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## Occupancy levels to sustain from last quarter...

Hospitals are structurally well placed with momentum expected to continue from a robust Q1FY23. The momentum is likely to be driven by sequential in-patient volume and, thus, higher In-patient conversion. One important lever could be incremental elective surgeries, due to 1) continuum of pent-up demand, 2) post Covid led complications and 3) higher international patients mix. International patient mix is expected to improve sequentially although various management commentaries have indicated it to be ~85-90% of 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 Q1FY23 performance trajectory.

I-Direct hospitals universe is expected to report sequential revenue growth of 5.3% in Q2FY23 to ₹ 8529.1 crore. On the companies front, Narayana Hrudayalaya is likely to post revenue growth of ~8% QoQ while Apollo Hospitals is likely to post ~7% QoQ revenue growth.

## EBITDA to increase 20.3% QoQ; margins at ~15.3%

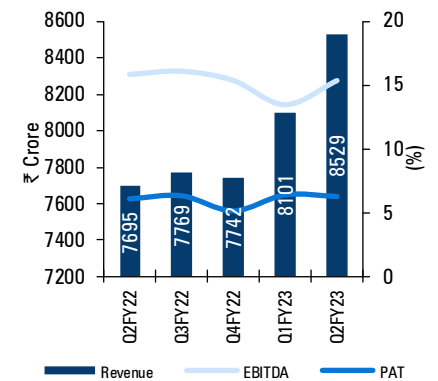
Post the onset of Covid, hospitals continue to maintain cost rationalisation drives such as keeping doctors on variable payroll besides optical tilt in payee mix towards self-pay, private insured from government scheme and government sponsored mix. In addition, maturing profile of hospitals, reduction in ALOS along with ramp up in occupancy and ARPOB levels have moved hospitals to a better margin profile. During Q2FY23, hospitals were operating at a normal occupancy level with a better mix of high end elective surgeries driving ARPOB levels for hospital chains.

EBITDA of the I-direct hospital universe is expected to increase ~20% QoQ to ₹ 1308 crore. EBITDA margins are likely to grow 192 bps QoQ to 15.3%. On the company front, Aster DM and Apollo Hospitals are likely to post a 406 bps and 119 bps QoQ increase in EBITDA margins, respectively.

## PAT to increase 3.1% QoQ

Adjusted PAT of the I-direct hospital universe is expected to grow ~ 3% QoQ to ₹ 538.6 crore. Delta vis-à-vis EBITDA is mainly due to sequentially, higher tax expense particularly for Apollo.

### Topline & Profitability (Coverage Universe)



### Expected margins in hospitals

EBITDA Margins	Q2FY23	Q2FY22	Q1FY23
Apollo Hospitals	14.1%	16.5%	12.9%
Narayana Hrudayalaya	18.7%	18.0%	18.6%
Aster DM	15.0%	13.7%	11.0%
Healthcare Global	17.9%	17.5%	17.7%
Shalby	19.8%	16.2%	19.9%
Hospitals Coverage	15.3%	15.8%	13.4%

### Expected growth in Pharmacy

Pharmacy (₹ crore)	Q2FY23	YoY (%)	QoQ (%)
Apollo Hospitals	1,582.5	35.6%	7.0%
Aster DM	676.0	30.0%	2.4%
Total	2,258.5	33.9%	5.6%

### Other Segments

(₹ crore)	Q2FY23	YoY (%)	QoQ (%)
Apollo Hospitals AHLL	335.6	-12.0%	14.6%
Aster DM Clinics	562.4	-5.0%	4.5%
Total	898.0	-7.7%	8.1%

### Top Picks

Apollo Hospitals  
Narayana Hrudayalaya

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Exhibit 1: Estimates for Q2FY23E

Company	₹ crore									
	Revenue		Change (%)		EBITDA		Change (%)		PAT	
	Q2FY23	YoY	QoQ	Q2FY23	YoY	QoQ	Q2FY23	YoY	QoQ	
Apollo Hospitals	4049.4	8.9%	6.7%	571.79	-7.0%	16.5%	251.32	1.4%	-20.7%	
Narayana Hrudayalaya	1117.0	18.8%	8.1%	208.8	23.6%	8.7%	106.4	7.2%	-3.7%	
Aster DM	2726.8	8.9%	2.4%	409.8	19.5%	40.3%	144.2	34.8%	110.3%	
Healthcare Global	432.1	22.8%	5.9%	77.3	25.3%	7.2%	15.1	123.1%	149.2%	
Shalby	203.8	12.2%	1.1%	40.3	37.0%	0.7%	21.6	100.1%	7.3%	
<b>Total</b>	<b>8529.1</b>	<b>10.8%</b>	<b>5.3%</b>	<b>1308.1</b>	<b>7.4%</b>	<b>20.3%</b>	<b>538.6</b>	<b>14.2%</b>	<b>3.1%</b>	

Source: Company, ICICI Direct Research

**Exhibit 2: Company Specific view**

Company	Remarks
Apollo Hospitals	Revenues are likely grow ~7% QoQ to ₹ 4049 crore, on the back of 1) ~15% growth in AHLL, 2) 7% growth in pharmacy segment and 3) ~5% growth in hospitals segment. EBITDA margins are likely to increase 119 bps QoQ to 14.1% while EBITDA is expected to post growth of 16.5% QoQ to ₹ 572 crore. Adjusted PAT is expected to decline 20.7% QoQ to ₹ 251 crore
Aster DM	Revenues are expected to increase 2.4% QoQ at ₹ 2727 crore. Aster's GCC operations is expected to grow 3.6% QoQ to ₹ 2187 crore while India business is likely to de-grow 5.1% QoQ to ₹ 635 crore. EBITDA margins are likely to increase 406 bps QoQ to 15% due to likely uptick in margins for GCC hospitals. EBITDA is expected to grow 40% QoQ to ₹ 410 crore. Net profit is expected to be up 110% QoQ to ₹ 144 crore
Narayana Hrudayalaya	Revenues are likely to increase by ~8% QoQ to ₹ 1117 crore amid continued traction for elective surgeries. EBITDA margins are likely to increase 11 bps to 18.7% while EBITDA is expected to increase 8.7% QoQ to ₹ 209 crore. Adjusted PAT is expected to decline 3.7% QoQ to ₹ 106 crore
Healthcare Global	Revenues are likely to improve ~6% QoQ to ₹ 432 crore with both existing and new centres expected to continue turnaround momentum. EBITDA margins are likely to remain flat QoQ at 17.9% while EBITDA for Q2FY23 is expected to be ₹ 77.3 crore. HCG is expected to post net profit of ₹ 15.1 crore in Q2FY23, a 149% QoQ jump
Shalby	Revenues are likely to be up 1% QoQ to ₹ 204 crore with hospitals being largely flat sequentially while Consensus (implant business) is expected to maintain momentum. EBITDA margins are expected to decline 7 bps to 19.8%. EBITDA is expected to remain flat QoQ at ₹ 40 crore. Adjusted profit is expected to increase 7.3 % QoQ to ₹ 21.6 crore

Source: Company, ICICI Direct Research

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
<b>Hospitals</b>																					
Apollo Hospitals	APOHOS	4396	5,080	Buy	63201	7.9	59.1	79.0	101.0	559.2	74.3	55.7	43.5	6.3	15.1	15.3	18.8	2.5	15.1	17.4	18.9
Narayana Hrudalaya	NARHRU	709	800	Buy	14495	-0.7	16.7	20.6	22.7	NA	42.4	34.5	31.3	1.2	20.5	19.6	19.7	-1.3	23.0	22.3	19.9
Shalby	SHALIM	134	150	Buy	1446	3.9	5.4	7.5	9.9	34.1	24.7	17.9	13.6	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	250	250	Buy	12488	3.0	10.5	10.8	16.7	84.5	23.7	23.2	15.0	5.4	9.0	9.4	12.5	4.4	13.3	12.0	15.6
Healthcare Global	HEAGLO	303	345	Buy	4210	-13.9	3.9	4.5	8.8	-13.9	78.4	66.6	34.3	-0.9	5.0	9.4	12.1	-0.9	5.0	6.8	11.6

Source: ICICI Direct Research

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