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Q4FY20 result review
and earnings revision

Pharmaceuticals

Target price Rs153

Earnings revision

(%)	FY21E	FY22E
Sales	(10.1)	(7.7)
EBITDA	(19.3)	(10.5)

Target price revision

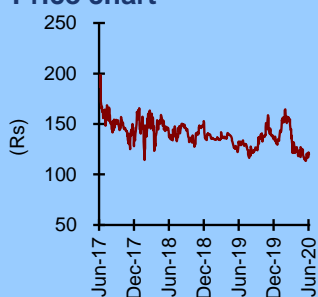
Rs153 from Rs174

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	31.2	31.2	31.2
Institutional investors	50.5	49.6	51.6
MFs and others	3.7	5.0	7.1
Banks, FI's	8.0	1.3	1.3
FII's	38.8	43.3	43.2
Others	18.3	19.3	17.2

Source: BSE India

Price chart



INDIA

Fortis Healthcare

BUY

Maintained

Rs122

Q4 impacted by COVID-19; cost control continues

Fortis Healthcare (FHL) reported weak Q4FY20 performance as it was impacted by lockdown in Mar'20. We expect the performance to remain muted in near term, however, business is recovering on monthly basis from the low in April and normalisation is likely to happen in H2FY21. Revenue declined 6.0% YoY to Rs11.1bn with hospitals declining 0.6% and SRL (diagnostics) dropping 8.0%. Focus on cost control helped in cushioned the impact on margin. EBITDA margin improved 160bps YoY but declined 210bps QoQ. Company has shown material operational improvement in terms of occupancy and ARPOB at hospitals with EBITDA margin expansion in hospitals and diagnostics led by cost rationalisation and operating leverage. Management has taken various steps on personnel cost front to reduce cost burden further. Maintain BUY.

- **Revenue impacted by COVID-19 related disruptions:** Revenue decline stood at 6.0% YoY, due to 8.0% drop in SRL revenue and flattish hospital revenue. The decline is primarily attributed to the lockdown which affected the hospitals and diagnostics businesses negatively. The occupancy was down to 65% in Q4FY20 vs 68% YoY and QoQ. Management has guided for significant business decline in Q1 and gradual recovery from Q2FY21. Fortis has allocated ~1,000 bed for COVID-19 treatment. The occupancy fell to 29% in Apr which improved to 35% in May and further increased to ~45% in June till date. We expect Fortis to witness marginal decline in consolidated revenue in FY21E due to COVID-19.
- **Focus continues on cost control:** EBITDA margin improved 160bps YoY to 11.3% with the absence of BT cost and cost control initiatives. However, EBITDA margin was ~300bps below estimate due to lower revenue. Management continues to focus on cost control initiatives and has taken various steps to reduce fixed hospital personnel cost. Lot of steps have been taken in diagnostic business as well to reduce operating costs without impacting the business momentum. We believe these cost control measures would help in maintaining EBITDA margin in FY21E despite revenue decline and 200bps improvement in FY22E.
- **Outlook:** The new management has been focusing on stabilising the operations and cost rationalisation, which started bearing fruits but COVID-19 impacted the business temporarily. We expect business to normalise in H2FY21 and estimate revenue, EBITDA and PAT CAGRs at 6.9%, 16.0% and 80.9% respectively over FY20-FY22E. Supreme Court hearing on the pending open offer (at Rs170/share) by IHH is scheduled on 6th July 2020.
- **Valuations and risks:** We lower revenue/EBITDA estimates by 7-10/10-19% for FY21-FY22E due to COVID-19 impact. Maintain **BUY** with revised target of Rs153/share based on EV/EBITDA of 15x hospital business and 18x SRL on FY22E EBITDA (earlier Rs174/share). Key downside risks to our call are: ongoing regulatory concerns and delay in margin recovery.

Market Cap	Rs92bn/US\$1.2bn
Reuters/Bloomberg	FOHE.BO/FORH IN
Shares Outstanding (mn)	755.0
52-week Range (Rs)	164/114
Free Float (%)	68.8
FII (%)	43.2
Daily Volume (USD/'000)	3,100
Absolute Return 3m (%)	0.6
Absolute Return 12m (%)	(6.7)
Sensex Return 3m (%)	18.8
Sensex Return 12m (%)	(11.5)

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	44,694	46,310	45,697	52,899
Net Income (Rs mn)	(2,989)	566	1,059	2,771
EPS (Rs)	0.5	1.1	1.4	3.7
% Chg YoY	(134.9)	128.5	25.0	161.7
P/E (x)	248.5	108.7	87.0	33.2
CEPS (Rs)	3.6	5.0	5.5	7.9
EV/E (x)	45.2	17.2	16.8	12.1
Dividend Yield (%)	-	-	-	-
RoCE (%)	8.7	2.4	2.5	4.2
RoE (%)	0.7	1.3	1.6	4.0

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Highlights of Q4FY20 result and earnings call

Company reported Q4FY20 results with net sales declining 6.0% YoY to Rs11.1bn.

- **Hospital business** remained flat YoY to Rs9.1bn. Approximately 66.3% of the hospital revenue was contributed by top 10 of its facilities. Overall occupancy rate declined from 68% to 65% on a yearly and a sequential basis. ARPOB for the group rose 5.2% to Rs16.1mn from Rs15.3mn YoY whereas ALOS reduced to 3.29 from 3.34.

This quarter was severely impacted by outbreak of COVID-19 and the nationwide lockdown announced post it. While Jan'20 and Feb'20 performed well Mar'20 was severely affected which resulted in muted performance. Company is witnessing a gradual recovery in the months of May'20 and June'20 after hitting a low in Apr'20. At the moment company has dedicated 1,000 beds for COVID-19 which has nearly 60% occupancy while non-COVID-19 beds have nearly 40% occupancy taking the average occupancy to 45%. Company is nearing break even for the hospital segment at these levels.

Company has witnessed that hospitals in Noida, Faridabad, BG Road and FMRI have improved their margin profile while it deteriorated for Shalimar Bagh.

- **Medical tourism** (international patients) witnessed a substantia decline during the quarter due to COVID-19. It will take substantial time to normalise.
- **Diagnostic business** declined 8.0% YoY to Rs2.0bn. Company performed 6.8mn tests registering a decline of 8.5% YoY. Average realisation grew 1.8% YoY to Rs342 per test. This segment witnessed a steady performance in Jan'20 and Feb'20 with a growth of 5.2%. B2B grew 2.0% while B2C grew 9.0%. However, the lockdown in Mar'20 halted new footfalls and business completely. Hence, revenue declined 29% and severely affecting revenue for the quarter. In Apr'20, company was able to reach 25% of pre-lockdown revenues which have gradually improved to ~80% at the moment. Losses reported in Apr'20 were close to break even in May'20.
- The reduced or capped prices of COVID-19 testing is just covering the variable cost and company is not making losses at this level. However, there is no cap on the input prices. Hence, Fortis is negotiating with the government and vendors to reduce these prices.
- Company has reduced ~25% costs at the corporate level. Several senior personnel have taken a temporary voluntary salary cut.
- **EBITDA margin** improved 160bps YoY to 11.3% (-210bps QoQ) driven by cost control initiatives implemented in both hospital and diagnostics segments.
- Company has deferred capex plans and has sufficient funding to run the operations in the near term. It is not looking at raising funds. Its net debt stands close to Rs10bn at the moment.
- **Adjusted PAT** declined from Rs1.4bn in Q4FY19 to a loss of Rs445mn in Q4FY20.

Table 1: Q4FY20 result review*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY % Chg	Q3FY20	QoQ % Chg
Net Sales	11,129	11,842	(6.0)	11,689	(4.8)
EBITDA	1,258	1,150	9.4	1,570	(19.9)
Other income	204	3,433	(94.0)	91	125.0
PBIDT	1,462	4,583	(68.1)	1,660	(11.9)
Depreciation	801	600	33.5	699	14.5
Interest	570	648	(12.2)	480	18.7
PBT	92	3,338	(97.2)	(539)	(117.0)
Tax	504	1,826	(72.4)	155	226.1
Minority Interest	33	156	(79.0)	70	(53.4)
Adjusted PAT	(445)	1,355	(132.9)	549	(181.0)
Extra ordinary income/ (exp.)	-	3		(1,020)	
Reported PAT	(445)	1,356	(132.8)	(763)	(41.7)
EBITDA margins (%)	11.3	9.7	160bps	13.4	(210)bps

Source: Company data, I-Sec research

Table 2: Revenue mix*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY % Chg	Q3FY20	QoQ % Chg
Hospitals	9,133	9,185	(0.6)	9,535	(4.2)
SRL	1,995	2,168	(8.0)	2,146	(7.0)

Source: Company data, I-Sec research

Revising sales and earnings estimates

For FY20-FY22E, we forecast net sales and EBITDA to increase at CAGRs of 6.9% and 16.0%, respectively. We cut revenue/EBITDA estimates by 7-10/10-19% for FY21-FY22E due to COVID-19 impact.

Table 3: Earnings revision

	FY21E	FY22E
Total sales (Rs mn)		
Sales – new	45,697	52,899
Sales – old	50,846	57,288
Change (%)	(10.1)	(7.7)
EBITDA (Rs mn)		
EBITDA – new	6,055	8,199
EBITDA – old	7,500	9,166
Change (%)	(19.3)	(10.5)

Source: I-Sec research

Valuations

We expect EBITDA to register a CAGR of 16.0% over FY20-FY22E driven by revenue CAGR of 6.9%. Margin would expand to 15.5% in FY22 from 13.2% in FY20. This would be driven by operating leverage and cost rationalisation.

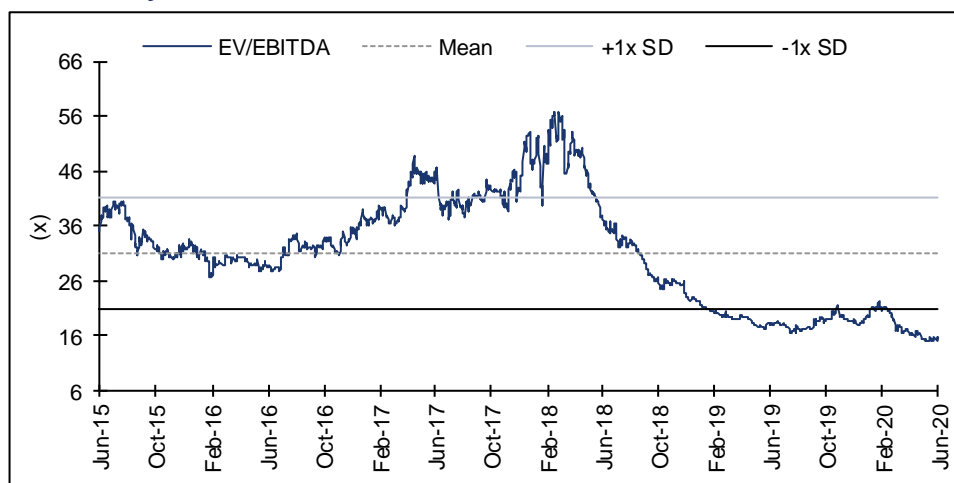
The stock currently trades at EV/EBITDA of 16.8x FY21E and 12.1x FY22E. We remain optimistic on the future outlook considering strong growth in the hospitals with increasing occupancy & ARPOB, inherent traction in the diagnostic industry for SRL and the cost control initiatives employed by the current management. Maintain **BUY** with a revised target price of Rs153/share (earlier: Rs174/share) based on SoTP (EV/EBITDA of 15x hospital business and 18x SRL).

Table 4: Sum of the parts (SoTP) valuation

	FY22E EBITDA	(x)	Values (Rs mn)
Hospitals	5,735	15	86,031
SRL	2,339	18	42,110
EV			128,141
Less: Net debt			12,896
Implied Mkt Cap			115,246
Total value per share			153

Source: Company data, I-Sec research

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Summary financials (consolidated)

Table 5: Profit & Loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Hospitals	35,269	37,520	36,552	42,265
SRL	8,770	8,790	9,145	10,634
Total Revenue	44,694	46,310	45,697	52,899
yoy Growth%	(2.0)	3.6	(1.3)	15.8
Total Op. Exp.	42,441	40,228	39,642	44,700
EBITDA	2,252	6,082	6,055	8,199
Margins %	5.0	13.1	13.3	15.5
YoY Growth%	(15.9)	160.6	0.9	17.0
Depreciation	2,329	2,917	3,105	3,227
EBIT	(77)	3,165	2,950	4,973
Other Income	4,568	648	526	526
Interest	3,368	2,051	1,613	1,346
Exceptional Items (net)	-2224	-402	0	0
PBT	(1,101)	1,360	1,864	4,153
Tax	1,136	459	470	1,046
Tax Rate (%)	(103.2)	33.7	25.2	25.2
Profit from associates	-	-	-	-
Minority Interest	752	336	336	336
Reported PAT	(2,989)	566	1,059	2,771
Adj PAT	371	832	1,059	2,771
Net Margins (%)	(6.7)	1.2	2.3	5.2

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Paid-up Capital	7,550	7,550	7,550	7,550
Reserves & Surplus	58,458	59,061	60,120	62,891
Total Equity	66,008	66,611	67,669	70,440
Minority Interest	5,117	5,445	5,781	6,116
Total Debt	19,086	15,585	13,738	10,738
Deferred Liabilities	155	(813)	(813)	(813)
Capital Employed	90,366	86,829	86,376	86,482
Current Liabilities	24,493	22,721	22,592	23,888
Total Liabilities	114,859	109,549	108,967	110,370
Net Fixed Assets	89,265	90,061	88,456	88,729
Investments	1,903	1,745	1,643	1,643
Inventory	565	782	771	893
Debtors	5,424	4,588	4,526	5,239
Other Current Assets	8,350	9,714	9,696	9,906
Cash and Equivalents	9,351	2,660	3,875	3,959
Total Cur. Assets	25,594	19,488	20,511	21,640
Total Assets	114,859	109,549	108,967	110,370

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
PBT (Adj. for Extraordinary)	(1,101)	1,374	1,864	4,153
Depreciation	2,329	2,917	3,105	3,227
Net Chg in WC	(1,786)	(1,255)	(24)	92
Taxes	(2,478)	(3,395)	(470)	(1,046)
Others	(2,119)	23	(14)	159
CFO	(5,154)	(335)	4,461	6,584
Capex	(46,546)	(627)	(1,500)	(3,500)
Net Investments made	2,950	1,091	102	-
Others	10,369	140	-	-
CFI	(33,227)	604	(1,398)	(3,500)
Change in Share capital	40,098	0	-	-
Change in Debts	6,481	(6,568)	(1,847)	(3,000)
Div. & Div Tax	-	-	-	-
Others	(1,836)	400	-	-
CFB	44,743	(6,168)	(1,847)	(3,000)
Total Cash Generated	6,362	(5,899)	1,216	84
Cash Opening Balance	2,197	8,559	2,660	3,875
Cash Closing Balance	8,559	2,660	3,875	3,959

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Adj EPS	0.5	1.1	1.4	3.7
YoY Growth%	(134.9)	128.5	25.0	161.7
Cash EPS	3.6	5.0	5.5	7.9
EBITDA - Core (%)	5.0	13.1	13.3	15.5
NPM (%)	(6.7)	1.2	2.3	5.2
Net Debt to Equity (x)	0.1	0.2	0.1	0.1
P/E (x)	248.5	108.7	87.0	33.2
EV/EBITDA Core (x)	45.2	17.2	16.8	12.1
P/BV (x)	1.4	1.4	1.4	1.3
EV/Sales (x)	2.3	2.3	2.2	1.9
RoCE (%)	8.7	2.4	2.5	4.2
RoE (%)	0.7	1.3	1.6	4.0
RoIC (%)	7.5	1.9	1.9	3.7
Book Value (Rs)	87.4	88.2	89.6	93.3
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div. Yield (%)	-	-	-	-
Asset Turnover Ratio	0.5	0.4	0.4	0.5
Avg Collection days	5.0	5.3	6.2	5.7
Avg Inventory days	61.9	53.2	47.3	43.8

Source: Company data, I-Sec research

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