

May 26, 2024

Q4FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	515		480	
Sales (Rs. m)	75,596	84,837	74,827	83,706
% Chng.	1.0	1.4		
EBITDA (Rs. m)	15,745	18,592	15,097	17,649
% Chng.	4.3	5.3		
EPS (Rs.)	10.8	13.8	10.7	13.3
% Chng.	1.5	3.2		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	62,976	68,930	75,596	84,837
EBITDA (Rs. m)	11,013	12,677	15,745	18,592
Margin (%)	17.5	18.4	20.8	21.9
PAT (Rs. m)	5,151	5,829	8,168	10,392
EPS (Rs.)	6.8	7.7	10.8	13.8
Gr. (%)	(7.2)	13.2	40.1	27.2
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	7.7	7.8	10.2	12.0
RoCE (%)	10.4	11.2	13.8	15.7
EV/Sales (x)	5.6	5.1	4.6	4.1
EV/EBITDA (x)	32.0	27.7	22.2	18.6
PE (x)	67.7	59.8	42.7	33.6
P/BV (x)	4.8	4.6	4.2	3.8

Key Data

FOHE.BO | FORH IN

52-W High / Low	Rs.480 / Rs.271
Sensex / Nifty	75,410 / 22,957
Market Cap	Rs.349bn/ \$ 4,197m
Shares Outstanding	755m
3M Avg. Daily Value	Rs.626.98m

Shareholding Pattern (%)

Promoter's	31.17
Foreign	23.24
Domestic Institution	31.15
Public & Others	14.44
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.7	26.1	60.6
Relative	0.5	10.3	31.6

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Fortis Healthcare (FORH IN)

Rating: BUY | CMP: Rs462 | TP: Rs515

Strong beat; Hospital margins at +21%

Quick Pointers:

- Guided 200 bps YoY margin improvement for hospital segment in FY25
- On track with a total expansion plan of 2,200 beds over 4 years.

Fortis Healthcare (FORH) Q4FY24 EBITDA was 14% above our estimates aided by higher margins in hospital segment. Though hospital margins saw 170 bps YoY improvement in FY24, we see further margin improvement in hospital segment aided by 1) improving case and payor mix 2) cost rationalization initiatives and 3) new brownfield bed addition. Our FY25E and FY26E hospital EBITDA stands increased by 4-5%. We expect 21% EBITDA CAGR over FY24-26E. At CMP, stock is trading at 20x EV/EBITDA on FY26E, adjusted for Agilus stake. Maintain 'Buy' rating with revised TP of Rs 515/share (Rs. 480 earlier); valuing hospital segment at 23x and diagnostic at 18x EV/EBITDA on FY26E. Resolution of legal issues and monetization of PE stake in Agilus to third party would be a key additional trigger for re-rating.

- Strong ARPOB; Occupancy improved QoQ due to seasonality:** Hospital business revenue increased 10% YoY (7% QoQ) to Rs.14.9bn; vs our estimates of Rs14.7bn. Diagnostic business saw 1% YoY revenue growth (2% QoQ) to ~Rs3bn. Hospital occupancy improved to 67% vs 64% in Q3; led by seasonality. ARPOB further improved by 10% YoY and 4% QoQ to Rs.63.4K largely aided by case mix.
- EBITDA beat aided by higher margins in hospital segment:** FORH's consolidated EBITDA increased 41% YoY and 34% QoQ to Rs 3.8bn; vs our estimate of Rs3.35bn as strong beat by hospital profitability. Hospital business EBITDA came in at Rs 3.3bn (17% above our estimates), up by 51% YoY. Overall hospital OPM came in at 22.3% (up by 400 bps QoQ). Adjusted for certain write back in hospitals segment; hospital margins were at +21%. Diagnostic biz EBITDA was flat YoY to Rs490m; OPM of 16.6% and mgmt cited certain one offs in diagnostic biz related to re branding expenses and certain provisions. Adj. for this margins were at 18.5%. Net debt decreased by Rs.2.5bn QoQ to Rs 2.6bn.
- Key con-call takeaways:** (1) Guided for Rs12-13bn capex to commercialize additional 2,200 beds over next 4 years. In FY25, 701 beds of capacity are likely to get commercialize which includes 350 beds in Manesar. Additionally, beds will come up in Faridabad, Anandpur and Shalimar bagh. Manesar new facility is likely to commercialized from Q2FY25 with 100 beds in initial phase (2) Added LINAC in Mohali, Noida and Cath labs and MRI in Anandour, robotic surgeries across FMRI and Shalimar baug. Further, launched a 70 bedded new facility in Ludhiana, Punjab (4) For Q1FY25, occupancy is trending closer to 70% so far (5) Guided +200bps margin expansion in hospital business in FY25 and to achieve +25% margins in next 2-3 years. Cost and portfolio rationalization strategies, scale up in occupancy and better case & payor mix to drive this margin expansion in hospital segment (6) Guided ARPOB growth of 5-6% aided by case and payor mix. CGHS rates may get revised which can

further drive ARPOB growth beyond 5-6%. Around 4-5% of revenues comes from CGHS. Overall expect scheme revenues to come down to 15% from current level of 20% **(7) Agilus:** Incurred Rs.580mn (Rs. 60mn spent in Q4FY24) one-time expenses towards rebranding and certain provisioning expenses. Taken price hike of 5-6% for B2C biz in Feb and expect recovery in volumes. Clarity on monetization of PE stake sale in Agilus will be shared by August 2024 **(8)** Out of top 8 hospitals, operating below 15% margin, mgmt reiterated three hospitals (Faridabad, Jaipur and Ludhiana) will likely see faster EBITDA margin improvement **(9)** Currently incurring Rs300-500mn of legal expenses towards ongoing case.

Exhibit 1: Q4FY24 Result Overview (Rs mn)– Higher hospital margins led strong EBITDA growth

Y/e March	4QFY24	4QFY23	YoY gr. (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Net Sales	17,859	16,427	8.7	16,797	6.3	68,930	62,976	9.5
COGS	4,137	3,824	8.2	3,938	5.1	16,187	14,547	11.3
<i>% of Net Sales</i>	<i>23.2</i>	<i>23.3</i>		<i>23.4</i>		<i>23.5</i>	<i>23.1</i>	
Employee Cost	2,715	2,608	4.1	2,821	(3.7)	11,195	10,469	6.9
<i>% of Net Sales</i>	<i>15.2</i>	<i>15.9</i>		<i>16.8</i>		<i>16.2</i>	<i>16.6</i>	
Other Expenses	7,196	7,286	(1.2)	7,199	(0.0)	28,871	26,947	7.1
<i>% of Net Sales</i>	<i>40.3</i>	<i>44.4</i>		<i>42.9</i>		<i>41.9</i>	<i>42.8</i>	
Total	14,048	13,718	2.4	13,957	0.7	56,253	51,963	8.3
EBITDA	3,810	2,709	40.7	2,840	34.2	12,677	11,013	15.1
<i>Margins (%)</i>	<i>21.3</i>	<i>16.5</i>		<i>16.9</i>		<i>18.4</i>	<i>17.5</i>	
Other Income	98	138	(28.9)	68	43.9	383	617	(38.0)
Interest	347	317	9.4	330	5.2	1,310	1,291	1.4
Depreciation	922	818	12.8	869	6.1	3,425	3,157	8.5
PBT	2,639	1,712	54.2	1,709	54.4	8,325	7,182	15.9
Tax	682	451	51.3	489	39.5	2,128	1,807	17.7
<i>Tax rate %</i>	<i>25.9</i>	<i>26.4</i>		<i>28.6</i>		<i>25.6</i>	<i>25.2</i>	
PAT	1,957	1,261	55.2	1,220	60.4	6,198	5,375	15.3
Share in (loss)/profit of associate	43	17	152.6	45		95	218	(56.5)
Minority Interest	244	58	324.5	(4)		463	443	4.7
EO items	(31)	(105)	(70.2)	(77)		(160)	(736)	(78.2)
Reported PAT	1,787	1,326	34.8	1,347	32.7	5,990	5,887	1.7

Source: Company, PL

Exhibit 2: Hospital revenues grew 11.3% YoY while Diagnostic revenues grew 1.4% YoY in FY24.

Revenues	4QFY24	4QFY23	YoY gr. (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Hospital	14,900	13,505	10.3	13,890	7.3	56,860	51,072	11.3
<i>% of Total Sales</i>	<i>83.4</i>	<i>82.2</i>		<i>82.7</i>		<i>82.5</i>	<i>81.1</i>	
Diagnostic	2,960	2,923	1.3	2,907	1.8	12,070	11,904	1.4
<i>% of Total Sales</i>	<i>16.6</i>	<i>17.8</i>		<i>17.3</i>		<i>17.5</i>	<i>18.9</i>	
Total Revenues	17,860	16,428	8.7	16,797	6.3	68,930	62,976	9.5

Source: Company, PL

Exhibit 3: Hospital EBITDA improved ~23% YoY while diagnostic EBITDA declined ~13% YoY for FY24

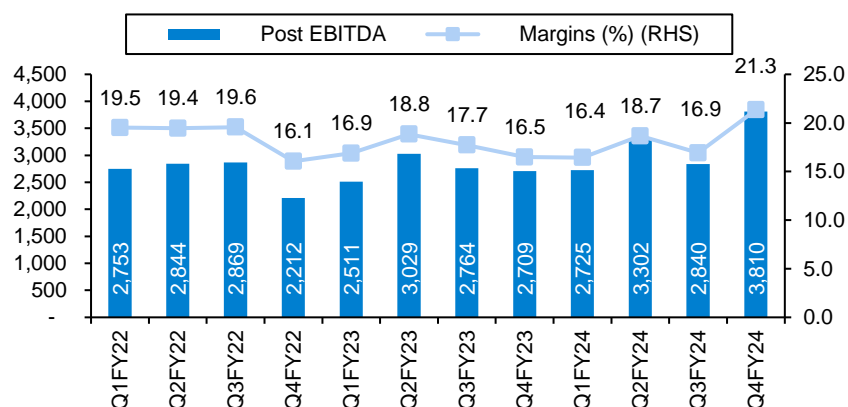
EBITDA	4QFY24	4QFY23	YoY gr. (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Hospital	3,330	2,212	50.5	2,510	32.7	10,580	8,621	22.7
% OPM	22.3	16.4		18.1		18.6	16.9	
Diagnostic	490	654	(25.1)	330	48.6	2,090	2,390	(12.6)
% OPM	16.6	16.9		11.3		17.3	20.1	
Total Revenues	3,820	2,866	33.3	2,840	34.5	12,670	11,011	15.1

Source: Company, PL

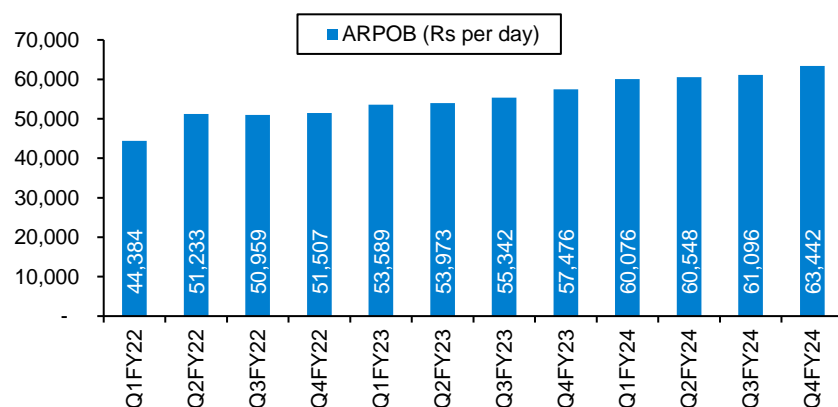
Exhibit 4: Eight hospitals in 20-25% margin bracket

EBITDA for FY24	No. Of facilities (#)	Revenue contribution (%)	Beds (#)	ARPOB (INR mn)	Occupancy (%)
20-25%	8	62	1,998	22.5	71
15-20%	5	13	745	28.8	60
10-15%	3	14	640	15.5	67
<10%	5	8	551	19.3	54
Total/Average	21	98	3,934	21.5	63

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

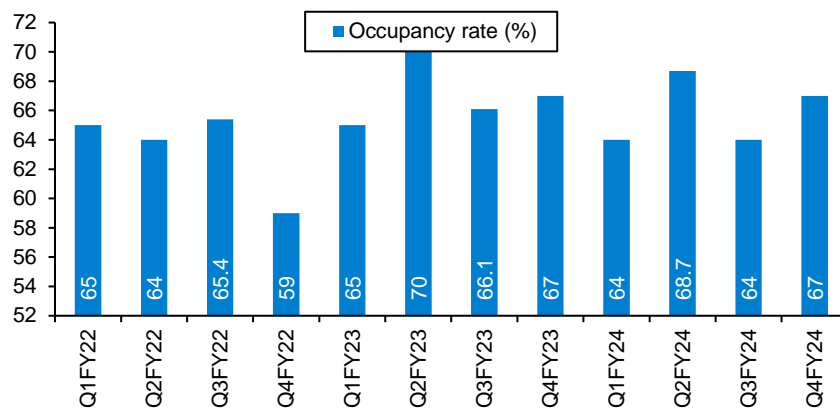
Exhibit 5: Margins improved led by hospitals profitability and seasonality


Source: Company, PL

Exhibit 6: Strong ARPOB aided by increased high end complex specialties


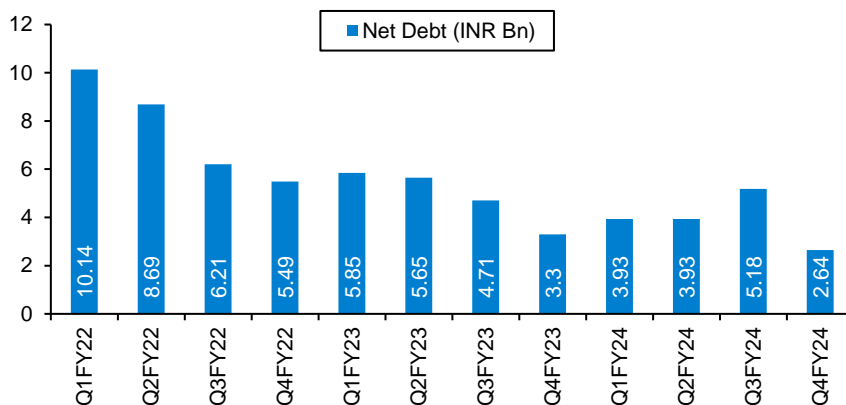
Source: Company, PL

Exhibit 7: Occupancy improved QoQ to 67% due to seasonality



Source: Company, PL

Exhibit 8: Net debt increased by Rs. 2.54bn QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	62,976	68,930	75,596	84,837
YoY gr. (%)	10.1	9.5	9.7	12.2
Cost of Goods Sold	14,547	16,187	17,765	19,937
Gross Profit	48,429	52,743	57,831	64,900
Margin (%)	76.9	76.5	76.5	76.5
Employee Cost	10,469	11,195	14,363	16,119
Other Expenses	26,947	28,871	27,723	30,189
EBITDA	11,013	12,677	15,745	18,592
YoY gr. (%)	3.0	15.1	24.2	18.1
Margin (%)	17.5	18.4	20.8	21.9
Depreciation and Amortization	3,157	3,425	3,674	3,924
EBIT	7,856	9,252	12,070	14,668
Margin (%)	12.5	13.4	16.0	17.3
Net Interest	1,291	1,310	1,204	1,117
Other Income	617	383	500	800
Profit Before Tax	7,182	8,325	11,366	14,352
Margin (%)	11.4	12.1	15.0	16.9
Total Tax	1,807	2,128	2,898	3,660
Effective tax rate (%)	25.2	25.6	25.5	25.5
Profit after tax	5,375	6,198	8,468	10,692
Minority interest	443	463	500	500
Share Profit from Associate	218	95	200	200
Adjusted PAT	5,151	5,829	8,168	10,392
YoY gr. (%)	114.6	13.2	40.1	27.2
Margin (%)	8.2	8.5	10.8	12.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,151	5,829	8,168	10,392
YoY gr. (%)	114.6	13.2	40.1	27.2
Margin (%)	8.2	8.5	10.8	12.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,151	5,829	8,168	10,392
Equity Shares O/s (m)	755	755	755	755
EPS (Rs)	6.8	7.7	10.8	13.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	86,719	94,085	1,00,085	1,06,085
Tangibles	86,719	94,085	1,00,085	1,06,085
Intangibles	-	-	-	-
Acc: Dep / Amortization	33,865	37,290	40,964	44,888
Tangibles	33,865	37,290	40,964	44,888
Intangibles	-	-	-	-
Net fixed assets	52,854	56,795	59,121	61,197
Tangibles	52,854	56,795	59,121	61,197
Intangibles	-	-	-	-
Capital Work In Progress	2,278	5,420	5,420	5,420
Goodwill	41,410	41,942	41,942	41,942
Non-Current Investments	2,103	2,298	2,298	2,298
Net Deferred tax assets	(665)	(1,119)	(1,119)	(1,119)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	1,228	1,074	1,182	1,332
Trade receivables	5,816	6,278	7,820	8,812
Cash & Bank Balance	3,627	5,984	6,421	8,857
Other Current Assets	11,551	9,893	10,882	11,970
Total Assets	1,24,336	1,32,888	1,38,289	1,45,031
Equity				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	64,873	69,079	75,481	83,223
Total Network	72,423	76,629	83,030	90,772
Non-Current Liabilities				
Long Term borrowings	5,722	7,409	7,409	7,409
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,309	1,175	(325)	(1,825)
Trade payables	7,143	7,278	8,133	9,165
Other current liabilities	22,825	24,205	23,350	22,318
Total Equity & Liabilities	1,24,336	1,32,888	1,38,289	1,45,031

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	7,182	8,325	11,366	14,352
Add. Depreciation	3,157	3,425	3,674	3,924
Add. Interest	1,291	1,310	1,204	1,117
Less Financial Other Income	617	383	500	800
Add. Other	736	(37)	-	-
Op. profit before WC changes	12,367	13,023	16,245	19,392
Net Changes-WC	(2,337)	106	(2,639)	(2,230)
Direct tax	(1,807)	(2,128)	(2,898)	(3,660)
Net cash from Op. activities	8,223	11,001	10,708	13,502
Capital expenditures	(4,611)	(10,098)	(6,000)	(6,000)
Interest / Dividend Income	-	-	-	-
Others	874	1,235	200	200
Net Cash from Invt. activities	(3,737)	(8,864)	(5,800)	(5,800)
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,625)	1,552	(1,500)	(1,500)
Dividend paid	(160)	(860)	(1,767)	(2,650)
Interest paid	(1,291)	(1,310)	(1,204)	(1,117)
Others	(909)	837	-	-
Net cash from Fin. activities	(4,985)	220	(4,471)	(5,267)
Net change in cash	(499)	2,357	437	2,436
Free Cash Flow	3,611	903	4,708	7,502

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	16,574	17,700	16,797	17,859
YoY gr. (%)	11.4	10.1	7.7	8.7
Raw Material Expenses	3,985	4,127	3,938	4,137
Gross Profit	12,589	13,572	12,859	13,722
Margin (%)	76.0	76.7	76.6	76.8
EBITDA	2,725	3,302	2,840	3,810
YoY gr. (%)	8.5	9.0	2.7	40.7
Margin (%)	16.4	18.7	16.9	21.3
Depreciation / Depletion	792	841	869	922
EBIT	1,932	2,461	1,971	2,888
Margin (%)	11.7	13.9	11.7	16.2
Net Interest	315	318	330	347
Other Income	81	135	68	98
Profit before Tax	1,714	2,314	1,786	2,671
Margin (%)	10.3	13.1	10.6	15.0
Total Tax	468	488	489	682
Effective tax rate (%)	27.3	21.1	27.4	25.6
Profit after Tax	1,246	1,826	1,297	1,988
Minority interest	122	102	(4)	244
Share Profit from Associates	(6)	13	45	43
Adjusted PAT	1,118	1,737	1,347	1,787
YoY gr. (%)	(8.6)	(15.0)	3.9	34.8
Margin (%)	6.7	9.8	8.0	10.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,118	1,737	1,347	1,787
YoY gr. (%)	(8.6)	(15.0)	3.9	34.8
Margin (%)	6.7	9.8	8.0	10.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,118	1,737	1,347	1,787
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	1.5	2.3	1.8	2.4

Source: Company Data, PL Research

Key Financial Metrics

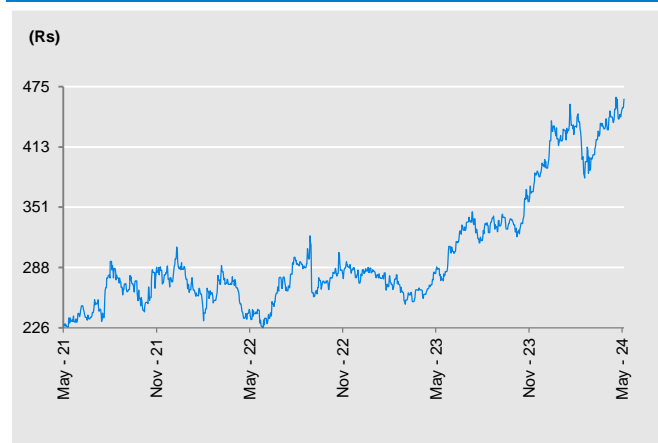
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	6.8	7.7	10.8	13.8
CEPS	11.0	12.3	15.7	19.0
BVPS	95.9	101.5	110.0	120.2
FCF	4.8	1.2	6.2	9.9
DPS	-	-	-	-
Return Ratio(%)				
RoCE	10.4	11.2	13.8	15.7
ROIC	6.5	7.3	9.2	10.8
RoE	7.7	7.8	10.2	12.0
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	0.0
Net Working Capital (Days)	(1)	0	4	4
Valuation(x)				
PER	67.7	59.8	42.7	33.6
P/B	4.8	4.6	4.2	3.8
P/CEPS	42.0	37.7	29.5	24.4
EV/EBITDA	32.0	27.7	22.2	18.6
EV/Sales	5.6	5.1	4.6	4.1
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Hospital	51,072	56,860	62,560	70,498
Diagnostic	11,904	12,070	13,036	14,339

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-24	BUY	480	437
2	09-Feb-24	BUY	780	444
3	08-Jan-24	BUY	400	434
4	12-Nov-23	BUY	400	359
5	07-Oct-23	BUY	365	328
6	07-Aug-23	BUY	365	324
7	06-Jul-23	BUY	365	322
8	22-Jun-23	BUY	365	309

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,259
2	Aster DM Healthcare	BUY	515	457
3	Aurobindo Pharma	Accumulate	1,120	1,124
4	Cipla	Accumulate	1,405	1,340
5	Divi's Laboratories	Reduce	3,150	3,748
6	Dr. Reddy's Laboratories	Reduce	5,700	6,258
7	Eris Lifesciences	BUY	1,100	908
8	Fortis Healthcare	BUY	480	437
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	368
11	Indoco Remedies	Accumulate	335	320
12	Ipca Laboratories	Hold	1,060	1,315
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,774
14	Jupiter Life Line Hospitals	BUY	1,360	1,275
15	Krishna Institute of Medical Sciences	BUY	2,100	1,950
16	Lupin	Hold	1,675	1,611
17	Max Healthcare Institute	BUY	925	803
18	Narayana Hrudayalaya	BUY	1,435	1,286
19	Sun Pharmaceutical Industries	BUY	1,710	1,539
20	Suntech Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,700	2,577
22	Zydus Lifesciences	Accumulate	1,130	1,104

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

ANALYST CERTIFICATION

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