

# Fortis Healthcare Ltd.

## Steady Performance maintained

Q3FY22 was a steady quarter for Fortis with strong recovery in the non Covid business in both Hospitals and Diagnostics segments. Both these segments are on an upward revenue trajectory which should sustain going forward. Covid contributed to approximately 2% of Hospitals revenue and 19% of Diagnostics revenue in Q3FY22. Non Covid occupancy was 64% in Q3FY22 for Hospitals and ARPOB of Rs 18.6 mln was achieved during the quarter, which was just a tad lower than the highest ever ARPOB of Rs 18.7 mln achieved in Q2FY22. Going forward, the Management believes that there would be more medical revenues percentage than what has been witnessed in Q3FY22 although high end surgeries would continue to increase. Around 1500 beds would be added in the next 4-5 financial years. Revenue from Digital channels increased by 125% YoY during the quarter. The Company strengthened its clinical talent base by on boarding eminent clinicians in the areas of Surgical Oncology and Cardiac Sciences. In addition, the Company continues to augment its service offerings with the purchase and installation of high end medical equipment & infrastructure across various facilities. SRL witnessed a continuation of strong revenue growth on a YoY basis while on a QoQ basis there was a dip. Healthy EBITDA margin of 25.7% was generated by SRL. SRL continued investments in both online and physical channels. Home collections and preventive care packages witnessed good traction during the quarter. Demand environment for SRL continues to be strong. With the DDRC acquisition, SRL's B2C: B2B revenue mix has significantly strengthened to 52 : 48 in the quarter (Q3FY21 at 46 : 54). On an overall basis, we are positive about the growth prospects of both Hospitals and SRL, and accordingly we recommend an "Accumulate" rating on the stock.

### Steady performance maintained

- Q3FY22 Hospitals business revenue was Rs 11,182 mln versus Rs 9,069 mln in Q3FY21 and Rs 10,985 mln in Q2FY21.
- The hospital business EBITDA was Rs 1,868 mln versus Rs 1,241 mln in Q3FY21. EBITDA in Q3FY22 stood at 1,868 mln. (16.7% margin in Q3FY22 versus 13.7% in Q3FY21).
- Q3FY22 diagnostics business gross revenues grew 26.9% YoY to Rs 3,885 mln versus Rs 3,062 mln in Q3FY21. Revenues were down 3.5% versus Q2FY22.
- The diagnostics business EBITDA was Rs 997 mln in Q3FY22 versus Rs 661 mln in Q3FY21. EBITDA in Q2FY22 stood at Rs 1,004 mln. (25.7% margin in Q3FY22 versus 24.9% margin in Q2FY22).

### Outlook and Valuation:

We are positive about the prospects connected with Fortis. Both the Hospitals business and SRL should perform robustly in the future. We have valued the Hospitals business at 14x FY24e EV/EBITDA and the Diagnostics business (SRL) at 20x FY24e EV/EBITDA to arrive at a Target Price of Rs 293. This provides an upside of 13% with respect to the current market price. Accordingly, we recommend an "Accumulate" rating on the stock.

Y/E Mar (Rs mn)	Q3 FY22	Q3 FY21	YoY (%)	Q2 FY22	QoQ (%)
Net sales	14,667	11,770	24.6%	14,625	0.3%
Operating costs	11,798	9,865	19.6%	11,782	0.1%
EBITDA	2,869	1,905	50.6%	2,844	0.9%
EBITDA Margin (%)	19.6%	16.2%	340 bps	19.4%	20 bps
Depreciation	761	731	4.1%	745	2.1%
Interest	381	421	-9.5%	403	-5.6%
Other income	67	102	-34.3%	80	-16.5%
PBT	1929	1031	87.1%	1820	6.0%
Provision for tax	512	493	3.9%	514	-0.4%
Effective tax rate (%)	26.5%	47.8%	(2130) bps	28.3%	(180) bps
PAT (Reported)	1167	299	290.3%	1069	9.2%
NPM (%)	8.0%	2.5%	550 bps	7.3%	70 bps

Source: AceEquity, SMIFS research

Y/E Mar (Rs mln)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	46,323	4%	6,095	13.2%	343	-78%	0.5	0.5%	3.6%	568.1	35.2
FY21	40,299	-13%	4,042	10.0%	-1,084	-416%	-1.4	-1.8%	1.1%	NA	53.0
FY22e	58,000	44%	11,234	19.4%	2,919	NA	3.9	4.4%	7.8%	66.8	19.1
FY23e	66,385	14%	13,299	20.0%	6,013	106%	8.0	8.2%	9.5%	32.4	16.1
FY24e	74,378	12%	15,217	20.5%	7,631	27%	10.1	9.5%	10.5%	25.5	14.1

Source: AceEquity, SMIFS research



Rating: Accumulate Upside/(Downside): 13%  
Current Price: 259 Target Price: 293

### Earlier recommendation

Previous Rating: Reduce  
Previous Target Price: 279

### Market data

Bloomberg:	FORH IN
52-week H/L (Rs):	314/156
Mcap (Rs bn/USD mn):	195.5/2,606.6
Shares outstanding (mn):	754.9
Free float:	69.0%
Avg. daily vol. 3mth	2,168
Face Value (Rs):	10
Group:	S&P BSE 500

Source: Bloomberg, SMIFS research

### Shareholding pattern (%)

	Dec-21	Sep-21	Jun-21	Mar-21
Promoter	31.2	31.2	31.2	31.2
Institutions	45.8	45.1	45.9	47.9
Non Insti	23.0	23.7	22.9	20.9
Total	100.0	100.0	100.0	100.0

Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
BSE 500	-8.4	-7.6	15.1	62.7
Fortis	-9.6	0.7	56.5	92.4

\*as on 14th February 2022; Source: AceEquity, SMIFS research

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## Q3FY22— Key takeaways from the management call

### Hospitals Business:

- While Q3 is a relatively moderate quarter for hospitals, this time around the hospitals recorded positive performance on a QoQ basis, growing by around 2%.
- Covid contribution to Hospitals revenue was negligible with non Covid contributing to 98% of the quarter's revenue.
- ARPOB increased by 18% on a YoY basis to Rs 18.6 mln because of higher realization procedures and growth in international patients' revenue, which increased by 45% YoY. On a QoQ basis ARPOB remained at the same level.
- The Arcot Road hospital in Chennai is working with 75 operational beds now. The current occupancy is around 45%. When the centre ramps up fully then almost 200 beds will be added.
- **Out of the 6 facilities contributing to less than 10% EBITDA margin in the Hospital business, 4 hospitals are FEHI, Jaipur, Vashi and Chennai (Malar). While FEHI, Jaipur and Vashi are showing signs of recovery, the slowdown continues in Malar. Divestment options for Malar are being evaluated but it cannot be said with certainty that Malar would be divested.**
- **ARPOBs going forward may see a growth rate beyond Rs 18.6 mln, but the growth rate will be very low for the foreseeable future. Proportion of high end surgical procedures may slightly dip in the future. On the other hand there may be a 4-5% price increase from the beginning of FY23 on an annual basis.**
- While doctors' pay now consist of more variable payments that hasn't led to any meaningful attrition. In fact the total remuneration for doctors who are more committed to Fortis than visiting consultants has increased. On the nursing side, there is however a challenge with respect to attrition, but that is an industry wide issue.
- **The expansion plans in select hospitals is on track. 1500 beds will get added in the system in the next 4-5 years.**
- Fortis would have brownfield expansion as noted above as its first priority. It may also consider acquisitions in geographies where it has its existence, e.g., NCR, Mumbai, Kolkata and Bangalore.
- **Cash paying patients and international patients contribute to the highest ARPOB followed by TPAs, where the ARPOB is 20% lower than cash patients, PSUs where the ARPOB is 30% lower than cash patients, and Scheme patients, where the ARPOB is 40% lower than cash patients.**
- Teleconsultations are expected to be in the range of 4000-5000 going forward as people in general are preferring visiting the doctors in person given the drop in Covid cases, barring in some specialities like Mental Health where patients choose teleconsultations more often.
- **Fortis believes that occupancies at its hospitals will be in the 70% plus mark in 2 years' time.**

## Q3FY22— Key takeaways from the management call

### Diagnostics Business (SRL):

- The Diagnostics business (SRL) performed meaningfully well on a YoY basis growing by 27%. The strong performance has been aided by the DDRRC acquisition, which was not there in Q3FY21, and higher B2C revenue with Covid revenues declining marginally vis-à-vis Q3FY21. On a QoQ basis there was a degrowth in revenue to the tune of 3.5%.
- Covid tests contributed to 19% of SRL's revenue during the quarter. Non Covid business increased by 33.2% YoY during the quarter. Non Covid test volumes were 9.9 mln in Q3FY22 vs. 6.6 mln in Q3FY21.
- 284 SRL customer touch points were added in Q3FY22 taking the total tally to 2200+. **B2C contributed to 52% of SRL's revenue in Q3FY22 compared to 46% in Q3FY21.** Home collections are now present in 150+ cities.
- The lab software of SRL has been integrated with Ayushman Bharat.
- The wellness category witnessed a growth of 23% YoY over Q3FY21.
- The pricing environment is stable for the diagnostics industry as a whole particularly for the chronic and acute diseases. Pricing pressures are witnessed in the wellness segment as there is high competition in this segment.
- SRL will maintain EBITDA margin in the range of 24-25% in the near to medium term.

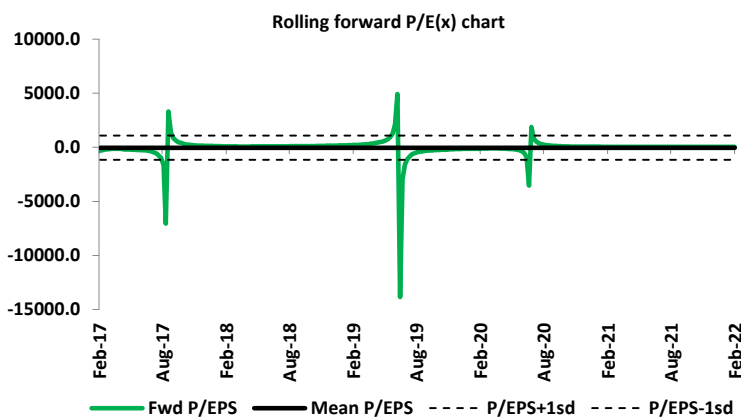
### Other Matters:

- Fortis is expecting the judgement on the IHH cases by the Supreme Court very soon.
- Fortis believes that the Emqore damages claim is absolutely frivolous and there should not be any concern about it. Fortis will take legal recourse if any notice is served.
- The capex for FY23 and FY24 would be between Rs 3000-3500 mln per year.

## Outlook and Valuation

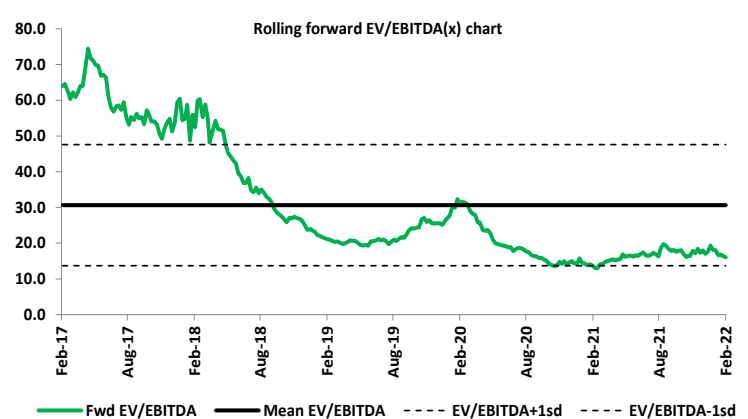
We are positive about the prospects connected with Fortis. Both the Hospitals business and SRL should perform robustly in the future. **We have valued the Hospitals business at 14x FY24e EV/EBITDA and the Diagnostics business (SRL) at 20x FY24e EV/EBITDA to arrive at a Target Price of Rs 293.** This provides an upside of 13% with respect to the current market price. Accordingly, we recommend an “Accumulate” rating on the stock.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS research

## Quarterly financials

**Fig 3: Quarterly Financials**

Y/E March (Rs mln)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b>Net Sales</b>	<b>11,129</b>	<b>6,058</b>	<b>9,949</b>	<b>11,769</b>	<b>12,523</b>	<b>14,101</b>	<b>14,625</b>	<b>14,667</b>
COGS	2,337	1,479	2,463	2,854	2,963	3,496	3,508	3,336
Employee Costs	4,584	3,696	3,826	4,460	4,598	4,931	5,132	5,485
Other Expenditure	2,950	1,918	2,458	2,552	2,990	2,924	3,141	2,976
<b>EBITDA</b>	<b>1,258</b>	<b>(1,034)</b>	<b>1,202</b>	<b>1,903</b>	<b>1,972</b>	<b>2,750</b>	<b>2,844</b>	<b>2,870</b>
Depreciation	801	717	743	731	715	729	745	761
Interest	570	411	421	421	406	384	403	381
Other Income	184	45	256	102	63	78	80	67
<b>Reported PBT</b>	<b>92</b>	<b>(2,084)</b>	<b>382</b>	<b>1,030</b>	<b>1,102</b>	<b>4,862</b>	<b>1,820</b>	<b>1,929</b>
Tax	504	(204)	226	493	480	558	514	512
Tax rate (%)	549.2%	9.8%	59.1%	47.8%	43.6%	11.5%	28.3%	26.5%
<b>Reported PAT</b>	<b>(445)</b>	<b>(1,791)</b>	<b>(37)</b>	<b>298</b>	<b>430</b>	<b>2,633</b>	<b>1,069</b>	<b>1,167</b>
<b>YoY Growth (%)</b>								
Revenue	-6.0%	-46.8%	-17.9%	0.7%	12.5%	132.8%	47.0%	24.6%
EBITDA	9.4%	-172.7%	-34.9%	21.3%	56.7%	NA	136.6%	50.8%
PAT	-132.8%	-364.1%	-103.4%	NA	NA	NA	NA	292.0%
<b>QoQ Growth (%)</b>								
Revenue	-4.8%	-45.6%	64.2%	18.3%	6.4%	12.6%	3.7%	0.3%
EBITDA	-19.9%	-182.2%	NA	58.4%	3.6%	39.5%	3.4%	0.9%
PAT	NA	NA	NA	NA	44.6%	511.8%	-59.4%	9.2%
<b>Margin (%)</b>								
RMC/revenue (%)	21.0%	24.4%	24.8%	24.3%	23.7%	24.8%	24.0%	22.7%
Gross margin (%)	79.0%	75.6%	75.2%	75.7%	76.3%	75.2%	76.0%	77.3%
Employee cost/revenue (%)	41.2%	61.0%	38.5%	37.9%	36.7%	35.0%	35.1%	37.4%
Other expenses/revenue (%)	26.5%	31.7%	24.7%	21.7%	23.9%	20.7%	21.5%	20.3%
EBITDA margin (%)	11.3%	-17.1%	12.1%	16.2%	15.7%	19.5%	19.4%	19.6%
PAT margin (%)	-4.0%	-29.6%	-0.4%	2.5%	3.4%	18.7%	7.3%	8.0%

Source: AceEquity, SMIFS research

## Financial Statements

### Income Statement

YE March (Rs mn)	FY20	FY21	FY22e	FY23e	FY24e
<b>Net Sales</b>	<b>46,323</b>	<b>40,299</b>	<b>58,000</b>	<b>66,385</b>	<b>74,378</b>
COGS	9,639	9,759	13,642	14,651	16,101
% of sales	20.8%	24.2%	23.5%	22.1%	21.6%
Personnel	9160	8490	9842	11590	12988
% of sales	19.8%	21.1%	17.0%	17.5%	17.5%
Other Exp.	21429	18008	23281	26845	30073
% of sales	46.3%	44.7%	40.1%	40.4%	40.4%
<b>EBITDA</b>	<b>6,095</b>	<b>4,042</b>	<b>11,234</b>	<b>13,299</b>	<b>15,217</b>
EBITDA Margin (%)	13.2%	10.0%	19.4%	20.0%	20.5%
Depreciation & Amortisation	2917	2906	2996	3033	3066
<b>EBIT</b>	<b>3,178</b>	<b>1,136</b>	<b>8,238</b>	<b>10,266</b>	<b>12,151</b>
Interest Expenses	2051	1659	1549	900	493
<b>EBT</b>	<b>1,127</b>	<b>-523</b>	<b>6,690</b>	<b>9,366</b>	<b>11,658</b>
Other Income	526	466	305	520	900
<b>Reported PBT</b>	<b>2,394</b>	<b>430</b>	<b>10,354</b>	<b>10,022</b>	<b>12,718</b>
Tax-Total	1,479	995	2,020	2,505	3,179
Effective tax rate (%)	61.8%	231.1%	19.5%	25.0%	25.0%
Extraord. items - Adj.	618	12	3,148	-	-
<b>Reported PAT</b>	<b>579</b>	<b>-1100</b>	<b>5692</b>	<b>6013</b>	<b>7631</b>

### Balance Sheet

YE March (Rs mn)	FY20	FY21	FY22e	FY23e	FY24e
<b>Sources of funds</b>					
Capital	7,550	7,550	7,550	7,550	7,550
Reserves & Surplus	59,061	53,649	59,341	65,354	72,985
<b>Shareholders' Funds</b>	<b>66,611</b>	<b>61,198</b>	<b>66,891</b>	<b>72,904</b>	<b>80,534</b>
Minority Interest	5,445	5,980	8,621	10,125	12,032
Total Debt	13,166	11,474	12,422	7,068	3,668
Deferred Tax Liabilities	3,116	2,887	2,887	2,887	2,887
Other Non Current Liabilities	2,976	19,474	17,046	17,081	17,095
<b>Total Liabilities</b>	<b>91,314</b>	<b>1,01,013</b>	<b>1,07,866</b>	<b>1,10,064</b>	<b>1,16,216</b>
<b>Application of funds</b>					
Net Block	50,965	50,792	52,025	52,322	52,586
Capital WIP	1,888	1,631	1,631	1,631	1,631
Non-current Asset	12,267	9,679	10,405	10,488	10,585
<b>Net Non Current Assets</b>	<b>65,120</b>	<b>62,101</b>	<b>64,061</b>	<b>64,441</b>	<b>64,802</b>
Investments	1,745	1,860	1,696	1,832	1,992
Goodwill	37,208	37,217	44,154	44,154	44,154
Inventories	782	768	861	925	1,016
Sundry Debtors	4,588	3,899	6,038	6,911	7,743
Other Current Assets	1,376	1,536	1,628	1,813	1,882
Cash & Bank Balances	2,660	4,166	1,903	3,002	8,515
<b>Total Current Assets</b>	<b>9,405</b>	<b>10,368</b>	<b>10,430</b>	<b>12,651</b>	<b>19,157</b>
Creditors	5,976	5,482	7,664	8,230	9,044
Other Current Liabilities	15,397	4,121	3,950	3,888	3,965
Current Provisions	791	931	861	896	879
<b>Total Current Liabilities</b>	<b>22,164</b>	<b>10,534</b>	<b>12,475</b>	<b>13,014</b>	<b>13,888</b>
<b>Net Current Assets</b>	<b>-12,759</b>	<b>-166</b>	<b>-2,044</b>	<b>-363</b>	<b>5,269</b>
<b>Total Assets</b>	<b>91,314</b>	<b>1,01,013</b>	<b>1,07,866</b>	<b>1,10,064</b>	<b>1,16,216</b>

Source: AceEquity, SMIFS research

### Key Ratios

YE March	FY20	FY21	FY22e	FY23e	FY24e
<b>Growth ratios (%)</b>					
Net sales	3.6%	-13.0%	43.9%	14.5%	12.0%
EBITDA	170.6%	-33.7%	178.0%	18.4%	14.4%
Adjusted PAT	-77.6%	-416.1%	NA	106.0%	26.9%
<b>Margin Ratio (%)</b>					
EBITDA Margin	13.2%	10.0%	19.4%	20.0%	20.5%
EBIT Margin	6.9%	2.8%	14.2%	15.5%	16.3%
PBT (Adjusted) Margin	3.8%	1.0%	12.4%	15.1%	17.1%
PAT (Adjusted) Margin	0.7%	-2.7%	5.0%	9.1%	10.3%
<b>Return Ratio (%)</b>					
ROE	0.5%	-1.8%	4.4%	8.2%	9.5%
ROCE	3.6%	1.1%	7.8%	9.5%	10.5%
<b>Turnover Ratio days (days)</b>					
Inventory Period	30	29	23	23	23
Debtors Period	36	35	38	38	38
Creditors	226	205	205	205	205
Cash Conversion Cycle	-161	-141	-144	-144	-144
<b>Solvency Ratio (%)</b>					
Debt-equity (x)	0.2	0.2	0.2	0.1	0.1
Net Debt-equity (x)	0.2	0.2	0.2	0.1	-0.1
Liquidity ratio (x)	0.4	0.8	0.7	0.9	1.3
Interest coverage ratio (x)	1.5	0.7	5.3	11.4	24.6
<b>Per share (Rs)</b>					
Adjusted EPS	0.46	-1.44	3.88	7.99	10.14
CEPS	4.33	2.42	7.86	12.02	14.22
Book value	88.54	81.34	88.91	96.90	107.05
Dividend per share	-	-	-	-	-
Dividend Payout (%)	0%	0%	0%	0%	0%
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Valuation</b>					
P/E	568.1	NA	66.8	32.4	25.5
P/BV	2.9	3.2	2.9	2.7	2.4
P/S	4.2	4.8	3.4	2.9	2.6
EV/EBITDA	35.2	53.0	19.1	16.1	14.1
<b>Cash Flow</b>					
<b>Operating profit before WC changes</b>	<b>6,574</b>	<b>4,507</b>	<b>11,627</b>	<b>13,819</b>	<b>16,117</b>
Net change in working capital	-1,464	-127	-1,295	-985	-601
<b>Cash flow from operating activities (a)</b>	<b>1,716</b>	<b>4,855</b>	<b>8,312</b>	<b>10,328</b>	<b>12,336</b>
Capital expenditure (organic)	-1,366	-2,115	-4,230	-3,330	-3,330
FCF	349	2,740	4,082	6,998	9,006
<b>Cash flow from investing activities (b)</b>	<b>604</b>	<b>-1,351</b>	<b>-7,181</b>	<b>-3,459</b>	<b>-3,427</b>
<b>Cash flow from financing activities (c)</b>	<b>-8,616</b>	<b>-1,429</b>	<b>-2,845</b>	<b>-5,900</b>	<b>-3,493</b>
Net change in cash (a+b+c)	-6,296	2,075	-1,713	970	5,416
Opening cash balance	7,941	1,819	2,612	899	1,869
Adjustments	174	-1,281	-	-	-
<b>Ending cash balance</b>	<b>1,819</b>	<b>2,612</b>	<b>899</b>	<b>1,869</b>	<b>7,285</b>
Other bank balances	841	1,554	1,004	1,133	1,230
<b>Cash and Bank on balance sheet</b>	<b>2,660</b>	<b>4,166</b>	<b>1,903</b>	<b>3,002</b>	<b>8,515</b>

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Analyst holding in stock: **NO**

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