APOLLO HOSPITALS ENTERPRISE LIMITED

28th October 2023 CIN : L85110TN1979PLC008035

The Secretary,
Bombay Stock Exchange Ltd (BSE)
Phiroze Jheejheebhoy Towers,
Dalal Street,
Mumbai – 400 001.
Scrip Code – 508869
ISIN INE437A01024

The Secretary,
National Stock Exchange,
Exchange Plaza, 5th Floor
Plot No.C/1, 'G' Block
Bandra - Kurla Complex
Bandra (E)
Mumbai – 400 051.
Scrip Code– APOLLOHOSP
ISIN INE437A01024

The Manager
The National Stock Exchange,
Wholesale Debt Market
Exchange Plaza, 5th Floor
Plot No.C/1, 'G' Block
Bandra - Kurla Complex
Bandra (E)
Mumbai – 400 051.
ISIN INE437A08052

Dear Sir/Madam,

Subject: Affirmation of Credit Ratings by India Ratings and Research Private Ratings Limited

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, ("SEBI Listing Regulations, 2015") as amended from time to time, we wish to inform that 'India Ratings and Research' (Ind-Ra), a Fitch Group Company vide their release dated October 27, 2023 has affirmed its rating on the Company's term loans facility and debt instruments as 'IND AA+ and the outlook is Stable.

The instrument-wise rating actions are as follows

Instrument Type	Size of the Issue (Rs. in Million)	Rating/outlook	Rating action
Proposed NCDs *	500	IND AA+/Stable	Assigned
Proposed NCDs *	950	IND AA+/Stable	Affirmed
NCDs	1050	IND AA+/Stable	Affirmed
Term Loans	13,320 (reduced from 15,100)	IND AA+/Stable	Affirmed
Proposed Term Loans	7,280	IND AA+/Stable	Assigned
Fund Based working capital limits	2,400	IND AA+/Stable/ IND A1+	Affirmed

*yet to be issued

A copy of the Report covering the rationale for the rating is enclosed.

Kindly take this on record.

Thanking you,

Yours faithfully
For APOLLO HOSPITALS ENTERPRISE LIMITED

S.M. KRISHNAN
Sr. VICE PRESIDENT – FINANCE
AND COMPANY SECRETARY

IS/ISO 9001 : 2000

India Ratings Affirms Apollo Hospitals Enterprise's Debt at 'IND AA+'/Stable; Rates Additional Proposed NCDs

Oct 27, 2023 | Hospital

India Ratings and Research (Ind-Ra) has taken the following rating actions on Apollo Hospitals Enterprise Limited's (AHEL) debt instruments:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Proposed NCDs*	-	-	-	-	INR500	IND AA+/Stable	Assigned
Proposed NCDs*	-	-	-	-	INR950	IND AA+/Stable	Affirmed
NCDs	INE437A08052	14 December 2022	7.70	12 January 2024	INR1,050	IND AA+/Stable	Affirmed
Term loans	-	-	-	FY27-FY33	INR13,320 (reduced from INR15,100)	IND AA+/Stable	Affirmed
Proposed term loans	-	-	-	-	INR7,280	IND AA+/Stable	Assigned
Fund-based working capital limits	-	-	-	-	INR2,400	IND AA+/Stable/IND A1+	Affirmed

*yet to be issued

Analytical Approach: Ind-Ra continues to take a consolidated view of AHEL and its subsidiaries owing to the strong operational and financial linkages among them. This is because all the companies operate in a similar line of business under the same brand and have a common management.

Key Rating Drivers

Robust Consolidated Performance: During FY18-FY23, the consolidated revenue grew at a CAGR of 15% to INR166 billion due to growth in healthcare services (hospitals; CAGR of 14.0%), Apollo Health & Lifestyle Ltd (AHLL; 21.8%), and Apollo HealthCo Limited (AHL; 15.4%; debt rated at ‘IND A-’/Stable) segments. Further, the consolidated EBITDA grew at a CAGR of 20.9% to INR20.5 billion over FY18-FY23 (FY23: down 6.2% yoy) and the EBITDA margin expanded 272bp to 12.2%. This was on account of a 10.1% CAGR in average revenue per operating bed (ARPOB) to INR51,668, a reduction in the average length of stay to 3.4 days in FY23 from 4 days in FY18, but a 200bp yoy reduction in occupancy to 64%. The company has also added 2,083 pharmacy stores in FY23, taking the total stores to 5,104 with revenue per store increasing to INR13.1 million from INR10.8 million in FY18. Meanwhile, the high-margin private label sales increased to 15.5% in FY23 (FY18: 6.0%). During 1QFY24, the consolidated revenue grew 16.4% yoy to INR44.2 billion and EBITDA margin stood at 11.5%.

The consolidated return on capital employed (RoCE) remained healthy at 13.2% in FY23 (FY22: 15.9%) on the back of a marginal moderation in operating performance of existing hospitals and higher capex for expansion of new beds . However, the company is likely to record a RoCE of 14%-18% over the next three years, backed by a sustained improvement in the operations and capex.

Healthy Growth in Healthcare Operations: The healthcare services segment, which accounted for 52% of the consolidated sales in FY23, has been recovering since 2HFY21 with the revenue and EBITDA surpassing pre-COVID-19 levels. Despite the high base in FY22 (up 59.7% yoy), the segment revenue grew 8.6% yoy to INR86.8 billion and the EBITDA increased 18% yoy to INR21.3 billion in FY23, primarily due to improved case mix, and increased in-patient admissions at matured and new hospitals, resulting in a 200bp yoy rise in the EBITDA margins to 24.6%.

Furthermore, the overall occupancy of the healthcare services segment improved to 64% in FY23 from an all-time low of 55% in FY21 on account of the COVID-19-led lockdown. The ARPOB increased during FY23 (FY22: 12.7% yoy), owing to the improved payor mix, case mix and the decline in average length of stay, due to a short stay period for non-patients. In-patient volumes, at the consolidated level, grew 17.4% yoy during FY23, indicating continued deferral of surgeries. However, the demand for surgeries has increased, which could lead to a higher occupancy at matured hospitals to pre-COVID level of 65%-66% by FY24.

Adjusted Sales Growth of AHLL Remains Strong: AHLL, a 70% subsidiary of AHEL which operates retail healthcare format hospitals, turned EBITDA positive in FY20 and recorded a healthy EBITDA margin of 9.6% in FY23 (FY22: 15.0%). The improvement was driven by the growing contribution of the high-margin diagnostic business, primary care business and break-even at the company’s niche segments - Cradle and Spectra. AHLL’s core revenue (excluding covid vaccination, covid testing and isolation centre revenue, which were one-off revenue during covid) grew by 28% yoy in FY23; meanwhile, reported revenue declined by 6.2% yoy to INR12.3 billion.

During 1QFY24, AHLL recorded EBITDA of INR233 million (1QFY23: INR294 million) while maintaining quarterly revenue of INR3.2 billion (INR2.9 billion). Over the medium term, the management plans to invest INR1.5 billion for expanding its diagnostic network and clinics. The diagnostic business, which drives AHLL’s EBITDA margins, will also benefit significantly from AHEL’s online presence through Apollo 24x7.

Strong Growth in AHL; However, Operating Margin Impacted due to Expenses on 24x7: AHL is a 100% subsidiary of AHEL that will house the back-end pharmacy and Apollo 24x7, while AHEL’s stake in the pharmacy front end is housed in AHL. In FY23, AHL’s sales increased 25.1% yoy to INR67.0 billion. However, the EBITDA margins turned negative to 3.0% (FY22: 3.5%) on account of an increase in operating cost from 24x7 platform to INR6.57 billion (FY22: INR2.24 billion). The management expect expenses pertaining to 24x7 platform to reduce by INR1 billion-1.5 billion in FY24, thereby improving operating profitability.

AHEL intends to raise capital in AHL that could lead to value discovery for the 24x7 platform. The parent will receive a slump sale consideration of INR12.1 billion from AEHL, post the fund infusion during FY24. AHL plans to have 100 million customers by FYE26, leading to a potential revenue of USD2.3 billion over the next four-to-five years. So far, AHEL has invested around INR4.3 billion in Apollo 24x7 and the investment plan remains elevated for the near term. The carving out of the pharmacy business, along with the procurement of consumables/medicines/facility management services and allied supplies from related promoter group entities have increased in terms of the value of related party transactions of the group in the recent years. However, the agency takes comfort from the management's confirmation that these are at arm's length arrangement, and approved by an independent audit committee and are in line with the trends in general business growth.

Liquidity Indicator - Adequate: AHEL had an unencumbered cash balance of INR7.3 billion at FYE23 (FYE22: INR10.5 billion). The free cash flow turned negative to INR2.1 billion (FY2: INR5.9 billion) on the back of a higher capex INR11.3 billion (INR6.6 billion). The free cash flow is likely to remain subdued in the medium term due to resumption of expansion via organic as well as inorganic route to add beds every year over the medium term. However, the liquidity is supported by AHEL's sparsely utilised working capital limits of INR7.5 billion over the 12 months ended September 2023. AHEL's over six months receivables account for INR6.4 billion (FY22: INR5.1 billion), majorly from insurance companies, corporate customers and government undertakings. AHEL has scheduled debt repayments of INR7.6 billion and INR3.0 billion in FY24 and FY25, respectively.

Leading Market Position: The ratings continue to reflect Apollo's strong and established brand name, operational track record of over 35 years and a strong position in the Indian healthcare market. AHEL's leading market position also helps in attracting talent and provides benefits of scale in the procurement of medicines and consumables. The ratings also consider India's favourable demographics, which are likely to drive sustained demand growth for healthcare services. The company is the market leader in Chennai and has a significant presence in other cities including Hyderabad, Bengaluru and Kolkata. The company focusses on key areas such as cardiology, oncology, transplants, neurosciences, orthopedics, emergency and critical care.

Diversified Operations: AHEL's revenue is diversified across 13 states and various specialty areas, which mitigate regulatory risks such as price caps on consumables, trade margins on drugs, among others. However, the company continues to derive a majority of its revenue from the Chennai cluster, followed by Hyderabad and Bengaluru. Tamil Nadu contributed 36% to the consolidated healthcare services revenue in FY23 (FY22: 34%), while Andhra Pradesh and Telangana together contributed 16% (19%). The company derived 20%-22% of its healthcare services revenue over FY20-FY23 from cardiology and 12% from neurosciences.

Credit Metrics Deteriorates Marginally in FY23: Despite a reduction in the overall debt to INR43.5 billion at FYE23 (FYE22: INR40.9 billion), the net adjusted leverage (net adjusted debt/EBITDA) deteriorated to 1.77x (1.39x) and the interest coverage (EBITDA/gross interest expense) to 5.4x (5.8x) on account of the decline in EBITDA. Ind-Ra expects AHEL's net leverage to reduce below 2.0x over the medium term on the back of a sustained recovery in the healthcare services business, growing pharmacy business, a strong cashflow generation, along with the resumption of expansion plans of the company.

Intense Competition and Regulatory Risk: AHEL is exposed to increased competition from several large hospitals in various micro markets, where its hospitals are located, leading to lower occupancies. It also remains exposed to the regulatory risks faced by the healthcare industry, mainly in the form of price capping for medical procedures and devices.

Standalone Performance: On a standalone basis, AHEL's revenue grew 10.4% yoy to INR16,884 million in 1QFY24 (FY23: INR65,248 million, FY22: INR60,983 million) and EBITDA grew 7.6% yoy to INR4,177 million (INR16,815 million, INR14,193 million). The EBITDA margin contracted 64bp yoy to 24.7% in 1QFY24 (FY23: 25.8%, FY22: 23.3%). The interest coverage and net leverage stood at 7.04x in FY23 (FY22: 5.82x) and 0.84x (0.75x), respectively.

Rating Sensitivities

Positive: A positive rating action could result from a sustained increase in the EBITDA margins, resulting in an improvement in the RoCE, growth in free cash flow and a significant improvement in the credit metrics with the consolidated net adjusted leverage reducing below 1.5x, all on a sustained basis.

Negative: A negative rating action could result from a prolonged weakening of the operating performance or a substantial debt-funded capex or acquisitions, leading to the consolidated net adjusted leverage increasing above 2.5x on a sustained basis.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AHEL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

AHEL started operations in 1983 with its first 150-bed hospital in Chennai. The company had 70 hospitals (9,957 beds) at FYE23, including 43 owned hospitals (8,544 beds) including joint ventures/subsidiaries and associates, 22 day surgery and cradle (562 beds), and five managed hospitals (851 beds). It also has a back-end pharmacy distribution business post the front end hive-off, which was concluded in August 2020.

CONSOLIDATED FINANCIAL SUMMARY

Particulars (INR billion)	**FY23**	**FY22**
Revenue	166.1	146.6
Operating EBITDA	20.5	21.8
EBITDA margin (%)	12.3	14.9
Financial expense	3.8	3.8
Net profit	8.4	11.1
Balance sheet debt	27.1	26.4
Cash & cash equivalents	7.3	10.5
Lease	16.2	14.3
Lease adjusted debt	43.3	40.7
Interest coverage (x)	5.4	5.8
Net adjusted leverage (x)	1.8	1.4
Source: AHEL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	20 October 2023	31 October 2022	20 October 2022	26 October 2021	27 October 2020
Issuer rating				WD	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
NCDs	Long-term	INR2,500	IND AA+/Stable	-	IND AA+/Stable	IND AA+/Stable	-	-
Term loans	Long-term	INR 20,600	IND AA+/Stable	-	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Fund-based working capital limits	Long-term/Short-term	INR2,400	IND AA+/Stable/IND A1+	-	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based working capital limits	Low
NCDs	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process