

# UBS Investment Research

## Apollo Hospitals Enterprise

### Budget marginally negative

#### ■ Sales tax to be applicable to all Hospital services

The budget has provision for a uniform 5% sales tax on all the services provided by private hospitals with more than 25 beds. This is marginally negative for all hospitals as it will impact the patient's ability to pay.

#### ■ No 80 I(A) tax benefit

Our prior checks with some investors indicated expectation that the 80 I(A) tax benefit may be extended to new hospitals being set up. This has not come through. We think this is a sentimental negative. We did not build in any 80I(A) tax incentive in our estimates.

#### ■ Private medical insurance companies to benefit

Prior to this budget, there was 10% sales tax on payments reimbursed by private medical insurance companies. This sales tax is now reduced to 5% and also brought in line with sales tax on hospital services.

#### ■ Valuation: sum-of-the-parts-based price target of Rs650

We base our price target on our sum-of-the-parts valuation methodology, valuing the consolidated business (Rs625) on DCF, and associates using a multiple-based approach. At our price target, Apollo trades at 17.6x FY12 EV/EBITDA, which is supported by a secular, non-cyclical revenue stream and improving return ratios.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	16,142	20,265	24,937	29,975	35,998
EBIT (UBS)	1,595	2,256	2,881	3,791	4,841
Net Income (UBS)	826	1,264	1,426	2,020	2,607
EPS (UBS, Rs)	6.93	10.24	11.27	15.96	20.60
Net DPS (UBS, Rs)	3.25	3.49	3.38	4.55	5.56

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	10.9	11.1	11.6	12.6	13.4
ROIC (EBIT) %	-	13.1	14.0	16.1	17.5
EV/EBITDA (core) x	-	12.3	15.5	12.4	10.2
PE (UBS) x	33.8	27.4	40.7	28.7	22.3
Net dividend yield %	1.3	1.2	0.7	1.0	1.2

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs458.50 on 01 Mar 2011 14:33 SGT

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## Global Equity Research

India

Healthcare Providers

12-month rating **Buy**  
**Unchanged**

12m price target **Rs650.00/US\$14.37**  
**Unchanged**

Price **Rs458.50/US\$10.13**

RIC: APLH.BO BBG: APHS IB

1 March 2011

#### Trading data (local/US\$)

52-wk range	Rs572.45-333.65/US\$12.88-6.99
Market cap.	Rs56.7bn/US\$1.25bn
Shares o/s	124m (ORD)
Free float	68%
Avg. daily volume ('000)	162
Avg. daily value (m)	Rs76.4

#### Balance sheet data 03/11E

Shareholders' equity	Rs17.8bn
P/BV (UBS)	3.3x
Net Cash (debt)	(Rs8.21bn)

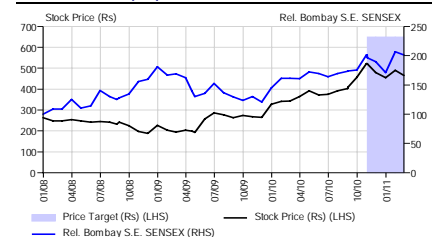
#### Forecast returns

Forecast price appreciation	+41.8%
Forecast dividend yield	0.8%
Forecast stock return	+42.6%
Market return assumption	13.1%
Forecast excess return	+29.5%

#### EPS (UBS, Rs)

	03/11E	03/10	03/10 Actual
	UBS	Cons.	
Q1E	3.27	-	3.05
Q2E	2.48	-	2.29
Q3E	3.27	3.27	3.00
Q4E	2.14	2.14	1.95
03/11E	11.27	11.27	
03/12E	15.96	15.97	

#### Performance (Rs)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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# Apollo Hospitals Enterprise

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	7,597	9,495	12,164	16,142	20,265	24,937	23.1	29,975	20.2	35,998	20.1
Operating expenses (ex deprecn)	(6,396)	(7,974)	(10,328)	(13,915)	(17,259)	(21,052)	22.0	(25,008)	18.8	(29,796)	19.1
EBITDA (UBS)	1,201	1,521	1,836	2,227	3,006	3,885	29.3	4,967	27.8	6,202	24.9
Depreciation	(378)	(408)	(517)	(632)	(750)	(1,005)	34.1	(1,176)	17.1	(1,360)	15.6
Operating income (EBIT, UBS)	822	1,113	1,319	1,595	2,256	2,881	27.7	3,791	31.6	4,841	27.7
Other income & associates	133	436	253	208	322	0	-	0	-	0	-
Net interest	(244)	(270)	(382)	(459)	(602)	(713)	18.4	(721)	1.1	(879)	22.0
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	712	1,279	1,190	1,344	1,976	2,168	9.7	3,070	41.6	3,962	29.1
Tax	(224)	(310)	(350)	(461)	(676)	(741)	9.7	(1,050)	41.6	(1,355)	29.1
Profit after tax	488	970	839	882	1,300	1,426	9.7	2,020	41.6	2,607	29.1
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(46)	0	(39)	(56)	(36)	0	-	0	-	0	-
Net income (local GAAP)	442	970	800	826	1,264	1,426	12.8	2,020	41.6	2,607	29.1
Net Income (UBS)	442	970	800	826	1,264	1,426	12.8	2,020	41.6	2,607	29.1
Tax rate (%)	31	24	29	34	34	34	0.0	34	0.0	34	0.0
Pre-abnormal tax rate (%)	31	24	29	34	34	34	0.0	34	0.0	34	0.0
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	4.60	9.51	7.32	6.93	10.24	11.27	10.5	15.96	41.6	20.60	29.1
EPS (UBS)	4.60	9.51	7.32	6.93	10.24	11.27	10.1	15.96	41.6	20.60	29.1
Net DPS	2.32	2.49	3.09	3.25	3.49	3.38	-3.1	4.55	34.6	5.56	22.3
Cash EPS	8.53	13.51	12.05	12.23	16.31	19.21	17.8	25.26	31.5	31.36	24.1
BVPS	61.07	73.01	110.69	121.92	133.82	140.36	4.9	158.07	12.6	172.17	8.9
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	6,737	8,061	9,778	12,884	16,257	18,578	14.3	20,864	12.3	24,819	19.0
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	1,194	1,221	2,125	2,836	3,412	4,004	17.4	4,813	20.2	5,781	20.1
Other liabilities	(494)	(519)	(470)	(446)	(536)	(536)	0.0	(536)	0.0	(536)	0.0
Operating invested capital	7,436	8,763	11,433	15,273	19,132	22,046	15.2	25,141	14.0	30,064	19.6
Investments	1,663	2,230	6,242	5,914	4,166	4,166	0.0	4,166	0.0	4,166	0.0
Total capital employed	9,100	10,993	17,675	21,188	23,298	26,212	12.5	29,307	11.8	34,230	16.8
Shareholders' equity	6,180	7,541	12,993	14,689	16,535	17,758	7.4	19,999	12.6	21,782	8.9
Minority interests	441	342	338	265	241	241	0.0	241	0.0	241	0.0
Total equity	6,621	7,883	13,332	14,954	16,776	18,000	7.3	20,240	12.4	22,023	8.8
Net debt / (cash)	2,479	3,111	4,343	6,233	6,522	8,213	25.9	9,067	10.4	12,206	34.6
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	9,100	10,993	17,675	21,188	23,298	26,212	12.5	29,307	11.8	34,230	16.8
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	822	1,113	1,319	1,595	2,256	2,881	27.7	3,791	31.6	4,841	27.7
Depreciation	378	408	517	632	750	1,005	34.1	1,176	17.1	1,360	15.6
Net change in working capital	0	(270)	(948)	(789)	(295)	(476)	61.1	(683)	43.5	(817)	19.6
Other (operating)	(137)	551	341	251	476	0	-	0	-	0	-
Operating cash flow (pre tax/interest)	1,064	1,801	1,229	1,689	3,186	3,409	7.0	4,284	25.7	5,385	25.7
Net interest received / (paid)	(244)	(270)	(382)	(459)	(602)	(713)	18.4	(721)	1.1	(879)	22.0
Dividends paid	(1)	(650)	(481)	(352)	(402)	(501)	24.6	(673)	34.6	(823)	22.3
Tax paid	0	(428)	(482)	(595)	(865)	(741)	-14.3	(1,050)	41.6	(1,355)	29.1
Capital expenditure	0	(2,188)	(2,242)	(3,644)	(3,913)	(3,326)	-15.0	(3,462)	4.1	(5,316)	53.5
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(137)	(1,103)	(29,117)	(14,657)	(8,352)	(713)	-91.5	(721)	1.1	(879)	22.0
Share issues	0	364	4,166	811	869	298	-65.7	894	200.0	0	-
Cash flow (inc)/dec in net debt	819	(3,030)	(27,654)	(17,492)	(10,553)	(2,287)	-78.3	(1,449)	-36.6	(3,868)	166.9
FX / non cash items	(319)	2,398	26,422	15,602	10,264	596	-94.2	595	-0.3	729	22.5
Balance sheet (inc)/dec in net debt	500	(632)	(1,233)	(1,890)	(288)	(1,691)	486.1	(855)	-49.5	(3,139)	267.4
Core EBITDA	1,201	1,521	1,836	2,227	3,006	3,885	29.3	4,967	27.8	6,202	24.9
Maintenance capital expenditure	(76)	(95)	(122)	(161)	(203)	(249)	23.1	(300)	20.2	(360)	20.1
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	1,125	1,426	1,714	2,065	2,803	3,636	29.7	4,667	28.4	5,842	25.2

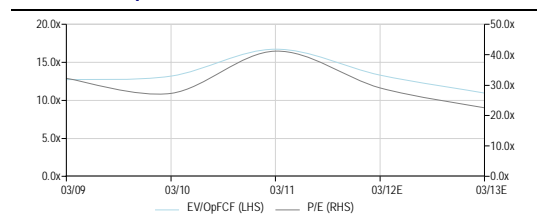
Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

# Apollo Hospitals Enterprise

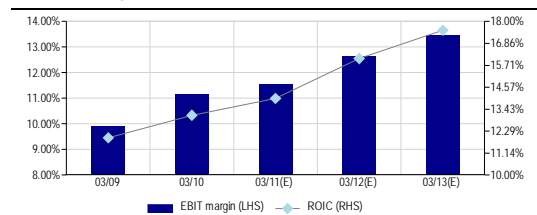
## Company profile

Apollo Hospitals owns and manages a network of tertiary and higher secondary care hospitals and clinics. It also operates a pharmacy chain. It has a stake in Apollo Health Street, a medical business process outsourcing company. Apollo Hospitals manages around 8,500 beds (5,376 in owned hospitals and 2,588 in managed hospitals) in 46 hospitals, and a chain of 1,100 Apollo Pharmacy stores in India.

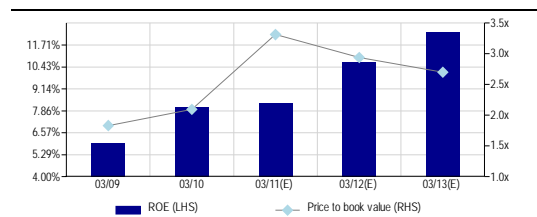
## Value (EV/OpFCF & P/E)



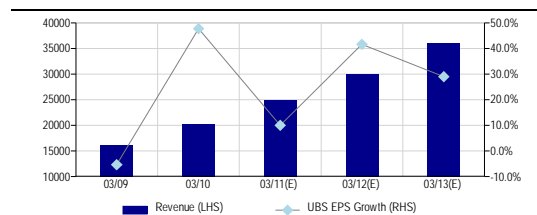
## Profitability



## ROE v Price to book value



## Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	-	27.5	40.7	28.7	22.3
P/E (UBS)	33.8	32.2	27.4	40.7	28.7	22.3
P/CEPS	19.3	18.3	17.2	23.9	18.1	14.6
Net dividend yield (%)	1.3	1.5	1.2	0.7	1.0	1.2
P/BV	2.8	1.8	2.1	3.3	2.9	2.7
EV/revenue (core)	-	1.6	1.8	2.4	2.0	1.8
EV/EBITDA (core)	-	11.8	12.3	15.5	12.4	10.2
EV/EBIT (core)	-	16.5	16.4	20.9	16.2	13.1
EV/OpFCF (core)	-	12.7	13.2	16.5	13.1	10.8
EV/op. invested capital	-	2.0	2.2	2.9	2.6	2.3

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	26,621	34,593	56,657	56,657	56,657
+ minority interests	265	241	241	241	241
+ average net debt (cash)	5,288	6,378	7,367	8,640	10,637
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(5,914)	(4,166)	(4,166)	(4,166)	(4,166)
Core enterprise value	26,261	37,047	60,100	61,372	63,369

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	25.0	32.7	25.5	23.1	20.2	20.1
EBITDA (UBS)	20.4	21.3	35.0	29.3	27.8	24.9
EBIT (UBS)	20.9	20.9	41.5	27.7	31.6	27.7
EPS (UBS)	17.9	-5.3	47.8	10.1	41.6	29.1
Cash EPS	13.3	1.5	33.4	17.8	31.5	24.1
Net DPS	12.2	5.1	7.4	-3.1	34.6	22.3
BVPS	35.3	10.1	9.8	4.9	12.6	8.9

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	15.3	13.8	14.8	15.6	16.6	17.2
EBIT / revenue	10.9	9.9	11.1	11.6	12.6	13.4
Net profit (UBS) / revenue	6.4	5.1	6.2	5.7	6.7	7.2

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	-	11.9	13.1	14.0	16.1	17.5
ROIC post tax	-	7.8	8.6	9.2	10.6	11.5
Net ROE	-	6.0	8.1	8.3	10.7	12.5

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	3.5	3.5	3.7	4.0	5.3	5.5
Dividend cover (UBS EPS)	2.4	2.1	2.9	3.3	3.5	3.7
Div. payout ratio (% , UBS EPS)	44.6	46.9	34.1	30.0	28.5	27.0
Net debt / EBITDA	2.4	2.8	2.2	2.1	1.8	2.0

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	-	1.2	1.2	1.2	1.3	1.3
Revenue / fixed assets	-	1.4	1.4	1.4	1.5	1.6
Revenue / net working capital	-	6.5	6.5	6.7	6.8	6.8

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	1.3	1.3	1.2	1.3	1.2	1.2
Capex / revenue (%)	15.5	22.6	19.3	13.3	11.6	14.8
Capex / depreciation	3.6	5.8	5.2	3.3	2.9	3.9

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	43.1	42.4	39.4	46.2	45.3	56.0
Net debt / (net debt + equity)	30.1	29.8	28.3	31.6	31.2	35.9
Net debt (core) / EV	-	20.1	17.2	12.3	14.1	16.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs458.50 on 01 Mar 2011 14:33 SGT Market cap(E) may include forecast share issues/buybacks.

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## ■ Apollo Hospitals Enterprise

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## ■ Statement of Risk

Hospitals require high upfront investment and have high fixed costs. Consequently, we believe any increase in competition can impact volumes and pricing, and subsequently impact operating profit. Additionally, land prices in India have been rising and it is becoming increasingly more expensive to acquire land for expansion and this could affect future profitability. Other risks include regulatory and tax changes, doctor attrition and the lack of an internationally recognised auditor.

## ■ Analyst Certification

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

## KEY DEFINITIONS

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**Equity Price Targets** have an investment horizon of 12 months.

## EXCEPTIONS AND SPECIAL CASES

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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**UBS Securities India Private Ltd:** Ajay Nandanwar; Gautam Chhaochharia.

## Company Disclosures

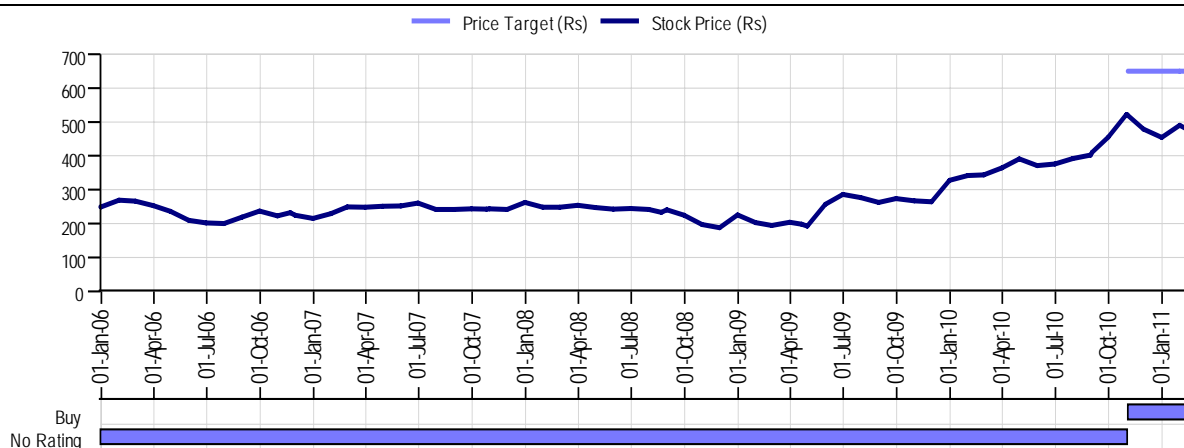
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Apollo Hospitals Enterprise	APLH.BO	Buy	N/A	Rs464.80	28 Feb 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

## Apollo Hospitals Enterprise (Rs)



Source: UBS; as of 28 Feb 2011





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