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Q1FY21 result review  
and earnings revision

## Pharmaceuticals

Target price Rs160

### Earnings revision

| (%)    | FY21E  | FY22E |
|--------|--------|-------|
| Sales  | (4.0)  | (0.7) |
| EBITDA | (16.7) | (0.7) |

### Target price revision

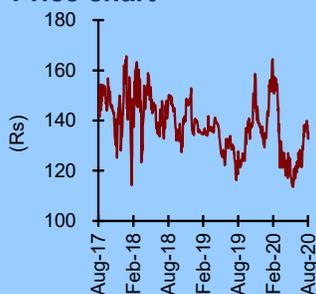
Rs160 from Rs153

### Shareholding pattern

|                         | Dec '19 | Mar '20 | Jun '20 |
|-------------------------|---------|---------|---------|
| Promoters               | 31.2    | 31.2    | 31.2    |
| Institutional investors | 49.6    | 51.6    | 50.8    |
| MFs and others          | 5.0     | 7.1     | 8.4     |
| Banks, FI's             | 1.3     | 1.3     | 1.4     |
| FII's                   | 43.3    | 43.2    | 41.0    |
| Others                  | 19.3    | 17.2    | 18.0    |

Source: BSE India

### Price chart



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## INDIA

## Fortis Healthcare

**BUY**

**Maintained**

**Rs136**

COVID-19 impacted performance; focus on cost control

Fortis Healthcare (FHL) reported weak Q1FY21 performance as it was impacted by lockdown across the country. We expect the performance to gradually improve hereon as recovery was visible in June-July'20 in terms of occupancy and pathology tests. We believe normalisation is likely to happen in H2FY21. Revenue declined 46.8% YoY to Rs6.1bn with hospitals declining 46.5% and SRL (diagnostics) dropping 47.8%. This led to negative EBITDA margin of 17.0% (I-Sec: 12.0%) despite meaningful cost control on S,G&A front. We expect gradual 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 also taken various steps to reduce costs further by pruning personnel cost. **Maintain BUY.**

- ▶ **Revenue impacted by lockdown:** Revenue decline stood at 46.8% YoY, due to 47.8% drop in SRL revenue and 46.5% decline in hospital revenue. The decline is primarily attributed to the lockdown which affected the hospitals and diagnostics businesses negatively. The occupancy was down to 37% in Q1FY21 vs 66% YoY and 65% QoQ. COVID-19 treatments and tests contributed ~8% and ~29% of hospitals and diagnostic revenue respectively. Fortis has allocated 1,260 beds for COVID-19 treatment. The occupancy has improved from 29% in Apr'20 to 51% in July'20. We expect Fortis to witness 5.3% decline in consolidated revenue in FY21E due to COVID-19.
- ▶ **Focus on cost control:** EBITDA margin was at negative 17.0%, 500bps lower vs our estimate, due to lower revenue. However, management continues to focus on cost control and has taken various steps to reduce fixed hospital personnel cost which is visible in Q1FY21. Further, S,G&A expenses were down 31% YoY, partially driven by several steps of cost control initiatives taken in diagnostic business as well to reduce operating costs. We believe these cost control measures would help in improving EBITDA margin in FY22E by 230bps over FY20.
- ▶ **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 6.5%, 15.6% and 78.8% respectively over FY20-FY22E. Supreme Court judgement on the pending open offer (at Rs170/share) by IHH is still awaited.
- ▶ **Valuations and risks:** We lower revenue/EBITDA estimates by 4.0/16.7% for FY21E and largely maintain FY22E estimates. Maintain **BUY** with revised target of Rs160/share based on EV/EBITDA of 16x hospital business and 18x SRL on FY22E EBITDA (earlier Rs155/share). Key downside risks to our call are: ongoing regulatory concerns and delay in margin recovery.

|                         |                   |                    |             |             |              |              |
|-------------------------|-------------------|--------------------|-------------|-------------|--------------|--------------|
| Market Cap              | Rs102bn/US\$1.4bn | <b>Year to Mar</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> |
| Reuters/Bloomberg       | FOHE.BO/FORH IN   | Revenue (Rs mn)    | 44,694      | 46,323      | 43,863       | 52,539       |
| Shares Outstanding (mn) | 755.0             | Net Income (Rs mn) | (2,989)     | 579         | 283          | 2,709        |
| 52-week Range (Rs)      | 164/114           | EPS (Rs)           | 0.5         | 1.1         | 0.4          | 3.6          |
| Free Float (%)          | 68.8              | % Chg YoY          | (134.9)     | 128.5       | (66.6)       | 858.2        |
| FII (%)                 | 41.1              | P/E (x)            | 277.0       | 121.2       | 363.2        | 37.9         |
| Daily Volume (USD/'000) | 3,135             | CEPS (Rs)          | 3.6         | 5.0         | 4.5          | 7.8          |
| Absolute Return 3m (%)  | 15.0              | EV/E (x)           | 50.4        | 19.0        | 22.3         | 13.6         |
| Absolute Return 12m (%) | 6.0               | Dividend Yield (%) | -           | -           | -            | -            |
| Sensex Return 3m (%)    | 22.5              | RoCE (%)           | 8.7         | 2.4         | 1.7          | 4.2          |
| Sensex Return 12m (%)   | 2.7               | RoE (%)            | 0.7         | 1.3         | 0.4          | 4.0          |

**Table 1: Q1FY21 result review***(Rs mn, year ending March 31)*

|                               | Q1FY21         | Q1FY20        | YoY % Chg     | Q4FY20        | QoQ % Chg     |
|-------------------------------|----------------|---------------|---------------|---------------|---------------|
| <b>Net Sales</b>              | <b>6,060</b>   | <b>11,383</b> | <b>(46.8)</b> | <b>11,129</b> | <b>(45.6)</b> |
| EBITDA                        | (1,033)        | 1,423         | NA            | 1,258         | NA            |
| Other income                  | 73             | 224           | (67.3)        | 204           | (64.2)        |
| <b>PBIDT</b>                  | <b>(960)</b>   | <b>1,647</b>  | <b>NA</b>     | <b>1,462</b>  | <b>NA</b>     |
| Depreciation                  | 717            | 710           | 1.0           | 801           | (10.5)        |
| Interest                      | 411            | 509           | (19.3)        | 570           | (27.9)        |
| <b>PBT</b>                    | <b>(2,083)</b> | <b>523</b>    | <b>NA</b>     | <b>92</b>     | <b>NA</b>     |
| Tax                           | (204)          | (257)         | NA            | 504           | NA            |
| Minority Interest             | (90)           | 102           | NA            | 33            | NA            |
| <b>Adjusted PAT</b>           | <b>(1,793)</b> | <b>536</b>    | <b>NA</b>     | <b>(445)</b>  | <b>NA</b>     |
| Extra ordinary income/ (exp.) | 5              | 95            |               | -             |               |
| <b>Reported PAT</b>           | <b>(1,789)</b> | <b>678</b>    | <b>NA</b>     | <b>(445)</b>  | <b>NA</b>     |
| EBITDA margins (%)            | (17.0)         | 12.5          | (2950)bps     | 11.3          | (2830)bps     |

Source: Company data, I-Sec research

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

|           | Q1FY21 | Q1FY20 | YoY % Chg | Q4FY20 | QoQ % Chg |
|-----------|--------|--------|-----------|--------|-----------|
| Hospitals | 4,883  | 9,130  | (46.5)    | 9,133  | (46.5)    |
| SRL       | 1,175  | 2,250  | (47.8)    | 1,995  | (41.1)    |

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 6.5% and 15.6%, respectively. We lower revenue/EBITDA estimates by 4.0/16.7% for FY21E due to COVID-19 impact and largely maintain FY22E estimates.

**Table 3: Earnings revision**

|                            | FY21E  | FY22E  |
|----------------------------|--------|--------|
| <b>Total sales (Rs mn)</b> |        |        |
| Sales – new                | 43,863 | 52,539 |
| Sales – old                | 45,697 | 52,899 |
| Change (%)                 | (4.0)  | (0.7)  |
| <b>EBITDA (Rs mn)</b>      |        |        |
| EBITDA – new               | 5,044  | 8,143  |
| EBITDA – old               | 6,055  | 8,199  |
| Change (%)                 | (16.7) | (0.7)  |

Source: I-Sec research

## Valuations

We expect EBITDA to register a CAGR of 15.6% over FY20-FY22E driven by revenue CAGR of 6.5%. Margin would expand to 15.5% in FY22 from 13.2% in FY20. This would be driven by operating leverage and cost rationalisation.

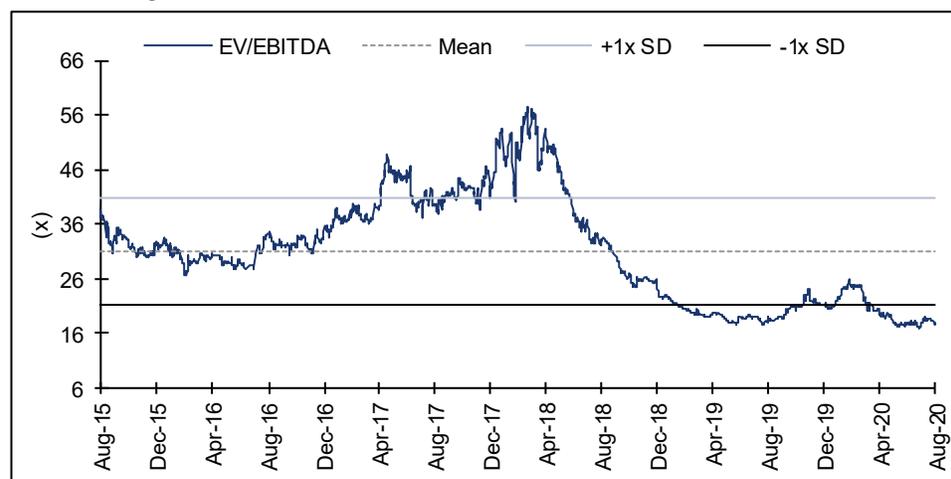
The stock currently trades at EV/EBITDA of 22.3x FY21E and 13.6x FY22E. We remain optimistic on the future outlook considering strong growth in the hospitals with increasing occupancy & ARPOB, inherent traction in the diagnostic industry for SRL and the cost control initiatives employed by the current management. Maintain **BUY** with a revised target price of Rs160/share (earlier: Rs153/share) based on SoTP (EV/EBITDA of 16x hospital business and 18x SRL).

**Table 4: Sum of the parts (SoTP) valuation**

|                              | FY22E EBITDA | (x) | Values (Rs mn) |
|------------------------------|--------------|-----|----------------|
| Hospitals                    | 5,834        | 16  | 93,339         |
| SRL                          | 2,305        | 18  | 41,496         |
| EV                           |              |     | <b>134,835</b> |
| Less: Net debt               |              |     | 13,900         |
| Implied Mkt Cap              |              |     | <b>120,935</b> |
| <b>Total value per share</b> |              |     | <b>160</b>     |

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 &amp; Loss statement

(Rs mn, year ending March 31)

|                         | FY19           | FY20          | FY21E         | FY22E         |
|-------------------------|----------------|---------------|---------------|---------------|
| Hospitals               | 35,269         | 37,520        | 35,644        | 42,060        |
| SRL                     | 8,770          | 8,790         | 8,219         | 10,479        |
| <b>Total Revenue</b>    | <b>44,694</b>  | <b>46,323</b> | <b>43,863</b> | <b>52,539</b> |
| yoy Growth%             | (2.0)          | 3.6           | (5.3)         | 19.8          |
| <b>Total Op. Exp.</b>   | <b>42,441</b>  | <b>40,228</b> | <b>38,818</b> | <b>44,395</b> |
| <b>EBITDA</b>           | <b>2,252</b>   | <b>6,095</b>  | <b>5,044</b>  | <b>8,143</b>  |
| Margins %               | 5.0            | 13.2          | 11.5          | 15.5          |
| YoY Growth%             | (15.9)         | 161.1         | (12.6)        | 34.8          |
| Depreciation            | 2,329          | 2,917         | 3,092         | 3,215         |
| <b>EBIT</b>             | <b>(77)</b>    | <b>3,178</b>  | <b>1,952</b>  | <b>4,929</b>  |
| Other Income            | 4,568          | 648           | 526           | 526           |
| Interest                | 3,368          | 2,051         | 1,652         | 1,386         |
| Exceptional Items (net) | -2224          | -402          | 0             | 0             |
| <b>PBT</b>              | <b>(1,101)</b> | <b>1,374</b>  | <b>826</b>    | <b>4,070</b>  |
| Tax                     | 1,136          | 459           | 208           | 1,026         |
| Tax Rate (%)            | (103.2)        | 33.4          | 25.2          | 25.2          |
| Profit from associates  | -              | -             | -             | -             |
| Minority Interest       | 752            | 336           | 336           | 336           |
| <b>Reported PAT</b>     | <b>(2,989)</b> | <b>579</b>    | <b>283</b>    | <b>2,709</b>  |
| <b>Adj PAT</b>          | <b>371</b>     | <b>847</b>    | <b>283</b>    | <b>2,709</b>  |
| Net Margins (%)         | (6.7)          | 1.3           | 0.6           | 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         | 59,344         | 62,053         |
| <b>Total Equity</b>      | <b>66,008</b>  | <b>66,611</b>  | <b>66,894</b>  | <b>69,602</b>  |
| Minority Interest        | 5,117          | 5,445          | 5,781          | 6,116          |
| <b>Total Debt</b>        | <b>20,103</b>  | <b>15,943</b>  | <b>14,096</b>  | <b>11,096</b>  |
| Deferred Liabilities     | 155            | (813)          | (813)          | (813)          |
| <b>Capital Employed</b>  | <b>91,382</b>  | <b>87,186</b>  | <b>85,957</b>  | <b>86,001</b>  |
| Current Liabilities      | 23,477         | 22,363         | 22,788         | 23,547         |
| <b>Total Liabilities</b> | <b>114,859</b> | <b>109,549</b> | <b>108,745</b> | <b>109,548</b> |
| <b>Net Fixed Assets</b>  | <b>89,265</b>  | <b>90,061</b>  | <b>88,469</b>  | <b>88,754</b>  |
| Investments              | 1,903          | 1,745          | 1,497          | 1,497          |
| Inventory                | 565            | 782            | 740            | 887            |
| Debtors                  | 5,424          | 4,588          | 4,344          | 5,203          |
| Other Current Assets     | 8,350          | 9,714          | 9,642          | 9,895          |
| Cash and Equivalents     | 9,351          | 2,660          | 4,053          | 3,312          |
| <b>Total Cur. Assets</b> | <b>25,594</b>  | <b>19,488</b>  | <b>20,276</b>  | <b>20,794</b>  |
| <b>Total Assets</b>      | <b>114,859</b> | <b>109,549</b> | <b>108,745</b> | <b>109,548</b> |

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          | 826            | 4,070          |
| Depreciation                 | 2,329           | 2,917          | 3,092          | 3,215          |
| Net Chg in WC                | (1,786)         | (1,255)        | 836            | (692)          |
| Taxes                        | (2,478)         | (3,395)        | (208)          | (1,026)        |
| Others                       | (2,119)         | 23             | (54)           | 191            |
| <b>CFO</b>                   | <b>(5,154)</b>  | <b>(335)</b>   | <b>4,492</b>   | <b>5,758</b>   |
| Capex                        | (46,546)        | (627)          | (1,500)        | (3,500)        |
| Net Investments made         | 2,950           | 1,091          | 249            | -              |
| Others                       | 10,369          | 140            | -              | -              |
| <b>CFI</b>                   | <b>(33,227)</b> | <b>604</b>     | <b>(1,251)</b> | <b>(3,500)</b> |
| 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            | -              | -              |
| <b>CFB</b>                   | <b>44,743</b>   | <b>(6,168)</b> | <b>(1,847)</b> | <b>(3,000)</b> |
| <b>Total Cash Generated</b>  | <b>6,362</b>    | <b>(5,899)</b> | <b>1,394</b>   | <b>(742)</b>   |
| <b>Cash Opening Balance</b>  | <b>2,197</b>    | <b>8,559</b>   | <b>2,660</b>   | <b>4,053</b>   |
| <b>Cash Closing Balance</b>  | <b>8,559</b>    | <b>2,660</b>   | <b>4,053</b>   | <b>3,312</b>   |

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

|                        | FY19    | FY20  | FY21E  | FY22E |
|------------------------|---------|-------|--------|-------|
| Adj EPS                | 0.5     | 1.1   | 0.4    | 3.6   |
| YoY Growth%            | (134.9) | 128.5 | (66.6) | 858.2 |
| Cash EPS               | 3.6     | 5.0   | 4.5    | 7.8   |
| EBITDA - Core (%)      | 5.0     | 13.2  | 11.5   | 15.5  |
| NPM (%)                | (6.7)   | 1.3   | 0.6    | 5.2   |
| Net Debt to Equity (x) | 0.2     | 0.2   | 0.2    | 0.1   |
| P/E (x)                | 277.0   | 121.2 | 363.2  | 37.9  |
| EV/EBITDA Core (x)     | 50.4    | 19.0  | 22.3   | 13.6  |
| P/BV (x)               | 1.6     | 1.5   | 1.5    | 1.5   |
| EV/Sales (x)           | 2.5     | 2.5   | 2.6    | 2.1   |
| RoCE (%)               | 8.7     | 2.4   | 1.7    | 4.2   |
| RoE (%)                | 0.7     | 1.3   | 0.4    | 4.0   |
| RoIC (%)               | 7.5     | 2.3   | 1.5    | 4.0   |
| Book Value (Rs)        | 87.4    | 88.2  | 88.6   | 92.2  |
| DPS (Rs)               | -       | -     | -      | -     |
| Dividend Payout (%)    | -       | -     | -      | -     |
| Div. Yield (%)         | -       | -     | -      | -     |
| Asset Turnover Ratio   | 0.5     | 0.4   | 0.4    | 0.5   |
| Avg Collection days    | 5.0     | 5.3   | 6.3    | 5.7   |
| Avg Inventory days     | 61.9    | 53.2  | 52.0   | 46.4  |

Source: Company data, I-Sec research

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