

January 6, 2023

Electives expected to moderate, outlook bullish...

After a strong performance in Q2FY23, the I-Direct hospitals universe is expected to witness a sequentially flattish quarter. This would be on account of lower possible elective surgeries as the quarter was festival driven with both Dussehra and Diwali taking place in the same quarter. However, emergency procedures momentum could have maintained the same trajectory as Q2FY23. Similarly, international patient mix is expected to improve sequentially and is expected to touch/ surpass pre-Covid levels. The sector, barring seasonality aspect in Q3, remains in good shape with focus on remunerative payer mix and case mix, higher emphasis on tele-medicine, digital app based drives for treating patients at remote locations and incremental homecare treatments. Hospitals are expected to maintain capacity expansion drive via brownfield expansions and are expected to divulge more details about a new greenfield capex cycle.

The I-Direct hospitals universe is expected to report QoQ revenue growth of 1.2% in Q3FY23 to ₹ 8936 crore. On the companies front, HCG and Aster DM are likely to post QoQ revenue growth of ~3% and ~2%, respectively.

EBITDA to increase 8.1% QoQ; margins at 15.0%

Hospitals are expected to maintain their margin expansion trajectory despite seasonality aspects as new hospitals continue to provide significant impetus to the overall profitability.

Maturing profile of hospitals, reduction in ALOS along with ramp up in occupancy and ARPOB levels have moved hospitals to a better margin profile.

EBITDA of the I-direct hospital universe is expected to increase ~8.1% QoQ to ₹ 1340 crore. EBITDA margins are likely to grow 100 bps QoQ to 15%. On the company's front, Aster DM and Shalby are likely to post a 450 bps and 156 bps QoQ increase in EBITDA margins, respectively.

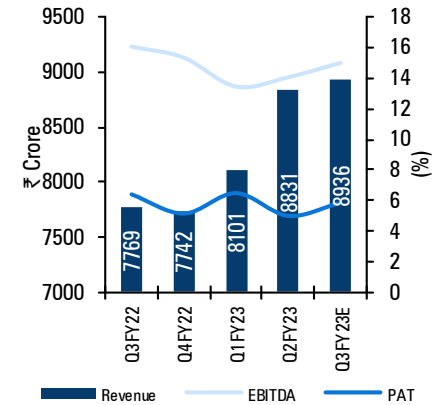
PAT to increase 17.5% QoQ

Adjusted PAT of the I-direct hospital universe is expected to grow ~ 17.5% QoQ to ₹ 523 crore. Delta vis-à-vis EBITDA is mainly due to Aster DM, which in Q2FY23, had reported additional operating expenses for new hospitals in GCC.

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
Apollo Hospitals	4286.9	17.8%	0.8%	554.13	-5.6%	-2.0%	207.56	-9.1%	1.4%			
Narayana Hrudayalaya	1154.5	20.3%	1.1%	210.7	20.4%	-13.5%	140.4	44.0%	-16.8%			
Aster DM	2863.4	8.1%	1.7%	453.5	14.2%	42.2%	134.5	-9.3%	191.1%			
Healthcare Global	432.0	20.6%	2.9%	81.7	32.1%	9.4%	20.2	LP	173.9%			
Shalby	198.8	22.5%	-1.5%	39.6	40.5%	6.9%	20.6	18.5%	11.7%			
Total	8935.6	15.0%	1.2%	1339.7	7.3%	8.1%	523.3	5.7%	17.5%			

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Expected margins in hospitals

EBITDA Margins	Q3FY23E	Q3FY22	%	Q2FY23
Apollo Hospitals	12.9%	16.1%	-3.2	13.3%
Narayana Hrudayala	18.3%	18.2%	0.0	21.3%
Aster DM	15.8%	15.0%	0.9	11.3%
Healthcare Global	18.9%	17.3%	1.6	17.8%
Shalby	19.9%	17.4%	2.6	18.4%
Hospitals Coverage	15.0%	16.1%	-1.1	14.0%

Expected growth in Pharmacy

Pharmacy (₹ crore)	Q3FY23E	YoY (%)	QoQ (%)
Apollo Hospitals	1,726.7	14.2%	25.6%
Aster DM	668.8	31.7%	9.8%
Total	2,395.5	18.6%	20.8%

Other Segments

(₹ crore)	Q3FY23E	YoY (%)	QoQ (%)
Apollo Hospitals AHLI	375.8	21.6%	21.7%
Aster DM Clinics	551.0	0.2%	-16.6%
Total	926.8	7.9%	-4.4%

Top Picks

Healthcare Global

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Exhibit 2: Company Specific view

Company	Remarks
Apollo Hospitals	Revenues are likely to witness flattish growth of 0.8% to ₹ 4,287 crore. Hospital segment revenues are expected to see de-growth of 3.5% QoQ to ₹ 2,184 crore, mainly due to an expected drop in elective surgeries during the period. Pharmacy sales are expected to increase 3.5% QoQ to ₹ 2,122 crore while AHLL business is likely to witness double digit growth of 18% QoQ to ₹ 376 crore. EBITDA is expected to decline 2% QoQ to ₹ 554 crore while EBITDA margins are likely to contract by 37 bps QoQ to 12.9%. Adjusted PAT is expected at ₹ 208 crore, up 1.4% QoQ
Aster DM	Revenues are expected to increase by 1.7% QoQ to ₹ 2,863 crore. GCC operations are expected to grow 2.1% QoQ to ₹ 2,218 crore while the India business is likely to remain flat QoQ at ₹ 726 crore. EBITDA is expected to see robust growth of 42.2% QoQ to ₹ 454 crore. EBITDA margins are likely to show an uptick of 450 bps QoQ to 15.80% due to likely improvement in margins for GCC hospitals. Net profit is expected to be up by 191% QoQ to ₹ 134 crore
Narayana Hrudayalaya	Revenues are likely to be up 1.1% QoQ to ₹1,155 crore due to expected drop in elective surgeries. EBITDA is expected to decline 13.5 % QoQ to ₹ 211 crore with margins coming in at 18.3%, down 309 bps. Net profit is expected to decline 17% QoQ to ₹ 140 crore
Healthcare Global	Revenues are likely to witness growth of 2.9% QoQ at ₹ 432 crore with both existing and new centres expected to continue their turnaround momentum. EBITDA during the quarter is expected at ₹ 82 crore, up 9.4% QoQ. EBITDA margins are likely to improve 113 bps QoQ to 18.9%. HCG is expected to post a net profit of ₹ 20 crore
Shalby	Revenues are likely to de-grow slightly QoQ to ₹ 199 crore due to lower-than-expected elective surgeries. EBITDA is expected to improve 6.9% QoQ to ₹ 40 crore. EBITDA margins are expected to improve by 156 bps to 19.9%. Net profit is expected to increase 11.66% QoQ to ₹ 21 crore

Source: Company, ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Hospitals)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				EV/EBITDA				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	4410	5,230	Buy	63410	7.8	59.1	67.8	85.2	57.7	29.8	29.3	24.6	6.3	15.1	14.7	16.7	6.3	15.1	14.7	16.7
Narayana Hrudalaya	NARHRU	711	855	Buy	14531	-0.7	16.7	27.9	25.6	86.0	23.8	18.1	16.4	1.2	20.5	23.6	19.0	-1.3	23.0	28.0	20.6
Shalby	SHALIM	160	180	Buy	1728	3.9	5.4	7.9	11.1	17.6	13.3	9.4	7.2	6.5	8.4	12.9	15.8	5.1	6.7	9.1	11.5
Aster DM	ASTDM	227	300	Buy	11349	3.0	10.5	8.1	18.5	16.0	11.5	10.6	7.2	5.4	9.0	9.1	14.0	4.4	13.3	9.3	17.5
Healthcare Global	HEAGLO	284	370	Buy	3953	-13.9	3.9	4.0	8.4	39.4	20.1	14.9	12.0	-0.9	5.0	9.3	12.3	-0.9	5.0	6.0	11.1

Source: ICICI Direct Research

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