

August 8, 2024

## Q1FY25 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	515		515	
Sales (Rs. m)	76,301	85,110	75,596	84,837
% Chng.	0.9	0.3		
EBITDA (Rs. m)	15,363	18,442	15,745	18,592
% Chng.	(2.4)	(0.8)		
EPS (Rs.)	10.4	13.6	10.8	13.8
% Chng.	(4.0)	(1.1)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	62,976	68,930	76,301	85,110
EBITDA (Rs. m)	11,013	12,677	15,363	18,442
Margin (%)	17.5	18.4	20.1	21.7
PAT (Rs. m)	5,151	5,829	7,843	10,280
EPS (Rs.)	6.8	7.7	10.4	13.6
Gr. (%)	(7.2)	13.2	34.5	31.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	7.7	7.8	9.8	11.9
RoCE (%)	10.4	11.2	13.4	15.6
EV/Sales (x)	5.9	5.4	4.8	4.3
EV/EBITDA (x)	33.6	29.2	24.0	19.8
PE (x)	71.3	63.0	46.8	35.7
P/BV (x)	5.1	4.8	4.4	4.1

### Key Data

FOHE.BO | FORH IN

52-W High / Low	Rs.532 / Rs.308
Sensex / Nifty	79,468 / 24,298
Market Cap	Rs.367bn/ \$ 4,373m
Shares Outstanding	755m
3M Avg. Daily Value	Rs.886.89m

### Shareholding Pattern (%)

Promoter's	31.17
Foreign	23.31
Domestic Institution	32.30
Public & Others	13.22
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	5.3	7.5	50.1
Relative	6.0	(2.4)	24.6

### Param Desai

paramdesai@plindia.com | 91-22-66322259

### Sanketa Kohale

sanketakohale@plindia.com | 91-22-66322426

# Fortis Healthcare (FORH IN)

Rating: BUY | CMP: Rs486 | TP: Rs515

## In-line quarter; Stake buy-out in Agilus

### Quick Pointers:

- Put option of buying 31% PE stake in Agilus likely to get exercised.
- On track with a total expansion plan of 650-700 beds in FY25.

**Fortis Healthcare (FORH) Q1FY25 EBITDA was largely in line with our estimates. 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 largely remains unchanged. We expect 21% EBITDA CAGR over FY24-26E. At CMP, stock is trading at 22x EV/EBITDA on FY26E, adjusted for Agilus stake. Maintain 'Buy' rating with TP of Rs 515/share; valuing hospital segment at 23x and diagnostic at 18x EV/EBITDA on FY26E. Resolution of legal issues and profitability improvement in Agilus will be key for re-rating.**

**Fortis will invest Rs18bn in diagnostic business which will increase its stake to 88%. Given growth in diagnostic segment have been muted; investments will see RoCE dilutive in near term. However; Agilus stake purchase at 22x EV/EBITDA on trailing basis is at much discount to peers.**

- Strong ARPOB; steady occupancy QoQ:** Hospital business revenue increased 14% YoY (4% QoQ) to Rs.15.5bn; vs our estimates of Rs15.1bn. Diagnostic business saw 2% YoY revenue growth to ~Rs3.1bn. Hospital occupancy was steady QoQ to 67% vs 64% in Q1FY24. ARPOB further improved by 10% YoY and 4% QoQ to Rs.65.9K largely aided by case mix.
- In- line EBITDA; hospital margins at 18.5%:** FORH's consolidated EBITDA increased 26% YoY; down by 10% QoQ to Rs 3.4bn; in line with our estimate. Hospital business EBITDA came in at Rs 2.9bn, up 39% YoY. Overall hospital OPM came in at 18.5% (declined by 380 bps QoQ). Diagnostic biz EBITDA declined 17% YoY to Rs550mn; with OPM of 17.8% and adj for certain one offs margins were at 18.7%. Net debt increased by Rs.440mn QoQ to Rs 3.1bn.
- Key con-call takeaways: Bed expansion:** In FY25, total 650-700 beds capacity are likely to get commercialize which includes 350 beds in Manesar (100 beds will be commercialized in Q2 and balance in 2HFY25). Furthermore, will be adding capacities across key facilities like Faridabad, Noida, Shalimar Bagh and Anandpur. **FMRI** running at full potential of 75% occupancy as added new clinical talent in Onco and cardiac specialty. Brownfield 21 beds will be added by November 2024 and FMRI growth will be driven from largely the case mix and the price hike. **The QoQ margin decline in hospital segment** was attributed to non-operational in nature to tune of 0.5% related to bad debt provision, GST-related liability and balance 2% margin drop pertains to case mix. Total provision related to Moholla clinic was at Rs.25mn provision in Q1. **(6) Agilus:** Incurred Rs.90mn one-time expenses towards rebranding and certain provisioning expenses. The put option to buy 31% PE stake in Agilus is likely to get exercised which may result in total cash outflow of Rs17.8bn. There would be no impact or delay in capex for hospital segment. Agilus's marketing on the rebranding cost guided at Rs. 500mn for FY25. Mgmt cited legal case hearings likely to be concluded soon.

### Exhibit 1: Q1FY25 Result Overview (Rs mn)– Certain one offs and case mix led to drop on margins QoQ.

Y/e March	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)
<b>Net Sales</b>	<b>18,588</b>	<b>16,574</b>	<b>12.2</b>	<b>17,859</b>	<b>4.1</b>
COGS	4,529	3,985	13.6	4,137	9.5
<i>% of Net Sales</i>	<i>24.4</i>	<i>24.0</i>		<i>23.2</i>	
Employee Cost	2,954	2,845	3.8	2,715	8.8
<i>% of Net Sales</i>	<i>15.9</i>	<i>17.2</i>		<i>15.2</i>	
Other Expenses	7,681	7,019	9.4	7,196	6.7
<i>% of Net Sales</i>	<i>41.3</i>	<i>42.4</i>		<i>40.3</i>	
<b>Total</b>	<b>15,164</b>	<b>13,850</b>	<b>9.5</b>	<b>14,048</b>	<b>7.9</b>
<b>EBITDA</b>	<b>3,424</b>	<b>2,725</b>	<b>25.7</b>	<b>3,810</b>	<b>(10.1)</b>
<i>Margins (%)</i>	<i>18.4</i>	<i>16.4</i>		<i>21.3</i>	
Other Income	130	81	59.8	98	32.8
Interest	353	315	12.0	347	1.7
Depreciation	910	792	14.8	922	(1.3)
<b>PBT</b>	<b>2,292</b>	<b>1,699</b>	<b>34.9</b>	<b>2,639</b>	<b>(13.2)</b>
Tax	561	468	19.9	682	(17.8)
<i>Tax rate %</i>	<i>24.5</i>	<i>27.5</i>		<i>25.9</i>	
<b>PAT</b>	<b>1,731</b>	<b>1,231</b>	<b>40.6</b>	<b>1,957</b>	<b>(11.5)</b>
Share in (loss)/profit of associate	6	(6)	(195.2)	43	
Minority Interest	80	122	(34.2)	244	
EO items	(2)	(15)	(86.5)	(31)	
<b>Reported PAT</b>	<b>1,659</b>	<b>1,118</b>	<b>48.4</b>	<b>1,787</b>	<b>(7.2)</b>

Source: Company, PL

### Exhibit 2: Hospital revenues grew +14% YoY while Diagnostic revenues grew ~2% YoY in Q1FY25.

Revenues	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)
<b>Hospital</b>	<b>15,490</b>	<b>13,541</b>	<b>14.4</b>	<b>14,900</b>	<b>4.0</b>
<i>% of Total Sales</i>	<i>83.4</i>	<i>81.7</i>		<i>83.4</i>	
<b>Diagnostic</b>	<b>3,090</b>	<b>3,033</b>	<b>1.9</b>	<b>2,960</b>	<b>4.4</b>
<i>% of Total Sales</i>	<i>16.6</i>	<i>18.3</i>		<i>16.6</i>	
<b>Total Revenues</b>	<b>18,580</b>	<b>16,574</b>	<b>12.1</b>	<b>17,860</b>	<b>4.0</b>

Source: Company, PL

### Exhibit 3: Hospital EBITDA improved 39% YoY while diagnostic EBITDA declined 17% YoY for Q1FY25

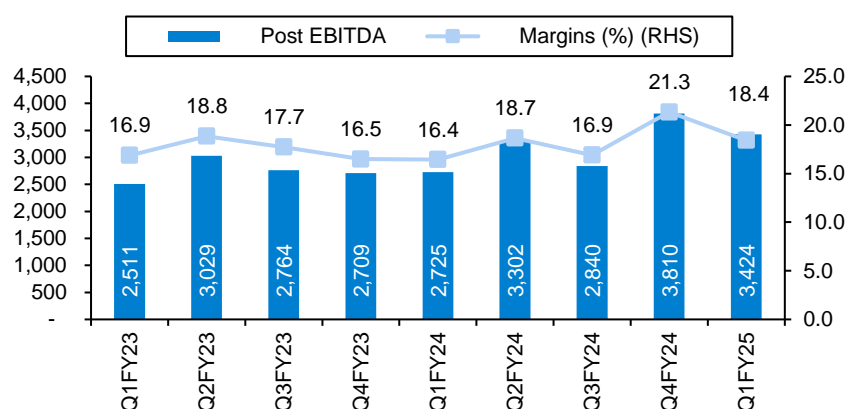
EBITDA	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)
<b>Hospital</b>	<b>2,870</b>	<b>2,064</b>	<b>39.1</b>	<b>3,330</b>	<b>(13.8)</b>
<i>% OPM</i>	<i>18.5</i>	<i>15.2</i>		<i>22.3</i>	
<b>Diagnostic</b>	<b>550</b>	<b>664</b>	<b>(17.2)</b>	<b>490</b>	<b>12.2</b>
<i>% OPM</i>	<i>17.8</i>	<i>21.9</i>		<i>16.6</i>	
<b>Total EBITDA</b>	<b>3,420</b>	<b>2,728</b>	<b>25.4</b>	<b>3,820</b>	<b>(10.5)</b>

Source: Company, PL

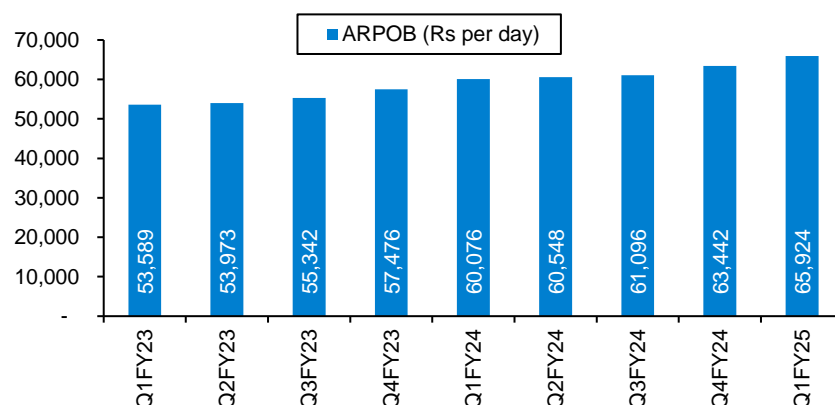
**Exhibit 4: 8 hospitals in 20-25% margin bracket contributes 69% of revenues**

EBITDA for Q1FY25	No. Of facilities (#)	Revenue contribution (%)	Beds (#)	ARPOB (INR mn)	Occupancy (%)
20-25%	8	69	2,302	27.7	71
15-20%	5	12	699	14.6	74
10-15%	1	1	46	15.5	59
<10%	7	18	983	21.6	55
<b>Total/Average</b>	<b>21</b>	<b>99</b>	<b>4,030</b>	<b>19.9</b>	<b>65</b>

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

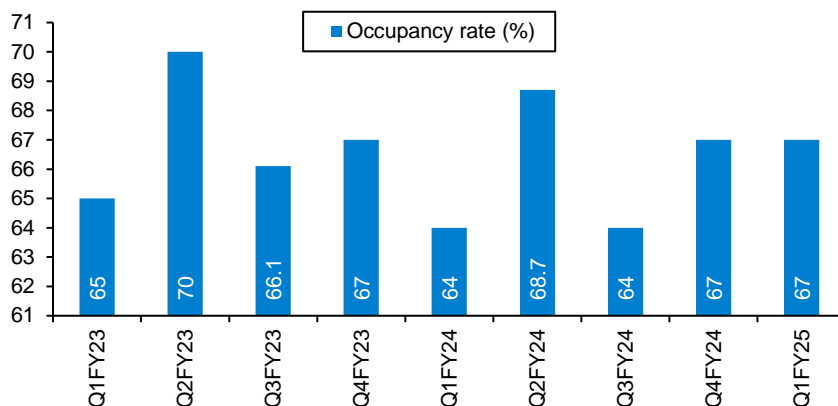
**Exhibit 5: Margins declined QoQ led by certain one off and provisions**


Source: Company, PL

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


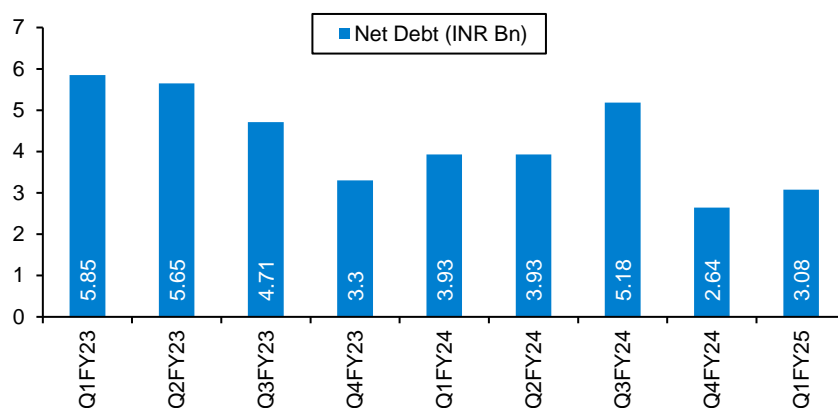
Source: Company, PL

**Exhibit 7: Steady occupancy QoQ in spite of seasonality**



Source: Company, PL

**Exhibit 8: Net debt increased by Rs. 440mn QoQ**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Net Revenues</b>	<b>62,976</b>	<b>68,930</b>	<b>76,301</b>	<b>85,110</b>
YoY gr. (%)	10.1	9.5	10.7	11.5
Cost of Goods Sold	14,547	16,187	17,931	20,001
Gross Profit	48,429	52,743	58,370	65,109
Margin (%)	76.9	76.5	76.5	76.5
Employee Cost	10,469	11,195	14,497	16,171
Other Expenses	26,947	28,871	28,510	30,496
<b>EBITDA</b>	<b>11,013</b>	<b>12,677</b>	<b>15,363</b>	<b>18,442</b>
YoY gr. (%)	3.0	15.1	21.2	20.0
Margin (%)	17.5	18.4	20.1	21.7
Depreciation and Amortization	3,157	3,425	3,674	3,924
<b>EBIT</b>	<b>7,856</b>	<b>9,252</b>	<b>11,688</b>	<b>14,518</b>
Margin (%)	12.5	13.4	15.3	17.1
Net Interest	1,291	1,310	1,346	1,117
Other Income	617	383	520	800
<b>Profit Before Tax</b>	<b>7,182</b>	<b>8,325</b>	<b>10,862</b>	<b>14,202</b>
Margin (%)	11.4	12.1	14.2	16.7
Total Tax	1,807	2,128	2,770	3,621
Effective tax rate (%)	25.2	25.6	25.5	25.5
<b>Profit after tax</b>	<b>5,375</b>	<b>6,198</b>	<b>8,093</b>	<b>10,580</b>
Minority interest	443	463	450	500
Share Profit from Associate	218	95	200	200
<b>Adjusted PAT</b>	<b>5,151</b>	<b>5,829</b>	<b>7,843</b>	<b>10,280</b>
YoY gr. (%)	114.6	13.2	34.5	31.1
Margin (%)	8.2	8.5	10.3	12.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,151</b>	<b>5,829</b>	<b>7,843</b>	<b>10,280</b>
YoY gr. (%)	114.6	13.2	34.5	31.1
Margin (%)	8.2	8.5	10.3	12.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,151	5,829	7,843	10,280
<b>Equity Shares O/s (m)</b>	<b>755</b>	<b>755</b>	<b>755</b>	<b>755</b>
<b>EPS (Rs)</b>	<b>6.8</b>	<b>7.7</b>	<b>10.4</b>	<b>13.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>86,719</b>	<b>94,085</b>	<b>1,00,085</b>	<b>1,06,085</b>
Tangibles	86,719	94,085	1,00,085	1,06,085
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>33,865</b>	<b>37,290</b>	<b>40,964</b>	<b>44,888</b>
Tangibles	33,865	37,290	40,964	44,888
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>52,854</b>	<b>56,795</b>	<b>59,121</b>	<b>61,197</b>
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	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	1,228	1,074	1,202	1,345
Trade receivables	5,816	6,278	7,953	8,896
Cash & Bank Balance	3,627	5,984	5,892	8,273
Other Current Assets	11,551	9,893	10,882	11,970
<b>Total Assets</b>	<b>1,24,336</b>	<b>1,32,888</b>	<b>1,37,914</b>	<b>1,44,544</b>
<b>Equity</b>				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	64,873	69,079	75,155	82,786
<b>Total Network</b>	<b>72,423</b>	<b>76,629</b>	<b>82,705</b>	<b>90,335</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	5,722	7,409	7,409	7,409
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,309	1,175	(325)	(1,825)
Trade payables	7,143	7,278	8,272	9,252
Other current liabilities	22,825	24,205	23,211	22,230
<b>Total Equity &amp; Liabilities</b>	<b>1,24,336</b>	<b>1,32,888</b>	<b>1,37,914</b>	<b>1,44,544</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	7,182	8,325	10,862	14,202
Add. Depreciation	3,157	3,425	3,674	3,924
Add. Interest	1,291	1,310	1,346	1,117
Less Financial Other Income	617	383	520	800
Add. Other	736	(37)	-	-
Op. profit before WC changes	12,367	13,023	15,883	19,242
Net Changes-WC	(2,337)	106	(2,792)	(2,173)
Direct tax	(1,807)	(2,128)	(2,770)	(3,621)
<b>Net cash from Op. activities</b>	<b>8,223</b>	<b>11,001</b>	<b>10,321</b>	<b>13,448</b>
Capital expenditures	(4,611)	(10,098)	(6,000)	(6,000)
Interest / Dividend Income	-	-	-	-
Others	874	1,235	200	200
<b>Net Cash from Invst. activities</b>	<b>(3,737)</b>	<b>(8,864)</b>	<b>(5,800)</b>	<b>(5,800)</b>
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)	(1,346)	(1,117)
Others	(909)	837	-	-
<b>Net cash from Fin. activities</b>	<b>(4,985)</b>	<b>220</b>	<b>(4,613)</b>	<b>(5,267)</b>
<b>Net change in cash</b>	<b>(499)</b>	<b>2,357</b>	<b>(92)</b>	<b>2,381</b>
Free Cash Flow	3,611	903	4,321	7,448

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	6.8	7.7	10.4	13.6
CEPS	11.0	12.3	15.3	18.8
BVPS	95.9	101.5	109.5	119.7
FCF	4.8	1.2	5.7	9.9
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	10.4	11.2	13.4	15.6
ROIC	6.5	7.3	8.9	10.7
RoE	7.7	7.8	9.8	11.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	0.0	0.0	0.0
Net Working Capital (Days)	(1)	0	4	4
<b>Valuation(x)</b>				
PER	71.3	63.0	46.8	35.7
P/B	5.1	4.8	4.4	4.1
P/CEPS	44.2	39.7	31.9	25.8
EV/EBITDA	33.6	29.2	24.0	19.8
EV/Sales	5.9	5.4	4.8	4.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
<b>Net Revenue</b>	<b>17,700</b>	<b>16,797</b>	<b>17,859</b>	<b>18,588</b>
YoY gr. (%)	10.1	7.7	8.7	12.2
Raw Material Expenses	4,127	3,938	4,137	4,529
Gross Profit	13,572	12,859	13,722	14,059
Margin (%)	76.7	76.6	76.8	75.6
<b>EBITDA</b>	<b>3,302</b>	<b>2,840</b>	<b>3,810</b>	<b>3,424</b>
YoY gr. (%)	9.0	2.7	40.7	25.7
Margin (%)	18.7	16.9	21.3	18.4
Depreciation / Depletion	841	869	922	910
<b>EBIT</b>	<b>2,461</b>	<b>1,971</b>	<b>2,888</b>	<b>2,514</b>
Margin (%)	13.9	11.7	16.2	13.5
Net Interest	318	330	347	353
Other Income	135	68	98	130
<b>Profit before Tax</b>	<b>2,314</b>	<b>1,786</b>	<b>2,671</b>	<b>2,294</b>
Margin (%)	13.1	10.6	15.0	12.3
Total Tax	488	489	682	561
Effective tax rate (%)	21.1	27.4	25.6	24.4
<b>Profit after Tax</b>	<b>1,826</b>	<b>1,297</b>	<b>1,988</b>	<b>1,733</b>
Minority interest	102	(4)	244	80
Share Profit from Associates	13	45	43	6
<b>Adjusted PAT</b>	<b>1,737</b>	<b>1,347</b>	<b>1,787</b>	<b>1,659</b>
YoY gr. (%)	(15.0)	3.9	34.8	48.4
Margin (%)	9.8	8.0	10.0	8.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,737</b>	<b>1,347</b>	<b>1,787</b>	<b>1,659</b>
YoY gr. (%)	(15.0)	3.9	34.8	48.4
Margin (%)	9.8	8.0	10.0	8.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,737</b>	<b>1,347</b>	<b>1,787</b>	<b>1,659</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>2.3</b>	<b>1.8</b>	<b>2.4</b>	<b>2.2</b>

Source: Company Data, PL Research

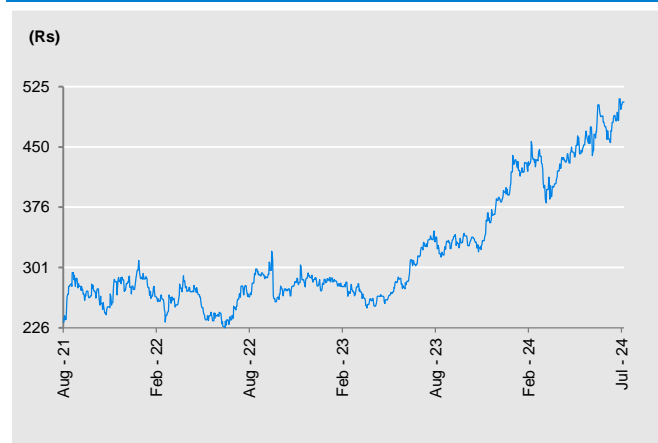
### Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Hospital	51,072	56,860	63,627	71,169
Diagnostic	11,904	12,070	12,674	13,941

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	BUY	515	460
2	26-May-24	BUY	515	462
3	08-Apr-24	BUY	480	437
4	09-Feb-24	BUY	780	444
5	08-Jan-24	BUY	400	434
6	12-Nov-23	BUY	400	359
7	07-Oct-23	BUY	365	328

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,335
2	Aster DM Healthcare	BUY	400	368
3	Aurobindo Pharma	Accumulate	1,300	1,304
4	Cipla	Accumulate	1,680	1,575
5	Divi's Laboratories	Accumulate	5,000	4,991
6	Dr. Reddy's Laboratories	Reduce	6,000	6,879
7	Eris Lifesciences	BUY	1,250	1,128
8	Fortis Healthcare	BUY	515	460
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	377
11	Indoco Remedies	Accumulate	320	322
12	Ipca Laboratories	Reduce	1,150	1,193
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,743
14	Jupiter Life Line Hospitals	BUY	1,360	1,330
15	Krishna Institute of Medical Sciences	BUY	2,200	2,135
16	Lupin	Hold	1,675	1,770
17	Max Healthcare Institute	BUY	975	916
18	Narayana Hrudayalaya	BUY	1,350	1,218
19	Sun Pharmaceutical Industries	BUY	1,885	1,715
20	Suntech Realty	BUY	600	471
21	Torrent Pharmaceuticals	Accumulate	3,300	3,162
22	Zydus Lifesciences	Accumulate	1,130	1,162

## 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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### **Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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