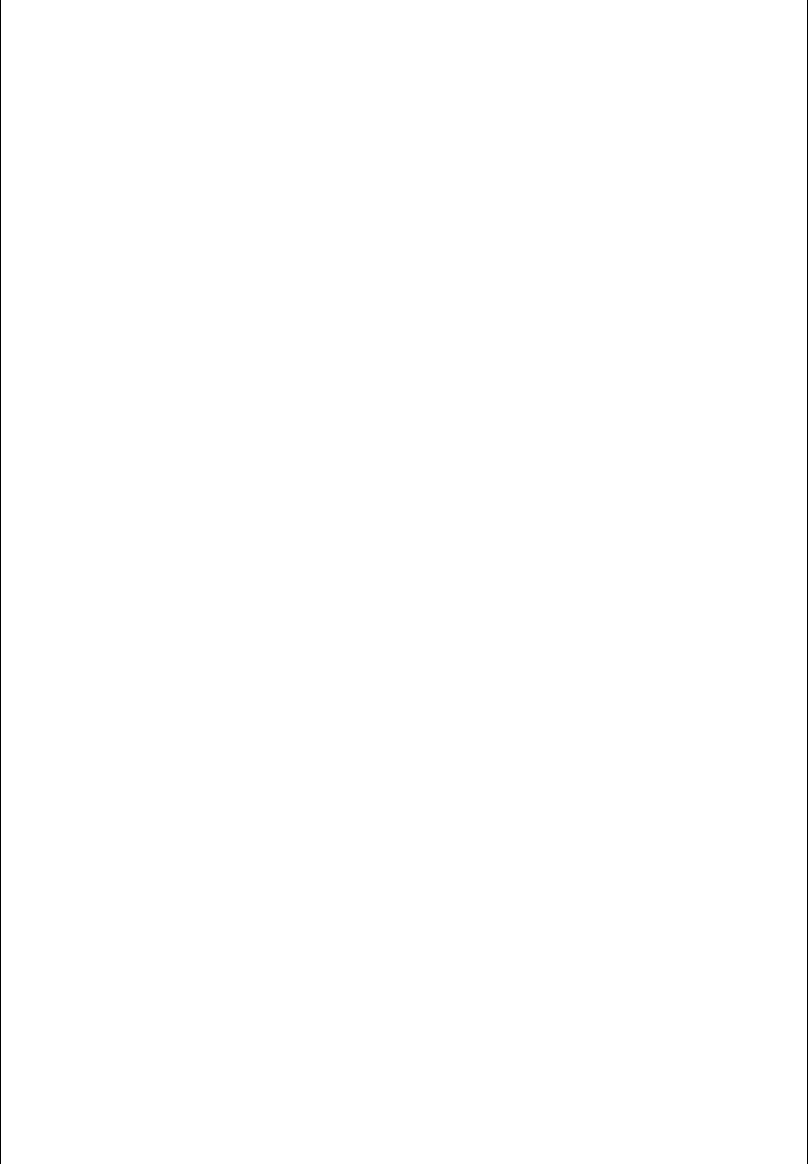


APOLLO HOSPITALS

*This is not a stock recommendation.
Please do your own due diligence.
Presenter is an investor in some of
companies in healthcare sector*

Kumar Saurabh
14th July 2018

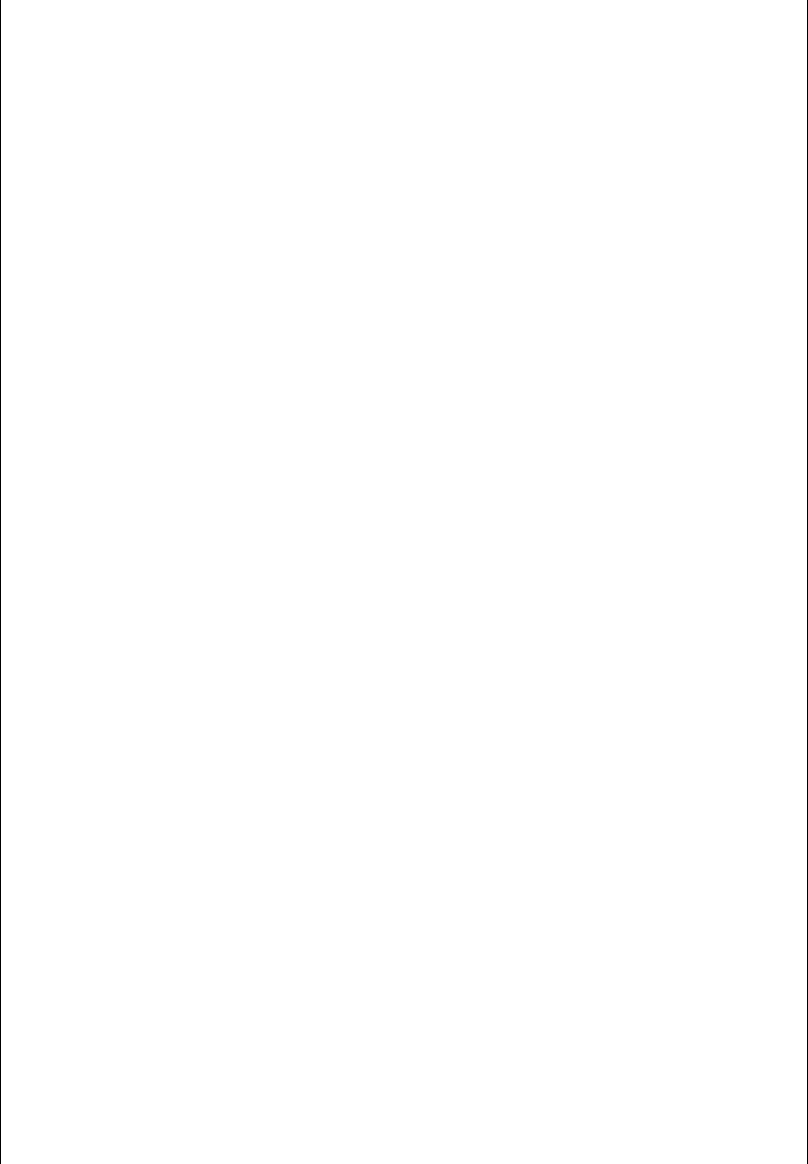
PERCEPTION OF HEALTHCARE SECTOR



PERCEPTION OF HEALTHCARE SECTOR

- *Capex Heavy and hence stay away*
- *Low Return on Capital Employed*
- *Capitalism-Socialism Debate*
- *Can never make profit due to
political intervention (recency bias)*
- *Doctor's are king makers*

PERCEPTION OF APOLLO HOSPITALS



PERCEPTION OF APOLLO HOSPITALS

- *A CAPEX heavy hospital business*

with all the features of hospital

sector mentioned in previous slides



**What does
company do??**

BUSINESS



Hospital with approx. 10,000 bed capacity



Pharmacy business with ~2800 stores



Apollo Health and Lifestyle

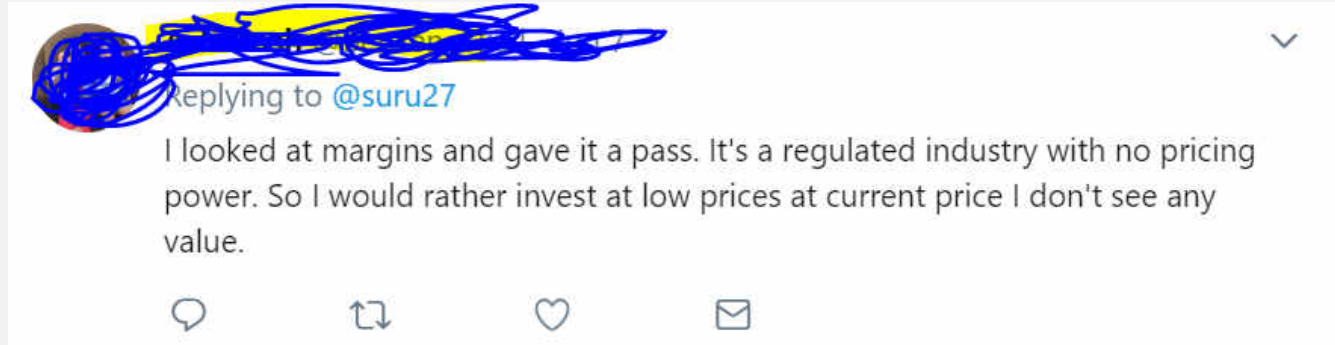
BUSINESS

						
75 Primary Clinics 33 Owned 42 Franchisee (40 National and 2 International)	38 Diabetic Care Centers 3 Advanced Centers 35 Primary Centers	44 Laboratories 163 Collection Centers	73 Dental Care Centers	5 Dialysis Centers	12 Surgery Centers 11 Owned 1 OMA	12 Birthing Centers 8 Owned Cradles 2 Fertility units 1 Cradle clinic 1 Franchisee
~371,000 Consultations ~200,000 Health Checks <i>In FY17</i>	~122,000 Consultations <i>In FY17</i>	~348,500 direct and ~900,000 internal billings <i>In FY17</i>	~52,500 Procedures <i>In FY17</i>	~22,700 Dialysis sessions <i>In FY17</i>	~17,900 Surgeries <i>In FY17</i>	~100,000 Consultations ~4350 Deliveries ~7400 NICU Days <i>In FY17</i>
~1150 Doctors <i>As on FY17</i>	~90 Doctors and 27 Dieticians <i>As on FY17</i>	~74 Doctors 800 Test menu <i>As on FY17</i>	~300 Doctors <i>As on FY17</i>	~13 Doctors <i>As on FY17</i>	~750 Doctors <i>As on FY17</i>	~500 Doctors ~188 Beds ~66 NICU Beds <i>As on FY17</i>
Revenue ~INR 1113 Mn in FY16 Revenue ~INR 1173 Mn in FY17	Revenue ~INR 186 Mn in FY16 Revenue ~INR 276 Mn in FY17	Revenue ~INR 540 Mn in FY17	Revenue ~INR 382 Mn in FY16 Revenue ~INR 335 Mn in FY17	Revenue ~INR 52 Mn in FY15 Revenue ~INR 55 Mn in FY17	Revenue ~INR 1103 Mn in FY16 Revenue ~INR 1403 Mn in FY17	Revenue ~INR 461 Mn in FY16 Revenue ~INR 878 Mn in FY17

PERCEPTION OF HEALTHCARE SECTOR

- *Capex Heavy and hence stay away*
- *Low Return on Capital Employed*
- *Capitalism-Socialism Debate*
- *Can never make profit due to
political intervention (recency bias)*
- *Doctor's are king makers*

CURRENT PERCEPTION



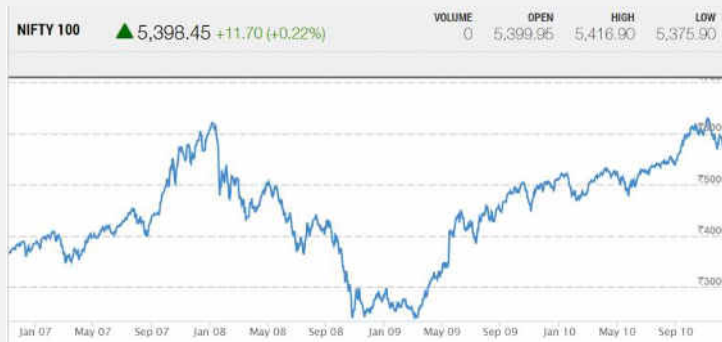
For ailments in complexity between minor and major

In such cases, it's a blend of hospital reputation and doctor reputation.

To me it seems that it'll be difficult to profitably grow for hospitals offering a plethora of disciplines.

As time elapses, costs will obviously go up. And, the inability of hospitals to transfer costs to patients could lead to margin compression. Populist governments have absolutely no qualms in intervening to regulate cost of treatment.

FOR PERCEPTION, LETS REWIND 10 YEARS BACK



61% fall



45-50% fall



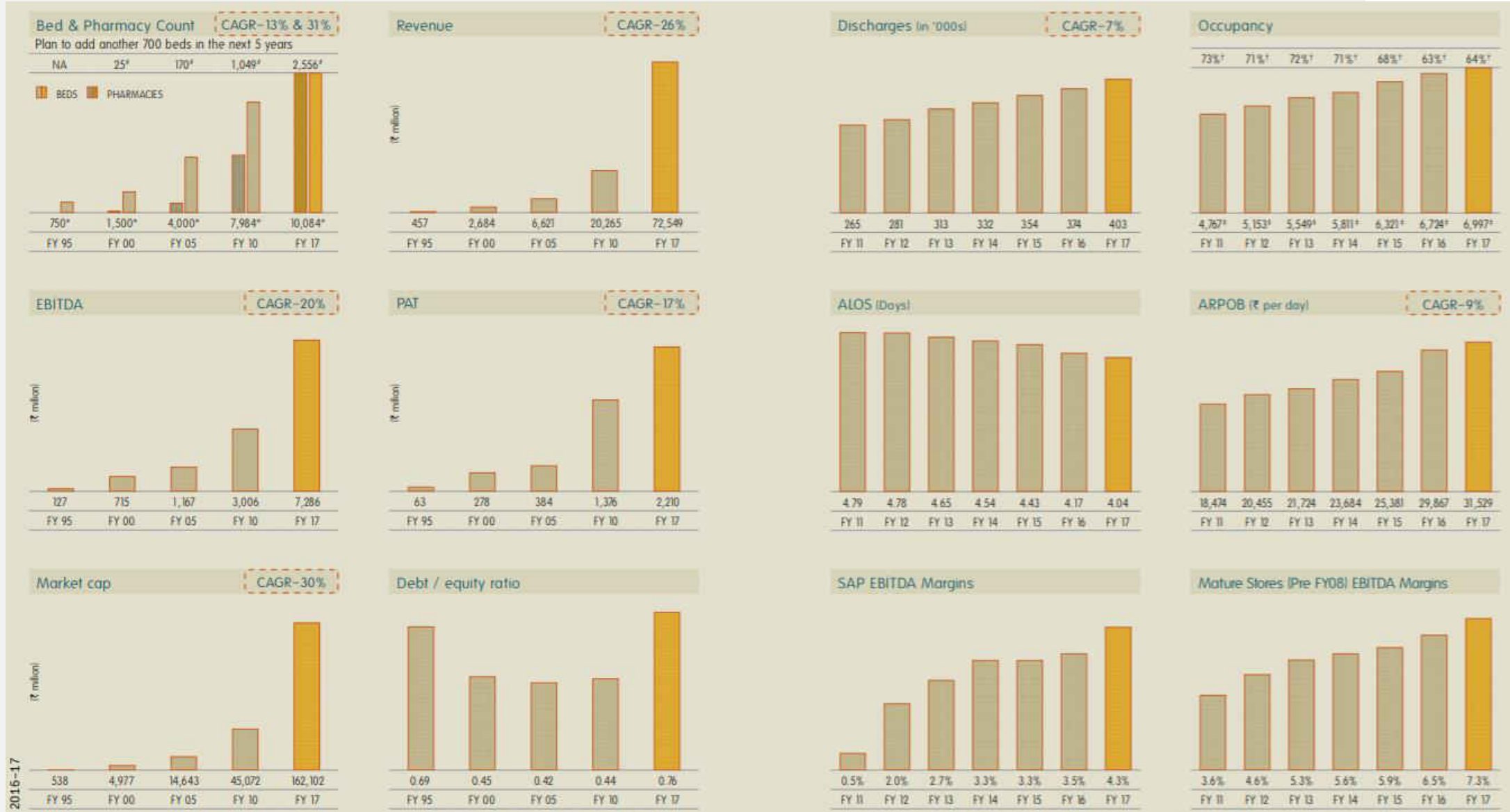
25-35% fall

In short term, market is all about emotional perceptions. In long run, market is all about earnings and demand-supply economics

**WE ARE NOT ASTROLOGERS, SO, BEST
WE CAN DO IS LEARN FROM HISTORY
AND LOOK AT FUTURE FROM DEMAND-
SUPPLY PERSPECTIVE...**

WHAT DOES HISTORY TELLS US

HISTORICAL PERFORMANCE



* Bed includes both owned & managed hospitals; † Number of standalone pharmacies; Note: FY17 figures has been presented on the basis of Ind AS.

ALOS - Average Length of Stay; ARPOB - Average Revenue per Occupied Bed; Note: FY17 figures has been presented on the basis of Ind AS.

† Occupancy rate; ‡ Operating beds.

WHAT DOES FINANCIALS SAY



HISTORICAL PERFORMANCE

	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	TTM	3 Year Average/Sum	5 Year Average/Sum	Overall Average/Sum
PRICE:	256.2	197.8	378.6	483.3	610.3	829.4	896.1	1307.5	1347.4	1177.2	974.85			
Adjusted Equity Shares in Cr	11.8	12.1	12.4	12.5	13.5	14.0	14.0	14.0	14.0	14.0	13.91			
Revenue	1125	1458	1826	2332	2800	3318	3862	4593	5588	6442	7255	16623	23802	32218
Invested Capital	1529	1813	2232	2380	2931	3695	4044	4842	5661	6336				
PAT	101.8	118.1	152.0	181.7	231.0	309.1	330.7	346.6	334.0	285.2	233.2	966	1606	2288
CFO	28.9	63.1	168.9	195.0	306.2	332.6	303.1	389.1	626.2	623.5		1639	2274	3008
CAPEX		348.7	351.8	271.3	329.9	535.8	534.5	628.1	857.8	637.8		2124	3194	4496
Dividend	35.2	40.2	43.3	46.8	53.8	76.5	80.0	80.0	0.0	0.0		80	237	420
FCF including Dividend		-285.6	-182.9	-76.3	-23.8	-203.3	-231.4	-239.0	-231.5	-14.3		-485	-920	-1488
Enterprise Value	3222	2778	5102	6588	8670	12296	13386	19692	20907	18926	16047			
Revenue Growth		30%	25%	28%	20%	18%	16%	19%	22%	15%				
PAT Growth		16%	29%	20%	27%	34%	7%	5%	-4%	-15%				
Receivables as a % of Sales	11%	11%	11%	12%	13%	13%	12%	12%	10%	10%		11%	12%	12%
Inventory as a % of Sales	7%	7%	7%	6%	7%	6%	7%	7%	7%	7%		7%	7%	7%
PAT Margin	9.0%	8.1%	8.3%	7.8%	8.2%	9.3%	8.6%	7.5%	6.0%	4.4%	3.2%	6%	8%	8%
Tax Rate	30%	31%	32%	33%	32%	24%	21%	26%	20%	21%		29%	34%	38%
CFO-PAT	-72.9	-55.0	17.0	13.3	75.2	23.5	-27.6	42.5	292.3	338.4		673.1	668.9	719.3
Liquidity Ratios	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17		3 Years	5 Years	Overall
Debt to Equity	0.2	0.3	0.4	0.4	0.3	0.4	0.4	0.5	0.7	0.8		0.7	0.5	0.4
Current Ratio	1.6	1.7	1.9	1.5	1.9	2.1	2.1	2.2	2.0	1.9		2.0	2.1	1.9
Interest Coverage Ratio	8.3	8.7	6.9	5.9	6.3	6.6	5.8	6.6	4.1	2.8		4.5	5.2	6.2
Quick Ratio	1.4	1.4	1.7	1.3	1.6	1.8	1.8	1.9	1.7	1.6		1.7	1.7	1.6
Operating Ratios														
Working Capital/Sales (including cash)	20%	19%	30%	15%	19%	22%	23%	26%	21%	20%		22%	22%	22%
Debtor Days	41	40	41	42	46	47	44	44	36	37		38.9	41.6	41.9
Inventory Days	26	27	27	24	24	23	25	26	25	25		25.5	24.8	25.1
Cash Return on Assets	1.5%	2.8%	6.0%	6.2%	8.8%	7.6%	6.2%	6.7%	9.1%	8.1%		8%	8%	6%
Return on Assets	5.4%	5.3%	5.4%	5.8%	6.6%	7.1%	6.8%	6.0%	4.9%	3.7%		5%	6%	6%
Asset Turnover	0.6	0.7	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8		0.8	0.8	0.7
Fixed Asset Turnover	2.1	2.2	2.0	2.2	1.9	2.0	1.9	1.9	1.8	1.8		1.8	1.9	2.0
CFO/PAT	0.3	0.5	1.1	1.1	1.3	1.1	0.9	1.1	1.9	2.2		1.7	1.4	1.2
CFO/Sales	3%	4%	9%	8%	11%	10%	8%	8%	11%	10%		10%	9%	8%
FCF/Sales	0%	-20%	-10%	-3%	-1%	-6%	-6%	-5%	-4%	0%		-3%	-4%	-6%
Profit Margin	9%	8%	8%	8%	8%	9%	9%	8%	6%	4%		6%	7%	8%
Asset turnover	0.60	0.65	0.65	0.74	0.80	0.76	0.80	0.79	0.82	0.83		0.8	0.8	0.7
Financial Leverage	1.5	1.6	1.8	1.9	1.5	1.6	1.6	1.8	2.1	2.2		2.0	1.9	1.8
Return on Equity	8%	9%	10%	11%	10%	11%	11%	11%	10%	8%		10%	10%	10%
Return on Capital	10.8%	10.7%	11.6%	13.6%	13.7%	13.0%	12.5%	11.4%	9.7%	8.8%		10%	11%	12%

WHAT DOES FINANCIALS SAY

- *Historically, strong operational execution*
- *Margins have fallen*
- *PAT margins has gone down heavily in last few years*
- *CFO has gone up or constant in last few years*
- *Debt has increased*



**MARKETS ARE
OVERVALUED...SO
HOW CAN WE GET
VALUE?**

*When the image
perceived is disguised
with respect to actual
image*

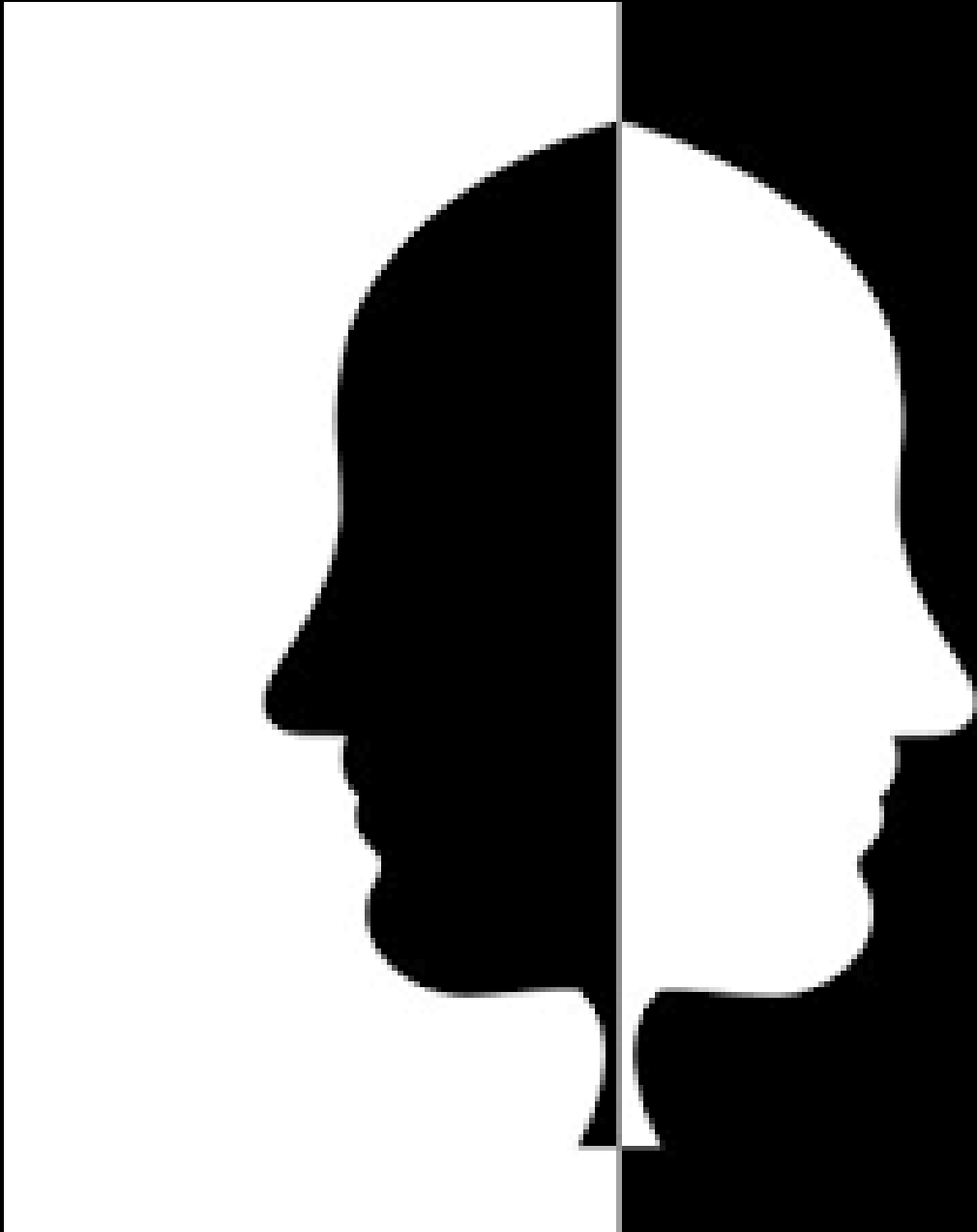
**1.MOST OF THE TIMES VALUE EMERGES
WHEN NOTHING SEEM TO BE RIGHT...**

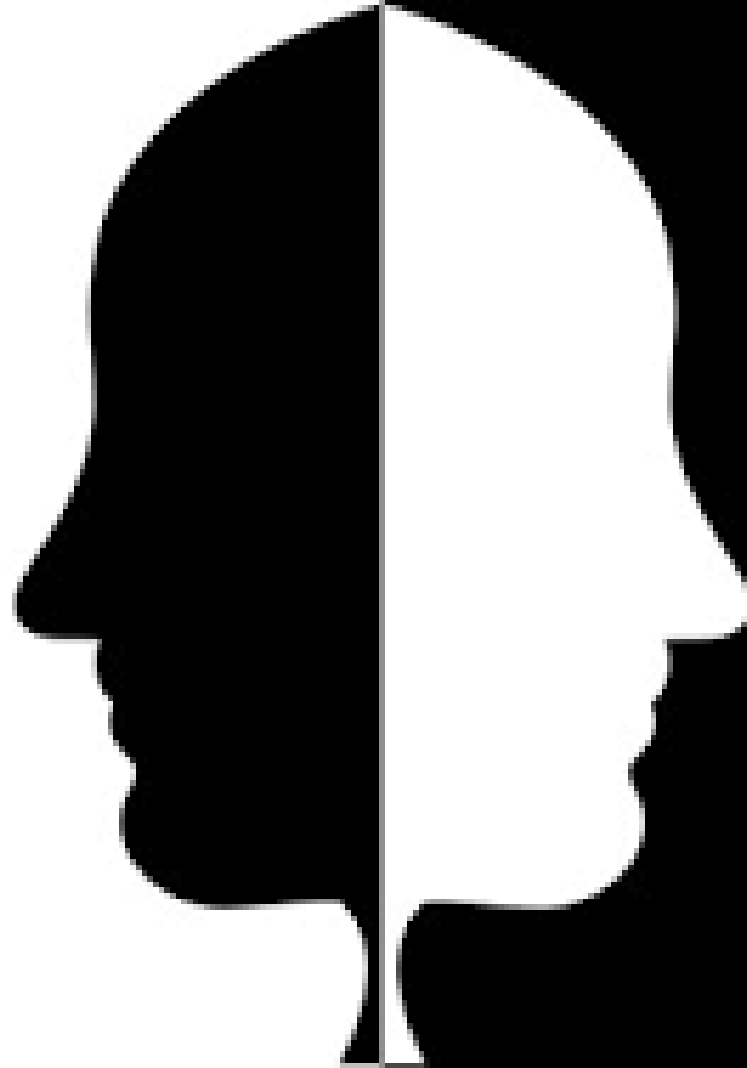
UNLESS THERE IS DISRUPTION RISK



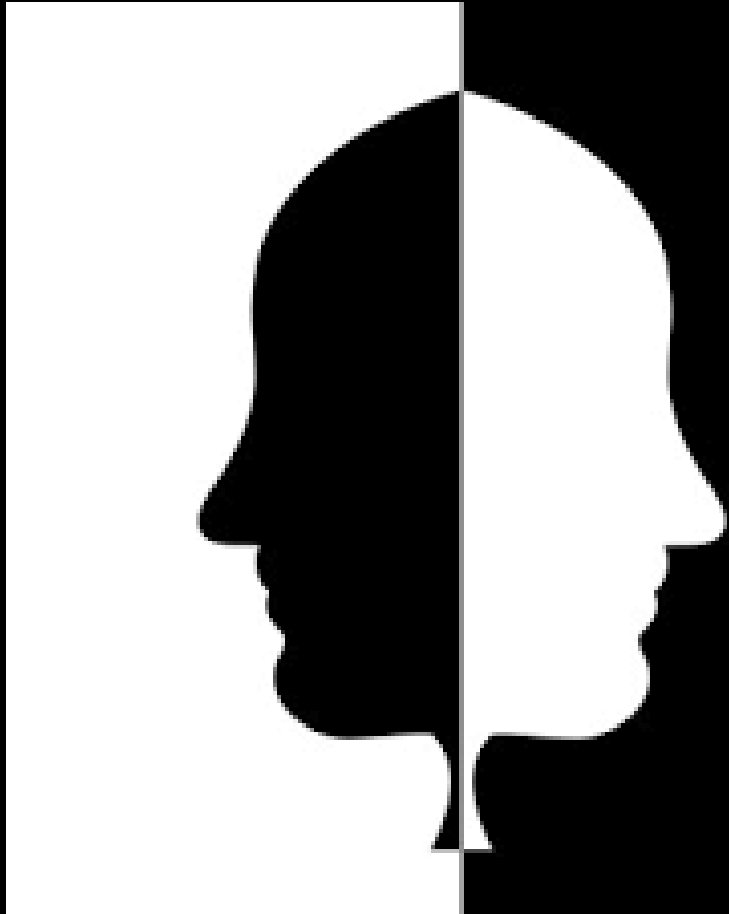
- *Policy Changes*
- *Political Interventions*
- *Sentiment Impact*
- *Underutilization of resources*
- *Bloated financials with liabilities eating up and assets non-contributing*
- *Profit eating emerging businesses*
- *Loss making new hospitals*
- *State related issues*
- *Rising interest rates*







**2. Sometimes
value is created
when what it
looks like and
what it is actually
is not the same**

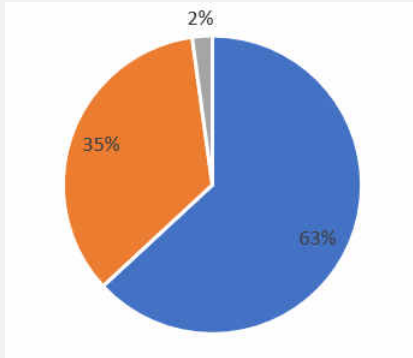


*2. DO COMPANIES
ALSO HOLD SUCH
IMAGES IN
INVESTOR'S MIND?*

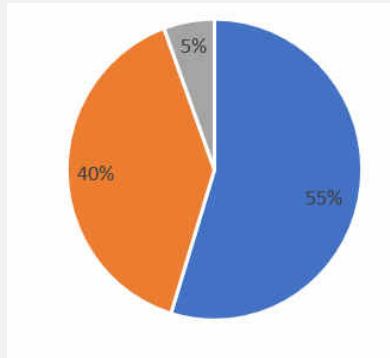
BUSINESS DYNAMIC: PAST, PRESENT, FUTURE

The basic business building blocks are also many times driven by memory perceptions

FY15



FY18



FY23-28



Revenue Distribution

Revenue Trends

Healthcare Services CAGR (FY08-17) : 17%

Pharmacy CAGR (FY08-17) : 34%

5-10 years down the line, if trend continues

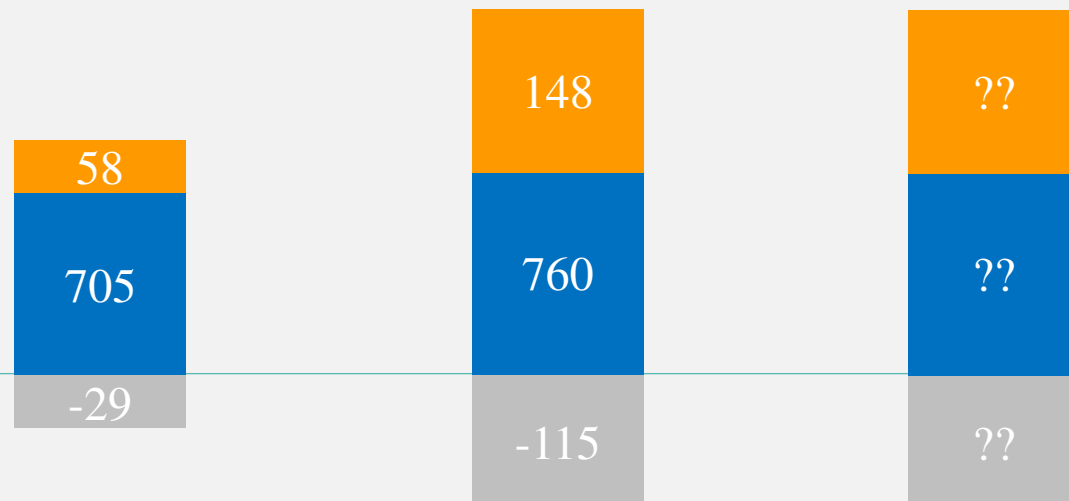
will you call it

a hospital with a pharmacy business

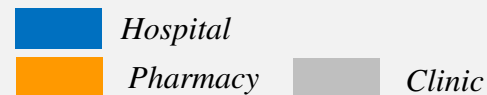
or

a pharmacy with a hospital business

??????????



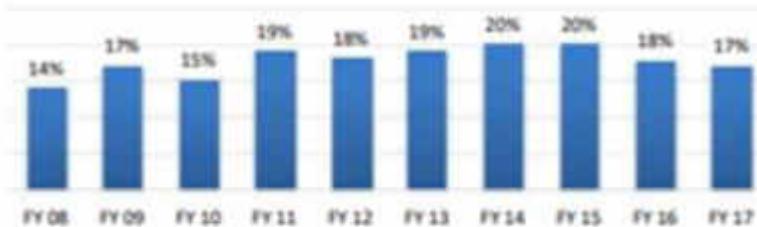
EBITDA Distribution



LET US COMPARE THESE 2 BUSINESSES

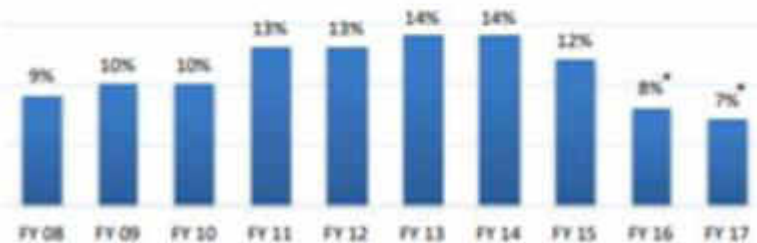
ON RETURN ON CAPITAL EMPLOYED BASIS

Return on capital employed* healthcare services (%)



FY17, FY16 & FY15 ROCE of Healthcare services excludes new hospitals (Vengaloor, Jaynagar, Trichy, Noida, Kanyakulam, WBC SMR, Nellore, DMH, Vengaloor, Mutturam & New Mumbai) added in the last 36 months and AHLL.
* Capital employed of ₹ 26,476 m in FY17, ₹ 22,012 m in FY16, ₹ 8,007 m in FY15 and AHLL Capital employed of ₹ 4,882 m in FY17, ₹ 3,272 m in FY16, ₹ 2,004 m in FY15. Contribution to EBIT yet to be realized.

Return on capital employed* consolidated (%)



* FY 17 ROCE (including capital employed of New Hospitals) is at 10% & FY16 ROCE is 12%
* Excludes CWP & Investments in liquid mutual funds

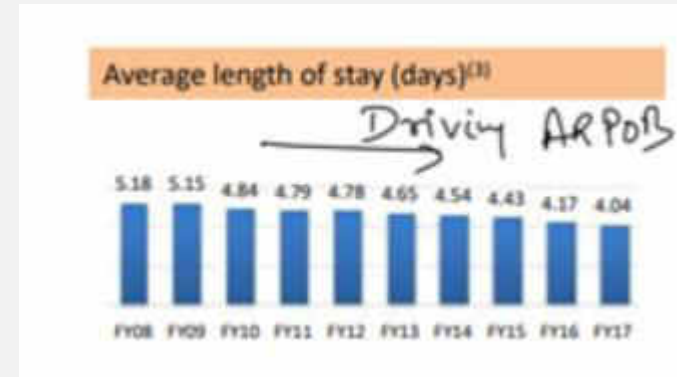
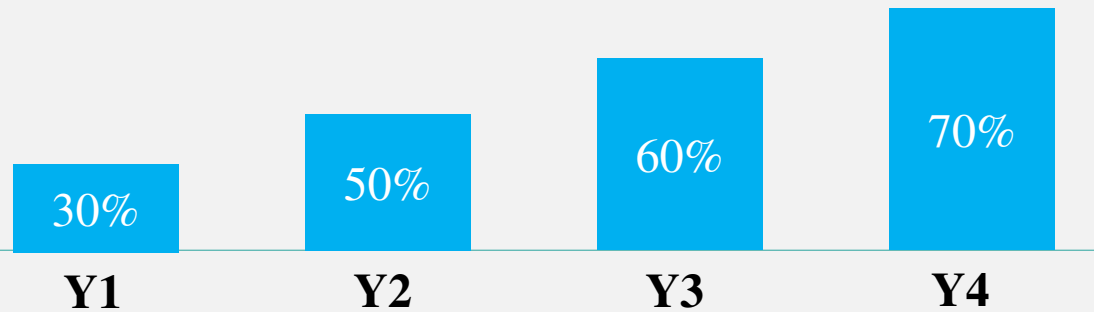
Normalized hospital Return on Capital Employed has been ~ 18% (not as bad as we think) and has been more or less despite of old vs new hospital mix

Peaked at 14% and declining. Is it a bad business?

A UNIQUE FEATURE OF BOTH BUSINESSES ARE

They are operating leverage driven business which gets better as they mature

HOSPITAL



Reduction in ALOS means more on same capacity

PHARMACY

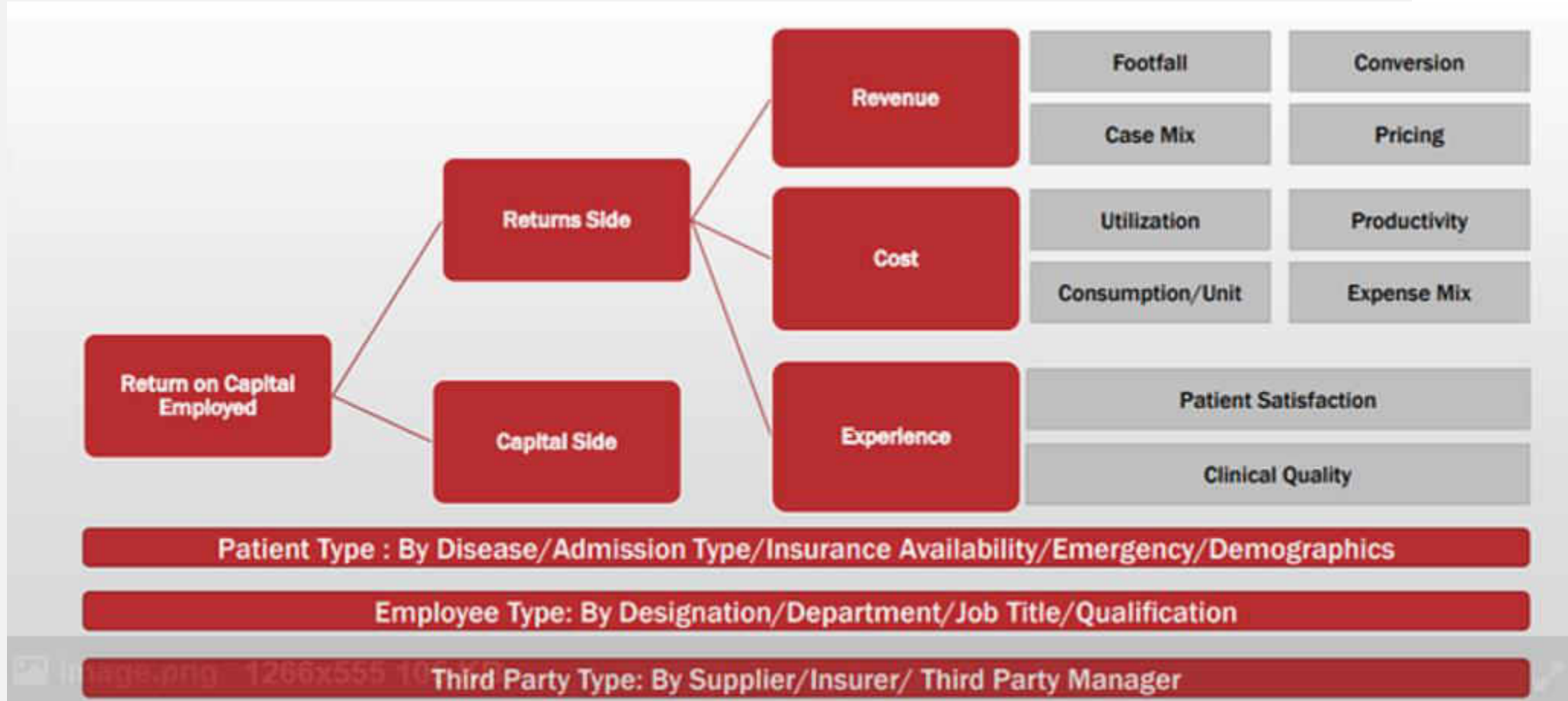
	Q1'17	Q1'18
EBITDA Margin (Upto 2008): > 10 Year old		7.30%
EBITDA Margin (Upto 2010): > 8 Year old	6.10%	6.70%
EBITDA Margin (Batch 2011): 7 Year Old	5.50%	6.50%
EBITDA Margin (Batch 2012): 6 Year Old	4.20%	5.30%



Return on Capital Employed of matured stores ~ 25%

60% increase in count of pharmacy stores => which means 35% of stores are <4 years old => which means EBITDA margins can almost double for 35% of stores => **A clear case of operating leverage**

LEVERS OF HOSPITAL BUSINESS





SO, LET US SEE WHAT IS THE SCOPE FOR OPERATING LEVERAGE??????

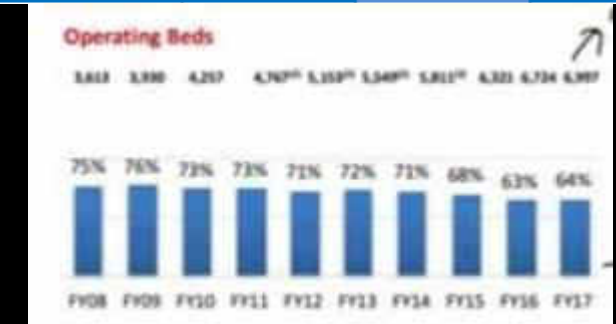
*Which means metric
like PE, EV/EBITDA
can hide more than
what it reveals*

SCOPE OF OPERATING LEVERAGE

ON CAPACITY BASIS FOR HOSPITALS

SBU	Segment	Unit	2016	2017	2018	2019E	2020E	2021E	2022E
Hospital	Apollo Hospital - Operational Beds > 5 Years Old as on 2018	Beds		4883					
	Apollo Hospital - Operational Beds 3-5 Years Old as on 2018	Beds		198					
	Apollo Hospital - Operational Beds 0-3 Years Old as on 2018	Beds		1874					
	Apollo Hospital - Non Operational Beds	Beds		1378					
	New Beds to be added	Beds		1700		750			
Hospital Total			10033	10033	10783	10783	10783	10783	

FY18	Healthcare Serv Group (Existing)	Healthcare Serv Group (New & Others)	Healthcare Serv Group (Total)
Hospitals	30	13	43
Operating beds	5,427	1,749	7,176
Occupancy	67%	58%	65%
Revenue	35,280	9,876	45,157
EBITDAR	8,081	694	8,774
margin (%)	22.9%	7.0%	19.4%
EBITDA	7,368	231	7,599
margin (%)	20.9%	2.3%	16.8%
EBIT	5,641	-716	4,926
margin (%)	16.0%		10.9%



Almost ~3000-4000(30%-40%) beds are < 3 years old

This is has taken debt from 1000 cr to 2800 cr with:

- Fixed asset going 2.5x up but yet to contribute fully
- Interest is up from Rs 119 cr to Rs 257 cr. This increase is 20% of current profit
- Depreciation is up from Rs 168 cr to 314 cr which is another 20% of current profit

Together, this is 40% of PAT. So, from 8% of PAT margin to 3.5% PAT margin (almost 100% margin hit), almost 40% hit is directly by interest cost and depreciation as operating leverage has not fully kicked in, considering others constant

1-1.5% margin hit has been due to policy (stent pricing)/Kolkata hospital issues which is another 15-20% of PAT

Chennai hospital non-operational for 2 months due to VIP visit which further contributed to ~10% of PAT hit

Remaining ~30% can be attributed to upfront cost (doctor hires, marketing cost of new hospitals, new pharmacy stores

SCOPE OF OPERATING LEVERAGE

Pharmacy Stores

Batch	Particulars	Q4 FY 17	Q4 FY 18	yoy (%)	FY 17	FY 18	yoy (%)
Upto FY 10 Batch	No of Stores	767	764.00		767	764	
	Revenue/store	3.76	3.94	4.8%	15.21	15.75	3.6%
	EBITDA /store	0.25	0.29	5.7%	1.05	1.12	6.6%
	EBITDA Margin %	6.7%	7.4%	64 bps	6.9%	7.1%	20 bps
FY 11 Batch	No of Stores	154	153		154	153	
	Revenue/store	3.18	3.50	10.0%	12.77	13.68	7.2%
	EBITDA /store	0.21	0.27	28.1%	0.86	1.01	17.4%
	EBITDA Margin %	6.6%	7.7%	109 bps	6.7%	7.4%	64 bps
FY 12 Batch	No of Stores	214	214		214	214	
	Revenue / Store	2.91	3.17	8.9%	11.73	12.44	6.0%
	EBITDA /store	0.14	0.20	38.7%	0.61	0.72	19.1%
	EBITDA Margin %	4.9%	6.2%	134 bps	5.2%	5.8%	64 bps
Hetero	No of Stores	261	258		261	258	
	Revenue/store	1.58	1.82	15.3%	6.08	7.08	16.4%
	EBITDA /store	0.02	0.04		0.02	0.10	
	EBITDA Margin %	1.4%	2.0%		0.3%	1.5%	
Total	No. of Store	2,556	3,021		2,556	3,021	
	Revenue / Store	2.98	3.01	1.3%	11.52	11.42	-0.8%
	EBITDA / Store	0.12	0.14	13.9%	0.48	0.50	3.1%
	EBITDA Margin %	4.1%	4.6%	51 bps	4.2%	4.4%	16 bps
	Total Revenues	7,193	8,631	20.0%	27,852	32,689	17.4%
	EBITDA	304	402	31.9%	1,233	1,479	19.9%
EBITDA Margin %	4.2%	4.7%	42 bps	4.4%	4.5%	10 bps	
Capex (Rs Mio)		103	174		411	584	
Capital Employed (Rs Mio)		6,559	7,834		6,559	7,834	
Total ROCE %		14.8%	16.3%	150 bps	14.9%	15.0%	9 bps
Total No. of Employees					14,093	16,675	18.3%

Key Highlights

- FY 18 Revenues at ₹ 32,689 mio, growth of 17.4%
- EBITDA of ₹ 1,479 mio in FY 18 as compared to ₹ 1,233 mio in FY 17, growth of 20.0%
- EBITDA margins of 4.5% in FY 18
- ROCE in FY 18 at 15.0% as compared to 14.9% in FY 17
- Gross addition of 475 stores and closed 10 stores in FY 18. Net addition of 465 stores. No. of stores as on 31st Mar 2018 is 3,021.

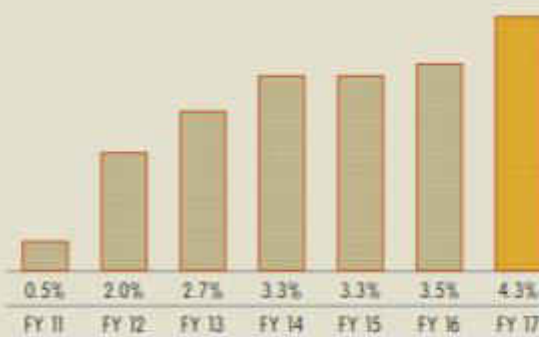
Number of standalone pharmacies

Calibrated rollout

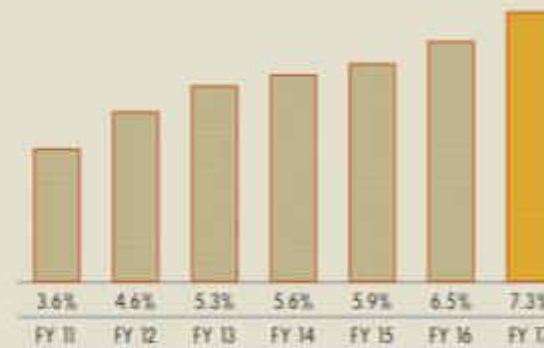
CAGR (FY08-17) 17%



SAP EBITDA Margins



Mature Stores (Pre FY08) EBITDA Margins



ALOS - Average Length of Stay, ARPOB - Average Revenue per Occupied Bed. Note: FY17 figures has been presented on the basis of Ind AS.
 † Occupancy rate. ‡ Operating beds.

	Q1'17	Q1'18	Q1'18 Count
EBITDA Margin (Upto 2008): > 10 Year old		7.30%	
EBITDA Margin (Upto 2010): > 8 Year old	6.10%	6.70%	766
EBITDA Margin (Batch 2011): 7 Year Old	5.50%	6.50%	154
EBITDA Margin (Batch 2012): 6 Year Old	4.20%	5.30%	
EBITDA Margin (Pre 2014): > 4 Year Old		6.10%	
Hetero Stores	-3.70%	1.60%	

HOW DOES FUTURE LOOKS LIKE

1. Market Size Opportunity

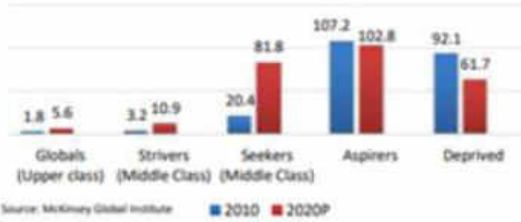
2. Technology Disruptions

MARKET SIZE OPPORTUNITY

Burgeoning middle class households (in mn)

Increasing income levels have contributed to a middle class bulge

The number of middle/upper income households is expected to increase **fourfold** between 2010 and 2020



↳ 4 fold growth in middle class

Increasing penetration of health insurance

Rising health insurance premium with rising income levels and awareness (₹ bn)

CAGR FY05-FY14 30%

Higher health insurance penetration allows greater access to quality healthcare

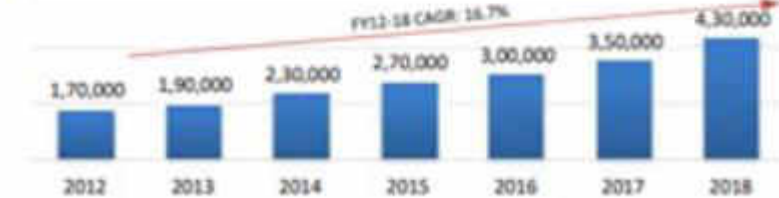


↳ Health insurance growing at 30%

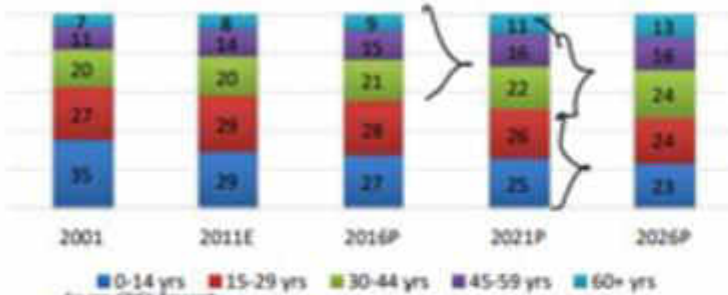
Indian Medical Tourism Industry (US\$bn) (2012-2018)



Medical Tourist Arrival in India (2012-2018)



India: Demographic shift (% of population by age group)



Growing working class population between ages 45 and 60 from 22% in 2011 to a projected 29% in 2026

>30 year by 2021 from 45% to 49%
 >30 year - 2026, 53%

↳ Healthcare needs are growing to increase more than ever with both age and income supply

MARKET SIZE OPPORTUNITY

Health Expenditure in India

% of GDP vs. other countries

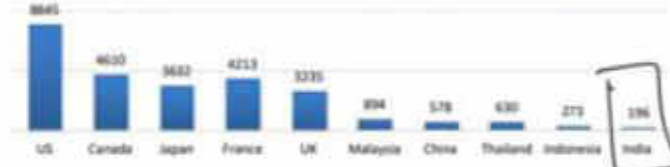
India's healthcare expenditure as % of GDP was 3.8% (Government spends 1.2%) as compared to global average of 8.6% (Government spends 5.2%).



Source: WHO - World Health Statistics 2013

Per capita vs. other countries (\$)

Per capita healthcare expenditure at \$136 is the lowest in the world when compared to \$8,845 in the U.S., \$3,235 in the U.K. and \$578 in China.



Source: WHO - World Health Statistics 2013

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Hugely underpenetrated, under served,
Private sector driven, Personal expense driven

Beds per 10,000 people

India lags behind other developed and emerging economies in healthcare infrastructure

Healthcare infrastructure gap remains substantial, with only 9 beds per 10,000 population, significantly lower than the other countries and the global median of 30 beds per 10,000 population.



Source: WHO - World Health Statistics 2013

Healthcare Infrastructure in India

India's share in global disease burden is 20%, while its share of healthcare infrastructure is much lower with only 6% of global hospital beds and 8% share of doctors and nursing staffs.



Source: FICCI and IFA. Note: Data for India's share in world health parameters

Comparison of India vs. other countries in Healthcare infrastructure parameters

Per 10,000 population	China	India	Indonesia	Malaysia	Singapore	Thailand	Australia	USA
Health Workforce Density								
Physicians	14.6	6.5	2.0	12.0	19.2	3.0	38.5	24.2
Nurses and midwives	15.1	10.0	13.8	32.8	63.9	15.2	95.9	98.2
Dental	0.4	0.8	0.4	1.4	3.3	0.7	6.9	16.3
Infrastructure								
Hospital beds	39	9	6	18	27	21	39	30

Source: WHO - World Health Statistics 2013

Investment required to meet demand supply gap

In order to meet the global median of 30 beds per 10,000 population, India will need to invest over ₹14 trillion (\$230 bn)

Source: CRISIL Research

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Under-penetrated and under-resourced

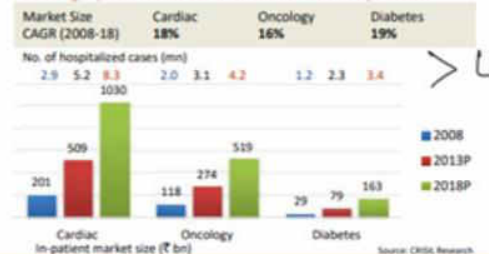
Indian healthcare services market

Growth in Indian healthcare services will be driven by in-patient based facilities



Source: CRISIL Research

Increasing in-patient volumes due to non-communicable life style diseases



> Lifestyle disease

Source: CRISIL Research

TECHNOLOGY DISRUPTIONS

Microsoft AI Network for Cardiology with Apollo Hospitals to bring new insights in predicting population-based heart diseases

Apollo Hospitals adopts IBM Watson for oncology and genomics

Apollo Hospitals has partnered with IBM to deploy its cognitive computing platform Watson for oncology and genomics in 10 of its cancer care centres.

Apollo ties up with Google Health Card in India

<https://news.microsoft.com/en-in/features/microsoft-ai-network-healthcare-apollo-hospitals-cardiac-disease-prediction/>

<https://www.livemint.com/Companies/7qQuekX0U2pKoAv9nMHsNJ/IFC-invests-Rs450-crore-for-29-stake-in-Apollo-Health.html>

<https://tech.economictimes.indiatimes.com/news/technology/apollo-hospitals-adopts-ibm-watson-for-oncology-and-genomics/64275478>

<http://forum.valuepickr.com/t/apollo-hospital-the-one-stop-healthcare-service/17964/14>

<https://factsbeyondnumbers.wordpress.com/2018/06/07/apollo-hospital/>

TECHNOLOGY DISRUPTIONS

- Can technology reduce cost of healthcare – CAPEX + OPEX model and make it a volume game for India?
- Can technology bring in uniformity of service?
- Can technology solve manpower scarcity challenge?
- Can technology help to reduce over dependence on few doctors?
- Can technology really disrupt healthcare operating model?

Valuations



When you have businesses with significant capex which scales up in a staggered manner on profitability side with operating leverages possibility, a financial relative valuation metric like PE, EV/EBITDA based on TTM numbers can hide more than what it reveals

It is better to incorporate operational valuation with normalized scenario

VALUATION

Average			
EBITDA Margin	14%	Historical EBITDA margin of matured hospital is >16%	
PAT Margin	6%	Historical PAT margin of matured hospital is 8%	
EBITDA Multiple	15	The demand opportunity is humongous, disruption is low, terminal value has low probability risk, return on capital is okaish, industry is non-cylcical and developed	
PAT Multiple	25		
Per bed Revenue GAGR	6%	Historical 10 year value is 9%	
Conservative			
EBITDA Margin	12%	Historical EBITDA margin of matured hospital is >16%	
PAT Margin	4.5%	Historical PAT margin of matured hospital is 8%	
EBITDA Multiple	10	The demand opportunity is humongous, disruption is low, terminal value has low probability risk, return on capital is okaish, industry is non-cylcical and developed	
PAT Multiple	20	nations hospitals trade at double digit multiple despite lower single digit growth	
Per bed Revenue GAGR	3%	Historical 10 year value is 9%	
	Q1'17	Q1'18	Q1'18 Count
EBITDA Margin (Upto 2008): > 10 Year old		7.30%	
EBITDA Margin (Upto 2010): > 8 Year old	6.10%	6.70%	766
EBITDA Margin (Batch 2011): 7 Year Old	5.50%	6.50%	154
EBITDA Margin (Batch 2012): 6 Year Old	4.20%	5.30%	
EBITDA Margin (Pre 2014): > 4 Year Old		6.10%	
Hetero Stores	-3.70%	1.60%	
Average			
Store Growth Rate	8%	Historical growth rate is 14%	
Same Store Revenue Growth Rate	8%	Historical growth rate is 12.5%	
EBITDA Multiple	20	High ROCE, asset light retail-FMCG kind of business with tremendous market size opportunity	
Conservative			
Store Growth Rate	5%	Historical growth rate is 14%	
Same Store Revenue Growth Rate	5%	Historical growth rate is 12.5%	
EBITDA Multiple	15	High ROCE, asset light retail-FMCG kind of business with tremendous market size oppo	
AHLL Valuation			
Average			
Nerwork Unit Revenue Growth	10%	Historical growth rate is 20%+	
P/S Ratio	2		
Conservative			
Nerwork Unit Revenue Growth	5%	Historical growth rate is 20%+	
P/S Ratio	1		

Overall Valuation	2	3	4
Average	2020E	2021E	2022E
Hospital	14778	16125	17581
Pharmacy	4870	5717	6669
Others	1091	1320	1601
Total	20739	23163	25851
CAGR	26%	21%	19%
Conservative			
Hospital	7909	8386	8884
Pharmacy	4321	4849	5407
Others	497	602	729
Total	12727	13837	15020
CAGR	-1%	2%	4%

SUMMARY

Quality business?
Reasonable Valuation?
Margin of Safety?
A mix of all?

- *Hospital Drivers*

- Not such a bad business based on ROCE
- Increase in capacity utilization
- Reduction in ALOS
- Improvement in Case Mix
- Post Capex expense reduction - reduction in debt, Slowness in accelerated depreciation, Better Asset Turns
- Terminal Value Comfort
- Non-cyclic demand (could be supply side)

- *Pharmacy Drivers*

- Operating leverage of new stores
- Huge market size opportunity and high growth rate
- Higher ROCE business
- Potential increase in share of inhouse brands

- *Risk to watch out for*

- *More regulatory cuts*
- *More debt*
- *Recent stagnation in same bed revenue and same store revenue*
- *Historical political risk*
- *Too many loss making current ventures continue to bleed*
- *Supply side economics*
- *Corporate governance issues*

Disruptions

*They are both opportunity
as well as threat*



A reasonably ok business with few hidden quality business with low terminal value risk available at decent valuation with enough margin of safety. Hospital (Medium term) + Pharmacy (Long term)

Questions??

<https://www.dropbox.com/sh/49ckmmlx4ggt2wx/AADuc4pxzYgwhDTqMYkvqFxKa?dl=0>

[Apollo Hospitals \(1\)](#)

[Apollo Valuation Sheet](#)

