

June 22, 2023

Event Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	365		330	
Sales (Rs. m)	68,880	76,342	69,959	77,360
% Chng.	(1.5)	(1.3)		
EBITDA (Rs. m)	13,010	15,247	12,735	14,981
% Chng.	2.2	1.8		
EPS (Rs.)	9.0	11.1	8.6	10.8
% Chng.	3.7	2.9		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	57,176	62,976	68,880	76,342
EBITDA (Rs. m)	10,690	11,013	13,010	15,247
Margin (%)	18.7	17.5	18.9	20.0
PAT (Rs. m)	2,401	5,151	6,765	8,407
EPS (Rs.)	7.4	6.8	9.0	11.1
Gr. (%)	(605.8)	(7.2)	31.3	24.3
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.9	7.7	8.9	10.1
RoCE (%)	10.6	10.4	11.8	13.3
EV/Sales (x)	4.2	3.8	3.4	3.0
EV/EBITDA (x)	22.4	21.5	18.0	15.0
PE (x)	42.1	45.3	34.5	27.8
P/BV (x)	3.8	3.2	2.9	2.7

Key Data

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52-W High / Low	Rs.325 / Rs.227	
Sensex / Nifty	63,239 / 18,771	
Market Cap	Rs.233bn/ \$ 2,848m	
Shares Outstanding	755m	
3M Avg. Daily Value	Rs.294.12m	

Shareholding Pattern (%)

Promoter's	31.17
Foreign	31.22
Domestic Institution	18.98
Public & Others	18.63
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.3	10.4	34.9
Relative	6.2	6.2	10.6

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Divest 200 beds loss making Arcot unit

Fortis Healthcare (FORH) has signed a definitive agreement for sale of its hospital business operations at Vadapalani, Chennai to Sri Kauvery Medical Care Limited on slump sale basis for Rs1.52bn. While transaction will be margin accretive by ~70bps, divestment of Arcot Road unit is in-line with the stated intent of optimizing hospital assets. We remain positive on margin improvement in hospital segment aided by 1) improving case and payor mix 2) cost rationalization initiatives and 3) divestment of non-profitable assets. Our FY24E and FY25E EBITDA stands increased by ~2% as we factor in the divestment. We expect 18% Pre IND AS EBITDA CAGR over FY23-25E.

At CMP, stock is trading at 17.5x EV/EBITDA on FY25E, adjusted for SRL stake which is at 20-25% discount to its peers. Maintain 'Buy' rating with revised TP of Rs.365 (earlier Rs. 330) valuing hospital segment at 20x (18x earlier) and Diagnostic business at 18x EV/EBITDA on FY25E. Resolution of legal issues and further monetization of non-profitable assets would be a key additional trigger for re-rating.

- **Contours of the transaction:** The transaction will be an all cash deal estimated to be completed by end of July 2023. The unit currently has 110 operational beds with a potential to scale up to nearly 200 beds. The unit is on a leased premises commissioned in October 2020. FORH have sold unit at Rs7.6mn per bed. Typically cost/bed in metros is Rs15mn/bed which includes land cost also.
- **Margin accretive:** The unit reported Rs512mn revenues and EBITDA loss of Rs360mn in FY23. Management stated that they have spent ~Rs2.2bn to commercialize this unit. Despite 3 years of operations, hospital was still loss marking given ongoing infrastructure creating bottleneck for patient's inflow. We see monetization of Arcot road asset as positive that could lead to margin improvement by 70bps in hospital segment.
- **Brownfield expansion & margin improvement to drive hospital business:** FORH's brownfield expansion plan of 1,300-1,400 beds over next 4-5 years continues to be on track. This would result in better operating leverage as capacity ramps up in units which continues to enjoy higher occupancy. Management guided margin improvement of 300bps to 20%; growth levers would be from better payor and case mix, cost optimization efforts and divestment plan of loss making units. Overall we have factored in 18.2% and 19.4% OPM in FY24 and FY25E respectively in hospital segment.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	57,176	62,976	68,880	76,342
YoY gr. (%)	41.9	10.1	9.4	10.8
Cost of Goods Sold	13,572	14,547	16,187	17,940
Gross Profit	43,604	48,429	52,693	58,402
Margin (%)	76.3	76.9	76.5	76.5
Employee Cost	9,729	10,469	13,087	14,505
Other Expenses	23,185	26,947	26,596	28,650
EBITDA	10,690	11,013	13,010	15,247
YoY gr. (%)	164.3	3.0	18.1	17.2
Margin (%)	18.7	17.5	18.9	20.0
Depreciation and Amortization	3,008	3,157	3,352	3,560
EBIT	7,681	7,856	9,658	11,687
Margin (%)	13.4	12.5	14.0	15.3
Net Interest	1,469	1,291	996	685
Other Income	273	617	750	900
Profit Before Tax	6,486	7,182	9,412	11,902
Margin (%)	11.3	11.4	13.7	15.6
Total Tax	1,978	1,807	2,447	3,094
Effective tax rate (%)	30.5	25.2	26.0	26.0
Profit after tax	4,508	5,375	6,965	8,807
Minority interest	2,348	443	500	700
Share Profit from Associate	242	218	300	300
Adjusted PAT	2,401	5,151	6,765	8,407
YoY gr. (%)	(318.7)	114.6	31.3	24.3
Margin (%)	4.2	8.2	9.8	11.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,401	5,151	6,765	8,407
YoY gr. (%)	(318.7)	114.6	31.3	24.3
Margin (%)	4.2	8.2	9.8	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,401	5,151	6,765	8,407
Equity Shares O/s (m)	755	755	755	755
EPS (Rs)	7.4	6.8	9.0	11.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	83,632	86,719	91,419	96,419
Tangibles	83,632	86,719	91,419	96,419
Intangibles	-	-	-	-
Acc: Dep / Amortization	30,707	33,865	37,217	40,777
Tangibles	30,707	33,865	37,217	40,777
Intangibles	-	-	-	-
Net fixed assets	52,925	52,854	54,202	55,642
Tangibles	52,925	52,854	54,202	55,642
Intangibles	-	-	-	-
Capital Work In Progress	1,935	2,278	2,278	2,278
Goodwill	41,232	41,410	41,410	41,410
Non-Current Investments	1,036	2,103	2,103	2,103
Net Deferred tax assets	(121)	(665)	(665)	(665)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	1,229	1,228	1,342	1,490
Trade receivables	5,122	5,816	6,973	7,742
Cash & Bank Balance	4,127	3,627	4,847	9,364
Other Current Assets	7,533	11,551	12,706	13,977
Total Assets	1,18,848	1,24,336	1,29,329	1,37,474
Equity				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	54,233	64,873	71,638	80,045
Total Network	61,782	72,423	79,188	87,595
Non-Current Liabilities				
Long Term borrowings	7,791	5,722	5,722	5,722
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,866	1,309	(191)	(1,691)
Trade payables	6,609	7,143	8,368	9,291
Other current liabilities	25,794	22,825	20,828	20,442
Total Equity & Liabilities	1,18,848	1,24,336	1,29,329	1,37,474

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	6,486	7,182	9,412	11,902
Add. Depreciation	3,008	3,157	3,352	3,560
Add. Interest	1,469	1,291	996	685
Less Financial Other Income	273	617	750	900
Add. Other	(4,835)	736	-	-
Op. profit before WC changes	6,128	12,367	13,760	16,147
Net Changes-WC	4,505	(2,337)	(3,198)	(1,650)
Direct tax	(1,978)	(1,807)	(2,447)	(3,094)
Net cash from Op. activities	8,654	8,223	8,115	11,402
Capital expenditures	(2,155)	(4,472)	(4,700)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	(2,989)	735	300	300
Net Cash from Invt. activities	(5,144)	(3,737)	(4,400)	(4,700)
Issue of share cap. / premium	-	-	-	-
Debt changes	(3,051)	(2,625)	(1,500)	(1,500)
Dividend paid	-	-	-	-
Interest paid	(1,469)	(1,291)	(996)	(685)
Others	970	(1,069)	-	-
Net cash from Fin. activities	(3,549)	(4,985)	(2,496)	(2,185)
Net change in cash	(39)	(500)	1,220	4,517
Free Cash Flow	6,499	3,750	3,415	6,402

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	7.4	6.8	9.0	11.1
CEPS	7.2	11.0	13.4	15.9
BVPS	81.8	95.9	104.9	116.0
FCF	8.6	5.0	4.5	8.5
DPS	-	-	-	-
Return Ratio(%)				
RoCE	10.6	10.4	11.8	13.3
ROIC	6.7	6.5	7.8	9.1
RoE	3.9	7.7	8.9	10.1
Balance Sheet				
Net Debt : Equity (x)	0.1	0.0	0.0	(0.1)
Net Working Capital (Days)	(2)	(1)	0	0
Valuation(x)				
PER	42.1	45.3	34.5	27.8
P/B	3.8	3.2	2.9	2.7
P/CEPS	43.2	28.1	23.1	19.5
EV/EBITDA	22.4	21.5	18.0	15.0
EV/Sales	4.2	3.8	3.4	3.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

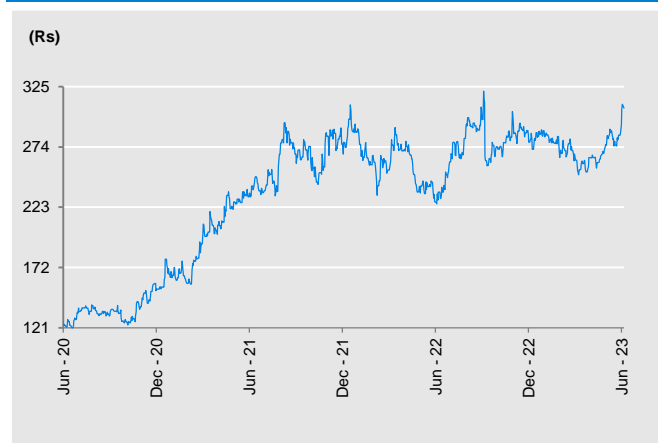
Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	14,879	16,072	15,599	16,427
YoY gr. (%)	5.5	9.9	6.4	19.2
Raw Material Expenses	3,492	3,649	3,583	3,824
Gross Profit	11,387	12,423	12,016	12,603
Margin (%)	76.5	77.3	77.0	76.7
EBITDA	2,511	3,029	2,764	2,709
YoY gr. (%)	(8.8)	6.5	(3.7)	22.4
Margin (%)	16.9	18.8	17.7	16.5
Depreciation / Depletion	743	769	828	818
EBIT	1,768	2,260	1,937	1,891
Margin (%)	11.9	14.1	12.4	11.5
Net Interest	312	328	334	317
Other Income	207	155	117	138
Profit before Tax	1,663	2,603	1,835	1,817
Margin (%)	11.2	16.2	11.8	11.1
Total Tax	420	496	440	451
Effective tax rate (%)	25.3	19.1	24.0	24.8
Profit after Tax	1,243	2,107	1,395	1,366
Minority interest	121	139	126	58
Share Profit from Associates	100	75	26	17
Adjusted PAT	1,223	2,044	1,296	1,326
YoY gr. (%)	(53.6)	91.3	11.0	95.0
Margin (%)	8.2	12.7	8.3	8.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,223	2,044	1,296	1,326
YoY gr. (%)	(53.6)	91.3	11.0	95.0
Margin (%)	8.2	12.7	8.3	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,223	2,044	1,296	1,326
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	1.6	2.7	1.7	1.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Hospital	42,642	51,072	55,785	61,939
Diagnostic	14,535	11,904	13,094	14,404

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	24-May-23	BUY	330	288
2	06-Apr-23	BUY	360	256
3	13-Feb-23	BUY	360	272
4	06-Jan-23	BUY	360	285
5	14-Nov-22	BUY	360	304
6	06-Oct-22	BUY	330	266
7	09-Aug-22	BUY	330	269
8	07-Jul-22	BUY	330	238

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,300	4,622
2	Aster DM Healthcare	BUY	335	270
3	Aurobindo Pharma	BUY	660	611
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	3,098
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	330	288
9	Glenmark Pharmaceuticals	Reduce	570	609
10	HealthCare Global Enterprises	BUY	375	294
11	Indoco Remedies	BUY	400	340
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,055
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	1,100	1,037
18	Sun Pharmaceutical Industries	BUY	1,140	970
19	Torrent Pharmaceuticals	BUY	1,900	1,714
20	Zydus Lifesciences	Accumulate	520	508

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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