



# APOLLO HOSPITALS

## FDI in retail could be a shot in arm

India Equity Research | Pharmaceuticals



**Edelweiss**  
Ideas create, values protect

The Union Cabinet's nod to FDI in retail is a big positive for Apollo Hospitals (APHS) as it could fast track management decision to spin off or divest the business, and will be accretive to overall profitability. We estimate minimum 4-5% upside to FY14E EPS in the event of a possible strategic divestment. The company has tried to operationally stabilise and improve profitability of pharmacies; however, management is keen to enhance the size of operations and profitability of business before offering the stake. APHS' planned 3,000 bed addition over the next three years and scale up of exiting hospitals will drive 36% CAGR in earnings over FY12-14E. Maintain 'BUY'.

### FDI opens doors to rope in strategic partner

The Union Cabinet's nod to FDI in retail could benefit APHS, which operates one of the largest retail pharmacy chains with ~ 1,400 retail outlets. Apollo has pan-India presence with 40% outlets in NCR and 60% in South (AP and TN account for ~50%). However, management is not keen on divesting stake immediately and would prefer to expand operations and attain more scalability. Further, the investments will probably be used to open new pharmacies in investor friendly states. Nevertheless, the strategic focus to divest stake remains intact and FDI approval will open up possibilities.

### Potential unlocking of value

Retail pharmacies (SAPs) contribute 27% to total sales, growing at 30% YoY (FY12) with 1.7% EBITDA margin, which is expected to rise to 2.5% by end FY13E. Thus, the option to rope in a strategic partner, post FDI approval, was on cards as it will unlock value of the hospitals business and reap cash which can be utilised for hospital projects.

### Outlook and valuations: Value unlocking; maintain 'BUY'

Our target price of INR760 per share includes INR61 per share from retail pharmacies, which is ~ INR5.5mn per pharmacy or 1x FY14E pharmacy sales. However, management believes that the potential valuation could be INR9-10mn per pharmacy. We maintain 'BUY'. Our valuations are based on DCF with implied EV/EBITDA multiple of 14.3 FY14E.

#### Financials

Year to March	FY11	FY12	FY13E	FY14E
Revenues (INR mn)	26,054	31,475	38,585	47,532
Rev growth (%)	28.6	20.8	22.6	23.2
EBITDA (INR mn)	4,190	5,131	6,386	7,691
Adjusted net profit (INR mn)	1,839	2,219	3,378	4,245
Shares outstanding (mn)	125	134	139	139
Adj. Diluted EPS (INR)	14.7	16.5	24.3	30.5
EPS growth (%)	32.5	11.9	47.1	25.7
P/E (x)	45.9	41.0	27.9	22.2
EV/EBITDA (x)	21.7	18.6	15.3	12.8
ROACE (%)	14.6	14.2	15.4	16.4

#### EDELWEISS RATINGS

Absolute Rating BUY

#### MARKET DATA (R: APLH.BO, B: APHS IN)

CMP	: INR 677
Target Price	: INR 760
52-week range (INR)	: 716 / 452
Share in issue (mn)	: 135.8
M cap (INR bn/USD mn)	: 92 / 1,681
Avg. Daily Vol.BSE/NSE('000)	: 233.2

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY12	Q3FY12
Promoters %	32.8	32.8	33.1
MF's, FI's & Banks	2.4	2.4	2.4
FII's	39.6	39.6	40.0
Others	25.2	25.2	24.5

\* Promoters pledged shares : 0.4  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	7.2	1.8	6.4
3 months	1.6	6.3	16.8
12 months	26.6	10.2	47.9

#### Perin Ali

+91 22 6620 3032  
perin.ali@edelcap.com

#### Manoj Garg

+91 22 6623 3302  
manoj.garg@edelcap.com

September 17, 2012

**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.  
Board: (91-22) 4009 4400, Email: [research@edelcap.com](mailto:research@edelcap.com)

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelcap.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelcap.com	+91 22 4040 7499

**Access the entire repository of Edelweiss Research on [www.edelresearch.com](http://www.edelresearch.com)**

## DISCLAIMER

### General Disclaimer:

This document has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their dependents from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The information provided in these documents remains, unless otherwise stated, the copyright of Edelweiss. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright Edelweiss and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders. Edelweiss might be engaged or may seek to do business with companies covered in its research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should take informed decision and use this document for assistance only and must not alone be taken as the basis for their investment decision.

### Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Analyst holding in the stock: No.

### Additional Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved