EQUITY RESEARCH · INDIA HEALTHCARE

Apollo Hospitals Enterprise Ltd

NSE: APOLLOHOSP · BSE: 508869

Hospitals · Diagnostics · Pharmacy & Digital Health

RATING	ACCUMULATE
12M TARGET	₹8,600
CMP	₹7,700
UPSIDE	+11.7%

MKT CAP ₹1.11 L Cr	52-WK RANGE 6,000 – 7,545	P/E (TTM, FY25) ~76x	P/B ~10.5x
ROE / ROCE FY25 15.8% / 19.3%	DIV YIELD ~0.25%	PROMOTER / FII 28% / ~43%	INDEX Nifty 50

Jay Kapoor · Investment Research 14 August 2025 ANALYTICAL WORK SAMPLE

I Investment thesis

Apollo is India's largest integrated hospital chain, but its headline ~76x multiple **masks a sum-of-the-parts mispricing**. A high-margin hospital engine is being valued through the same lens as a near-breakeven pharmacy-and-digital arm. The newly announced demerger is the mechanism to separate the two — and let the market price each on its own merits.

01 **The engine is mispriced inside the conglomerate.** Core hospitals run at ~24–25% EBITDA margins and compound mid-teens; bundled with the ~4%-margin pharmacy/digital business, blended margins sit near 15%, depressing the multiple the hospital franchise deserves.

02 **The demerger is a scheduled value-unlock, not a hope.** The Apollo 24/7 + pharmacy distribution spin into a separately listed entity (merging Apollo HealthCo + Keimed) gives holders direct equity in India's largest digital-health/pharmacy platform, with Apollo retaining ~15%.

03 **Execution is already visible.** Q1 FY26 delivered 15% revenue growth and 42% PAT growth, with margin gains across all three segments and a funded multi-year bed-expansion pipeline underwriting the next leg.

II Where the money is made

The single most important fact about Apollo today is the profitability gap between its segments. Hospitals are roughly half of revenue but the overwhelming majority of profit; the pharmacy-and-digital arm carries comparable revenue at a fraction of the margin. The consolidated P&L averages the two — which is precisely what the restructuring is designed to undo.

SEGMENT EBITDA MARGIN — Q1 FY26

Source: company results, Aug 2025

Healthcare Services · hospitals · ₹2,935 Cr rev — 24.5%

AHLL · clinics & diagnostics · ₹435 Cr rev — 9.2%

Apollo HealthCo · pharmacy + 24/7 · ₹2,472 Cr rev — 3.8%

Read-through: hospitals earn ~6x the margin of the pharmacy/digital arm on similar revenue. Separating them lets the market apply a hospital multiple to the hospital cash flows and a platform multiple to the platform — the core of the unlock.

III The catalyst: a structured demerger

Apollo has announced a composite scheme to demerge the **Apollo 24/7** digital platform and the offline pharmacy distribution business into a new entity ("NewCo"), then merge **Apollo HealthCo** and **Keimed** (wholesale pharma distribution) into it — consolidating digital health, retail pharmacy and distribution under one focused, separately listed company.

SCHEME TERMS — AS ANNOUNCED

TERM	DETAIL
Share entitlement	195.2 NewCo shares per 100 AHEL
Apollo retained stake in NewCo	~15%
NewCo revenue (FY25)	₹16,267 Cr
NewCo target (FY27)	₹25,000 Cr @ ~7% EBITDA
Expected listing timeline	18–21 months (pending SEBI / CCI)

The reference point investors will anchor to is Advent International's April 2024 purchase of a 12.1% stake in Apollo HealthCo, implying a ~₹22,481 Cr valuation for the digital/pharmacy entity. The Street read that mark as underwhelming for Apollo 24/7 — which is exactly why a transparent, separately listed price-discovery event matters. The risk and the opportunity are the same fact: the digital arm is unproven, so listing it cleanly could re-rate it either way.

IV Financial performance

CONSOLIDATED — MOST RECENT DISCLOSURES (₹ CR)

METRIC	FY25	YOY	Q1 FY26	YOY
Revenue	21,794	+14%	5,842	+15%
EBITDA	~3,255	–	852	+26%
Net profit (PAT)	**1,446**	**+61%**	**433**	**+42%**

Growth is broad-based across all three segments rather than one-off. Q1 FY26 saw Healthcare Services revenue up 11% (EBITDA ₹718 Cr), AHLL up 19%, and Apollo HealthCo up 19% with Apollo 24/7 GMV of ₹682 Cr. Management has committed to an aggressive build-out — **~4,300 new beds over five years at ~₹7,600 Cr** — which supports the medium-term volume story while pressuring near-term margins as new units ramp.

V Valuation & price targets

On a consolidated basis ~76x trailing earnings looks demanding. But that multiple is the wrong lens: it blends a premium hospital franchise with a sub-scale, low-margin platform. On a sum-of-the-parts view the picture inverts — sell-side SOTP work (JM Financial) implies the hospital business is being carried at roughly a **20x FY28 multiple, a ~56% discount to larger peer Max Healthcare**, leaving clear re-rating headroom as the demerger crystallises value. Consensus 12-month fair value clusters around ₹8,500.

BEAR	BASE	BULL
₹6,500	**₹8,600**	**₹9,400**
−15.6%	+11.7%	+22.1%
Demerger slips or 24/7 lists below the Advent mark; 24/7 losses persist; premium multiple de-rates.	SOTP holds, demerger progresses on timeline, hospital franchise re-rates modestly toward peers.	Clean listing crystallises 24/7 value, digital losses narrow toward breakeven, hospital multiple closes the gap to Max.

VI Key risks

R1 **Digital/pharmacy losses.** Apollo 24/7 and HealthCo remain a margin drag; the path to breakeven is real but unproven, and slippage delays the entire SOTP thesis.

R2 **Demerger execution & regulatory risk.** The scheme requires SEBI/CCI and shareholder approvals over an 18–21 month window; timeline slippage or a soft listing valuation would blunt the catalyst.

R3 **Premium valuation.** At ~76x trailing, the margin of safety is thin — any earnings miss or guidance cut tends to be punished sharply.

R4 **Capex absorption.** The ~₹7,600 Cr / 4,300-bed expansion pressures near-term margins and returns until new units mature.

R5 **Flow sensitivity.** ~43% FII ownership leaves the stock exposed to global risk-off and institutional rebalancing independent of fundamentals.

VII Recommendation

ACCUMULATE — quality compounder with a scheduled, well-defined value-unlock catalyst, but priced for execution.

Apollo offers a rare combination for an HNI growth allocation: a durable, market-leading hospital franchise compounding in the mid-teens, plus a free option on a separately listed digital-health platform. The demerger is the key to closing the SOTP discount. The constraint is price — at these levels much of the good news is in, so the risk/reward improves materially on any pullback toward the ₹7,000–7,300 zone.

Suggested approach: initiate/accumulate on weakness; size as a core long-term holding rather than a tactical trade; re-underwrite on demerger milestones and the trajectory of Apollo 24/7 losses.

Prepared by **Jay Kapoor** · jak581@pitt.edu · linkedin.com/in/jay-kapoor7