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Better operational matrix to reflect in numbers...

The universe hospitals under coverage are expected to reflect normalised quarter as pandemic driven positive/negative gyrations, festive impact are behind us. We expect performances to reflect optimum structural tailwinds of better case and payer mix, improved occupancies, better ARPOB and lower length of stay (ALOS). Similarly, international patient mix is expected to improve sequentially and is expected to touch/surpass pre-Covid levels. The sector, barring for seasonality aspect in Q4, 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 home-care treatments. Hospitals are expected to maintain capacity expansion drive via brownfield expansions and are expected to divulge more details about new greenfield capex cycle.

I-direct hospitals universe is expected to report sequential revenue growth of 1.6% in Q4FY23 to ₹ 9,666 crore. On the companies front, Narayana and Apollo are likely to post QoQ revenue growth of 9.6% and 5.3%, respectively.

EBITDA to increase 2.6% QoQ; margins at 15.1%

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

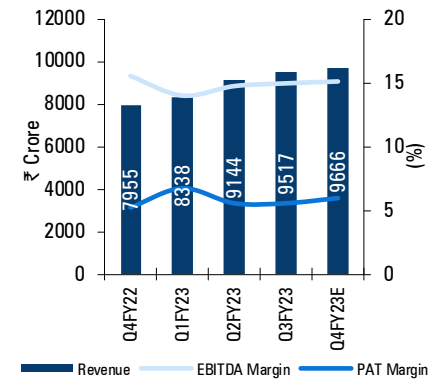
Maturing profile of hospitals, reduction in ALOS along with ramp up in occupancy and ARPOB levels have moved hospitals to a better margin profile.

EBITDA of the I-direct hospital universe is expected to increase 2.6% QoQ to ₹ 1,461 crore. EBITDA margins are likely to grow 15 bps QoQ to 15.1%. On the company's front, Shalby and Aster are likely to post a 267 bps and 208 bps QoQ increase in EBITDA margins, respectively.

PAT to increase 9.1% QoQ

Adjusted PAT of the I-direct hospital universe is expected to grow 9.1% QoQ to ₹ 575 crore.

Topline & Profitability (Coverage Universe)



Expected margins in hospitals

EBITDA Margins	Q4FY23E	Q4FY22	%	Q3FY23
Apollo Hospitals	11.9%	13.1%	-1.2	11.9%
Narayana Hrudayala	19.5%	18.6%	0.9	22.6%
Aster DM	16.1%	17.0%	-0.8	14.1%
Healthcare Global	18.3%	17.3%	1.0	17.8%
Shalby	19.4%	14.8%	4.7	16.8%
RCML	30.5%	22.7%	7.8	34.8%
Hospitals Coverage	15.1%	15.5%	-0.4	15.0%

Expected growth in Pharmacy

Pharmacy (₹ crore)	Q4FY23E	YoY (%)	QoQ (%)
Apollo Hospitals	1,889	7.4%	37.4%
Aster DM	700.4	-15.5%	15.0%
Total	2,589.0	0.1%	30.5%

Other Segments

(₹ crore)	Q4FY23E	YoY (%)	QoQ (%)
Apollo Hospitals AHLI	343	10.1%	11.0%
Aster DM Clinics	647.8	-2.1%	-2.0%
Total	990.7	1.8%	2.1%

Top Picks

Narayana Hrudayalaya, Apollo hospitals

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Exhibit 1: Estimates for Q4FY23E

(₹ crore)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
Apollo Hospitals	4490	26.6%	5.3%	533	15.0%	5.4%	196	117.2%	27.5%			
Narayana Hrudayalaya	1237	31.5%	9.6%	242	38.1%	-5.0%	142	105.7%	-7.8%			
Aster DM	3055	12.0%	-4.3%	493	6.6%	9.9%	175	-22.8%	25.3%			
Healthcare Global	437	19.7%	2.8%	80	26.6%	5.9%	11	86.1%	47.8%			
Shalby	207	27.5%	2.4%	40	68.0%	18.6%	20	91.5%	27.6%			
RCML	241	13.6%	-21.3%	74	52.9%	-31.1%	32	165.0%	-44.2%			
Total	9666	21.5%	1.6%	1461	18.2%	2.6%	575	39.1%	9.1%			

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific view

Company	Remarks
Apollo Hospitals	Revenues are likely to deliver decent growth of 5.3% QoQ to ₹ 4,490 crore. Hospitals segment revenues are expected to show an improvement of 2.9% QoQ to ₹ 2,258 crore mainly on account of capacity optimisation in newer assets. Pharmacy sales are likely to increase 7.4% QoQ to ₹ 1,889 crore whereas AHLL business is likely to show double digit growth of 10.1% QoQ to ₹ 343 crore. EBITDA is expected to increase 5.4% QoQ at ₹ 533 crore while EBITDA margins are likely to remain flat QoQ at 11.9%. Adjusted PAT is expected at ₹ 196 crore, up 27.5% QoQ
Aster DM	Revenues are expected to decline 4.3% QoQ at ₹ 3,055 crore. Aster's GCC operations are expected to de-grow 5.4% QoQ to ₹ 2,412 crore while India business is likely to remain flat QoQ at ₹ 736 crore. EBITDA is expected to show an increase of 9.9% QoQ to ₹ 493 crore. EBITDA margins are likely to show an uptick of 208 bps QoQ to 16.1% due to likely improvement in occupancy. Net profit is expected to deliver growth of 25.3% QoQ to ₹ 175 crore
Narayana Hrudayalaya	Revenues are likely to inch up by 9.6% QoQ to ₹ 1,237 crore due to higher number of walk in patients. EBITDA is expected to decline 5.0% QoQ (due to lower Cayman margins) to ₹ 242 crore with margins coming in at 19.5%, down 310 bps. Net profit is expected to decline 7.8% QoQ to ₹ 142 crore
Healthcare Global	Revenues are likely to grow 2.8% QoQ at ₹ 437 crore supported by growth momentum from HCG new centres. EBITDA during the quarter is expected to be ₹ 80 crore up 5.9% QoQ. EBITDA margins are likely to improve 53 bps QoQ to 18.3% while HCG is expected to post net profit of ₹ 11 crore
Shalby	Revenues are likely to grow 2.4% QoQ to ₹ 207 crore. EBITDA is expected to improve 18.6% QoQ to ₹ 40 crore. EBITDA margins are expected to improve 267 bps to 19.4% on the back of declining manufacturing costs in implant business. Net profit is expected to increase 27.6% QoQ to ₹ 20 crore
Rainbow Children's Medicare	Revenues are likely to come in at ₹ 241 crore down 21.3% QoQ due to seasonality impact (Q4, Q1 are weaker vis-a-vis Q2, Q3). EBITDA is expected to decline 31.1% QoQ to ₹ 74 crore. EBITDA margins are expected at 30.5%. Net profit is expected to be impacted by 44.2% QoQ to ₹ 32 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(x)				RoCE (%)			RoE (%)				
						FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY25E	
Hospitals																					
Apollo Hospitals	APOHOS	4202	5,460	Buy	60508	59.1	60.5	80.2	126.8	29.8	29.3	24.6	24.6	15.1	14.1	16.6	21.8	15.1	13.8	16.0	21.1
Narayana Hrudalaya	NARHRU	759	870	Buy	15483	16.7	27.9	29.0	27.4	23.8	18.1	16.4	16.4	20.5	23.6	21.2	17.1	23.0	27.9	22.7	17.8
Shalby	SHALIM	141	180	Buy	1523	5.4	6.8	9.5	11.4	13.3	9.4	7.2	7.2	8.4	11.3	13.9	15.7	6.7	7.9	10.1	11.1
Aster DM	ASTDM	240	280	Buy	12005	10.5	8.6	18.1	23.6	11.5	10.6	7.2	7.2	9.0	8.7	13.6	15.4	13.3	9.8	17.1	18.2
Healthcare Global	HEAGLO	272	385	Buy	3775	3.9	2.3	6.1	8.5	20.1	14.9	12.0	12.0	5.0	8.8	12.8	14.8	5.0	3.6	8.5	10.7
Rainbow Children's Medicare	RAICHI	751	840	Buy	7662	13.6	18.7	19.1	23.2	20.1	14.9	12.0	12.0	20.2	18.5	16.8	19.7	22.9	24.0	19.7	19.3

Source: ICICI Direct Research

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