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Normalcy likely to be restored post Omicron wave...

Post the Omicron led disturbances in Q4FY22, hospitals are structurally well placed with expectations of a normal Q1FY23 to be driven by higher in-patient volume and, thus, higher In-patient conversion. One important lever could be the incremental elective surgeries, which were optically postponed in Q4 amid rapid spread of Omicron wave. International patient mix is expected to improve sequentially although various management commentaries have indicated it to be below pre-Covid level. Amid optical initiatives like tele-consultation, digital app based drives for treating patients at remote locations, zoning of patients besides higher focus on insurance/out of pocket payees, we expect the hospitals universe to maintain Q3FY22 momentum, if not surpass it.

I-Direct hospitals universe is expected to report sequential revenue growth of 4.4% in this quarter to ₹ 8083.2 crore. On the companies' front, Apollo Hospitals is likely to post revenue growth of ~10% QoQ driven by traction across all segments of hospitals, pharmacy and AHLL. Shalby is likely to post ~18% revenue growth QoQ on the back of elective surgeries and lower base in Q4FY22.

EBITDA to increase 9.2% QoQ; margins at ~16%

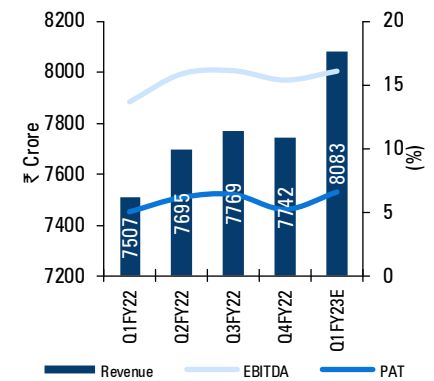
Post the onset of Covid, hospitals continue to maintain cost rationalisation drives such as keeping doctors on variable payroll besides optical tilt in payee mix towards self-pay, private insured from government scheme and government sponsored mix. In addition, maturing profile of hospitals, reduction in ALOS along with ramp up in occupancy and ARPOB levels have moved hospitals to a better margin profile. During Q1FY23, hospitals were operating at a normalised level in terms of mix of high end elective surgeries driving ARPOB levels for hospital chains.

EBITDA of the I-direct hospital universe is expected to increase ~9% QoQ to ₹ 1297 crore. EBITDA margins are likely to grow 70 bps QoQ to 16%. On the companies front, Apollo Hospitals and Shalby are likely to post a 152 bps and 349 bps QoQ increase in EBITDA margins, respectively, mainly due to higher occupancy levels driving better operating leverage in hospital business.

Adjusted PAT to increase 32.2% QoQ

Adjusted PAT of the I-direct hospital universe is expected to grow ~ 32.2% QoQ to ₹ 530.9 crore. Delta vis-à-vis EBITDA is mainly due to lower interest and tax expense.

Topline & Profitability (Coverage Universe)



Expected margins in hospitals

EBITDA Margins	Q1FY23E	Q1FY22	Q4FY22
Apollo Hospitals	14.6%	13.8%	13.1%
Narayana Hrudayalaya	18.6%	15.5%	18.6%
Aster DM	16.8%	11.8%	17.0%
Healthcare Global	18.2%	16.0%	17.3%
Shalby	18.3%	19.9%	14.8%
Hospitals Coverage	16.0%	13.6%	15.3%

Expected growth in Pharmacy

Pharmacy (₹ crore)	Q1FY23E	YoY (%)	QoQ (%)
Apollo Hospitals	1,525.4	0.9%	11.0%
Aster DM	609.6	20.0%	0.1%
Total	2,135.0	5.7%	7.6%

Other Segments

(₹ crore)	Q1FY23E	YoY (%)	QoQ (%)
Apollo Hospitals AHLL	339.9	10.0%	10.0%
Aster DM Clinics	522.5	-5.0%	-21.0%
Total	862.4	0.4%	-11.1%

Top Picks

Apollo Hospitals
Shalby

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Exhibit 1: Estimates for Q1FY23E

Company	₹ crore									
	Revenue		Change (%)		EBITDA		Change (%)		PAT	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	
Apollo Hospitals	3898.0	3.7%	9.9%	568.40	9.3%	22.7%	246.76	1.5%	173.8%	
Narayana Hrudayalaya	992.1	15.4%	5.5%	184.3	37.9%	5.3%	86.4	13.4%	25.3%	
Aster DM	2625.9	10.7%	-3.7%	440.8	57.0%	-4.7%	167.4	276.5%	-26.0%	
Healthcare Global	375.1	16.1%	2.9%	68.3	31.9%	8.2%	10.9	LP	81.7%	
Shalby	192.2	-0.1%	18.2%	35.1	-8.4%	46.2%	19.5	-3.6%	90.7%	
Total	8083.2	7.7%	4.4%	1297.0	26.6%	9.2%	530.9	41.8%	32.2%	

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific view

Company	Remarks
Apollo Hospitals	Revenues are expected to increase ~10% QoQ to ₹ 3898 crore. Hospitals segment revenues are expected to increase ~9% QoQ to ₹ 2033 crore mainly due to ramp up in occupancy levels. Pharmacy sales is expected to increase 11% QoQ to ₹ 1525 crore as we expect ~125 store additions in Q1FY23. AHLL business is likely to grow 10% QoQ to ₹ 340 crore on the back of continued ramp in diagnostics and return of patient visits to clinics. EBITDA margins are likely to improve 152 bps QoQ to 14.6% due to better operating leverage panning out from higher occupancy levels and EBITDA is expected to post growth of 22.7% QoQ to ₹ 568.4 crore. Adjusted PAT is expected to increase 173.8% QoQ to ₹ 246.8 crore
Aster DM	Revenues are expected to decline ~4% QoQ to ₹ 2626 crore. Aster's GCC operations are expected to de-grow ~6% QoQ to ₹ 2084 crore on the back of expected sequential de-growth of 21% in GCC Clinics due to high base with RT-PCR revenues. GCC Hospitals and Pharmacy are likely to be flattish QoQ. India business is likely to grow 2.2% QoQ to ₹ 621 crore. EBITDA margins are likely to remain flat QoQ at 16.8% as we expect better margins in India business to offset the likely margins loss at GCC clinics. EBITDA is expected to de-grow 4.7% QoQ to ₹ 441 crore. Net profit is expected to de-grow 26% QoQ to ₹ 167.4 crore
Narayana Hrudayalaya	Revenues are likely to grow ~6% QoQ at ₹ 992 crore driven by sequential rebound in elective surgeries. EBITDA margins are likely to remain flat QoQ at 18.6% as we expect better margins from newer hospitals to be offset by likely drop in Cayman's margins. EBITDA is expected to grow ~5% QoQ to ₹ 184 crore. Adjusted profit is expected to increase 25.3% QoQ to ₹ 86 crore
Healthcare Global	Revenues are likely to grow ~3% QoQ to ₹ 375 crore driven largely by steady growth in occupancies at HCG centres. EBITDA margins are likely to increase 90 bps QoQ to 18.2% on the back of improving operating leverage at newer centres. EBITDA for Q1FY23 is expected to grow 8.2% QoQ to ₹ 68.3 crore. Adjusted profit is likely to increase 81.7% QoQ to ₹ 10.9 crore
Shalby	Revenues are likely to grow ~18% QoQ to ₹ 192 crore with both owned hospitals and implant subsidiary Consensus are expected to grow sequentially on a low base of Q4FY22 as elective surgeries are likely to return this quarter. EBITDA margins is expected to increase 349 bps QoQ to 18.3% mainly due to higher occupancy levels sequentially driving better operating leverage in hospitals. EBITDA is expected to grow 46.2% QoQ to ₹ 35 crore. Adjusted profit is expected to grow 90.7% QoQ to ₹ 19.5 crore

Source: Company, ICICI Direct Research

Expected growth in Mature Hospitals			
Hospitals	Mature		
(₹ crore)	Q1FY23E	YoY (%)	QoQ (%)
Apollo Hospitals	1398.9	10.3%	9.1%
Narayana Hrudayalaya	663.6	16.7%	6.5%
Aster DM	1421.2	20.3%	195.5%
Healthcare Global	287.6	14.8%	3.7%
Shalby*	103.2	71.8%	24.3%
Total	3,874.5	16.4%	41.1%

Expected growth in New Hospitals			
Hospitals	New		
(₹ crore)	Q1FY23E	YoY (%)	QoQ (%)
Apollo Hospitals	633.7	1.1%	19.1%
Narayana Hrudayalaya	109.8	18.7%	17.9%
Aster DM	151.1	-18.8%	57.4%
Healthcare Global	86.6	19.2%	-0.8%
Shalby*	62.6	-26.3%	5.8%
Total	1,043.9	-1.8%	20.3%

Shalby*: YoY change in maturity profile

Exhibit 3: ICICI Direct Coverage Universe (Hospitals)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	3904	4,500	Buy	56137	7.9	59.1	80.9	107.4	496.7	66.0	48.3	36.4	6.3	15.1	16.7	19.3	2.5	15.1	17.7	19.9
Narayana Hrudalaya	NARHRU	636	750	Buy	12999	-0.7	16.7	18.9	21.6	NA	38.0	33.7	29.5	1.2	20.5	18.8	19.5	-1.3	23.0	20.8	19.4
Shalby	SHALIM	106	160	Buy	1140	3.9	5.4	8.1	10.4	26.9	19.5	13.0	10.2	6.5	8.4	11.3	13.6	5.1	6.7	9.2	10.8
Aster DM	ASTDM	183	270	Buy	9116	3.0	10.5	14.4	18.4	61.7	17.3	12.7	9.9	5.4	9.0	11.4	12.9	4.4	13.3	15.4	16.4
Healthcare Global	HEAGLO	277	340	Buy	3851	-13.9	3.9	3.6	8.0	-13.9	71.7	76.5	34.5	-0.9	5.0	7.6	10.2	-0.9	5.0	5.5	10.8

Source: ICICI Direct Research

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