

November 12, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	400		365	
Sales (Rs. m)	69,071	77,495	69,073	77,428
% Chng.	(0.0)	0.1		
EBITDA (Rs. m)	12,755	15,144	12,766	15,143
% Chng.	(0.1)	-		
EPS (Rs.)	8.5	11.0	8.7	11.0
% Chng.	(3.1)	(0.2)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	62,976	69,071	77,495	86,284
EBITDA (Rs. m)	11,013	12,755	15,144	17,642
Margin (%)	17.5	18.5	19.5	20.4
PAT (Rs. m)	5,151	6,383	8,316	10,215
EPS (Rs.)	6.8	8.5	11.0	13.5
Gr. (%)	(7.2)	23.9	30.3	22.8
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	7.7	8.4	10.0	11.1
RoCE (%)	10.4	11.5	13.2	14.5
EV/Sales (x)	4.4	3.9	3.4	3.0
EV/EBITDA (x)	24.9	21.3	17.6	14.5
PE (x)	52.7	42.5	32.6	26.6
P/BV (x)	3.7	3.4	3.1	2.8

Key Data

FOHE.BO | FORH IN

52-W High / Low	Rs.366 / Rs.245
Sensex / Nifty	64,905 / 19,425
Market Cap	Rs.271bn/ \$ 3,256m
Shares Outstanding	755m
3M Avg. Daily Value	Rs.432.24m

Shareholding Pattern (%)

Promoter's	31.17
Foreign	26.32
Domestic Institution	26.54
Public & Others	15.97
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.8	33.6	28.6
Relative	9.7	27.5	20.1

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In line; Scale up in hospital margins is key

Quick Pointers:

- Reiterated margin guidance at 20% by FY25; with occupancy target of 70%.
- On track with a total expansion plan of 2,200 beds over 3-4 years.

Fortis Healthcare (FORH) Q2FY24 hospital EBITDA was in-line with our estimate, led by divestment of Arcot road unit and seasonality. Though hospital margins improved to some extent in Q2, we see further 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 broadly remain unchanged. We expect 18% Pre IND AS EBITDA CAGR over FY23-25E. At CMP, stock is trading at 19x EV/EBITDA on FY25E, adjusted for Agilus stake. Maintain 'Buy' rating with revised TP of Rs 400/share (Rs. 365 earlier); valuing hospital and diagnostic segment at 20x EV/EBITDA on Sept 2025E. Resolution of legal issues and further monetization of non-profitable assets would be a key additional trigger for re-rating.

- Occupancy improved on seasonality; strong ARPOB:** Hospital business revenue increased 7% QoQ (12% YoY) to Rs.14.5bn; in line with our estimates. Diagnostic business saw a net revenue growth of 2% YoY (5% QoQ) to Rs. 3.2bn. Hospital occupancy improved to 68.7% vs 64% QoQ; led by seasonality effect during the quarter. ARPOB further improved by 12% YoY and 1% QoQ to Rs.60.5K aided by case mix and international patients. Net debt remain stable QoQ to Rs 3.9bn.
- In line EBITDA; hospital margin at 18.4%:** FORH's consolidated EBITDA increased 9% YoY and 21% QoQ to Rs 3.3bn; in line with our estimate. Hospital business EBITDA came in at Rs 2.7bn (In line with our estimates), up by 13% YoY (30% QoQ). Overall hospital OPM came in at 18.4% (up 320 bps QoQ). There was an exceptional gain from discontinued Chennai's non-performing unit of Rs. 37mn in Q2. International patients contributed 8.3% to total hospital revenues while surgical mix was at 59% vs 61% in Q1 and 59% in FY23. Diagnostic business EBITDA came in at Rs 625mn; below our estimates of Rs. 716mn (down 6% YoY and QoQ) with OPM of 19.7%.
- Key con-call takeaways: (1)** FORH is on track to add 250 beds in H2FY24 across Anandpur, BG road and Ludhiana. Mgmt is also exploring opportunities in Delhi NCR and Punjab along with evaluation of brownfield opportunities in Mohali and Shalimar Bagh. Mohali unit got approval for adding additional 400 beds. With Mohali and Manesar expansion, the total bed expansion plan of 2,200 beds in 3-4 years. **(2)** Augmented LINAC, Cath Labs and Ortho Robots in some of its key facilities such as Noida, Anandpur, Shalimar Bagh and FMRI. **(3)** Benefit of Arcot road monetization has been included in margins; however, sees further scope of expansion in margins as on-boarded eminent clinicians in the medical specialties of Oncology, Renal Sciences, Neurology, Cardiology and General Surgery in Q2 and majority of doctor cost absorbed in H1FY24. **(4)** Incremental cost of Rs.60-70mn incurred with respect to legal and professional charges restricted margin improvement in Q2 despite strong seasonality and Arcotl unit monetization. Reiterated margin and occupancy guidance at 20% and 70% by FY25; respectively. Mgmt focus will be on improving occupancy in Mulund and BG road unit. **(5)** ALOS increased QoQ to 4.2 days due to change in calculation methodology. **(6)** Hospital revenue growth of 12% YoY pertains to 3% from price hike, 7-8% inpatient volume and case mix.

Exhibit 1: Q2FY24 Result Overview (Rs mn)– In line EBITDA

Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Net Sales	17,700	16,072	10.1	16,574	6.8	34,274	30,951	10.7
COGS	4,127	3,649	13.1	3,985	3.6	8,112	7,141	13.6
<i>% of Net Sales</i>	<i>23.3</i>	<i>22.7</i>		<i>24.0</i>		<i>23.7</i>	<i>23.1</i>	
Employee Cost	2,814	2,681	5.0	2,845	(1.1)	5,659	5,234	8.1
<i>% of Net Sales</i>	<i>15.9</i>	<i>16.7</i>		<i>17.2</i>		<i>16.5</i>	<i>16.9</i>	
Other Expenses	7,457	6,713	11.1	7,019	6.2	14,476	13,036	11.0
<i>% of Net Sales</i>	<i>42.1</i>	<i>41.8</i>		<i>42.4</i>		<i>42.2</i>	<i>42.1</i>	
Total	14,398	13,043	10.4	13,850	4.0	28,247	25,410	11.2
EBITDA	3,302	3,029	9.0	2,725	21.2	6,026	5,540	8.8
<i>Margins (%)</i>	<i>18.7</i>	<i>18.8</i>		<i>16.4</i>		<i>17.6</i>	<i>17.9</i>	
Other Income	135	155	(13.1)	81	65.8	216	362	(40.3)
Interest	318	328	(3.0)	315	1.0	633	640	(1.1)
Depreciation	841	769	9.4	792	6.2	1,634	1,512	8.0
PBT	2,277	2,087	9.1	1,699	34.1	3,976	3,751	6.0
Tax	488	496	(1.6)	468	4.3	956	916	4.3
<i>Tax rate %</i>	<i>21.4</i>	<i>23.8</i>		<i>27.5</i>		<i>24.0</i>	<i>24.4</i>	
PAT	1,789	1,591	12.4	1,231	45.4	3,020	2,834	6.6
Share in (loss)/profit of associate	13	75	(82.9)	(6)		7	175	(96.2)
Minority Interest	102	139	(26.6)	122		224	(259)	(186.3)
EO items	(37)	(516)	(92.8)	(15)		(52)	(516)	(90.0)
Reported PAT	1,737	2,044	(15.0)	1,118	55.4	2,855	3,266	(12.6)

Source: Company, PL

Exhibit 2: Hospital revenues grew +7% QoQ while Diagnostic revenues increased ~5% QoQ

Revenues	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Hospital	14,526	12,971	12.0	13,541	7.3	28,067	24,895	12.7
<i>% of Total Sales</i>	<i>82.1%</i>	<i>80.7%</i>		<i>81.7%</i>		<i>81.9%</i>	<i>80.4%</i>	
Diagnostic	3,174	3,101	2.3	3,033	4.6	6,207	6,056	2.5
<i>% of Total Sales</i>	<i>17.9%</i>	<i>19.3%</i>		<i>18.3%</i>		<i>18.1%</i>	<i>19.6%</i>	
Total Revenues	17,700	16,072	10.1	16,574	6.8	34,274	30,951	10.7

Source: Company, PL

Exhibit 3: Hospital EBITDA improved ~30% QoQ while diagnostic EBITDA decreased ~6% QoQ

EBITDA	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Hospital	2,677	2,367	13.1	2,063	29.8	4,740	4,300	10.2
<i>% OPM</i>	<i>18.4%</i>	<i>18.2%</i>		<i>15.2%</i>		<i>16.9%</i>	<i>17.3%</i>	
Diagnostic	625	662	(5.6)	663	(5.8)	1,288	1,241	3.8
<i>% OPM</i>	<i>19.7%</i>	<i>21.4%</i>		<i>21.9%</i>		<i>20.7%</i>	<i>20.5%</i>	
Total Revenues	3,302	3,029	9.0	2,726	21.1	6,028	5,541	8.8

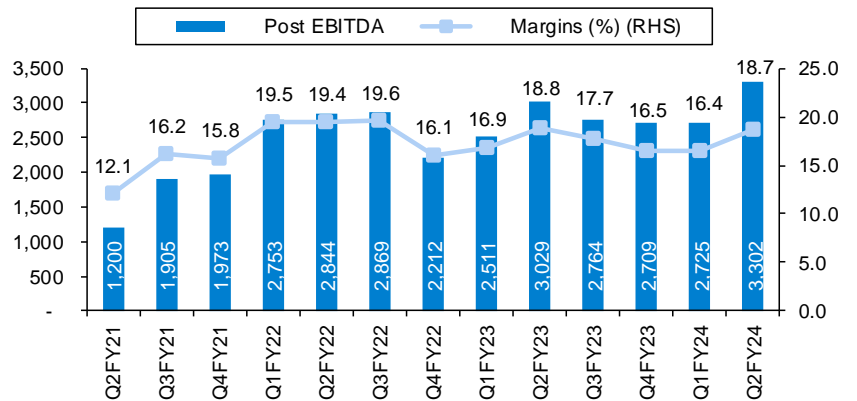
Source: Company, PL

Exhibit 4: Nine hospitals in 20-25% margin bracket

EBITDA for Q1FY24	No. Of facilities (#)	Revenue contribution (%)	Beds (#)	ARPOB (INR mn)	Occupancy (%)
20-25%	9	63	2,210	23.9	72
15-20%	5	17	720	18.6	76
10-15%	1	3	119	22.3	63
<10%	7	17	951	19.5	58
Total/Average	22	99	4,000	21.1	67

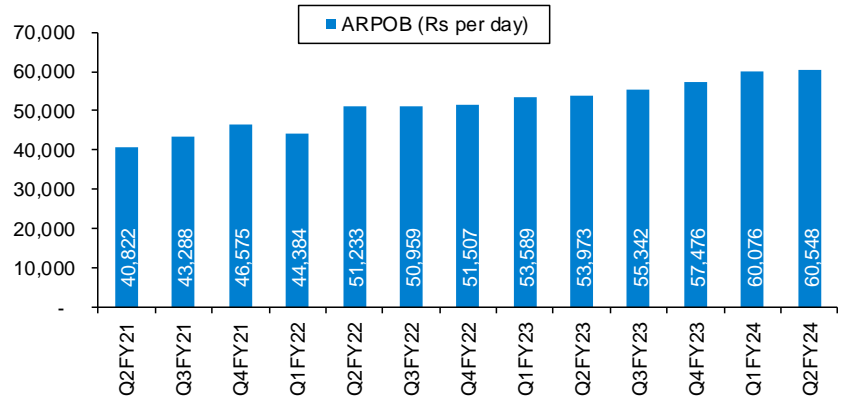
Source: Company, PL Note company has changed reporting structure as it now includes corporate overheads also

Exhibit 5: Margins improvement led by hospital profitability



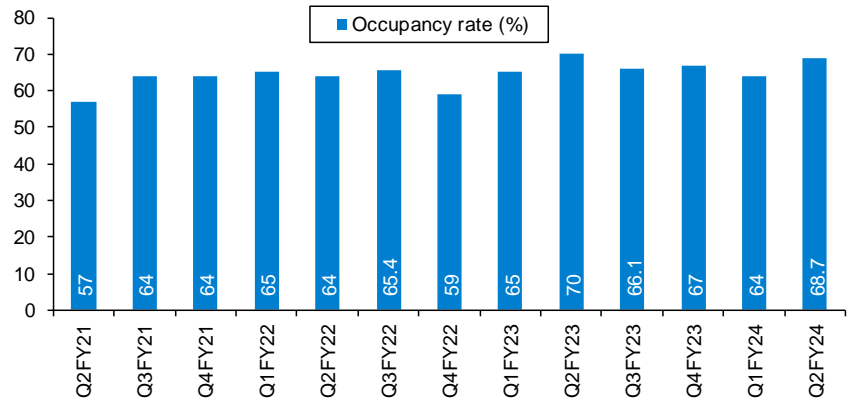
Source: Company, PL

Exhibit 6: Healthy ARPOB aided by case mix and international patients



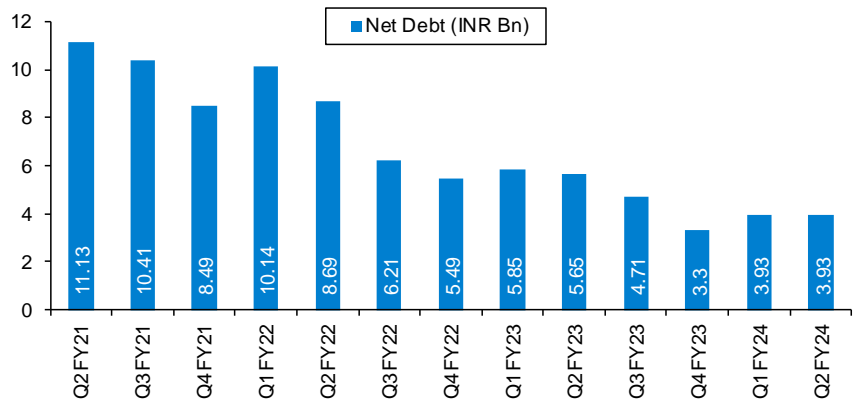
Source: Company, PL

Exhibit 7: Occupancy inclined QoQ to 68.7% on seasonality



Source: Company, PL

Exhibit 8: Net debt remained stable QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	62,976	69,071	77,495	86,284
YoY gr. (%)	10.1	9.7	12.2	11.3
Cost of Goods Sold	14,547	16,232	18,211	20,277
Gross Profit	48,429	52,839	59,284	66,007
Margin (%)	76.9	76.5	76.5	76.5
Employee Cost	10,469	13,123	14,724	16,394
Other Expenses	26,947	26,961	29,415	31,971
EBITDA	11,013	12,755	15,144	17,642
YoY gr. (%)	3.0	15.8	18.7	16.5
Margin (%)	17.5	18.5	19.5	20.4
Depreciation and Amortization	3,157	3,352	3,560	3,767
EBIT	7,856	9,403	11,585	13,875
Margin (%)	12.5	13.6	14.9	16.1
Net Interest	1,291	1,217	685	430
Other Income	617	650	800	900
Profit Before Tax	7,182	8,836	11,699	14,345
Margin (%)	11.4	12.8	15.1	16.6
Total Tax	1,807	2,253	2,983	3,730
Effective tax rate (%)	25.2	25.5	25.5	26.0
Profit after tax	5,375	6,583	8,716	10,615
Minority interest	443	500	700	700
Share Profit from Associate	218	300	300	300
Adjusted PAT	5,151	6,383	8,316	10,215
YoY gr. (%)	114.6	23.9	30.3	22.8
Margin (%)	8.2	9.2	10.7	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,151	6,383	8,316	10,215
YoY gr. (%)	114.6	23.9	30.3	22.8
Margin (%)	8.2	9.2	10.7	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,151	6,383	8,316	10,215
Equity Shares O/s (m)	755	755	755	755
EPS (Rs)	6.8	8.5	11.0	13.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	86,719	91,419	96,419	1,01,419
Tangibles	86,719	91,419	96,419	1,01,419
Intangibles	-	-	-	-
Acc: Dep / Amortization	33,865	37,217	40,777	44,544
Tangibles	33,865	37,217	40,777	44,544
Intangibles	-	-	-	-
Net fixed assets	52,854	54,202	55,642	56,875
Tangibles	52,854	54,202	55,642	56,875
Intangibles	-	-	-	-
Capital Work In Progress	2,278	2,278	2,278	2,278
Goodwill	41,410	41,410	41,410	41,410
Non-Current Investments	2,103	2,103	2,103	2,103
Net Deferred tax assets	(665)	(665)	(665)	(665)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	1,228	1,355	1,527	1,705
Trade receivables	5,816	7,042	7,936	8,859
Cash & Bank Balance	3,627	4,666	9,370	18,378
Other Current Assets	11,551	12,706	13,977	15,374
Total Assets	1,24,336	1,29,230	1,37,711	1,50,450
Equity				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	64,873	71,271	79,587	89,802
Total Network	72,423	78,820	87,136	97,351
Non-Current Liabilities				
Long Term borrowings	5,722	5,722	5,722	5,722
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,309	(191)	(1,691)	(3,191)
Trade payables	7,143	8,450	9,523	10,631
Other current liabilities	22,825	21,014	20,906	23,122
Total Equity & Liabilities	1,24,336	1,29,230	1,37,711	1,50,450

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	7,182	8,836	11,699	14,345
Add. Depreciation	3,157	3,352	3,560	3,767
Add. Interest	1,291	1,217	685	430
Less Financial Other Income	617	650	800	900
Add. Other	736	15	-	-
Op. profit before WC changes	12,367	13,420	15,944	18,542
Net Changes-WC	(2,337)	(3,011)	(1,372)	826
Direct tax	(1,807)	(2,253)	(2,983)	(3,730)
Net cash from Op. activities	8,223	8,156	11,589	15,638
Capital expenditures	(4,472)	(4,700)	(5,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	735	300	300	300
Net Cash from Inv. activities	(3,737)	(4,400)	(4,700)	(4,700)
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,625)	(1,500)	(1,500)	(1,500)
Dividend paid	-	-	-	-
Interest paid	(1,291)	(1,217)	(685)	(430)
Others	(1,069)	-	-	-
Net cash from Fin. activities	(4,985)	(2,717)	(2,185)	(1,930)
Net change in cash	(500)	1,039	4,704	9,008
Free Cash Flow	3,750	3,456	6,589	10,638

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	15,599	16,427	16,574	17,700
YoY gr. (%)	6.4	19.2	11.4	10.1
Raw Material Expenses	3,583	3,824	3,985	4,127
Gross Profit	12,016	12,603	12,589	13,572
Margin (%)	77.0	76.7	76.0	76.7
EBITDA	2,764	2,709	2,725	3,302
YoY gr. (%)	(3.7)	22.4	8.5	9.0
Margin (%)	17.7	16.5	16.4	18.7
Depreciation / Depletion	828	818	792	841
EBIT	1,937	1,891	1,932	2,461
Margin (%)	12.4	11.5	11.7	13.9
Net Interest	334	317	315	318
Other Income	117	138	81	135
Profit before Tax	1,835	1,817	1,714	2,314
Margin (%)	11.8	11.1	10.3	13.1
Total Tax	440	451	468	488
Effective tax rate (%)	24.0	24.8	27.3	21.1
Profit after Tax	1,395	1,366	1,246	1,826
Minority interest	126	58	122	102
Share Profit from Associates	26	17	(6)	13
Adjusted PAT	1,296	1,326	1,118	1,737
YoY gr. (%)	11.0	95.0	(8.6)	(15.0)
Margin (%)	8.3	8.1	6.7	9.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,296	1,326	1,118	1,737
YoY gr. (%)	11.0	95.0	(8.6)	(15.0)
Margin (%)	8.3	8.1	6.7	9.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,296	1,326	1,118	1,737
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	1.7	1.8	1.5	2.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	6.8	8.5	11.0	13.5
CEPS	11.0	12.9	15.7	18.5
BVPS	95.9	104.4	115.4	128.9
FCF	5.0	4.6	8.7	14.1
DPS	-	-	-	-
Return Ratio(%)				
RoCE	10.4	11.5	13.2	14.5
ROIC	6.5	7.5	9.0	10.5
RoE	7.7	8.4	10.0	11.1
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.2)
Net Working Capital (Days)	(1)	0	0	0
Valuation(x)				
PER	52.7	42.5	32.6	26.6
P/B	3.7	3.4	3.1	2.8
P/CEPS	32.7	27.9	22.8	19.4
EV/EBITDA	24.9	21.3	17.6	14.5
EV/Sales	4.4	3.9	3.4	3.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Hospital	51,072	56,333	63,484	70,872
Diagnostic	11,904	12,737	14,011	15,412

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	365	328
2	07-Aug-23	BUY	365	324
3	06-Jul-23	BUY	365	322
4	22-Jun-23	BUY	365	309
5	24-May-23	BUY	330	288
6	06-Apr-23	BUY	360	256
7	13-Feb-23	BUY	360	272
8	06-Jan-23	BUY	360	285
9	14-Nov-22	BUY	360	304

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	6,000	5,279
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,350	1,174
5	Divi's Laboratories	Reduce	3,150	3,522
6	Dr. Reddy's Laboratories	Reduce	5,300	5,397
7	Eris Lifesciences	BUY	1,050	912
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	420	374
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,675	1,462
14	Krishna Institute of Medical Sciences	BUY	2,000	1,870
15	Lupin	Hold	1,200	1,205
16	Max Healthcare Institute	BUY	675	601
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,280	1,116
19	Sunteck Realty	BUY	565	436
20	Torrent Pharmaceuticals	BUY	2,250	1,877
21	Zydus Lifesciences	Accumulate	670	599

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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