

August 9, 2022

Q1FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	330		330	
Sales (Rs. m)	62,529	70,025	61,606	69,246
% Chng.	1.5	1.1		
EBITDA (Rs. m)	10,952	13,731	11,224	13,793
% Chng.	(2.4)	(0.5)		
EPS (Rs.)	6.9	9.9	6.9	9.9
% Chng.	(0.4)	0.4		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	40,301	57,176	62,529	70,025
EBITDA (Rs. m)	4,044	10,690	10,952	13,731
Margin (%)	10.0	18.7	17.5	19.6
PAT (Rs. m)	(1,098)	2,401	5,195	7,469
EPS (Rs.)	(1.5)	7.4	6.9	9.9
Gr. (%)	(289.5)	(605.8)	(6.4)	43.8
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(1.7)	3.9	8.1	10.6
RoCE (%)	1.5	10.6	10.6	13.3
EV/Sales (x)	5.3	3.7	3.3	2.8
EV/EBITDA (x)	52.4	19.5	18.7	14.3
PE (x)	(185.1)	36.6	39.1	27.2
P/BV (x)	3.3	3.3	3.0	2.7

Key Data

FOHE.BO | FORH IN

52-W High / Low	Rs.314 / Rs.220	
Sensex / Nifty	58,853 / 17,525	
Market Cap	Rs.203bn / \$ 2,551m	
Shares Outstanding	755m	
3M Avg. Daily Value	Rs.214.82m	

Shareholding Pattern (%)

Promoter's	31.17
Foreign	29.66
Domestic Institution	16.25
Public & Others	22.92
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.3	3.2	9.8
Relative	(0.7)	1.4	1.3

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Fortis Healthcare (FORH IN)

Rating: BUY | CMP: Rs269 | TP: Rs330

In line EBITDA aided by hospital segment

Quick Pointers:

- Strong growth in hospital segment, aided by recovering occupancy and higher ARPOB.
- Outcome of ongoing legal issues likely in next 2-3 weeks.

Fortis Healthcare (FORH) reported strong recovery in the quarter. Revenues improved 6% YoY (8% QoQ) to Rs.14.8bn vs our estimates of Rs.14.5bn. Hospital business showed strong revenue growth of 15% QoQ to Rs.11.9bn vs our estimates of Rs.11.3bn. Diagnostic business saw revenue de-growth of 27% YoY (13% QoQ) to Rs. 2.9bn vs our est. of Rs.3.2bn. Hospital occupancy improved to 65% vs 59% QoQ. Further ARPOB saw a healthy growth of 21% YoY and 4% QoQ to Rs.53.7K on better case and payor mix. Net debt marginally increased by Rs 360mn QoQ to Rs 5.85bn.

We remain positive on FORH and expect margin improvement across segments given 1) improving case mix in hospital segment with cost rationalization initiatives 2) traction in international patient's footfall and 3) increase in test volume on network expansion in diagnostics business. We expect 14% Pre Ind as EBITDA CAGR over FY22-24E. At CMP, stock is trading at 17x EV/EBITDA on FY24E, adjusted for SRL stake. We broadly maintain our estimates and recommend 'Buy' rating with TP of Rs 330 post valuing diagnostics at 22x FY24E EV/EBITDA and hospitals at 20x FY24E EV/EBITDA. Resolution of legal issues would be a key additional trigger for re-rating.

- In-line EBITDA; higher ARPOB growth:** FORH reported consolidated EBITDA of Rs2.5bn; up 14% QoQ, in-line with our estimates. Margins improved by 80 bps QoQ to 16.9%, due to recovery in occupancy in hospital segment. Hospital business EBITDA came in at Rs1.9bn; up 37% QoQ. Overall hospital OPM came in at 16.2% (up 260 bps QoQ). Loss from Chennai Arcot hospital was at Rs104mn (flat QoQ). Adj for this unit, hospital OPM came in at 17.1%. International patients contributed 7.5% to total hospital revenues vs 6.6% in Q4, while surgical mix contribution was at 61% vs 57% in Q4. Diagnostic business EBITDA came in at Rs 578mn, below our est.; down 28% QoQ. Diagnostic margins contracted by 410 bps QoQ to 19.6%.

- Key con-call takeaways:** (1) FORH progressed well on brownfield expansion plan of 1500 beds over 4 years; added 54 beds in Q1FY23 primarily at Fortis Mulund (42 beds) and FMRI Gurugram (12 beds). FORH plans to add 200 beds each across FMRI, Mohali, Noida and Shalimar Bagh; funded through internal accruals. (2) the company commissioned 12 bedded oncology day-care center in NCR. Company on-boarded clinicians in medical specialties of urology, transplants, rheumatology and nephrology. (3) Guided for break- even in Arcot hospital (Chennai) by Q1FY24. (4) Mgmt expects to see better occupancy levels and trend may continue in Q2FY23 as occupancy in June month was more than 68%, even after adding 60 beds in Q2FY23 (5) ARPOB trend is sustainable and growth was majorly on account of better case mix. FORH has taken 4% price hike for cash patients (6) Overall, mgmt. targets +20% EBITDA margins for hospital segment in next two years (7) Annualized corporate cost is at 3% of overall hospital revenues and expect to reduce on settlement and resolution of pending legal cases (8) **Diagnostics biz** - SRL added 243 new customer touch-point centers in Q1FY23 taking the total number of collection centers to 2,745. Covid revenue contribution was at 6% in Q1FY23 compared to 45% in Q1FY22 (9) Expect revenues and margins to improve in SRL. (10) The final verdict for the pending legal case to come in Aug from court.

Exhibit 1: Q1FY23 Result Overview (Rs mn) – EBITDA in-line with our estimates

Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Net Sales	14,879	14,103	5.5	13,781	8.0
COGS	3,492	3,496	(0.1)	3,232	8.0
<i>% of Net Sales</i>	<i>23.5</i>	<i>24.8</i>		<i>23.4</i>	
Employee Cost	2,553	2,483	2.8	2,379	7.3
<i>% of Net Sales</i>	<i>17.2</i>	<i>17.6</i>		<i>17.3</i>	
Other Expenses	6,323	5,372	17.7	5,958	6.1
<i>% of Net Sales</i>	<i>42.5</i>	<i>38.1</i>		<i>43.2</i>	
Total	12,368	11,351	9.0	11,569	6.9
EBITDA	2,511	2,753	(8.8)	2,212	13.5
<i>Margins (%)</i>	<i>16.9</i>	<i>19.5</i>		<i>16.1</i>	
Other Income	207	78	164.0	60	245.6
Interest	312	384	(18.8)	300	3.9
Depreciation	743	729	1.9	773	(3.9)
PBT	1,663	1,718	(3.2)	1,199	38.7
Tax	420	558	(24.7)	394	6.6
<i>Tax rate %</i>	<i>25.3</i>	<i>32.5</i>		<i>32.9</i>	
PAT	1,243	1,160	7.2	805	54.4
Share in (loss)/profit of associate	100	85		63	
Minority Interest	121	1,671		191	
EO items	-	(3,061)		(2)	
Reported PAT	1,223	2,636	(53.6)	680	79.9

Source: Company, PL

Exhibit 2: Break-up of Revenues

Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Hospital	11,924	10,065	18.5	10,409	14.6
<i>% of Total Sales</i>	<i>80.2%</i>	<i>71.4%</i>		<i>75.5%</i>	
Diagnostic	2,950	4,038	(26.9)	3,370	(12.5)
<i>% of Total Sales</i>	<i>19.8%</i>	<i>28.6%</i>		<i>24.5%</i>	
Total Revenues	14,874	14,103	5.5	13,779	7.9

Source: Company, PL

Exhibit 3: Break up of EBITDA

Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Hospital	1,933	1,434	34.8	1,414	36.7
<i>% OPM</i>	<i>16.2%</i>	<i>14.2%</i>		<i>13.6%</i>	
Diagnostic	578	1,319	(56.2)	799	(27.7)
<i>% OPM</i>	<i>19.6%</i>	<i>32.7%</i>		<i>23.7%</i>	
Total Revenues	2,511	2,753	(8.8)	2,213	13.5

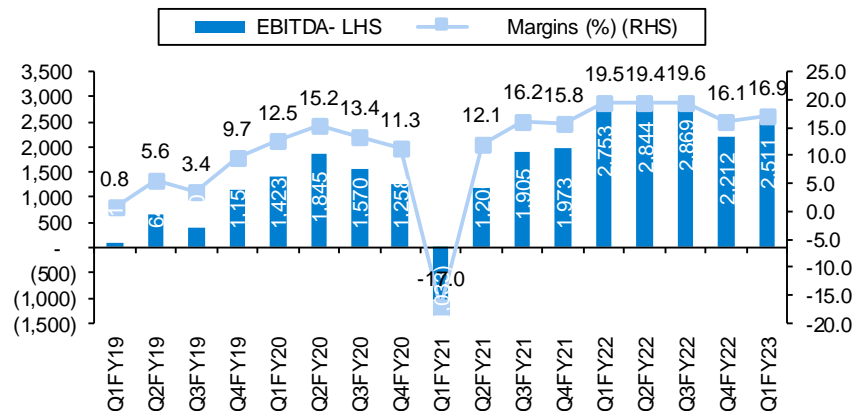
Source: Company, PL

Exhibit 4: Hospital margins improved QoQ

EBITDA for Q1FY23	No. Of facilities (#)	Revenue contribution (%)	Beds (#)	ARPOB (INR mn)	Occupancy (%)
>25%	4	43	1,210	25.3	70
20-25%	4	13	561	17.0	66
15-20%	5	20	910	15.4	71
10-15%	4	14	514	20.7	65
<10%	5	10	706	14.4	50
Total/Average	22	100	3,901	18.6	64

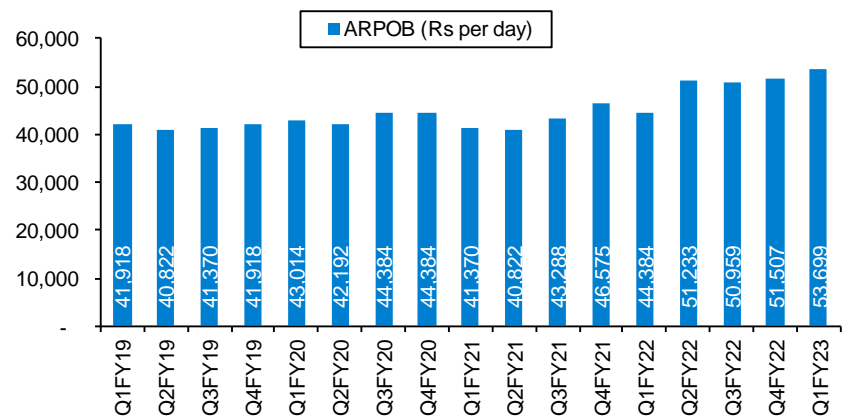
Source: Company, PL

Exhibit 5: Margins improved on strong performance in hospital segment



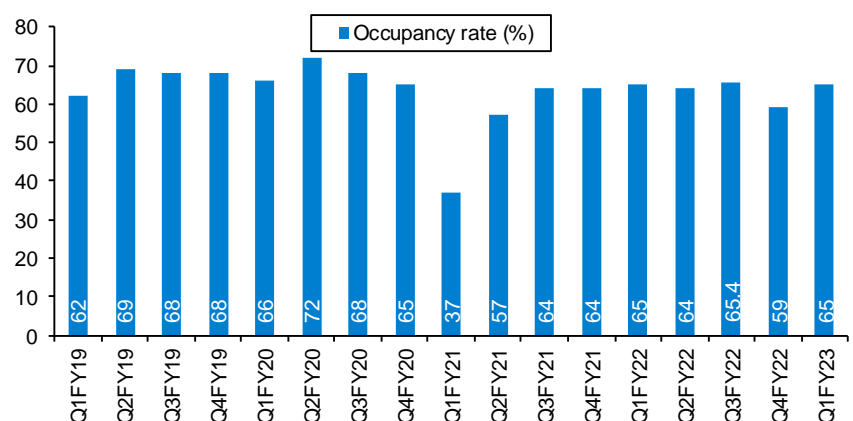
Source: Company, PL

Exhibit 6: Healthy ARPOB aided by better payor and case mix



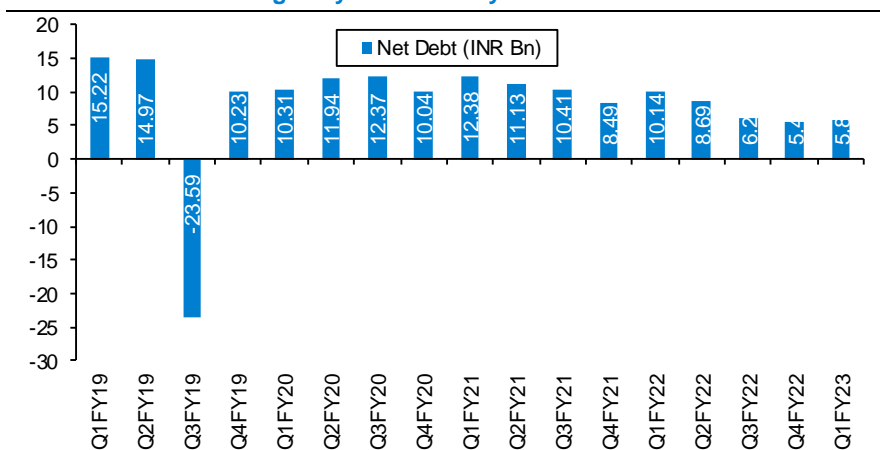
Source: Company, PL

Exhibit 7: Recovery in occupancy



Source: Company, PL

Exhibit 8: Net debt marginally increased by Rs. 360mn



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	40,301	57,176	62,529	70,025
YoY gr. (%)	(13.0)	41.9	9.4	12.0
Cost of Goods Sold	9,759	13,572	14,694	16,456
Gross Profit	30,542	43,604	47,835	53,569
Margin (%)	75.8	76.3	76.5	76.5
Employee Cost	8,490	9,729	11,881	13,305
Other Expenses	18,008	23,185	25,002	26,534
EBITDA	4,044	10,690	10,952	13,731
YoY gr. (%)	(33.6)	164.3	2.5	25.4
Margin (%)	10.0	18.7	17.5	19.6
Depreciation and Amortization	2,906	3,008	3,155	3,319
EBIT	1,138	7,681	7,797	10,412
Margin (%)	2.8	13.4	12.5	14.9
Net Interest	1,659	1,469	1,224	865
Other Income	466	273	650	750
Profit Before Tax	(55)	6,486	7,223	10,296
Margin (%)	(0.1)	11.3	11.6	14.7
Total Tax	995	1,978	1,878	2,677
Effective tax rate (%)	(1,815.0)	30.5	26.0	26.0
Profit after tax	(1,049)	4,508	5,345	7,619
Minority interest	536	2,348	400	400
Share Profit from Associate	476	242	250	250
Adjusted PAT	(1,098)	2,401	5,195	7,469
YoY gr. (%)	(289.5)	(318.7)	116.4	43.8
Margin (%)	(2.7)	4.2	8.3	10.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(1,098)	2,401	5,195	7,469
YoY gr. (%)	(289.5)	(318.7)	116.4	43.8
Margin (%)	(2.7)	4.2	8.3	10.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1,098)	2,401	5,195	7,469
Equity Shares O/s (m)	755	755	755	755
EPS (Rs)	(1.5)	7.4	6.9	9.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	78,473	83,632	88,132	92,132
Tangibles	78,473	83,632	88,132	92,132
Intangibles	-	-	-	-
Acc: Dep / Amortization	27,699	30,707	33,862	37,181
Tangibles	27,699	30,707	33,862	37,181
Intangibles	-	-	-	-
Net fixed assets	50,774	52,925	54,270	54,951
Tangibles	50,774	52,925	54,270	54,951
Intangibles	-	-	-	-
Capital Work In Progress	1,649	1,935	1,935	1,935
Goodwill	37,217	41,232	41,232	41,232
Non-Current Investments	1,860	1,036	1,036	1,036
Net Deferred tax assets	815	(121)	(121)	(121)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	768	1,229	1,434	1,613
Trade receivables	3,899	5,122	6,031	6,786
Cash & Bank Balance	4,166	4,127	6,321	12,906
Other Current Assets	7,076	7,533	8,286	9,115
Total Assets	1,11,547	1,18,848	1,24,254	1,33,283
Equity				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	53,649	54,233	59,428	66,897
Total Network	61,198	61,782	66,978	74,447
Non-Current Liabilities				
Long Term borrowings	9,677	7,791	7,791	7,791
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,030	1,866	366	(1,134)
Trade payables	5,482	6,609	7,416	8,344
Other current liabilities	20,694	25,794	26,550	28,531
Total Equity & Liabilities	1,11,547	1,18,848	1,24,255	1,33,283

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	(55)	6,486	7,223	10,296
Add. Depreciation	2,906	3,008	3,155	3,319
Add. Interest	1,659	1,469	1,224	865
Less Financial Other Income	466	273	650	750
Add. Other	(3)	(4,835)	-	-
Op. profit before WC changes	4,507	6,128	11,602	14,481
Net Changes-WC	(127)	4,505	(306)	1,146
Direct tax	475	(1,978)	(1,878)	(2,677)
Net cash from Op. activities	4,855	8,654	9,418	12,950
Capital expenditures	(2,185)	(2,155)	(4,500)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	834	(2,989)	-	-
Net Cash from Invt. activities	(1,351)	(5,144)	(4,500)	(4,000)
Issue of share cap. / premium	0	-	-	-
Debt changes	(832)	(3,051)	(1,500)	(1,500)
Dividend paid	-	-	-	-
Interest paid	(1,659)	(1,469)	(1,224)	(865)
Others	493	970	-	-
Net cash from Fin. activities	(1,998)	(3,549)	(2,724)	(2,365)
Net change in cash	1,506	(39)	2,195	6,584
Free Cash Flow	2,670	6,499	4,918	8,950

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	14,625	14,667	13,781	14,879
YoY gr. (%)	47.0	24.6	10.0	5.5
Raw Material Expenses	3,508	3,336	3,232	3,492
Gross Profit	11,117	11,330	10,549	11,387
Margin (%)	76.0	77.3	76.6	76.5
EBITDA	2,844	2,869	2,212	2,511
YoY gr. (%)	137.0	50.7	12.1	(8.8)
Margin (%)	19.4	19.6	16.1	16.9
Depreciation / Depletion	745	761	773	743
EBIT	2,098	2,108	1,440	1,768
Margin (%)	14.3	14.4	10.4	11.9
Net Interest	403	381	300	312
Other Income	80	67	60	207
Profit before Tax	1,778	1,878	1,201	1,663
Margin (%)	12.2	12.8	8.7	11.2
Total Tax	514	512	394	420
Effective tax rate (%)	28.9	27.3	32.8	25.3
Profit after Tax	1,264	1,366	807	1,243
Minority interest	237	250	191	121
Share Profit from Associates	42	51	63	100
Adjusted PAT	1,069	1,167	680	1,223
YoY gr. (%)	(2,833.0)	290.4	57.4	(53.6)
Margin (%)	7.3	8.0	4.9	8.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,069	1,167	680	1,223
YoY gr. (%)	(2,833.0)	290.4	57.4	(53.6)
Margin (%)	7.3	8.0	4.9	8.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,069	1,167	680	1,223
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	1.4	1.5	0.9	1.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	(1.5)	7.4	6.9	9.9
CEPS	2.4	7.2	11.1	14.3
BVPS	81.1	81.8	88.7	98.6
FCF	3.5	8.6	6.5	11.9
DPS	-	-	-	-
Return Ratio(%)				
RoCE	1.5	10.6	10.6	13.3
ROIC	1.1	6.7	6.6	8.6
RoE	(1.7)	3.9	8.1	10.6
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.0	(0.1)
Net Working Capital (Days)	(7)	(2)	0	0
Valuation(x)				
PER	(185.1)	36.6	39.1	27.2
P/B	3.3	3.3	3.0	2.7
P/CEPS	112.4	37.6	24.3	18.8
EV/EBITDA	52.4	19.5	18.7	14.3
EV/Sales	5.3	3.7	3.3	2.8
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Hospital	31,236	42,642	49,438	55,624
Diagnostic	9,062	14,535	13,091	14,401
International biz revenues	3	(1)		

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	330	238
2	27-May-22	BUY	330	235
3	08-Apr-22	BUY	362	271
4	03-Mar-22	BUY	362	285

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	238
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	347	274
11	Indoco Remedies	BUY	430	377
12	Ipca Laboratories	BUY	1,085	946
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,600	1,220
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	370
17	Narayana Hrudayalaya	BUY	773	639
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	450	366

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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