CRISIL Ratings

Rating Rationale

January 12, 2024 | Mumbai

Apollo Hospitals Enterprise Limited

Ratings Reaffirmed

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Rating Action

Total Bank Loan Facilities Rated	**Rs.2800 Crore**
Long Term Rating	**CRISIL AA+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

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Rs.19 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Reaffirmed)**

The common independent director on CRISIL Ratings Limited and Apollo Hospitals Enterprise Limited boards did not participate in the rating process or in the meeting of the rating committee, when the rating for securities of Apollo Hospitals Enterprise Limited was discussed. This rating was also not discussed in the meeting of CRISIL Ratingsâ€™ Board of Directors.
Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratingsÂ on the bank facilities and non convertible debentures ofÂ Apollo Hospitals Enterprise LimitedÂ (AHEL) atÂ â€˜CRISIL AA+/Stable/CRISIL A1+â€™.

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AHELâ€™s maintained its strong market position as the largest private healthcare provider in the domestic market. Consolidate revenues grew by 13% on year in fiscal 2023 on high base of fiscal 2022 and crossed Rs 16,000 crore. It was driven by growth in average revenue per occupied bed (ARPOB) by 14% on yearÂ and healthy occupancy level of 65%, as well as the pharmacy distribution business which grew 25% on year, in fiscal 2023. Revenues have grown 15% on year, in the first half of the fiscal 2024 (H1FY24) driven by healthy ARPOB growth of 14%, and occupancy of 66%. Pharmacy distribution revenues also grew by 16% on year in H1FY24, compared with the same period last year. Revenue is expected to grow by 12-13% in the near term and 8-9% in the medium term with occupancy remaining healthy at above 65% and annual ARPOB growth of 3-4%.

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Operating margin however moderated to 12.5% in fiscal 2023 compared to 15% in fiscal 2022 due to increased expenses towards the digital platform Apollo 24*7 and lower covid related vaccinationÂ revenues during the fiscal.Â Operating margin remained stable at 12.3% in H1FY24 and are expected to settle atÂ ~12.5-13% in the near to medium term, with losses in Apollo 24*7 platform reducing gradually.

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AHEL has capex plans of ~Rs 3500 crore for addition of ~2300 beds by fiscal 2027, in addition to maintenance capex. This will entail spend ofÂ Rs 1300-1500 crore per annum in the near to medium term. The capex is expected to be funded largely through accruals (annual over Rs.1200 crores), and only moderate debt. Hence key debt metrics such as interest cover will remain healthy at over 5.5 times, while debt/EBIDTA (earnings before interest, depreciation, tax and amortization) is expected to remain below 2 times in the near to medium term.

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The ratings reflect the established position of AHEL in the healthcare and pharmacy distribution businesses, good operating profitability and healthy financial risk profile. These strengths are partially offset by exposure to regulatory risks and higher spending on the flagship Apollo 24*7 digital platform of the Apollo Group.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has used a combination of full, proportionate and moderate consolidation of the Apollo Hospitals group companies.

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CRISIL Ratings has combined the business and financial risk profiles of AHEL and its subsidiariesÂ (fully consolidated) and joint ventures (JVs; proportionately consolidated) because of their strong operational and financial linkages. The entities are collectively referred to as AHEL.

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Please refer Annexure - List of a Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Dominant position in the healthcare sector

AHEL is the market leader in the private healthcare segment in India. It operates the largest chain of healthcare facilities, with 71 hospitals (44 owned and 5 managed with total capacity of 9155 beds and 22 day-care/Cradle centers with 634 beds, as on September 30, 2023). The operational beds are spread across the country, with particularlyÂ Tamil Nadu region (26%), Andhra Pradesh and Telangana region (16%), and Eastern region (23%). Market position is driven by strong brand equity and superior quality of service. AHEL is expected to sustain its leadership position over the medium term given the wide geographical footprint and diverse specialty mix. Company is also expected to grow the number of beds by ~2300 beds in the next 3-4 years. Average revenue per operating bed (ARPOB) is among the highest in the industry. It has grown at a steady CAGR of 6% from fiscal 2016 and stood at Rs. 57,581 in H1 fiscal 2023 (Rs. 51,668 in fiscal 2023). The strong growth in ARPOB is attributed to strong pricing power and improving surgical and payer mix. Also, several hospitals of Apollo group are center of excellence and have JCI (Joint Commission International) accreditation. Apollo hospitals is expected to maintain their leader position in ARPOB in the medium term through strong performance of their mature hospitals and continued improvement in the performance of the new hospitals.

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Strong pharmacy distribution business

With its strong distribution network, AHEL is the exclusive supplier for over 5500 standalone pharmacy stores (SAPs)

of Apollo Pharmacy Limited (APL) whichÂ are spread across the country and provide geographic diversity to revenue. Furthermore, steady addition of stores have helped the pharmacy business to post a healthy compound annual growth rate (CAGR) of 14% in revenue since fiscals 2021 and cross Rs 6500 crore in fiscal 2023. Revenue from the pharmacy segment is expected to witness healthy growth of 9-10% per annum in the near to medium term. Operating margin however which was in the range of 3-6% in the past turned negative in fiscal 2023 due to elevated investment in the Apollo 24*7 platform, the online digital platform of AHEL. Apollo 24*7 has integrated all the services offered by AHEL (health care, pharmacy and diagnostic etc) at one place. However, spending towards Apollo 24*7 platform has started to moderate and the losses would be gradually brought down by the company in the medium term.
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Good operating profitabilityÂ

Operating profitability margin improved to 15% in fiscal 2022 due to improved ARPOB and covid vaccinations revenue which had higher margins. It has moderated to 12.5% in fiscal 2023 due to higher expenses towards Apollo 27*7 platform and lower vaccination related revenues, as well as lower profits from less mature hospitals. Going forward, operating profitability is expected to sustain at 12.5-13%, driven by the health care segment which contributes more than 80% of the total profits of AHEL. Operating margins of mature hospitals has remained above 25% in fiscal 2023 and expected to remain healthy at above 25% in the medium term with operating margins of newer hospitals sustaining at above 16-17%. Higher operating leverage and turnaround of the pharmacy business, with lower cash burn from the Apollo 24*7 platform will ensure absolute operating profits remain healthy.
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Healthy financial risk profile and strong financial flexibility

The groupâ€™s debt protection metrics remain strong. Interest coverage ratio stood at healthy level ofÂ 5.5x in fiscal 2023 (5.8x in fiscal 2022) and has remained strong at 5.5x in H1FY24. The groupâ€™s gearing stood at 0.80x as on March 31, 2023 compared with 0.84x at March 31, 2022, while debt to EBITDA (post Ind AS 116) was at 2.08 times in fiscal 2023 (1.84x times in fiscal 2023).
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AHEL is expected to incur capex of ~Rs.3500 crores between fiscals 2024-27 in phased manner for addition of 2000-2300 beds, in addition to spend on routine modernisation. The group is expected to generate annual net cash accrual of over Rs 1200 crore annually which, along with cash and bank balance of ~Rs 1,500 crore as of September 2023, should be sufficient to meet major part of capex of Rs 1300-1400 crore per annum over the medium term. While company is expected to add moderate debt for the capex plans,Â Gearing and debt to EBITDA is expected to remain below 0.8x and 2 times respectively in the near to medium term due to healthy absoluteÂ profits..
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Weakness:

Exposure to regulatory risks

Government policy on capping of prices for medical procedures and devices (such as cardiac stents and knee implants) impacted revenue andÂ profitability in fiscals 2017 and 2018. Any regulatory action and its impact will remain monitorable.
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Increasing cash burn on the Apollo 24*7 digital platform

The company has incur spend of ~Rs.600 crore annually in fiscal 2023 and expected to incur the same amount the near to medium term towards strengthening the Apollo 24*7 platform, which has resulted in the consolidated pharma business registering losses at the operating level in fiscal 2023. However, these investments are expected to strengthen the platformâ€™s service offerings as well as reach, benefits of which will be realizable over the medium to long term. Company has also indicated that the spent towards the digital platform will be rationalized and losses will be gradually reduced over the near term. The same will be critical to improvement in overall operating profitability for AHEL.

Liquidity: Strong

AHELâ€™s liquidity position is strong. Cash and cash surpluses stood at ~Rs 1,500 crore as of September 30, 2023 while unutilized fund-based limit was Rs 630 crore. While the company is expected to maintain cash and bank balance of over Rs 800 crore on steady state basis, annual net cash accrual of over Rs 1,200 crore along with available liquidity will largely suffice to meet yearly debt repayment of Rs 360-400 crore and capex plans (~Rs.3500 crores over the next three years). The company has also dues of over Rs.1200 crore from the separation of the front-end pharmacy business, undertaken in March 2022, which may be recovered in the event of divestment of stake in the pharmacy business. This can further solidify the companyâ€™s already strong liquidity position.
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ESG Profile of AHEL

CRISIL Ratings believes that Apollo Hospitals enterprise Limitedâ€™s Environment, Social, and Governance (ESG) profile supports its credit risk profile.
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The hospital sector has low to moderate impact on the environment due to its energy-efficient operations, resulting in low emissions. Additionally, it exhibits comparatively lower water consumption and waste generation, higher biomedical waste. However, the sector has moderate social impact, given the nature of its operations and their influence on the surrounding community.
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Key ESG highlights:

- AHEL is pursuing energy-saving measures with a goal to procure 25% of its total energy from renewable sources. However, fiscal 2023 saw an increase in emission intensities compared to the previous year due to a decline in renewable energy consumption.
- AHEL has experienced an increase in water consumption intensity. Nevertheless, the company has proactively initiated water conservation measures, including rainwater harvesting, treating used water, and repurposing it for domestic use. Furthermore, AHEL has set a target to reduce water consumption by 10% from fiscal 2023 baseline.
- AHELâ€™s gender diversity has witnessed a decline in fiscal 2023. The attrition rate has shown an upward trend, surpassing the industry average. AHEL has addressed all the customer grievances and maintained a consistent approach to grievance resolution over the years.
- The Companyâ€™s governance structure is characterized by 55% of its board comprising independent directors, split in chairman and CEO position, strong investor grievance redressal and extensive financial and non-financial disclosures.

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There is growing importance of ESG among investors and lenders. AHELâ€™s commitment to ESG principles will play a key role in enhancing stakeholder confidence, given its high share of shareholding by foreign portfolio investors and moderate share of market borrowings in its overall debt.

Outlook: Stable

AHEL is expected to continue to benefit from its strong market position in the healthcare space, stable pharmacy business and good operating efficiencies over the medium term. Its financial risk profile will also remain healthy, supported by strong cash generation, amid sizeable capital spending.

Rating Sensitivity Factors

Upward factors

- Health revenue growth, and better operating profitability and return on capital employed on a steady basis
- Leverage (gross debt/EBITDA) sustaining below 1.5 times, supported by strong cash generation, including due to turnaround of the pharmacy business, and prudent capex spend.

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Downward factors

- Significant weakening of operating performance with lower-than-expected profitability
- Higher than debt levels due to material increase in capex or sizeable acquisitions or investments in new ventures, leading to increase in gross debt/EBITDA to over -2.5-2.75 times, on sustained basis.

About the Company

AHEL started operations in 1983 with Apollo Chennai, the first corporate hospital in India. As on September 30, 2023, the company had 71 hospitals with total capacity of 9,155 beds. Of these, 44 hospitals are owned, including subsidiaries, JVs and associates, 5 hospitals are managed. It also has 22 day-care or cradles with 634 beds. Besides its hospital-based pharmacies, AHEL runs a wholesale pharmacy distribution business (exclusive supplier to Apollo Pharmacy Ltd), operating a retail pharmacy chain of above 5,500 stores as on September 30, 2023. As of December 2023, Dr P C Reddy (the promoter) and his family members collectively owned 29.33% of the equity shares of AHEL.

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AHEL reported profit after tax (PAT) of Rs. 422 crore in H1FY24 on net revenues of Rs. 9265 crore, compared with PAT of Rs. 537 crore in H1FY23 on net revenues of Rs. 8047 crore.

Key Financial Indicators - Consolidated (CRISIL Ratings-adjusted numbers)

Particulars	Unit	2023*	2022*
Revenue	Rs.Crore	16,627	14,677
Profit After Tax (PAT)	Rs.Crore	844	1108
PAT Margin	%	5.1	7.6
Adjusted debt/adjusted networth	Times	0.80	0.84
Adjusted debt/adjusted networth (excluding lease liability)	Times	0.50	0.54
Interest coverage	Times	5.46	5.82

**As per IND AS 116*

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Debentures#	NA	NA	NA	19.0	Simple	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	Mar-33	300.0	NA	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	May-27	39.0	NA	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	June-28	72.0	NA	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	Sept-27	100.0	NA	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	Feb-32	100.0	NA	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	Oct-28	232.0	NA	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	June-31	336.0	NA	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	May-32	350.0	NA	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	Oct-31	313.0	NA	CRISIL AA+/Stable
NA	Rupee term loan	NA	NA	Nov-33	300.0	NA	CRISIL AA+/Stable
NA	Proposed Rupee Term Loan	NA	NA	NA	358.0	NA	CRISIL AA+/Stable
NA	Working capital demand loan	NA	NA	NA	150.0	NA	CRISIL A1+
NA	Working capital demand loan	NA	NA	NA	150.0	NA	CRISIL A1+

#Yet to be placed

Annexure - List of Entities Consolidated

Name of the company	Type of consolidation	Rationale for consolidation
Apollo Home Health Care (India) Ltd	Full consolidation	All these companies have significant managerial, operational and financial linkages
Apollo Home Healthcare Ltd	Full consolidation	
AB Medical Centres Ltd	Full consolidation	
Apollo Health and Lifestyle Ltd	Full consolidation	
Samudra Healthcare Enterprise Ltd	Full consolidation	
Imperial Hospital & Research Centre Ltd	Full consolidation	
Apollo Hospital (UK) Ltd	Full consolidation	
Apollo Nellore Hospitals Ltd	Full consolidation	
Apollo Rajshree Hospitals Pvt Ltd	Full consolidation	
Apollo Lavasa Health Corporation Ltd	Full consolidation	
Apollo Hospitals Singapore Pte Ltd	Full consolidation	
Sapien Biosciences Pvt Ltd	Full consolidation	
Total Health	Full consolidation	
Apollo Health Care Technology Solutions Ltd	Full consolidation	
Apollo Assam Hospitals Ltd	Full consolidation	
Apollo Hospitals International Ltd	Full consolidation	
Future Parking Pvt Ltd	Full consolidation	
Apollo CVHF Ltd	Full consolidation	
Apollo Dialysis Pvt Ltd	Full consolidation	
Alliance Dental Care Ltd	Full consolidation	
Apollo Sugar Clinics Ltd	Full consolidation	
Apollo Speciality Hospitals Pvt Ltd	Full consolidation	
Apollo Bangalore Cradle Ltd	Full consolidation	
Kshema Healthcare Pvt Ltd	Full consolidation	
Apollo Multi Speciality Hospitals Ltd	Full consolidation	
Apollo Medics International Lifesciences Ltd	Full consolidation	
Nayati Healthcare and Research NCR Ltd	Full consolidation	
Kerala First Health Services Private Limited	Full consolidation	
Apollo Health Co Limited	Full consolidation	
Indraprastha Medical Corporation Ltd	Moderate consolidation	
Apollo Amrish Oncology Services Pvt Ltd	Moderate consolidation	
Family Health Plan Insurance (TPA) Ltd	Moderate consolidation	
Stemcyte India Therapeutics Pvt Ltd	Moderate consolidation	

Annexure - Rating History for last 3 Years

Â	Current			2024 (History)		2023Â		2022Â		2021Â		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	2800.0	CRISIL AA+/Stable / CRISIL A1+	Â	--	17-01-23	CRISIL AA+/Stable / CRISIL A1+	19-07-22	CRISIL AA+/Stable / CRISIL A1+	27-01-21	CRISIL A1+ / CRISIL AA/Stable	CRISIL A1+ / CRISIL AA/Stable
Â	Â	Â	--	Â	--	Â	--	24-06-22	CRISIL AA+/Stable / CRISIL A1+	Â	--	--
Â	Â	Â	--	Â	--	Â	--	31-01-22	CRISIL AA+/Stable / CRISIL A1+	Â	--	--
Fixed Deposits	LT	Â	--	Â	--	Â	--	24-06-22	Withdrawn	27-01-21	F AA+/Stable	F AA+/Stable
Â	Â	Â	--	Â	--	Â	--	31-01-22	F AA+/Stable	Â	--	--
Non Convertible Debentures	LT	19.0	CRISIL AA+/Stable	Â	--	17-01-23	CRISIL AA+/Stable	19-07-22	CRISIL AA+/Stable	27-01-21	CRISIL AA/Stable	Withdrawn
Â	Â	Â	--	Â	--	Â	--	24-06-22	CRISIL AA+/Stable	Â	--	--
Â	Â	Â	--	Â	--	Â	--	31-01-22	CRISIL AA+/Stable	Â	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Rupee Term Loan	**358**	**Not Applicable**	**CRISIL AA+/Stable**
Rupee Term Loan	**300**	**Bank of India**	**CRISIL AA+/Stable**
Rupee Term Loan	**300**	**Axis Bank Limited**	**CRISIL AA+/Stable**
Rupee Term Loan	**336**	**State Bank of India**	**CRISIL AA+/Stable**
Rupee Term Loan	**39**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA+/Stable**
Rupee Term Loan	**313**	**HDFC Bank Limited**	**CRISIL AA+/Stable**
Rupee Term Loan	**100**	**ICICI Bank Limited**	**CRISIL AA+/Stable**
Rupee Term Loan	**100**	**NIIF Infrastructure Finance Limited**	**CRISIL AA+/Stable**

Rupee Term Loan	**232**	**State Bank of India**	**CRISIL AA+/Stable**
Rupee Term Loan	**350**	**State Bank of India**	**CRISIL AA+/Stable**
Rupee Term Loan	**72**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA+/Stable**
Working Capital Demand Loan	**150**	**HDFC Bank Limited**	**CRISIL A1+**
Working Capital Demand Loan	**150**	**Axis Bank Limited**	**CRISIL A1+**

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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