

November 14, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	360		330	
Sales (Rs. m)	71,475	81,529	70,025	78,418
% Chng.	2.1	4.0		
EBITDA (Rs. m)	13,780	16,464	13,731	15,959
% Chng.	0.4	3.2		
EPS (Rs.)	9.8	12.4	9.9	11.9
% Chng.	(1.3)	4.6		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	57,176	63,456	71,475	81,529
EBITDA (Rs. m)	10,690	11,352	13,780	16,464
Margin (%)	18.7	17.9	19.3	20.2
PAT (Rs. m)	2,401	5,471	7,371	9,365
EPS (Rs.)	7.4	7.2	9.8	12.4
Gr. (%)	(605.8)	(1.4)	34.7	27.0
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.9	8.4	10.3	11.7
RoCE (%)	10.6	11.2	13.3	15.1
EV/Sales (x)	4.1	3.7	3.2	2.7
EV/EBITDA (x)	22.0	20.7	16.7	13.5
PE (x)	41.3	41.9	31.1	24.5
P/BV (x)	3.7	3.4	3.1	2.7

Key Data

FOHE.BO | FORH IN

52-W High / Low	Rs.325 / Rs.220
Sensex / Nifty	61,624 / 18,329
Market Cap	Rs.229bn/ \$ 2,823m
Shares Outstanding	755m
3M Avg. Daily Value	Rs.667.29m

Shareholding Pattern (%)

Promoter's	31.17
Foreign	30.59
Domestic Institution	18.73
Public & Others	19.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.8	28.8	18.1
Relative	4.2	10.3	16.3

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Strong beat aided by hospital segment

Quick Pointers:

- Total 2000 beds can be added through brownfield expansion of which 1300 beds have already been announced.
- Occupancy may see a seasonal impact in Q3; guidance at 75% by end of FY23.

Fortis Healthcare (FORH) reported healthy growth in the quarter. Revenues improved 10% YoY (8% QoQ) to Rs.16.1bn vs our estimates of Rs.15.4bn. Hospital business showed strong revenue growth of 9% QoQ to Rs.13bn vs our estimates of Rs.11.3bn. Diagnostic business saw net revenue de-growth of 15% YoY (up 5% QoQ) to Rs. 3.1bn in line with our estimates. Non COVID revenues grew by 5% YoY. Hospital occupancy improved to 70% vs 65% QoQ. ARPOB further improved 5% YoY and 1% QoQ to Rs.53.9K on better case and payor mix. Net debt marginally decreased by Rs 200mn QoQ to Rs 5.65bn.

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 16% Pre IND AS EBITDA CAGR over FY22-25E. At CMP, stock is trading at 19x EV/EBITDA on FY24E, adjusted for SRL stake. We broadly maintain our estimates and recommend 'Buy' rating with TP of Rs.360 (earlier at Rs 330) as we roll forward to Sept 2024E. We are valuing 20x EV/EBITDA across segments. Resolution of legal issues would be a key additional trigger for re-rating.

- EBITDA above our estimates aided by hospital segment:** FORH reported consolidated EBITDA of Rs 3bn; up 21% QoQ, 15% above our estimates. Margins improved by 200 bps QoQ to 18.8%. Hospital business EBITDA came in at Rs2.4bn (we est Rs2.1bn); up 23% QoQ. Overall hospital OPM came in at 18.2% (up 200 bps QoQ). Loss from Chennai Arcot hospital was at Rs 85mn (Rs100mn in Q1FY23). Adj for this unit, hospital OPM came in at 19%. International patients contributed 8.4% to total hospital revenues vs 7.5% in Q1, while surgical mix contribution was at 59% vs 61% in Q1. Diagnostic business EBITDA came in at Rs 663mn, in line with our estimate; up 15% QoQ and down 34% YoY on high base. Diagnostic margins improved by 180 bps QoQ to 21.4%.
- Key con-call takeaways:** (1) Total 2000 beds will be added of which 1300 bed expansion plan have already been announced and another 700 beds could be added further on existing capacities. (2) Expansion plan of 300-400 beds p.a. over next 3-4 years largely through brownfield expansion for which blended capex plan would be at of Rs8mn/bed (3) Out of 1300 beds brownfield expansion, 50% of that will be coming from NCR (4) Guidance on occupancy at 75%; drivers would be increasing volumes, improvement in international biz. International biz target to reach 10-12% in medium term from current level of 8.5% (5) Delay in turning EBITDA positive for Arcot road unit primarily due to ongoing construction work near the hospital impacting occupancy which could take another 6 months for ramp up (6) Surgical revenue contribution to overall was at 59% vs 56% in Q2FY22 led by strong demand for elective procedures translating into better specialty mix and traction in international revenues (7) **Diagnostics biz** - SRL added 207 new customer touch-point centers in Q2FY23 taking the total number of collection centers to 2,955. Non covid revenues grew by 5.3% YoY. The muted YoY non covid revenues due to absence of tender business.

Exhibit 1: Q2FY23 Result Overview (Rs mn)– 15% beat to our EBITDA estimates

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Net Sales	16,072	14,625	9.9	14,879	8.0
COGS	3,649	3,508	4.0	3,492	4.5
<i>% of Net Sales</i>	<i>22.7</i>	<i>24.0</i>		<i>23.5</i>	
Employee Cost	2,681	2,357	13.8	2,553	5.0
<i>% of Net Sales</i>	<i>16.7</i>	<i>16.1</i>		<i>17.2</i>	
Other Expenses	6,713	5,917	13.4	6,323	6.2
<i>% of Net Sales</i>	<i>41.8</i>	<i>40.5</i>		<i>42.5</i>	
Total	13,043	11,782	10.7	12,368	5.5
EBITDA	3,029	2,844	6.5	2,511	20.6
<i>Margins (%)</i>	<i>18.8</i>	<i>19.4</i>		<i>16.9</i>	
Other Income	155	80	93.6	207	(25.0)
Interest	328	403	(18.7)	312	5.1
Depreciation	769	745	3.2	743	3.5
PBT	2,087	1,775	17.6	1,663	25.5
Tax	496	514	(3.6)	420	18.0
<i>Tax rate %</i>	<i>23.8</i>	<i>29.0</i>		<i>25.3</i>	
PAT	1,591	1,261	26.2	1,243	28.0
Share in (loss)/profit of associate	75	42		100	
Minority Interest	139	237		121	
EO items	(516)	(3)		-	
Reported PAT	2,044	1,069	91.3	1,223	67.2

Source: Company, PL

Exhibit 2: Break-up of Revenues

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Hospital	12,970	10,985	18.1	11,924	8.8
<i>% of Total Sales</i>	<i>80.7</i>	<i>75.1</i>		<i>80.2</i>	
Diagnostic	3,100	3,640	(14.8)	2,950	5.1
<i>% of Total Sales</i>	<i>19.3</i>	<i>24.9</i>		<i>19.8</i>	
Total Revenues	16,070	14,625	9.9	14,874	8.0

Source: Company, PL

Exhibit 3: Break up of EBITDA

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Hospital	2,367	1,839	28.7	1,933	22.5
<i>% OPM</i>	<i>18.2</i>	<i>14.2</i>		<i>16.2</i>	
Diagnostic	663	1,005	(34.0)	578	14.7
<i>% OPM</i>	<i>21.4</i>	<i>27.6</i>		<i>19.6</i>	
Total Revenues	3,030	2,844	6.5	2,511	20.7

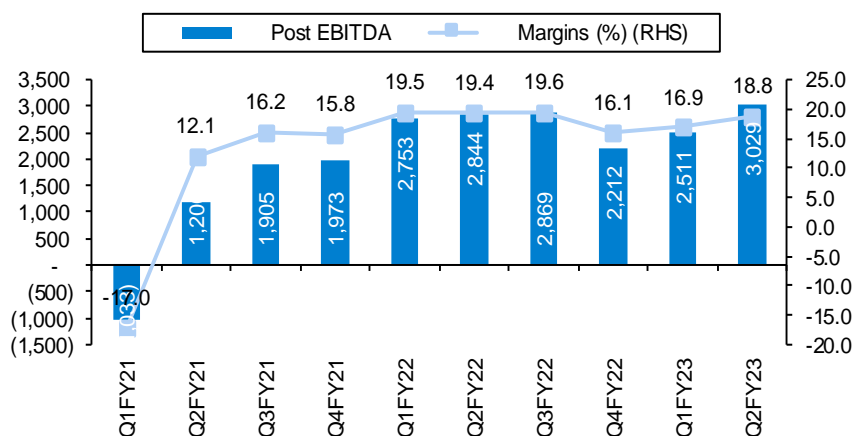
Source: Company, PL

Exhibit 4: Hospital margins improved QoQ

EBITDA for Q1FY23	No. Of facilities (#)	Revenue contribution (%)	Beds (#)	ARPOB (INR mn)	Occupancy (%)
>25%	4	34	1,176	21.3	73
20-25%	7	30	1,003	22.1	73
15-20%	5	19	774	17.8	72
10-15%	1	8	310	20.2	71
<10%	5	10	716	13.7	55
Total/Average	22	101	3,979	19.0	69

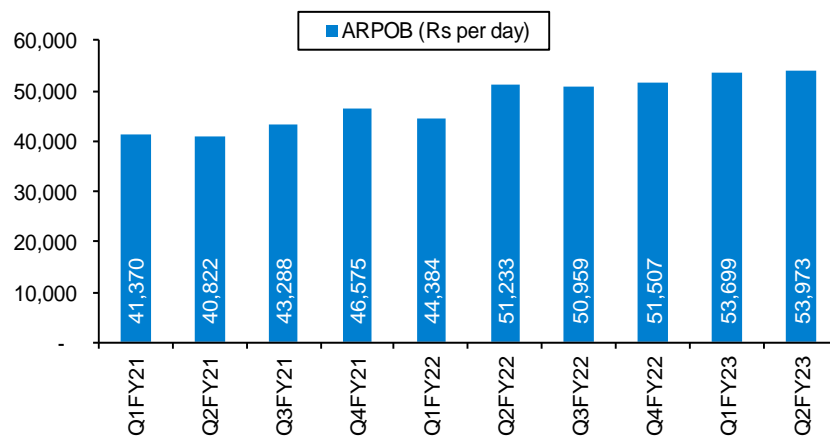
Source: Company, PL

Exhibit 5: Margins improved QoQ across segments



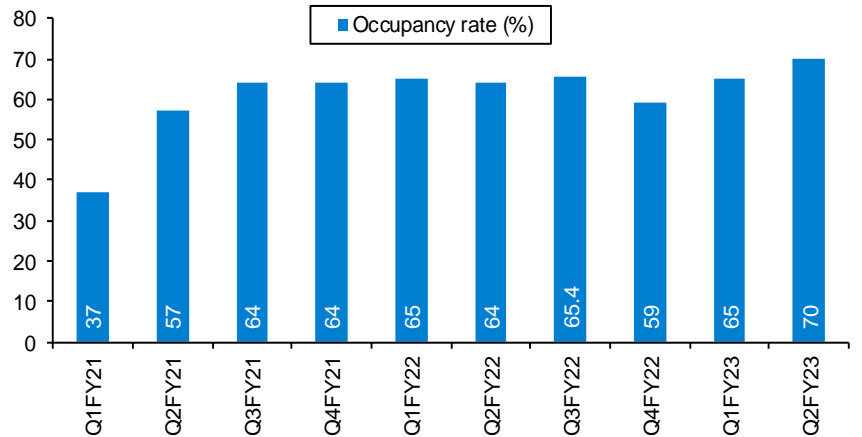
Source: Company, PL

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



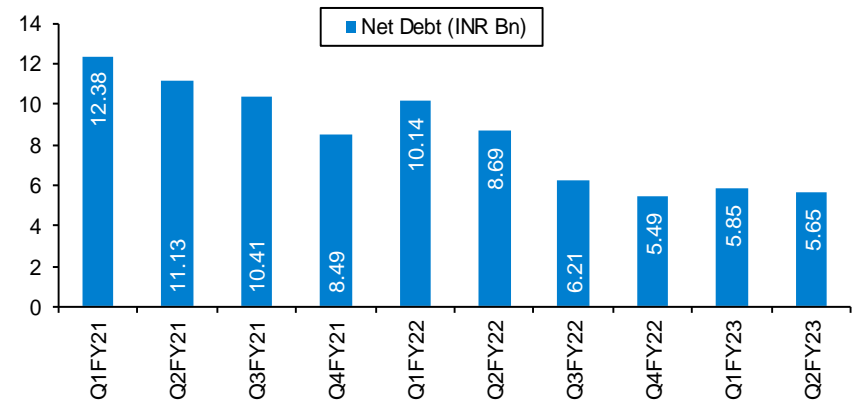
Source: Company, PL

Exhibit 7: Higher occupancy due to seasonality impact



Source: Company, PL

Exhibit 8: Net debt marginally decreased by Rs. 200mn



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	57,176	63,456	71,475	81,529
YoY gr. (%)	41.9	11.0	12.6	14.1
Cost of Goods Sold	13,572	14,912	16,797	19,159
Gross Profit	43,604	48,543	54,679	62,370
Margin (%)	76.3	76.5	76.5	76.5
Employee Cost	9,729	12,057	13,580	15,491
Other Expenses	23,185	25,135	27,318	30,416
EBITDA	10,690	11,352	13,780	16,464
YoY gr. (%)	164.3	6.2	21.4	19.5
Margin (%)	18.7	17.9	19.3	20.2
Depreciation and Amortization	3,008	3,098	3,298	3,498
EBIT	7,681	8,254	10,482	12,966
Margin (%)	13.4	13.0	14.7	15.9
Net Interest	1,469	1,240	865	670
Other Income	273	650	750	900
Profit Before Tax	6,486	7,664	10,367	13,195
Margin (%)	11.3	12.1	14.5	16.2
Total Tax	1,978	1,993	2,695	3,431
Effective tax rate (%)	30.5	26.0	26.0	26.0
Profit after tax	4,508	5,671	7,671	9,765
Minority interest	2,348	500	600	700
Share Profit from Associate	242	300	300	300
Adjusted PAT	2,401	5,471	7,371	9,365
YoY gr. (%)	(318.7)	127.9	34.7	27.0
Margin (%)	4.2	8.6	10.3	11.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,401	5,471	7,371	9,365
YoY gr. (%)	(318.7)	127.9	34.7	27.0
Margin (%)	4.2	8.6	10.3	11.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,401	5,471	7,371	9,365
Equity Shares O/s (m)	755	755	755	755
EPS (Rs)	7.4	7.2	9.8	12.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	83,632	88,632	93,632	98,632
Tangibles	83,632	88,632	93,632	98,632
Intangibles	-	-	-	-
Acc: Dep / Amortization	30,707	33,805	37,104	40,602
Tangibles	30,707	33,805	37,104	40,602
Intangibles	-	-	-	-
Net fixed assets	52,925	54,827	56,529	58,031
Tangibles	52,925	54,827	56,529	58,031
Intangibles	-	-	-	-
Capital Work In Progress	1,935	1,935	1,935	1,935
Goodwill	41,232	41,232	41,232	41,232
Non-Current Investments	1,036	1,036	1,036	1,036
Net Deferred tax assets	(121)	(121)	(121)	(121)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	1,229	1,471	1,667	1,918
Trade receivables	5,122	6,341	7,185	8,267
Cash & Bank Balance	4,127	2,327	6,066	11,904
Other Current Assets	7,533	8,286	9,115	10,026
Total Assets	1,18,848	1,21,164	1,28,473	1,38,058
Equity				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	54,233	60,220	67,592	76,956
Total Network	61,782	67,770	75,141	84,506
Non-Current Liabilities				
Long Term borrowings	7,791	7,791	7,791	7,791
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,866	366	(1,134)	(2,634)
Trade payables	6,609	7,610	8,622	9,920
Other current liabilities	25,794	22,123	21,948	21,671
Total Equity & Liabilities	1,18,848	1,21,164	1,28,473	1,38,058

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	6,486	7,664	10,367	13,195
Add. Depreciation	3,008	3,098	3,298	3,498
Add. Interest	1,469	1,240	865	670
Less Financial Other Income	273	650	750	900
Add. Other	(4,835)	516	-	-
Op. profit before WC changes	6,128	12,518	14,530	17,364
Net Changes-WC	4,505	(4,886)	(1,031)	(1,224)
Direct tax	(1,978)	(1,993)	(2,695)	(3,431)
Net cash from Op. activities	8,654	5,640	10,804	12,709
Capital expenditures	(2,155)	(5,000)	(5,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	(2,989)	300	300	300
Net Cash from Inv. activities	(5,144)	(4,700)	(4,700)	(4,700)
Issue of share cap. / premium	-	-	-	-
Debt changes	(3,051)	(1,500)	(1,500)	(1,500)
Dividend paid	-	-	-	-
Interest paid	(1,469)	(1,240)	(865)	(670)
Others	970	-	-	-
Net cash from Fin. activities	(3,549)	(2,740)	(2,365)	(2,170)
Net change in cash	(39)	(1,800)	3,739	5,839
Free Cash Flow	6,499	640	5,804	7,709

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	14,667	13,781	14,879	16,072
YoY gr. (%)	24.6	10.0	5.5	9.9
Raw Material Expenses	3,336	3,232	3,492	3,649
Gross Profit	11,330	10,549	11,387	12,423
Margin (%)	77.3	76.6	76.5	77.3
EBITDA	2,869	2,212	2,511	3,029
YoY gr. (%)	50.7	12.1	(8.8)	6.5
Margin (%)	19.6	16.1	16.9	18.8
Depreciation / Depletion	761	773	743	769
EBIT	2,108	1,440	1,768	2,260
Margin (%)	14.4	10.4	11.9	14.1
Net Interest	381	300	312	328
Other Income	67	60	207	155
Profit before Tax	1,878	1,201	1,663	2,603
Margin (%)	12.8	8.7	11.2	16.2
Total Tax	512	394	420	496
Effective tax rate (%)	27.3	32.8	25.3	19.1
Profit after Tax	1,366	807	1,243	2,107
Minority interest	250	191	121	139
Share Profit from Associates	51	63	100	75
Adjusted PAT	1,167	680	1,223	2,044
YoY gr. (%)	290.4	57.4	(53.6)	91.3
Margin (%)	8.0	4.9	8.2	12.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,167	680	1,223	2,044
YoY gr. (%)	290.4	57.4	(53.6)	91.3
Margin (%)	8.0	4.9	8.2	12.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,167	680	1,223	2,044
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	1.5	0.9	1.6	2.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	7.4	7.2	9.8	12.4
CEPS	7.2	11.4	14.1	17.0
BVPS	81.8	89.8	99.5	111.9
FCF	8.6	0.8	7.7	10.2
DPS	-	-	-	-
Return Ratio(%)				
RoCE	10.6	11.2	13.3	15.1
ROIC	6.7	6.9	8.6	10.3
RoE	3.9	8.4	10.3	11.7
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.0	(0.1)
Net Working Capital (Days)	(2)	1	1	1
Valuation(x)				
PER	41.3	41.9	31.1	24.5
P/B	3.7	3.4	3.1	2.7
P/CEPS	42.4	26.8	21.5	17.8
EV/EBITDA	22.0	20.7	16.7	13.5
EV/Sales	4.1	3.7	3.2	2.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Hospital	42,642	50,731	57,478	66,133
Diagnostic	14,535	12,724	13,997	15,397
International biz revenues	(1)			

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	330	266
2	09-Aug-22	BUY	330	269
3	07-Jul-22	BUY	330	238
4	27-May-22	BUY	330	235
5	08-Apr-22	BUY	362	271
6	03-Mar-22	BUY	362	285

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,421
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	348
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,660	1,448
15	Lupin	Hold	650	719
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	900	740
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	Accumulate	465	429

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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