

February 13, 2023

Q3FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	360		360	
Sales (Rs. m)	70,407	79,170	71,475	81,529
% Chng.	(1.5)	(2.9)		
EBITDA (Rs. m)	13,698	16,054	13,780	16,464
% Chng.	(0.6)	(2.5)		
EPS (Rs.)	9.6	11.9	9.8	12.4
% Chng.	(1.6)	(3.9)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	57,176	62,911	70,407	79,170
EBITDA (Rs. m)	10,690	11,390	13,698	16,054
Margin (%)	18.7	18.1	19.5	20.3
PAT (Rs. m)	2,401	5,372	7,250	8,997
EPS (Rs.)	7.4	7.1	9.6	11.9
Gr. (%)	(605.8)	(3.2)	35.0	24.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.9	8.3	10.2	11.3
RoCE (%)	10.6	11.1	13.1	14.6
EV/Sales (x)	3.7	3.4	2.9	2.5
EV/EBITDA (x)	19.7	18.5	15.0	12.4
PE (x)	37.0	38.2	28.3	22.8
P/BV (x)	3.3	3.0	2.7	2.4

Key Data

FOHE.BO | FORH IN

52-W High / Low	Rs.325 / Rs.220
Sensex / Nifty	60,432 / 17,771
Market Cap	Rs.205bn/ \$ 2,483m
Shares Outstanding	755m
3M Avg. Daily Value	Rs.290.58m

Shareholding Pattern (%)

Promoter's	31.17
Foreign	31.01
Domestic Institution	19.14
Public & Others	18.68
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.4)	(3.3)	5.0
Relative	(5.7)	(4.9)	1.0

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In-line; Expansion plan on track

Quick Pointers:

- Brownfield expansion of 250-300 beds annually, on track.
- Seasonal impact on occupancy in Q3; guidance below 75% for Q4FY23.

Fortis Healthcare (FORH) reported an in-line quarter with EBITDA decline of 9% YoY (down 3% QoQ) to Rs.2.8bn. We remain positive on the company 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 19% Pre IND AS EBITDA CAGR over FY23-25E. At CMP, stock is trading at 15x EV/EBITDA on FY25E, adjusted for SRL stake. Maintain 'Buy' rating with TP of Rs.360 (unchanged) valuing hospital at 18x EV/EBITDA and diagnostic at 20x EV/EBITDA on FY25E. Resolution of legal issues would be a key additional trigger for re-rating.

- **Seasonality impact on hospital segment:** Hospital business revenue de-grew 2% QoQ to Rs.12.7bn vs our estimates of Rs.12.3bn. Diagnostic business saw net revenue de-growth of 16% YoY (6% QoQ) to Rs. 2.9bn in line with our estimates. Non-Covid revenues grew by 7% YoY. Hospital occupancy declined to 66% vs 70% QoQ on seasonality. ARPOB further improved at a healthy rate of 9% YoY and 3% QoQ to Rs.55.3K on higher complex surgeries and traction in international footfalls. Net debt decreased by Rs 940mn QoQ to Rs 4.7bn.
- **In- line EBIDTA; hospital margin at 16.6%:** FORH reported consolidated EBIDTA of Rs 2.8bn; down 9% QoQ, in-line with our estimates. Margins decreased by 110 bps QoQ to 17.7%. Hospital business EBIDTA came in at Rs 2.1bn (in-line with our estimates), down 11% QoQ. Overall hospital OPM came in at 16.6% (down 160 bps QoQ). International patients contributed 8.5% to total hospital revenues vs 8.4% in Q2, while surgical mix contribution was stable at 59% in Q3. Diagnostic business EBIDTA came in at Rs 660mn, in line with our estimate, flat QoQ and down 34% YoY on high covid base. Diagnostic margins improved by 100 bps QoQ to 22.4%.
- **Key con-call takeaways: (1)** On track for 250-300 bed expansion annually. **(2)** Overall capex is likely to go up in FY24. Currently spending capex of Rs1-1.25bn/quarter which is likely to go up in FY24, as company spends on robotic program and brownfield expansions **(3)** Guided for hospital occupancy below 75% in Q4, however better than Q3. Improvement in international business. International business target to reach 10-12% in medium term from current level of 8.5% **(4)** Delay in turning EBITDA positive for Arcot road unit, primarily due to ongoing construction work near the hospital impacting occupancy which could take another 6-12 months for ramp up. Also facing challenge to get good clinical talent. Currently incurring EBITDA loss at Rs80/quarter **(5)** Surgical revenue contribution to overall was stable at 59% aided by elective procedures translating into better specialty mix and traction in international revenues **(6)** **Diagnostics biz** - SRL added 362 new customer touch-point centers in Q3FY23 taking the total number of collection centers to 3,317. B2C: B2B mix stood at 55:45. Non-Covid revenues grew 7% YoY, aided by volumes and case mix. **(7)** Next hearing on ongoing SC case is on Feb 17,2023.

Exhibit 1: Q3FY23 Result Overview (Rs mn)– In-line EBITDA at Rs2.8bn

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Sales	15,599	14,667	6.4	16,072	(2.9)	46,549	43,395	7.3
COGS	3,583	3,336	7.4	3,649	(1.8)	10,723	10,341	3.7
<i>% of Net Sales</i>	<i>23.0</i>	<i>22.7</i>		<i>22.7</i>		<i>23.0</i>	<i>23.8</i>	
Employee Cost	2,627	2,511	4.6	2,681	(2.0)	7,861	7,351	6.9
<i>% of Net Sales</i>	<i>16.8</i>	<i>17.1</i>		<i>16.7</i>		<i>16.9</i>	<i>16.9</i>	
Other Expenses	6,625	5,950	11.3	6,713	(1.3)	19,661	17,238	14.1
<i>% of Net Sales</i>	<i>42.5</i>	<i>40.6</i>		<i>41.8</i>		<i>42.2</i>	<i>39.7</i>	
Total	12,834	11,797	8.8	13,043	(1.6)	38,245	34,930	9.5
EBITDA	2,764	2,869	(3.7)	3,029	(8.7)	8,305	8,465	(1.9)
<i>Margins (%)</i>	<i>17.7</i>	<i>19.6</i>		<i>18.8</i>		<i>17.8</i>	<i>19.5</i>	
Other Income	117	67	74.9	155	(24.7)	479	226	112.5
Interest	334	381	(12.3)	328	1.7	974	1,168	(16.7)
Depreciation	828	761	8.7	769	7.6	2,340	2,236	4.7
PBT	1,720	1,795	(4.1)	2,087	(17.6)	5,471	5,287	3.5
Tax	440	512	(14.1)	496	(11.4)	1,356	1,584	(14.4)
<i>Tax rate %</i>	<i>25.6</i>	<i>28.5</i>		<i>23.8</i>		<i>24.8</i>	<i>30.0</i>	
PAT	1,281	1,282	(0.1)	1,591	(19.5)	4,115	3,703	11.1
Share in (loss)/profit of associate	26	51	(48.6)	75		201	178	13.0
Minority Interest	126	250	(49.7)	139		(385)	(2,158)	(82.2)
EO items	(115)	(84)	36.7	(516)		631	3,148	(80.0)
Reported PAT	1,296	1,167	11.0	2,044	(36.6)	4,070	2,890	40.8

Source: Company, PL

Exhibit 2: Hospital revenues decline 2% QoQ

Revenues	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Hospital	12,674	11,182	13.3	12,970	(2.3)	37,568	32,232	16.6
<i>% of Total Sales</i>	<i>81.3</i>	<i>76.2</i>		<i>80.7</i>		<i>80.7</i>	<i>74.3</i>	
Diagnostic	2,920	3,484	(16.2)	3,100	(5.8)	8,970	11,162	(19.6)
<i>% of Total Sales</i>	<i>18.7</i>	<i>23.8</i>		<i>19.3</i>		<i>19.3</i>	<i>25.7</i>	
Total Revenues	15,594	14,666	6.3	16,070	(3.0)	46,538	43,394	7.2

Source: Company, PL

Exhibit 3: Hospital EBITDA decline 11% QoQ while diagnostic was flat QoQ

EBITDA	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Hospital	2,110	1,868	13.0	2,367	(10.9)	6,410	5,141	24.7
<i>% OPM</i>	<i>16.6</i>	<i>16.7</i>		<i>18.2</i>		<i>17.1</i>	<i>15.9</i>	
Diagnostic	654	997	(34.4)	663	(1.4)	1,895	3,321	(42.9)
<i>% OPM</i>	<i>22.4</i>	<i>28.6</i>		<i>21.4</i>		<i>21.1</i>	<i>29.8</i>	
Total Revenues	2,764	2,865	(3.5)	3,030	(8.8)	8,305	8,462	(1.9)

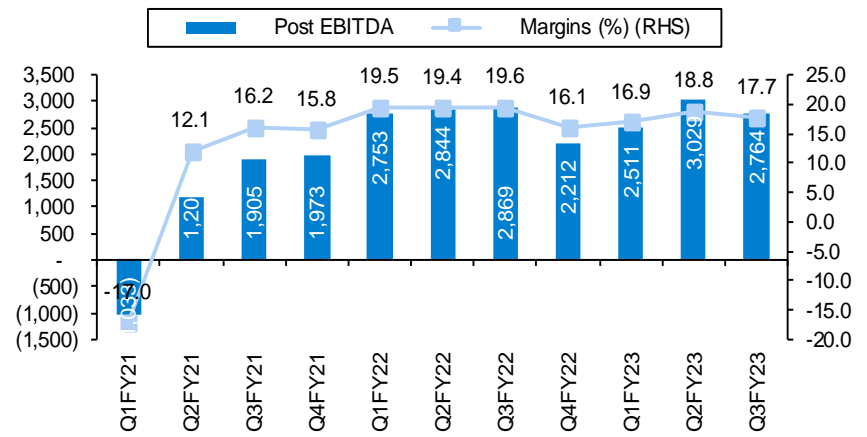
Source: Company, PL

Exhibit 4: Five hospitals below 10% margins

EBITDA for Q3FY23	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

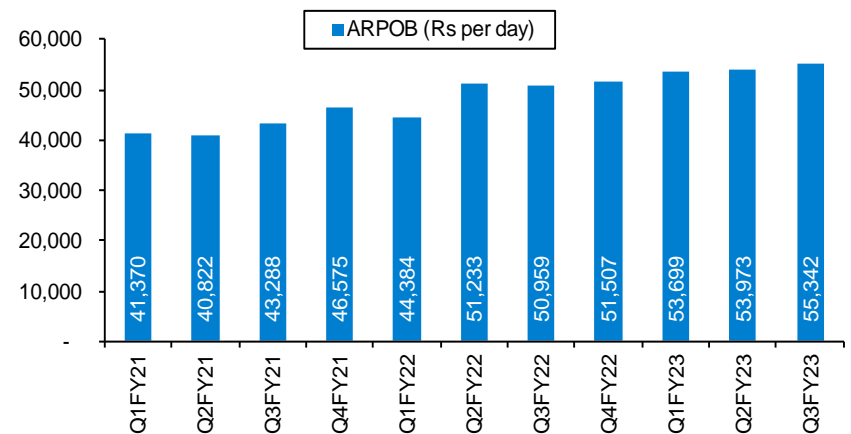
Source: Company, PL

Exhibit 5: Steady margins aided by diagnostic segment



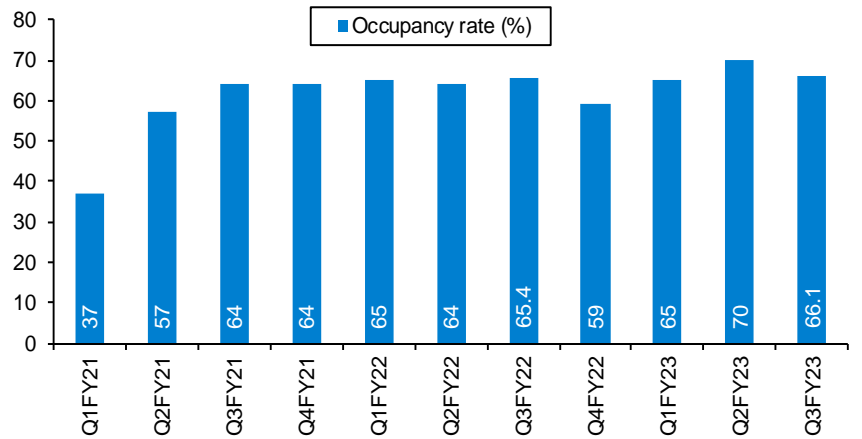
Source: Company, PL

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



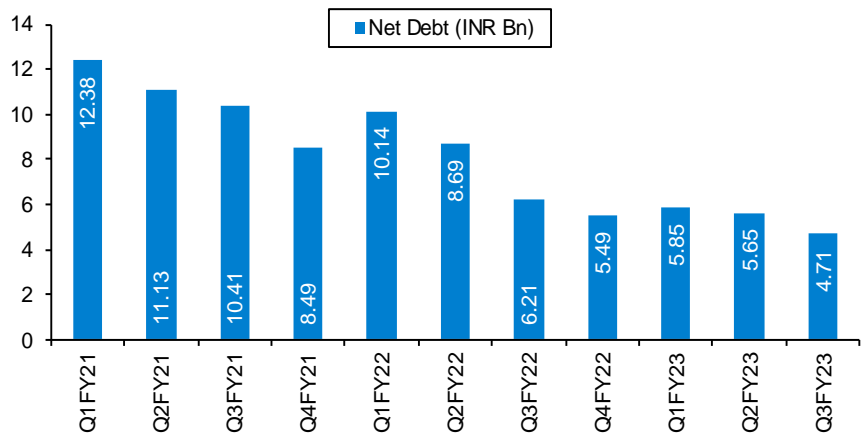
Source: Company, PL

Exhibit 7: Occupancy declined QoQ due to seasonality impact



Source: Company, PL

Exhibit 8: Net debt decreased QoQ by Rs. 940mn



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	57,176	62,911	70,407	79,170
YoY gr. (%)	41.9	10.0	11.9	12.4
Cost of Goods Sold	13,572	14,784	16,546	18,605
Gross Profit	43,604	48,127	53,861	60,565
Margin (%)	76.3	76.5	76.5	76.5
Employee Cost	9,729	11,953	13,377	15,042
Other Expenses	23,185	24,784	26,786	29,468
EBITDA	10,690	11,390	13,698	16,054
YoY gr. (%)	164.3	6.6	20.3	17.2
Margin (%)	18.7	18.1	19.5	20.3
Depreciation and Amortization	3,008	3,176	3,381	3,586
EBIT	7,681	8,214	10,318	12,468
Margin (%)	13.4	13.1	14.7	15.7
Net Interest	1,469	1,305	865	670
Other Income	273	620	750	900
Profit Before Tax	6,486	7,529	10,202	12,698
Margin (%)	11.3	12.0	14.5	16.0
Total Tax	1,978	1,958	2,653	3,302
Effective tax rate (%)	30.5	26.0	26.0	26.0
Profit after tax	4,508	5,572	7,550	9,397
Minority interest	2,348	500	600	700
Share Profit from Associate	242	300	300	300
Adjusted PAT	2,401	5,372	7,250	8,997
YoY gr. (%)	(318.7)	123.7	35.0	24.1
Margin (%)	4.2	8.5	10.3	11.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,401	5,372	7,250	8,997
YoY gr. (%)	(318.7)	123.7	35.0	24.1
Margin (%)	4.2	8.5	10.3	11.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,401	5,372	7,250	8,997
Equity Shares O/s (m)	755	755	755	755
EPS (Rs)	7.4	7.1	9.6	11.9

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	33,883	37,263	40,849
Tangibles	30,707	33,883	37,263	40,849
Intangibles	-	-	-	-
Net fixed assets	52,925	54,749	56,369	57,783
Tangibles	52,925	54,749	56,369	57,783
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	1,470	1,652	1,867
Trade receivables	5,122	6,335	7,119	8,046
Cash & Bank Balance	4,127	2,397	5,936	11,154
Other Current Assets	7,533	8,286	9,115	10,026
Total Assets	1,18,848	1,21,149	1,28,101	1,36,788
Equity				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	54,233	60,235	67,485	76,482
Total Networkth	61,782	67,785	75,035	84,031
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	7,601	8,542	9,655
Other current liabilities	25,794	22,101	21,763	21,141
Total Equity & Liabilities	1,18,848	1,21,149	1,28,102	1,36,788

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	6,486	7,529	10,202	12,698
Add. Depreciation	3,008	3,176	3,381	3,586
Add. Interest	1,469	1,305	865	670
Less Financial Other Income	273	620	750	900
Add. Other	(4,835)	631	-	-
Op. profit before WC changes	6,128	12,641	14,448	16,954
Net Changes-WC	4,505	(4,907)	(1,192)	(1,564)
Direct tax	(1,978)	(1,958)	(2,653)	(3,302)
Net cash from Op. activities	8,654	5,776	10,604	12,089
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)	(1,305)	(865)	(670)
Others	970	-	-	-
Net cash from Fin. activities	(3,549)	(2,805)	(2,365)	(2,170)
Net change in cash	(39)	(1,729)	3,538	5,219
Free Cash Flow	6,499	776	5,604	7,089

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	13,781	14,879	16,072	15,599
YoY gr. (%)	10.0	5.5	9.9	6.4
Raw Material Expenses	3,232	3,492	3,649	3,583
Gross Profit	10,549	11,387	12,423	12,016
Margin (%)	76.6	76.5	77.3	77.0
EBITDA	2,212	2,511	3,029	2,764
YoY gr. (%)	12.1	(8.8)	6.5	(3.7)
Margin (%)	16.1	16.9	18.8	17.7
Depreciation / Depletion	773	743	769	828
EBIT	1,440	1,768	2,260	1,937
Margin (%)	10.4	11.9	14.1	12.4
Net Interest	300	312	328	334
Other Income	60	207	155	117
Profit before Tax	1,201	1,663	2,603	1,835
Margin (%)	8.7	11.2	16.2	11.8
Total Tax	394	420	496	440
Effective tax rate (%)	32.8	25.3	19.1	24.0
Profit after Tax	807	1,243	2,107	1,395
Minority interest	191	121	139	126
Share Profit from Associates	63	100	75	26
Adjusted PAT	680	1,223	2,044	1,296
YoY gr. (%)	57.4	(53.6)	91.3	11.0
Margin (%)	4.9	8.2	12.7	8.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	680	1,223	2,044	1,296
YoY gr. (%)	57.4	(53.6)	91.3	11.0
Margin (%)	4.9	8.2	12.7	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	680	1,223	2,044	1,296
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	0.9	1.6	2.7	1.7

Source: Company Data, PL Research

Key Financial Metrics

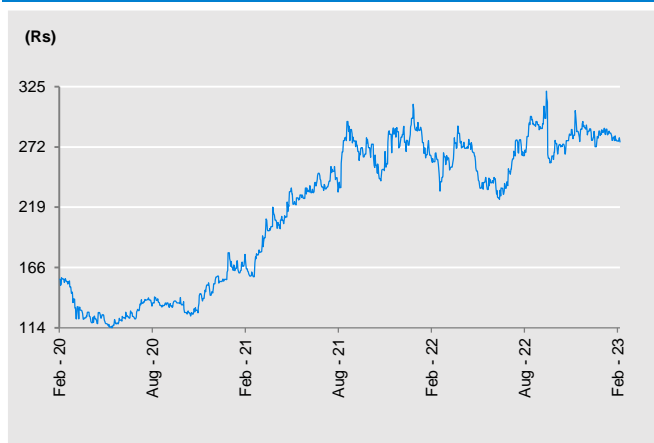
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	7.4	7.1	9.6	11.9
CEPS	7.2	11.3	14.1	16.7
BVPS	81.8	89.8	99.4	111.3
FCF	8.6	1.0	7.4	9.4
DPS	-	-	-	-
Return Ratio(%)				
RoCE	10.6	11.1	13.1	14.6
ROIC	6.7	6.9	8.4	9.9
RoE	3.9	8.3	10.2	11.3
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.0	(0.1)
Net Working Capital (Days)	(2)	1	1	1
Valuation(x)				
PER	37.0	38.2	28.3	22.8
P/B	3.3	3.0	2.7	2.4
P/CEPS	38.0	24.0	19.3	16.3
EV/EBITDA	19.7	18.5	15.0	12.4
EV/Sales	3.7	3.4	2.9	2.5
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Hospital	42,642	50,676	56,949	64,365
Diagnostic	14,535	12,235	13,459	14,804

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	360	285
2	14-Nov-22	BUY	360	304
3	06-Oct-22	BUY	330	266
4	09-Aug-22	BUY	330	269
5	07-Jul-22	BUY	330	238
6	27-May-22	BUY	330	235
7	08-Apr-22	BUY	362	271
8	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	4,387
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	BUY	565	469
4	Cipla	BUY	1,280	1,035
5	Divi's Laboratories	Hold	2,700	2,884
6	Dr. Reddy's Laboratories	BUY	4,900	4,201
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	285
9	Glenmark Pharmaceuticals	Accumulate	460	434
10	HealthCare Global Enterprises	BUY	375	282
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Accumulate	950	858
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,965
14	Krishna Institute of Medical Sciences	BUY	1,660	1,469
15	Lupin	Hold	675	737
16	Max Healthcare Institute	BUY	500	436
17	Narayana Hrudayalaya	BUY	965	719
18	Sun Pharmaceutical Industries	BUY	1,175	1,035
19	Torrent Pharmaceuticals	BUY	1,820	1,557
20	Zydus Lifesciences	Accumulate	480	435

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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