in AHLL are likely to put some pressure on EBITDA margins and return ratios in the short to medium term. Similarly, existing hospital margins are being compressed due to 1) regulation on stent/implants pricing, 2) negative GST impact and 3) higher guarantee fees to the doctors. However, in the past, the company has demonstrated its ability to balance between expansion and profitability. We expect more focus on improvement of important parameters like average length of stay (ALOS) and average revenue per operating bed (ARPOB) and ultimately on improving return ratios. We expect healthcare sales to grow at a CAGR of ~10% in FY18-20E to ₹ 5439 crore mainly due to strong growth at new hospitals and AHLL.

Pharmacy business EBITDA continues to improve

The pharmacy business (40% of FY18 revenues) has grown at ~24% CAGR in the last five years on the back of consistent addition of new pharmacies and timely closure of non-performing pharmacies. This business has become EBITDA positive as old stores are maturing and making a contribution. FY18 margins were at 4.5%. We expect the pharmacy business to grow at ~18% CAGR in FY18-20E to ₹ 4525 crore on the back of higher sales from existing stores. The company added net 82 stores in Q2FY19 taking total stores to 3167.

Improvement in key metrics; pharmacy unlocking on the cards

In H1, margin improvement was visible across segments. The major aspect was a clear cut hint of near completion of the long capex cycle and an asserted focus on improvement in margins and return ratios. With the hint of capex marginalisation, the company will be able to focus on asset optimisation. The company owns one of the best integrated business models in the healthcare space with strong management pedigree. With the proposed pharmacy reorganisation, the path is clear for an out and out unlocking in the future. We maintain **BUY** as we believe the stock is poised to offer a better risk-reward perspective at the current level. We value the stock on SOTP basis by valuing the healthcare business (existing hospitals & JV) at 15x FY20E EV/EBITDA, healthcare business (new hospitals and JVs) at 1.5x FY20E and pharmacy business at 1.2x FY20E EV/sales. We ascribe a target price of ₹ 1440.

Rating matrix	
Rating	: Buy
Target	: ₹ 1440
Target Period	: 12-15 months
Potential Upside	: 14%

What's Changed?	
Target	Changed from ₹ 1190 to ₹ 1440
EPS FY19E	Changed from ₹ 24.2 to ₹ 26.6
EPS FY20E	Changed from ₹ 38.4 to ₹ 48.2
Rating	Unchanged

Standalone Quarterly Performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	2,090.1	1,851.6	12.9	1,910.4	9.4
EBITDA	257.8	221.2	16.5	226.7	13.7
EBITDA (%)	12.3	11.9	39 bps	11.9	47 bps
Adj. Net Profit	79.0	70.9	11.4	60.2	31.3

Key Financials				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Revenues	7254.9	8243.5	9302.3	10681.1
EBITDA	728.6	793.2	1058.7	1323.6
Adjusted PAT	221.0	117.6	370.7	670.8
Adj. EPS (₹)	15.9	8.5	26.6	48.2

Valuation summary				
	FY17	FY18	FY19E	FY20E
PE (x)	79.5	149.3	47.4	26.2
EV to EBITDA (x)	27.4	25.6	18.8	14.3
Target EV/EBITDA (x)	28.1	25.8	19.3	15.4
Price to book (x)	4.8	5.4	4.9	4.3
RoNW (%)	6.0	3.6	10.4	16.4
RoCE (%)	6.1	6.3	9.8	13.7

Stock data	
Particular	Amount
Market Capitalisation	₹ 17559 crore
Debt (FY18)	₹ 3303 crore
Cash (FY18)	₹ 417 crore
EV	₹ 20445 crore
52 week H/L (₹)	1288/910
Equity capital	₹ 69.6 crore
Face value	₹ 5

Price performance (%)				
	1M	3M	6M	1Y
Apollo Hospitals	11.4	12.1	21.7	27.1
Fortis Healthcare	3.6	-1.6	-6.3	2.3
Narayana Hrudayalaya	8.8	-1.7	-6.4	-17.3

Research Analyst
Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Mitesh Shah
mitesh.sha@icicisecurities.com

Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	Q1FY19	YoY (%)	QoQ (%)	Comments
Revenue	2,090.1	2,092.4	1,851.6	1,910.4	12.9	9.4	Growth driven by 16.4% growth in the pharmacy segment. Healthcare segment grew 10.1% YoY
Raw Material Expenses	1,100.7	1,067.1	946.1	1,009.2	16.3	9.1	
Employee Expenses	311.4	313.9	283.0	295.9	10.0	5.2	
Other expenditure	420.2	459.5	401.3	378.7	4.7	11.0	
EBITDA	257.8	252.0	221.2	226.7	16.5	13.7	
EBITDA (%)	12.3	12.0	11.9	11.9	39 bps	47 bps	YoY improvement in occupancy in existing hospitals and improvement in new hospitals margins
Interest	66.0	62.1	58.8	62.1	12.4	6.4	
Depreciation	73.9	72.2	66.5	72.4	11.1	2.0	
Other Income	-0.1	6.3	2.6	2.1	PL	PL	
PBT before EO & Forex	117.8	124.0	98.6	94.2	19.5	25.1	
EO	0.0	0.0	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	117.8	124.0	98.6	94.2	19.5	25.1	
Tax	38.9	26.0	27.7	34.1	40.1	14.1	
Tax rate (%)	33.0	21.0	28.1	36.2			
Adj. Net Profit	79.0	98.0	70.9	60.2	11.4	31.3	YoY growth mainly due to better operational growth. Miss vis-à-vis I-direct estimates mainly due to higher tax rate and lower other income
EPS (₹)	5.7	7.0	5.1	4.3	11.4	31.3	
Key Metrics							
Healthcare Services	1126.6	1110.8	1023.6	1019.0	10.1	10.6	YoY growth mainly due to 22.0% YoY growth in new hospitals to ₹ 299 crore. Existing hospitals grew 5.3% YoY
Pharmacy	963.7	981.9	828.2	892.1	16.4	8.0	YoY growth driven by 82 stores (net) addition

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			
	Old	New	% Change	Old	New	% Change	
Revenue	9,292.9	9,302.3	0.1	10,630.7	10,681.1	0.5	
EBITDA	1,034.1	1,058.7	2.4	1,302.2	1,323.6	1.6	
EBITDA Margin (%)	11.1	11.4	28 bps	12.2	12.4	19 bps	
PAT	336.8	370.7	-0.2	533.7	670.8	25.7	Changed in FY20E net profit mainly due to carving out of front end pharmacy business to APL and receives consideration for the same
EPS (₹)	24.2	26.6	-0.2	38.4	48.2	25.6	

Source: Company, ICICI Direct Research

Assumptions

(% Growth)	Current				Earlier	
	FY17	FY18	FY19E	FY20E	FY19E	FY20E
Healthcare Services	4,085.1	4,515.6	4,947.3	5,438.9	4,951.4	5,444.7
Pharmacy	2,785.2	3,268.9	3,779.3	4,525.1	3,778.7	4,483.7

Source: Company, ICICI Direct Research

Company Analysis

Established in 1983, the company is one of the few listed players in the healthcare space. It derives revenues from two broader segments in the standalone accounts - 1) healthcare services i.e. hospitals and 2) standalone pharmacies. In the consolidated accounts, other reporting segments are - 1) hospital revenues from JVs/subsidiaries and associates, 2) Apollo-Munich Health insurance JV, 3) Apollo Health & Lifestyle Ltd, which is the retail healthcare business of Apollo Hospitals.

Apollo owns 70 hospitals with a total bed capacity of 9844 beds. Of these 70 hospitals, 43 are owned by the company (including JVs, subsidiaries and associates) while five are managed by the company with 934 beds while 11 are day care/short surgical stay centres with 259 beds and 11 cradles with 298 beds.

In case of managed hospitals, the company charges 5-6% management fees for third party hospitals for project management and consultancy covering all facets of development and operation of a hospital, including market research, technical design, arranging finance, hiring manpower and running the facility.

The healthcare segment has been divided into four clusters- 1) Tamil Nadu Region (Chennai and others), 2) AP, Telangana Region (Hyderabad and others) 3) Karnataka Region (Bangalore and others) and 3) others that include hospitals in Bhubaneswar, Bilaspur, Nashik and Navi Mumbai.

In June 2015, the company acquired a 51% stake in Assam Hospitals Ltd, which runs a 220 bed hospital in Guwahati.

Apollo Healthcare and Lifestyle Ltd (AHLL) subsidiary covers the retail healthcare business of the Apollo group, comprising Apollo Clinics, Apollo Sugar, White Dental, Apollo Day Surgery centres and Apollo Cradle. AHLL reported ₹ 459 crore of sales in FY18.

Apollo Sugar Clinics is a one stop shop for diabetics and offer packages to better manage diabetes through a combination of prescriptions, dietary, exercise regimens and other lifestyle changes apart from management of diabetes related complications. Sanofi has 20% stake in Apollo Sugar Clinics business. The company has 30 Apollo Sugar Clinics.

Apollo Day Surgery centres focus on planned surgeries done in a day/short stay basis. The company has 12 centres as of FY18.

Apollo Cradle denotes lifestyle birthing centres. It launched the first Apollo Cradle in Delhi a decade ago and currently has three centres in the network, and plans to add five more centres - two in Hyderabad, two in Delhi and one in Bengaluru.

In FY15, AHLL acquired 11 day and short stay surgery centres (over 350 beds) from Nova Specialty Hospitals with a presence in eight cities across India. This acquisition provides APL an opportunity to provide quality healthcare delivery closer to home and also entry in new markets such as Mumbai, Jaipur and Kanpur.

In case of standalone pharmacies, which are basically drug stores chain selling prescription, OTC and private label FMCG products, the company owns 2742 stores in FY17. In FY15, the company acquired Hyderabad-based Hetero Med Solutions Ltd (HMSL). HMSL has ~320 stores across Telangana, Andhra Pradesh and Tamil Nadu.

The Apollo board has decided to segregate the front-end retail pharmacy business carried out in the standalone pharmacy segment into a separate company Apollo Pharmacies (APL) as part of the proposed reorganisation.

APL to focus on- 1) Building a growth platform for the stand-alone pharmacies business to get to a medium-term target of over 5000

pharmacy outlets over five years with a goal of over ₹ 10,000 crore sales and 30% RoCE for the stand-alone pharmacy business in five years, 2) enabling foray into digital commerce as part of AHEL's omni-channel strategy to provide consumers increased convenience and ability to choose between online and physical stores, 3) Enhancing the private label business further from the current 6 + % levels to over 12% in five years through a combination of both broadening and deepening the product portfolio.

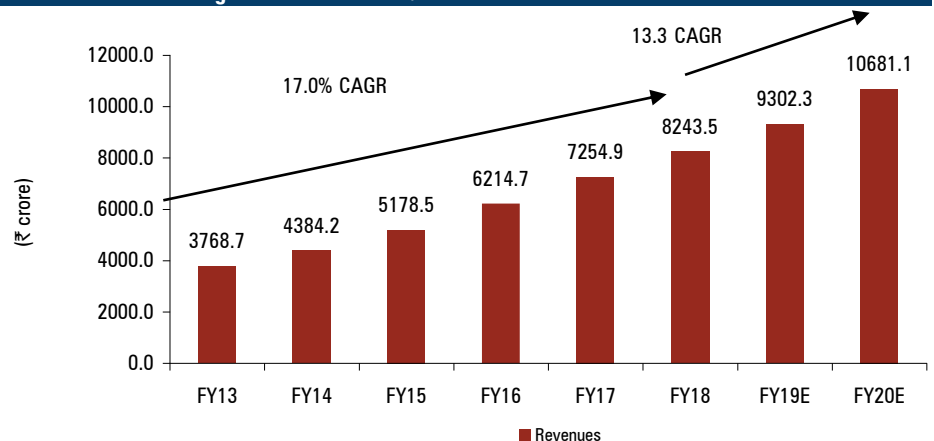
APL will become wholly owned subsidiary of Apollo Medicals Pvt Ltd (AMPL). The entire shareholding of AMPL will be held by AHEL and certain identified investors. AHEL will hold 25.5% of the total share capital of AMPL with other investors collectively holding the remaining share capital of AMPL. Specifically, Jhelum Investment Fund 1 will hold 19.9%, Hemendra Kothari will hold 9.9 % while Enam Securities Pvt Ltd will hold 44.7% of the total share capital of AMPL.

AHEL shall have the right to acquire the shares of AMPL from investors in compliance with the regulatory framework AHEL will be the exclusive supplier for APL under a long-term supplier agreement while AHEL will enter into a brand licencing agreement with APL to licence the "Apollo Pharmacy" brand to the frontend stores and online pharmacy operations. The proposed reorganisation is not expected to have a material impact on the financials of AHEL as the backend business related to the standalone pharmacies, which represents ~85% of the business economics, will continue to be held by AHEL. The structure is likely to take AHEL one step closer to a potential unlocking of value in the standalone pharmacy segment.

For the purposes of effectuating the restructuring, AHEL will transfer the business of the front-end retail pharmacy business carried out in the standalone pharmacy segment to APL by way of slump sale under a scheme of arrangement with such transfer being effective from April 1, 2019. The slump sale has been decided at ₹ 527.8 crore.

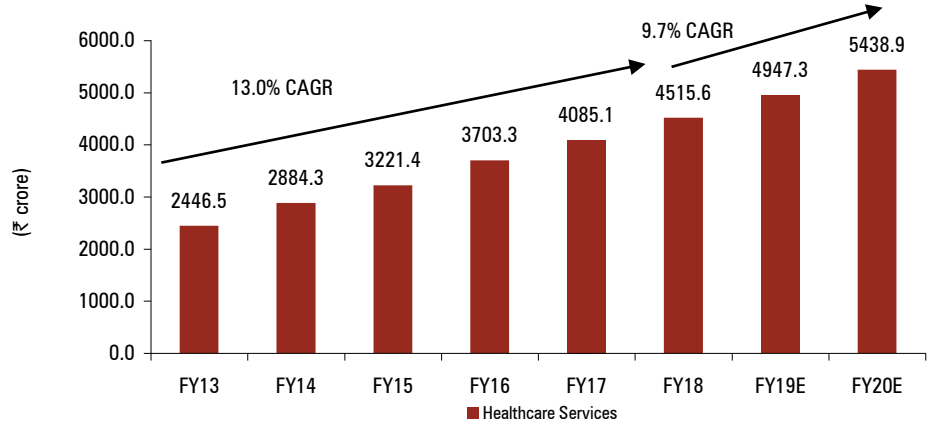
Overall, we expect revenues to grow at 13.3% CAGR in FY18-20E to ₹ 10631 crore.

Exhibit 1: Revenues to grow at CAGR of 13% in FY18-20E



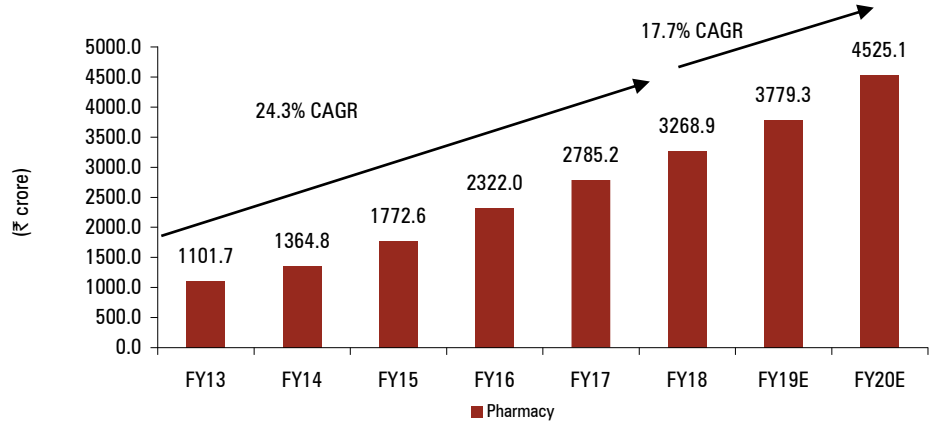
Source: Company, ICICI Direct Research

Exhibit 2: Healthcare services to grow at CAGR of 10% in FY18-20E



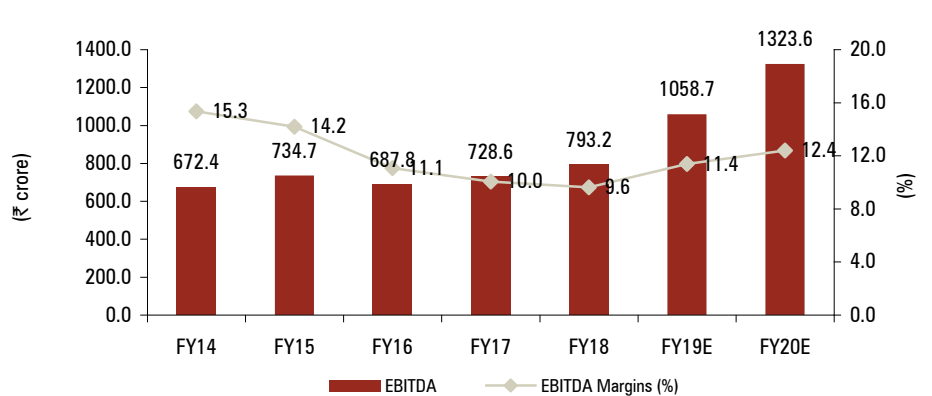
Source: Company, ICICI Direct Research

Exhibit 3: Pharmacy business to grow at CAGR of 17.7% in FY18-20E



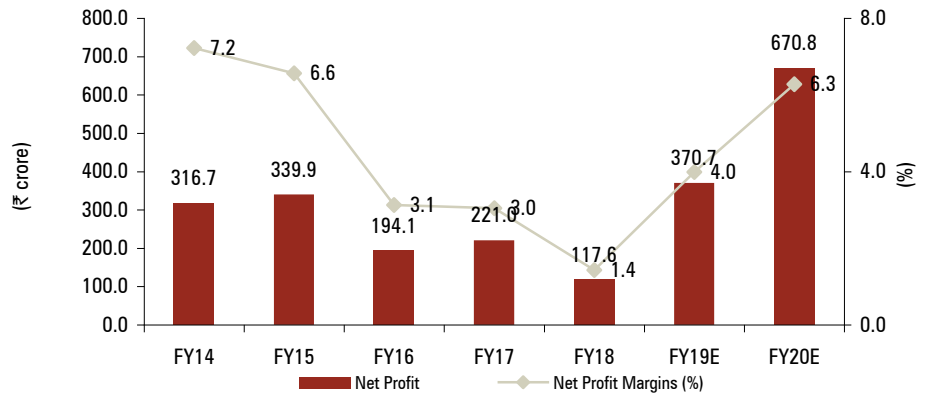
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA to grow at CAGR of 25.6% in FY18-20E



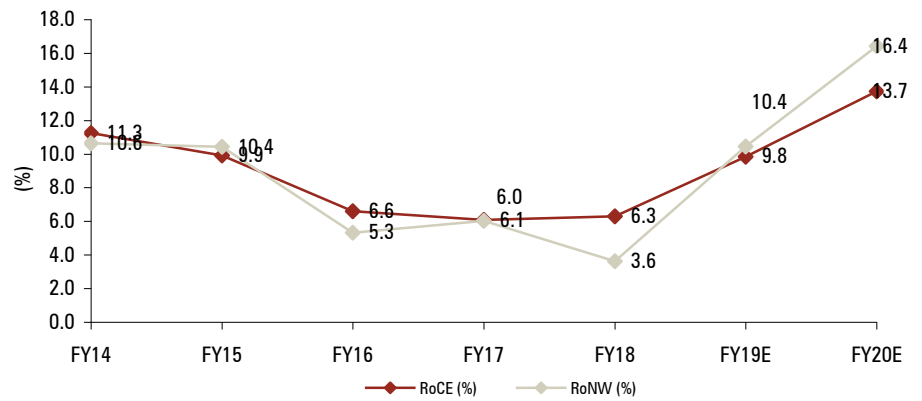
Source: Company, ICICI Direct Research

Exhibit 5: Net profit to grow at CAGR of 138.8% in FY18-20E



Source: Company, ICICI Direct Research

Exhibit 6: Trends in return ratios



Source: Company, ICICI Direct Research

Exhibit 7: Trends in standalone quarterly financials

(₹ crore)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	YoY (%)	QoQ (%)
Total Operating Income	777.4	1380.5	1447.9	1465.4	1634.1	1680.6	1661.6	1684.5	1851.6	1896.1	1862.9	1910.4	2090.1	12.9	9.4
Raw Material Expenses	399.7	737.7	730.4	758.9	846.1	889.2	866.4	885.0	946.1	990.5	979.8	1009.2	1100.7	16.3	9.1
as % revenues	51.4	53.4	50.4	51.8	51.8	52.9	52.1	52.5	51.1	52.2	52.6	52.8	52.7		
Gross Profit	377.7	642.8	717.4	706.6	788.1	791.4	795.3	799.5	905.6	905.7	883.2	901.2	989.4	9.3	9.8
GPM (%)	48.6	46.6	49.6	48.2	48.2	47.1	47.9	47.5	48.9	47.8	47.4	47.2	47.3		
Employee Expenses	125.7	222.2	223.0	215.5	230.9	247.1	248.3	261.2	283.0	283.7	290.9	295.9	311.4	10.0	5.2
as % revenues	16.2	16.1	15.4	14.7	14.1	14.7	14.9	15.5	15.3	15.0	15.6	15.5	14.9		
Other expenditure	14.0	238.1	312.3	303.2	335.2	350.2	376.9	364.6	401.3	400.7	378.7	378.7	420.2	4.7	11.0
as % revenues	1.8	17.2	21.6	20.7	20.5	20.8	22.7	21.6	21.7	21.1	20.3	19.8	20.1		
Total expenditure	647.0	1197.9	1265.7	1277.5	1412.2	1486.5	1491.6	1510.8	1630.4	1674.9	1649.3	1683.7	1832.3	12.4	8.8
EBITDA	130.4	182.6	182.2	187.9	221.9	194.1	170.1	173.6	221.2	221.3	213.6	226.7	257.8	16.5	13.7
EBITDA Margins (%)	16.8	13.23	12.58	12.82	13.58	11.55	10.23	10.31	11.95	11.67	11.46	11.86	12.33	39 bps	47 bps
Depreciation	25.1	50.1	48.5	55.7	60.3	61.8	62.8	64.6	66.5	67.8	73.1	72.4	73.9	11.1	2.0
Interest	13.7	32.0	43.8	44.4	46.9	51.3	57.8	55.5	58.8	63.5	62.4	62.1	66.0	12.4	6.4
Other Income	4.1	55.0	9.5	4.2	9.4	3.1	9.1	-3.8	2.6	7.9	5.8	2.1	-0.1	-102.7	-103.4
PBT	95.7	155.4	99.3	92.1	124.2	84.1	58.6	49.8	98.6	97.8	83.9	94.2	117.8	19.5	25.1
Less: Exceptional Items	0.0	-25.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Total Tax	25.9	20.5	18.0	19.9	32.2	11.2	10.4	14.6	27.7	30.4	24.2	34.1	38.9	40.1	14.1
Tax rate (%)	27.1	13.2	18.1	21.6	25.9	13.4	17.8	29.3	28.1	31.1	28.9	36.2	33.0		
Net Profit	69.7	109.2	81.3	72.2	92.0	72.8	48.2	35.2	70.9	67.4	59.6	60.2	79.0	11.4	31.3
Net Profit Margin (%)	9.0	7.9	5.6	4.9	5.6	4.3	2.9	2.1	3.8	3.6	3.2	3.1	3.8		
EPS (Adjusted)	5.1	7.9	5.8	5.2	6.6	5.2	3.5	2.5	5.1	4.8	4.3	4.3	5.7		

Source: Company, ICICI Direct Research

Exhibit 8: Standalone healthcare service performance

(₹ Crore)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	YoY (%)	QoQ (%)
Sales	590.9	636.5	636.3	633.4	667.6	715.8	711.5	725.8	745.0	784.4	769.1	838.7	1126.6	51.2	34.3
EBITDA	NA	NA	NA	165.0	188.2	157.9	139.6	161.2	212.3	202.1	190.0	185.0	206.8	-2.6	11.8
EBITDA Margins (%)	NA	NA	NA	26.0	28.2	22.1	19.6	22.2	28.5	25.8	24.7	22.1	18.4		

Source: Company, ICICI Direct Research

Exhibit 9: Standalone pharmacy performance

	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	YoY (%)	QoQ (%)
Sales (₹ crore)	304.2	338.6	357.1	364.9	386.2	437.17	471.2	478.0	520.1	583.1	611.5	892.07	963.7	85.3	8.0
EBITDA (₹ crore)	NA	NA	NA	NA	NA	NA	30.4	32	35.6	40.1	17.3	41.7	47.2	32.6	13.2
EBITDA Margins (%)	NA	NA	NA	NA	NA	NA	6.5	6.7	6.8	6.9	2.8	4.7	4.9		
No of Stores	2217	2263	2326	2383	2430	2506	2556	2643	2742	2849	3021	3085	3167		
Rev per store (₹ lakh)	13.7	15.0	15.4	15.3	15.9	17.4	18.4	18.1	19.0	20.5	20.2	28.9	30.4		

Source: Company, ICICI Direct Research

SWOT Analysis

Strengths - Early mover in the healthcare space. Healthy balance sheet despite being in a business with higher gestation period. Strong brand value - a significant aspect in this business

Weakness - Presence in the low margin pharmacy space

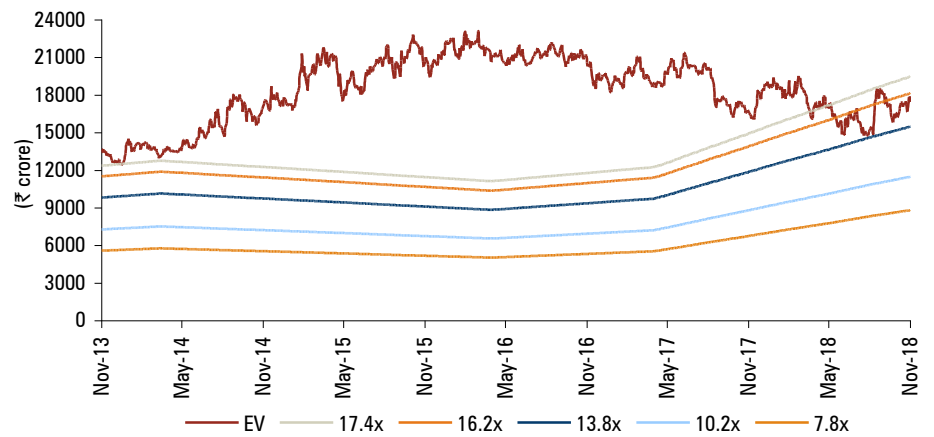
Opportunities - Under-penetrated Indian healthcare space with favourable demographics and disease pattern

Industry specific threats – Government regulations on device pricing 2) increase in competition and 3) increase in guarantee fees to the doctors

Company specific threats - Too much capacity build-up may lead to lower capacity utilisation and the cost associated with it

Conference call Highlights

- The group has 69 hospitals with a total bed capacity of 9834 beds as on June 30, 2018. Of these 69 hospitals 1) 43 are owned hospitals including JVs/ Subsidiaries and Associates with 8353 beds, 2) 13 are Day care/ short surgical stay centres with 267 beds and 8 Cradles with 280 beds, 3) Five are managed hospitals with 934 beds
- Of the 8,353 owned hospital beds capacity, 7093 beds were operational and had an occupancy of 65%
- The total pharmacy count stood at 3085 as on June 30, 2018
- Guided for ₹ 300 crore of capex in FY19 and FY20 for Proton Therapy Centre, 150 beds centre and ₹ 350 crore in FY23 for Byculla, Mumbai, 500 beds hospital
- Navi Mumbai hospital's EBITDA loss was at ₹ 1.6 crore in Q1FY19. This hospital has reached break-even in June 2018. This hospital has 140 occupied beds which are expected to reach 300 in the next two years.
- Excluding Navi Mumbai loss, new hospitals reported positive EBITDA of ₹ 12.4 crore in Q1FY19 compared to EBITDA loss of ₹ 6.2 crore in Q1FY18. Post break-even of Navi-Mumbai, only Nasik hospital (125 beds) is marking losses in the new Hospital Category
- On a RoCE front, existing hospital RoCE expected to reach 22-24% in the next two years from 18.5% in Q1FY19. Pharmacy EBITDA margins expected to reach 6% in the next two years and ROCE to reach to 22-24% level over the next two years. The company targets to achieve 12-13% ROCE over the next three-four years for new hospitals
- Total 50% of beds in others category (872 beds) are in Tier II and III cities. The company plans to allocate certain beds from these hospitals for Ayushman Bharat scheme
- Spectra and Cradles assets utilisation level was at 35% and 45%, respectively. To reach break-even the company requires 50% assets utilisation in Spectra and 55% in Cradles. The company expects spectra division to reach break-even before Q4FY19, Cradles in Q1FY20. Overall, the company has reiterated its AHLL break-even guidance in H1FY20
- For FY18, the overall occupancy was 65% of which occupancy at the existing hospitals was 67% and the same at the new hospitals was 58%
- The company has acquired 50% stake in 330-bed operational Medics Super Speciality Hospital in Lucknow, which is likely to witness further ramp-up by November. ARPOB of this hospital stood at ₹ 18000-20000 which it expects to reach to ₹ 25000-26000 over the next two years
- The company has guided for ~20% growth in Pharmacy business for near to medium term. The growth will be mainly from new addition of stores. The company also looking for online pharmacies

Exhibit 10: One year forward EV/EBITDA


Source: Company, ICICI Direct Research

Exhibit 11: Valuation

Particulars	Valuation Matrix	Multiple (x)	Enterprise value (₹ cr)
Healthcare (Existing Hospitals & JV)	EV/EBITDA	15.0	13,660
Healthcare (New Hospitals)	EV/Sales	1.5	2,290
Pharmacy	EV/Sales	1.2	4,616
Others	EV/Sales	1.0	991
Net Debt FY20E (₹ cr)			1,536.0
EV (₹ cr)			20,020
No of shares (cr)			13.9
Per Share Value (₹)			1,440

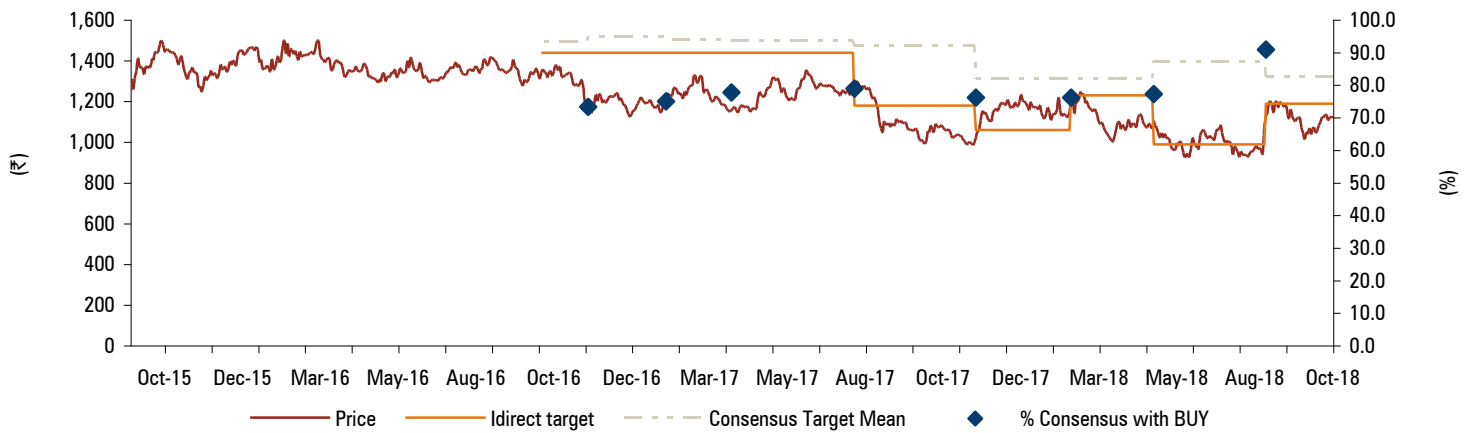
Source: Company, ICICI Direct Research

Exhibit 12: Valuation

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY17	7255	16.7	15.9	24.0	27.4	2.8	6.1	6.7
FY18	8243	13.6	8.5	-46.8	25.6	2.5	6.3	7.0
FY19E	9302	12.8	26.6	215.1	18.8	2.1	9.8	10.9
FY20E	10681	14.8	48.2	81.0	14.3	1.8	13.7	16.0

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICI Direct Research

Key events

Date	Event
Sep-08	Opens first reach hospital at Karimnagar, Andhra Pradesh
Jun-09	Issues 1500 unsecured foreign currency convertible bonds of US\$10000 each to International Finance Corporation aggregating to US\$15 million. IFC also granted a loan
May-11	Pharmacy business of company turns profitable for first time
Sep-12	Government allows foreign direct investment in multi brand retail. Pharmacy business of Apollo Hospitals falls into this category
Dec-12	Sells stake in its BPO company Apollo Health Street to US based company Sutherland Global Services. It holds 39.4% in Apollo Health Street
Jan-13	Plans to establish a proton therapy centre in India. It will be first of its kind across South East Asia, Africa and Australia.
May-13	Apollo Hospitals and Yash Birla Group call off their JV & shut down their plans to set up super specialty hospitals in Thane, Mumbai
Sep-14	Enters into agreement to acquire 320 pharmacy stores from Hetero for ₹ 146 crore
Jan-15	Acquires Bengaluru-based Nova Specialty Hospitals at an estimated cost of ₹ 135-145 crore
Jun-15	Acquires 51% stake in Assam Hospitals
Nov-16	Commisions 480 bed super speciality tertiary care hospital in Navi Mumbai
Dec-16	International Finance Corporation invests ₹ 450 crore in AHLL for global expansion
Aug-18	Acquired 50% stake in 330-bed operational Medics Super Speciality Hospital in Lucknow
Nov-18	Segregate the front-end Pharmacy business into a separate company - Apollo Pharmacies Limited (APL) which would carry out the front end operations of direct sales to retail customers

Source: Company, ICICI Direct Research

Top 10 Shareholders

Top 10 Shareholders						Shareholding Pattern					
Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Char	(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
1	PCR Investments, Ltd.	30-Jun-18	19.6	27.2m	0.0m	Promoter	34.4	34.4	34.4	34.4	34.4
2	OppenheimerFunds, Inc.	30-Jun-18	8.5	11.8m	0.0m	Others	65.6	65.6	65.6	65.6	65.6
3	Reddy (Prathap C)	30-Jun-18	3.9	5.4m	0.0m						
4	AllianceBernstein L.P.	31-May-18	3.8	5.3m	-0.1m						
5	Reddy (Suneeta)	30-Jun-18	2.4	3.4m	0.0m						
6	The Vanguard Group, Inc.	31-May-18	2.0	2.8m	0.0m						
7	Schroder Investment Management Ltd. (SIM)	30-Jun-18	1.8	2.6m	0.0m						
8	Schroder Investment Management (Hong Kong) Ltd.	31-Mar-18	1.8	2.6m	0.0m						
9	Reddy (Sangita)	30-Jun-18	1.7	2.4m	0.0m						
10	MEAG Munich ERGO Kapitalanlagegesellschaft mbH	30-Jun-18	1.7	2.4m	0.0m						

Source: Reuters, ICICI Direct Research

Recent Activity

Buys			Sells		
Investor name	Value (\$)	Shares	Investor name	Value (\$)	Shares
Veritas Asset Management LLP	6.8m	0.4m	Macquarie Funds Management Hong Kong Ltd.	-24.8m	-1.6m
Kotak Mahindra Asset Management Company Ltd.	2.1m	0.1m	Nordea Funds Oy	-7.1m	-0.5m
Lazard Asset Management, L.L.C.	2.1m	0.1m	Fidelity Management & Research Company	-5.5m	-0.4m
Sands Capital Management, LLC	1.7m	0.1m	Columbia Threadneedle Investments (UK)	-4.3m	-0.2m
Franklin Templeton Asset Management (India) Pvt. Ltd.	1.3m	0.1m	Reliance Nippon Life Asset Management Limited	-3.0m	-0.2m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Revenues	7,254.9	8,243.5	9,302.3	10,681.1	
Growth (%)	16.7	13.6	12.8	14.8	
Raw Material Expenses	3,595.4	4,032.7	4,846.3	5,512.4	
Employee Expenses	1,196.5	1,404.4	1,426.1	1,611.7	
Other expenditure	1,734.4	2,013.2	1,971.2	2,233.4	
Total Operating Expenditure	6,526.3	7,450.3	8,243.6	9,357.5	
EBITDA	728.6	793.2	1,058.7	1,323.6	
Growth (%)	5.9	8.9	33.5	25.0	
Depreciation	314.0	359.0	374.3	363.4	
Interest	257.4	295.1	250.4	205.7	
Other Income	22.5	32.4	24.7	28.4	
PBT	179.7	171.5	458.7	782.9	
Total Tax	91.0	111.9	108.8	164.4	
MI & Profit from Associates	132.2	58.1	20.8	52.3	
Adjusted PAT	221.0	117.6	370.7	670.8	
Growth (%)	24.0	-46.8	215.1	81.0	
EPS (Adjusted)	15.9	8.5	26.6	48.2	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit/(Loss) after taxation	221.0	59.6	370.7	670.8	
Add: Depreciation & Amortization	314.0	359.0	374.3	363.4	
Working Capital Changes	-70.3	-207.1	-48.6	-129.6	
CF from operating activities	464.6	211.5	696.4	904.6	
Change in Capex	-735.0	-620.5	-200.0	220.0	
(Inc)/dec in Investments	-268.9	63.8	0.0	0.0	
Others	28.7	49.6	-15.2	-48.2	
CF from investing activities	-975.2	-507.2	-215.2	171.8	
Issue of Equity	0.0	8.3	0.0	0.0	
Inc/(dec) in loan funds	208.7	301.8	-500.0	-500.0	
Dividend paid & dividend tax	0.0	-100.8	-74.0	-133.9	
Others	338.1	-317.8	0.0	0.0	
CF from financing activities	546.8	-108.5	-574.0	-633.9	
Net Cash flow	36.2	-404.2	-92.8	442.5	
Opening Cash	378.8	526.4	417.2	324.5	
Closing Cash	415.0	122.2	324.5	767.0	
Free Cash Flow	-270.3	-409.0	496.4	1,124.6	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Equity Capital	69.6	69.6	69.6	69.6	
Reserve and Surplus	3,601.8	3,181.9	3,478.6	4,015.5	
Total Shareholders funds	3,671.4	3,251.5	3,548.2	4,085.1	
Total Debt	3,048.7	3,303.0	2,803.0	2,303.0	
Deferred Tax Liability	226.9	256.5	261.6	266.9	
Minority Interest	216.4	132.4	116.2	67.0	
Long term provisions	5.4	6.2	6.4	6.5	
Other Non Current Liabilities	21.2	475.1	484.6	494.3	
Total Liabilities	7,189.9	7,424.7	7,219.9	7,222.6	
Gross Block - Fixed Assets	5,332.1	5,677.4	6,077.4	6,057.4	
Accumulated Depreciation	908.8	1,257.9	1,632.2	1,995.7	
Net Block	4,423.3	4,419.5	4,445.2	4,061.8	
Capital WIP	346.7	712.2	512.2	312.2	
Goodwill on Consolidation	226.7	346.2	346.2	346.2	
Total Fixed Assets	4,996.8	5,477.9	5,303.6	4,720.2	
Investments	414.6	358.7	358.7	358.7	
Inventory	466.9	565.8	598.6	687.3	
Debtors	748.2	884.6	959.4	1,101.6	
Loans & Advances, & other CA	456.4	645.6	332.1	294.9	
Cash	526.4	417.2	324.5	767.0	
Total Current Assets	2,073.7	2,162.6	2,183.2	2,862.7	
Creditors	500.5	588.8	641.7	736.8	
Provisions & Other CL	393.0	410.6	426.2	599.3	
Total Current Liabilities	926.6	1,188.1	1,253.0	1,360.3	
Net Current Assets	1,147.0	974.5	930.3	1,502.4	
Long term loans & advances	631.5	596.5	608.4	620.6	
Deferred Tax Assets	0.0	17.2	18.9	20.8	
Application of Funds	7,189.9	7,424.8	7,219.9	7,222.7	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
Adjusted EPS	15.9	8.5	26.6	48.2	
BV per share	263.9	233.7	255.0	293.6	
Dividend per share	7.2	4.7	5.3	9.6	
Cash Per Share	37.8	30.0	23.3	55.1	
Operating Ratios (%)					
Gross Profit Margins	50.4	51.1	47.9	48.4	
EBITDA margins	10.0	9.6	11.4	12.4	
Net Profit margins	3.0	1.4	4.0	6.3	
Inventory days	23.5	25.1	23.5	23.5	
Debtor days	37.6	39.2	37.6	37.6	
Creditor days	25.2	26.1	25.2	25.2	
Asset Turnover	1.4	1.5	1.5	1.8	
EBITDA Conversion Rate	63.8	26.7	65.8	68.3	
Return Ratios (%)					
RoE	6.0	3.6	10.4	16.4	
RoCE	6.1	6.3	9.8	13.7	
RoC	6.7	7.0	10.9	16.0	
Valuation Ratios (x)					
P/E	79.5	149.3	47.4	26.2	
EV / EBITDA	27.4	25.6	18.8	14.3	
EV / Net Sales	2.8	2.5	2.1	1.8	
Market Cap / Sales	2.4	2.1	1.9	1.6	
Price to Book Value	4.8	5.4	4.9	4.3	
Solvency Ratios					
Debt / EBITDA	4.2	4.2	2.6	1.7	
Debt / Equity	0.8	1.0	0.8	0.6	
Net Debt / Equity	0.8	1.0	0.8	0.5	
Current Ratio	1.7	1.5	1.5	1.5	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)			RoCE (%)			RoE (%)					
						FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
Ajanta Pharma	AJAPHA	1084	1,205	Hold	9539.1	57.4	53.0	47.4	60.0	18.9	20.4	22.9	18.1	41.3	30.0	22.2	23.2	32.3	23.0	17.0	18.4
Alembic Pharma	ALEMPHA	580	560	Hold	10940.5	21.2	21.9	27.9	31.2	27.4	26.5	20.8	18.6	25.3	18.0	18.6	19.4	21.0	18.6	19.9	19.0
Apollo Hospitals	APOHOS	1262	1,440	Buy	17559.0	15.9	8.5	26.6	48.2	79.5	149.3	47.4	26.2	6.1	6.3	9.8	13.7	6.0	3.6	10.4	16.4
Aurobindo Pharma	AURPHA	780	915	Buy	45712.5	38.8	41.6	42.6	53.1	20.1	18.7	18.3	14.7	24.4	20.0	18.0	16.7	24.2	20.7	17.8	18.4
Biocon	BIOCON	626	740	Buy	37569.0	8.5	6.2	11.5	15.4	73.9	100.9	54.2	40.6	9.4	8.1	13.1	16.2	10.5	7.2	11.7	13.7
Cadila Healthcare	CADHEA	360	365	Hold	36829.1	14.5	17.5	16.9	19.6	24.8	20.5	21.3	18.4	13.1	16.7	14.7	15.7	21.4	20.5	17.1	17.2
Cipla	CIPLA	519	510	Hold	41804.7	12.5	18.3	17.5	23.1	41.5	28.3	29.6	22.5	7.7	9.6	11.0	13.9	8.0	10.4	9.2	11.0
Divi's Lab	DIVLAB	1531	1,700	Buy	40637.9	39.9	33.3	55.0	65.5	38.3	46.0	27.8	23.4	25.3	20.0	26.8	26.3	19.8	14.9	20.7	20.5
Dr Reddy's Labs	DRREDD	2462	2,700	Hold	40863.5	78.0	57.0	97.1	135.0	31.6	43.2	25.3	18.2	7.3	6.1	8.9	11.9	10.5	7.2	11.2	13.7
Glenmark Pharma	GLEPHA	665	660	Hold	18759.9	42.2	28.5	32.9	36.8	15.7	23.3	20.2	18.1	19.5	14.6	16.0	15.2	26.5	15.6	14.9	14.5
Indoco Remedies	INDREM	167	190	Hold	1538.9	8.4	4.5	3.7	12.2	20.0	37.4	45.4	13.7	8.7	6.2	5.9	12.5	11.8	6.1	4.8	14.3
Ipca Laboratories	IPCLAB	753	845	Buy	9515.6	15.4	19.0	29.1	42.3	48.8	39.7	25.9	17.8	8.7	9.1	13.0	17.3	7.9	8.9	12.3	15.5
Jubilant Life	JUBLIF	752	945	Buy	11974.8	36.9	41.3	62.5	76.6	20.3	18.2	12.0	9.8	13.8	14.9	19.4	21.3	16.8	15.7	19.4	19.4
Lupin	LUPIN	854	870	Hold	38609.5	56.7	20.8	27.6	39.1	15.0	41.1	30.9	21.8	16.6	10.4	10.4	12.4	19.0	6.9	8.6	11.0
Narayana Hrudalaya	NARHRU	242	270	Buy	4935.3	4.1	2.5	2.3	6.6	58.5	96.5	103.9	36.6	12.5	6.3	7.1	12.0	8.8	4.9	4.4	11.1
Natco Pharma	NATPHA	723	860	Buy	13343.5	26.3	37.7	41.7	24.9	27.4	19.2	17.3	29.0	33.6	27.4	26.6	14.8	29.5	22.7	21.2	11.6
Sun Pharma	SUNPHA	515	690	Buy	123586.1	29.0	13.0	16.5	24.9	17.7	39.7	31.1	20.7	20.3	9.8	11.6	15.0	19.0	8.1	9.5	12.8
Syngene Int.	SYNINT	580	685	Buy	11600.0	14.4	15.3	17.6	19.6	40.2	37.8	32.8	29.4	16.0	15.9	17.0	17.4	20.3	17.7	17.1	16.1
Torrent Pharma	TORPHA	1672	1,850	Hold	28296.4	55.2	40.1	41.9	62.5	30.3	41.7	39.9	26.8	18.9	11.2	12.9	16.9	21.5	14.7	13.7	17.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

ANALYST CERTIFICATION

We /I, Siddhant Khandekar CA-INTER, Mitesh Shah MS (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia*, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that *Siddhant Khandekar CA-INTER, Mitesh Shah MS (Finance)* Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that *Siddhant Khandekar CA-INTER, Mitesh Shah MS (Finance)* Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.