

RESULT UPDATE

MID CAP

Share Data

Reuters code	APLH.BO
Bloomberg code	APHS IN
Market cap. (US\$ mn)	1,318
6M avg. daily turnover (US\$ mn)	1.2
Issued shares (mn)	125
Target price (Rs)	565

Performance (%)	1M	3M	12M
Absolute	2	3	44
Relative	12	3	29

Valuation ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	18.1	23.3
+/- (%)	23.0	28.6
PER (x)	26.5	20.6
PBV (x)	3.0	2.6
Dividend/Yield (%)	(0.9)	(1.2)
EV/Sales (x)	2.1	1.6
EV/EBITDA (x)	13.3	10.1

Major shareholders (%)

Promoters	33
FII's	29
DII's	4
Public & Others	34

Financial highlights

(Rs mn)	Standalone			Consolidated				
	4QFY10	4QFY11	YoY (%)	FY11	FY12E	YoY (%)	FY13E	YoY (%)
Net sales	4,829	6,214	28.7	26,054	32,839	26.0	41,570	26.6
EBITDA	629	948	50.7	4,189	5,268	25.8	6,723	27.6
EBITDA margin (%)	13.0	15.2	-	16.1	16.0	-	16.2	-
Other income	56	59	5.4	187	176	(5.4)	143	(18.9)
Interest	107	158	47.4	814	982	20.6	1,076	9.6
Depreciation	144	183	26.9	948	1,032	8.9	1,244	20.5
PBT before extraordinary item	433	666	53.7	2,613	3,431	31.3	4,546	32.5
PBT after extraordinary item	433	666	53.7	2,613	3,431	31.3	4,546	32.5
Tax	141	195	38.0	873	1,115	27.7	1,491	33.7
PAT	292	471	61.3	1,740	2,316	33.1	3,055	31.9
Minority interest	-	-	-	99	-	-	-	-
Adjusted PAT	292	471	61.3	1,839	2,316	25.9	3,055	31.9

Apollo Hospitals

Maintain Outperformer

Price: Rs 479

BSE Index: 17,847

26 May 2011

4QFY11 Result – Improving operating efficiency

Apollo's results (standalone) were exactly in line with our estimates at revenue level as well as the PAT level. Strong performance of 28.7% YoY at the topline was driven by 25.6% growth in hospital business and 36.6% growth in pharmacy business YoY. The EBITDA margin witnessed an increase of 220 bps to 15.2% mainly on account of lower other expenses (15.8% as a percentage of sales against 18.7% in 4QFY10). PAT grew by 61.3% YoY to Rs 471 mn. PAT margin saw an improvement of 160 bps to 7.6% aided by increasing ARPOB and positive performance of pharmacy business.

The hospital business saw a revenue growth of 25.6% due to increasing ARPOB and occupancy level in matured hospital. EBIT margin saw an impressive improvement of 300 bps QoQ to 17.3%. Standalone pharmacy business posted a robust growth of 36.6%, helped by addition of new pharmacies as well as better performance of existing pharmacies. The company posted an EBIT of Rs 6 mn compared to a corresponding loss of Rs 15 mn in 4QFY10 and Rs 9 mn for 3QFY11. The total number of pharmacies has gone up to 1,199.

Outlook and valuation

Apollo's total operational bed capacity currently stands at 4,665 beds and the company is planning to scale that up by ~2,400 beds in the next two to three years. Even though the profitability of pharmacy business is fluctuating sequentially, we believe it is on track to record a turnaround in the next couple of years, aided by improving revenue and EBITDA per sq ft from its mature units. The increasing ARPOB in its existing facilities and the planned expansion of hospital beds will ensure Apollo's strong hold over the Indian healthcare sector.

The company has 6.2 mn outstanding equity warrants which would lead to a dilution of ~5% over the next two years. Our target price of Rs 565 is based on a SOTP basis wherein the healthcare business is valued at 11x FY12E EV/EBITDA and the pharmacy business at 0.7x FY12E Price-to-Sales. We maintain our Outperformer rating on the stock.

Highlights

- On a consolidated basis, Apollo's 4QFY11 revenue grew by 31% to Rs 6.7 bn and PAT improved significantly by 51.7% to Rs 484 mn. EBITDA increased by 46.6% with margins improving by 150 bps to 14.8%.
- During the year, the company's mature clusters of hospitals in Chennai and Hyderabad reported robust revenue growth of 20.3% and 28.4%, respectively.
- Total bed capacity stands at 8,717 across 54 hospitals out of which 4,665 are operational at owned hospitals including subs/JV's/Associates.
- Apollo added 57 new standalone pharmacies during the quarter taking the total count to 1,199. The EBITDA per store for matured pharmacy (existing up to 2007) increased by 72% on a YoY basis and EBITDA margin saw an improvement of 160 bps.
- Apollo's ARPOB for its standalone entity increased by 12.9% on a YoY basis.

Consolidated results

(Rs mn)	4QFY10	4QFY11	YoY (%)	FY10	FY11	YoY (%)
Income from operations	5,072	6,667	31.4	19,174	24,597	28.3
Share of JVs	257	353	37.4	974	1,275	30.9
Net sales	5,329	7,020	31.7	20,148	25,872	28.4
EBITDA	710	1,041	46.6	3,167	4,266	34.7
EBITDA margin (%)	13.3	14.8	–	15.7	16.5	–
PAT (post EI, tax, minority interest and share of associates)	319	484	51.7	1,526	1,927	26.3

Segmental performance

(Rs mn)	4QFY10	4QFY11	YoY (%)	FY10	FY11	YoY (%)
Revenue						
Healthcare	3,498	4,395	25.6	13,412	16,712	24.6
Pharmacy	1,333	1,821	36.6	4,850	6,614	36.4
Total revenue	4,831	6,216	28.7	18,262	23,326	27.7
EBIT						
Healthcare	500	759	51.8	2,426	3,110	28.2
Pharmacy	(15)	6	NA	(157)	(43)	NA
Total EBIT	485	765	57.7	2,269	3,067	35.2
EBIT margins (%)						
Healthcare	14.3	17.3	–	18.1	18.6	–
Pharmacy	(1.1)	0.3	–	(3.2)	(0.7)	–
EBIT	10.0	12.3	–	12.4	13.1	–

Performance across various Clusters of Apollo

(Rs mn)	AHEL Standalone			Chennai Cluster			Hyderabad Cluster		
	FY10	FY11	YoY (%)	FY10	FY11	YoY (%)	FY10	FY11	YoY (%)
No. of operational beds	2,795	3,028	–	1,118	1,103	–	670	809	–
Occupancy (%)	73	75	–	75	82	–	70	65	–
ARPOB (Rs/day)	17,769	20,063	12.9	21,552	23,907	10.9	13,229	15,114	14.2
Net sales	13,202	16,522	25.1	6,570	7,906	20.3	2,259	2,900	28.4

Performance across various Clusters of Apollo

(Rs mn)	Others			Subsidiaries/JVs		
	FY10	FY11	YoY (%)	FY10	FY11	YoY (%)
No. of operational beds	1,007	1,116	–	955	1,009	–
Occupancy (%)	73	73	–	69	74	–
ARPOB (Rs/day)	7,540	9,405	24.7	11,546	13,278	15.0
Net sales	2,016	2,812	39.5	2,795	3,619	29.5

SOTP on FY12E estimates

Business	Basis of valuation	
Hospital business	EV/EBITDA of 11x	57,953
Pharmacy business	Price to sales of 0.7x	5,461
Target EV		63,414
Debt		11,663
Cash		2,898
Equity value of Apollo		72,180
No. of shares (diluted) (mn)		127.6
Value per share (Rs)		565

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net sales	20,265	26,054	32,839	41,570
<i>Growth (%)</i>	25.5	28.6	26.0	26.6
Operating expenses	(17,259)	(21,865)	(27,571)	(34,848)
Operating profit	3,006	4,189	5,268	6,723
EBITDA	3,006	4,189	5,268	6,723
<i>Growth (%)</i>	32.6	39.4	25.8	27.6
Depreciation	(750)	(948)	(1,032)	(1,244)
Other income	322	187	176	143
EBIT	2,578	3,428	4,413	5,622
Interest paid	(602)	(814)	(982)	(1,076)
Pre-tax profit	1,976	2,613	3,431	4,546
(before non-recurring items)				
Pre-tax profit	1,976	2,613	3,431	4,546
(after non-recurring items)				
Tax (current + deferred)	(676)	(873)	(1,115)	(1,491)
Net profit	1,300	1,740	2,316	3,055
Adjusted net profit	1,376	1,839	2,316	3,055
<i>Growth (%)</i>	29.2	33.7	25.9	31.9
Minority interests	75	99	–	–
Net income	1,376	1,839	2,316	3,055

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Current assets	11,996	11,319	14,201	18,566
Investments	4,165	4,163	4,163	4,163
Net fixed assets	16,257	18,376	20,845	20,077
Other non-current assets	240	–	–	–
Total assets	32,658	33,858	39,209	42,806
Current liabilities	5,973	6,469	6,954	7,750
Total debt	9,132	9,005	11,663	10,748
Other non-current liabilities	776	–	–	–
Total liabilities	15,882	15,474	18,618	18,498
Share capital	618	624	638	655
Reserves & surplus	15,917	17,760	19,953	23,653
Shareholders' funds	16,535	18,384	20,591	24,308
Minorities interests	241	–	–	–
Total equity & liab.	32,658	33,858	39,209	42,806

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Pre-tax profit	1,976	2,613	3,431	4,546
Depreciation	718	843	1,032	1,244
Chg in working capital	(473)	1	(1,445)	(2,209)
Total tax paid	(587)	(1,409)	(1,115)	(1,491)
Cash flow from oper. (a)	1,635	2,049	1,903	2,089
Capital expenditure	(4,091)	(2,963)	(3,500)	(477)
Chg in investments	1,749	(1,394)	(318)	(421)
Cash flow from inv. (b)	(2,342)	(4,357)	(3,818)	(897)
Free cash flow (a+b)	(707)	(2,309)	(1,915)	1,192
Equity raised/(repaid)	1,050	6	1,127	1,548
Chg in minorities	51	(142)	–	–
Debt raised/(repaid)	2,426	(127)	2,658	(916)
Dividend (incl. tax)	504	538	677	894
Other financing activities	(1,085)	(534)	(1,913)	(1,780)
Cash flow from fin. (c)	2,948	(260)	2,549	(254)
Net chg in cash (a+b+c)	2,241	(2,568)	634	938

Key Ratios

Yr end 31 Mar (%)	FY10	FY11E	FY12E	FY13E
EPS (Rs)	11.1	14.7	18.1	23.3
EPS growth	25.9	32.5	23.0	28.6
EBITDA margin	14.8	16.1	16.0	16.2
EBIT margin	12.7	13.2	13.4	13.5
RoCE	10.5	12.7	14.8	16.7
Net debt/Equity	35.9	38.4	42.6	26.7

Valuations

Yr end 31 Mar (x)	FY10	FY11E	FY12E	FY13E
PER	43.1	32.5	26.5	20.6
PCE	27.9	21.5	18.3	14.6
Price/Book	3.5	3.3	3.0	2.6
Yield (%)	(0.7)	(0.8)	(0.9)	(1.2)
EV/Net sales	3.3	2.6	2.1	1.6
EV/EBITDA	22.4	16.3	13.3	10.1

Du Pont Analysis – ROE

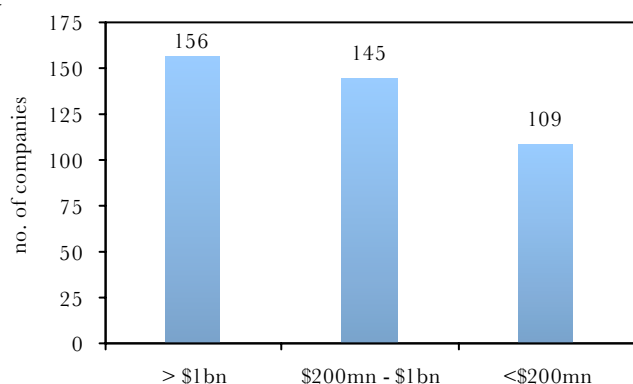
Yr end 31 Mar (x)	FY10	FY11E	FY12E	FY13E
Net margin (%)	6.8	7.1	7.1	7.3
Asset turnover	0.7	0.8	0.9	1.0
Leverage factor	1.9	1.9	1.9	1.8
Return on equity (%)	8.7	10.5	11.9	13.6

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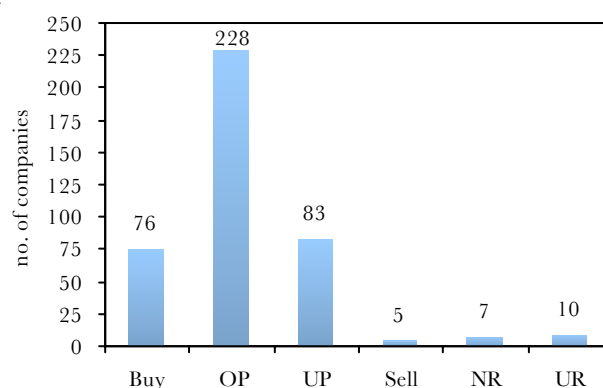
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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