



Fortis Healthcare Ltd.

Decent performance delivered

Q4FY22 was a muted quarter for Fortis impacted by Omicron wave which led to lower revenues in the SRL diagnostics business due to reduction in price of covid test. Covid contributed to approximately 5.8% of Hospitals revenue and 18% of Diagnostics revenue in Q4FY22. Non Covid occupancy was 53% in Q4FY22 (64% in Q3FY22) for Hospitals and ARPOB of Rs 18.8 Mn was achieved during the quarter, which was the highest ever ARPOB achieved. Going forward, the Management believes that there would be more medical revenues percentage than what has been witnessed in Q4FY22 as the high-end surgeries would continue to increase. Around 1500 beds would be added in the next 4-5 financial years. The management expects the patients mix and occupancy to improve from 63% in FY22 to 70% going forward. Revenue from Digital channels increased by 112% 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 22.5% 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 54: 46 in the quarter (Q4FY21 at 49: 51). 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

- Q4FY22 Hospitals business revenue was Rs 10,408 Mn versus Rs 9,821 Mn in Q4FY21 and Rs 11,181 Mn in Q3FY22.
- The hospital business EBITDA was Rs 1,433 Mn versus Rs 1,393 Mn in Q4FY21. EBITDA in Q3FY22 stood at 1,902 Mn. (13.8% margin in Q4FY22 versus 14.2% in Q4FY21).
- Q4FY22 diagnostics business gross revenues grew 21.8% YoY to Rs 3,723 Mn versus Rs 3,057 Mn in Q4FY21. Revenues were down 3.1% versus Q3FY22.
- The diagnostics business EBITDA was Rs 838 Mn in Q4FY22 versus Rs 672 Mn in Q4FY21. EBITDA in Q3FY22 stood at Rs 1,034 Mn. (22.5% margin in Q4FY22 versus 22% margin in Q4FY21).

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 15x FY24e EV/EBITDA and the Diagnostics business (SRL) at 20x FY24e EV/EBITDA to arrive at a Target Price of Rs 266. 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)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	Q4 FY22e	Var. (%)
Net sales	13,781	12,523	10.0%	14,665	-6.0%	14,609	-5.7%
Operating costs	11,569	10,552	9.6%	11,797	-1.9%		
EBITDA	2,212	1,972	12.2%	2,868	-22.9%	2,773	-20.2%
EBITDA Margin (%)	16.1%	15.7%	31 bps	19.6%	(350) bps	19%	(293) bps
Depreciation	773	715	8.1%	761	1.5%		
Interest	300	406	-26.1%	381	-21.1%		
Other income	60	63	-5.5%	67	-10.5%		
Share of profit/(loss) of associates and JVs	65	189	-65.4%	135	-51.5%		
PBT	1265	1102	14.7%	1928	-34.4%		
Provision for tax	394	480	-17.9%	512	-23.0%		
Effective tax rate (%)	31.2%	43.6%	(1,238) bps	26.6%	461 bps		
Minority Interest	191	192	-0.7%	250	-23.7%		
Consolidated PAT	680	430	57.9%	1166	-41.7%	824	-17.5%
PAT Margin (%)	4.9%	3.4%	150 bps	8.0%	(302) bps	5.6%	(71) bps

Source: AceEquity, SMIFS research

Y/E Mar (Rs Mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	46,323	-2%	6,095	13.2%	343	NA	0.5	0.5%	3.6%	515.5	31.8
FY21	40,299	-13%	4,042	10.0%	-1,084	-78%	-1.4	-1.8%	1.1%	NA	47.9
FY22	57,176	42%	10,689	18.7%	3,032	NA	4.0	4.9%	7.2%	58.3	18.1
FY23e	60,315	5%	11,404	18.9%	4,760	57%	6.3	7.4%	7.8%	37.1	17.0
FY24e	67,261	12%	13,215	19.6%	6,301	32%	8.4	8.9%	9.0%	28.1	14.7

Source: AceEquity, SMIFS research

Rating: **ACCUMULATE** Upside: **13%**
 Current Price: **235** Target Price: **266**

Earlier recommendation

Previous Rating: Accumulate
 Previous Target Price: 293
 Source: SMIFS Research

Market data

Bloomberg: FORH IN
 52-week H/L (Rs): 314/156
 Mcap (Rs bn/USD mn): 185/2,402
 Shares outstanding (mn): 754.9
 Free float: 69.0%
 Avg. daily vol. 3mth: 1.46 mn
 Face Value (Rs): 10
 Group: S&P BSE 500

Source: Bloomberg, SMIFS Research

Shareholding pattern (%)

	Mar-22	Dec-21	Sept-21	Jun-21
Promoter	31.2	31.2	31.2	31.2
Institutions	46.7	45.8	45.1	45.9
Non Insti	22.1	23.0	23.7	22.9
Total	100.0	100.0	100.0	100.0

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE 500	-7.5	0.2	6.2	42.5
Fortis	-10.8	4.9	7.8	95.2

*As on 27th May 2022; Source: AceEquity, SMIFS research

Dhara Patwa

Sector Lead – Pharma & Healthcare
 9766492546/022 4200 5511
 dhara.patwa@smifs.com

Awanish Chandra

Head - Institutional Equities
 8693822293
 awanish.chandra@smifs.com

Q4FY22— Key takeaways from the management call

Hospitals Business:

- Covid contribution to Hospitals revenue was 5.8% in the quarter as compared to 6.9% in Q4FY21.
- ARPOB increased by 10.5% on a YoY basis to Rs 18.8 Mn because of higher realization procedures, better mix and growth in international patients' revenue. In the quarter contribution from surgical revenue stood at 57% compared to 55% in Q4FY21 & similar to Q3FY22.
- **ARPOBs going forward may see a growth rate beyond Rs 18.6 Mn, but the growth rate will be very low for the foreseeable future. Proportion of high-end surgical procedures will increase in the future. 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. 1200 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.**
- Fortis believes that occupancies at its hospitals will be in the 70% plus mark in 2 years' time.

Diagnostics Business (SRL):

- **The Diagnostics business (SRL) performed meaningfully well on a YoY basis growing by 55%. The strong performance has been aided by the DDRC acquisition and higher B2C revenue. Covid business revenues contributed 20.3% to overall diagnostic revenues. (FY21: 23.5%), Revenue growth was aided by higher covid volumes in Q1 and Q4 of FY22.**
- The significant decline in covid test pricing resulted in decline in overall average realisation per test and average realisation per patient in Q4FY22 versus Q4FY21.
- 270 SRL customer touch points were added in Q4FY22 taking the total tally to 2500+. **B2C contributed to 54% of SRL's revenue in Q4FY22 compared to 49% in Q4FY21.**
- SRL continued to witness healthy traction in its 'Walk in' patient's revenue which grew by 77% in Q4FY22 versus Q4FY21.
- 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 21-22% in the near to medium term.

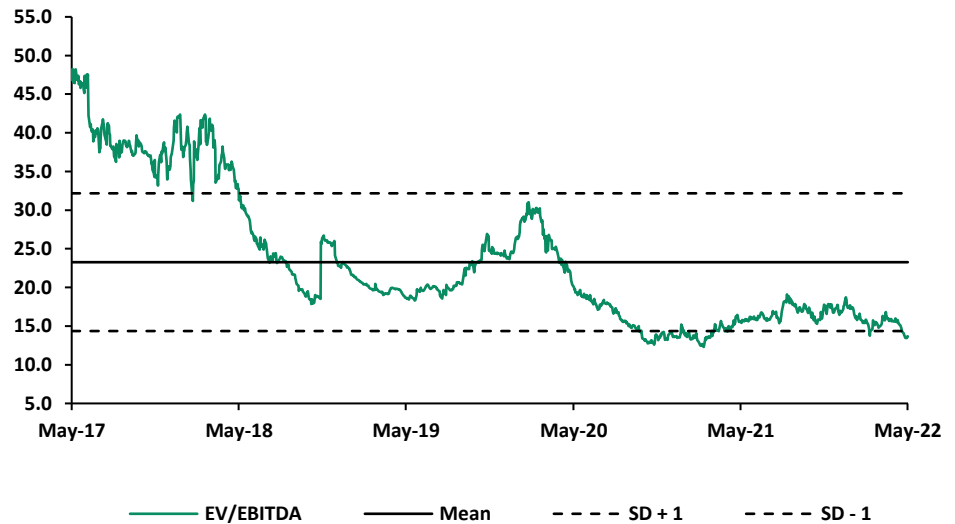
Other Matters:

- 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 3500-4000 Mn per year which will be a mix of both maintenance and developmental capex.

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 15x FY24e EV/EBITDA and the Diagnostics business (SRL) at 20x FY24e EV/EBITDA to arrive at a Target Price of Rs 266. 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 EV/EBITDA



Source: AceEquity, SMIFS Research

Quarterly financials

Fig 2: Quarterly Financials

Y/E March (Rs Mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Sales	6,058	9,949	11,769	12,523	14,101	14,625	14,667	13,781
COGS	1,479	2,463	2,854	2,963	3,496	3,508	3,336	3,232
Employee Costs	3,696	3,826	4,460	4,598	4,931	5,132	5,485	5,195
Other Expenditure	1,918	2,458	2,552	2,990	2,924	3,141	2,976	3,143
EBITDA	(1,034)	1,202	1,903	1,972	2,750	2,844	2,870	2,212
Depreciation	717	743	731	715	729	745	761	773
Interest	411	421	421	406	384	403	381	300
Other Income	45	256	102	63	78	80	67	60
Profit/(loss) of asso.	29	83	177	187	85	42	51	63
Exceptional gain/(loss)	5	6	-	2	3,061	3	84	2
Reported PBT	(2,084)	382	1,030	1,102	4,862	1,820	1,930	1,265
Tax	(204)	226	493	480	558	514	512	394
Tax rate (%)	9.8%	59.1%	47.8%	43.6%	11.5%	28.2%	26.5%	31.2%
Reported PAT	(1,880)	156	538	622	4,304	1,306	1,418	870
Minority Interest	(90)	194	240	192	1,671	237	250	191
Consolidated PAT	(1,791)	(37)	298	430	2,633	1,069	1,168	680
YoY Growth (%)								
Revenue	-46.8%	-17.9%	0.7%	12.5%	132.8%	47.0%	24.6%	10.0%
EBITDA	-172.7%	-34.9%	21.3%	56.7%	NA	136.6%	50.8%	12.2%
PAT	-364.1%	-85.9%	NA	NA	NA	NA	163.7%	39.9%
QoQ Growth (%)								
Revenue	-45.6%	64.2%	18.3%	6.4%	12.6%	3.7%	0.3%	-6.0%
EBITDA	-182.2%	NA	58.4%	3.6%	39.5%	3.4%	0.9%	-22.9%
PAT	NA	NA	NA	15.8%	591.6%	-69.7%	8.6%	-38.6%
Margin (%)								
RMC/revenue (%)	24.4%	24.8%	24.3%	23.7%	24.8%	24.0%	22.7%	23.4%
Gross margin (%)	75.6%	75.2%	75.7%	76.3%	75.2%	76.0%	77.3%	76.6%
Employee cost/revenue (%)	61.0%	38.5%	37.9%	36.7%	35.0%	35.1%	37.4%	37.7%
Other expenses/revenue (%)	31.7%	24.7%	21.7%	23.9%	20.7%	21.5%	20.3%	22.8%

Source: AceEquity, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	46,323	40,299	57,176	60,315	67,261
COGS	9,639	9,759	13,572	13,550	14,688
% of sales	20.8%	24.2%	23.7%	22.5%	21.8%
Personnel	9160	8490	9729	10727	11828
% of sales	19.8%	21.1%	17.0%	17.8%	17.6%
Other Exp.	21429	18008	23185	24634	27530
% of sales	46.3%	44.7%	40.6%	40.8%	40.9%
EBITDA	6,095	4,042	10,689	11,404	13,215
EBITDA Margin (%)	13.2%	10.0%	18.7%	18.9%	19.6%
Depreciation & Amortisation	2917	2906	3008	3044	3076
EBIT	3,178	1,136	7,681	8,360	10,139
Interest Expenses	2051	1659	1469	1083	697
EBT	1,127	-523	6,212	7,278	9,442
Other Income	526	466	273	520	900
PBT	2,394	430	9,877	7,934	10,502
Tax-Total	1,479	995	1,978	1,983	2,625
Effective tax rate (%)	61.8%	231.1%	20.0%	25.0%	25.0%
Extraord. items - Adj.	618	12	3,150	-	-
PAT before MI	915	-564	7,899	5,950	7,876
Minority Interest	336	536	2,348	1,190	1,575
Consolidated PAT	579	-1,100	5,551	4,760	6,301
Consolidated PAT Margin (%)	1.3%	-2.7%	9.7%	7.9%	9.4%

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23E	FY24E
Growth ratios (%)					
Net sales	3.6%	-13.0%	41.9%	5.5%	11.5%
EBITDA	170.6%	-33.7%	164.5%	6.7%	15.9%
Adjusted PAT	-77.6%	-416.1%	NA	57.0%	32.4%
Margin Ratio (%)					
EBITDA Margin	13.2%	10.0%	18.7%	18.9%	19.6%
EBIT Margin	6.9%	2.8%	13.4%	13.9%	15.1%
PBT (Adjusted) Margin	3.8%	1.0%	11.8%	13.2%	15.6%
PAT (Adjusted) Margin	0.7%	-2.7%	5.3%	7.9%	9.4%
Return Ratio (%)					
ROE	0.5%	-1.8%	4.9%	7.4%	8.9%
ROCE	3.6%	1.1%	7.2%	7.8%	9.0%
Turnover Ratio days (days)					
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
Solvency Ratio (%)					
Debt-equity (x) (Ex IND AS 116)	0.2	0.2	0.2	0.1	0.1
Net Debt-equity (x) (Ex IND AS 116)	0.2	0.2	0.1	0.1	-0.0
Liquidity ratio (x)	0.4	0.8	0.9	1.0	1.3
Interest coverage ratio (x)	1.5	0.7	5.2	7.7	14.5
Per share (Rs)					
Adjusted EPS	0.46	-1.44	4.03	6.33	8.38
CEPS	4.33	2.42	8.03	10.37	12.46
Book value	88.54	81.34	82.12	85.29	93.67
Dividend per share	-	-	-	-	-
Dividend Payout (%)	0%	0%	0%	0%	0%
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Valuation					
P/E	515.5	NA	58.3	37.1	28.1
P/BV	2.7	2.9	2.9	2.8	2.5
P/S	3.8	4.4	3.1	2.9	2.6
EV/EBITDA	31.8	47.9	18.1	17.0	14.7

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Capital	7,550	7,550	7,550	7,550	7,550
Reserves & Surplus	59,061	53,649	54,233	56,620	62,921
Shareholders' Funds	66,611	61,198	61,782	64,170	70,471
Minority Interest	5,445	5,980	8,300	9,490	11,065
Total Debt	13,166	11,474	9,657	9,068	5,668
Deferred Tax Liabilities	3,116	2,887	3,812	3,812	3,812
Other Non Current Liabilities	2,976	19,474	24,467	21,710	21,767
Total Liabilities	91,314	1,01,013	1,08,019	1,08,250	1,12,783
Application of funds					
Net Block	50,965	50,792	52,926	52,282	52,537
Capital WIP	1,888	1,631	1,934	1,934	1,934
Non-current Asset	12,267	9,679	10,387	10,590	10,596
Net Non Current Assets	65,120	62,101	65,247	64,806	65,067
Investments	1,745	1,860	1,036	1,172	1,332
Goodwill	37,208	37,217	41,232	41,232	41,232
Inventories	782	768	1,229	855	927
Sundry Debtors	4,588	3,899	5,122	6,279	7,003
Other Current Assets	1,376	1,536	855	1,463	1,394
Cash & Bank Balances	2,660	4,166	4,127	4,742	8,797
Total Current Assets	9,405	10,368	11,333	13,339	18,121
Creditors	5,976	5,482	6,609	7,612	8,251
Other Current Liabilities	15,397	4,121	3,536	3,881	3,972
Current Provisions	791	931	684	808	746
Total Current Liabilities	22,164	10,534	10,829	12,300	12,969
Net Current Assets	-12,759	-166	504	1,040	5,152
Total Assets	91,314	1,01,013	1,08,019	1,08,250	1,12,783

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes					
Net change in working capital	-1,464	-127	-102	-1,147	-406
Cash flow from operating activities (a)	1,716	4,855	8,654	8,794	11,083
Capital expenditure (organic)	-1,366	-2,115	-1,153	-3,330	-3,330
FCF	349	2,740	7,501	5,464	7,753
Cash flow from investing activities (b)	604	-1,351	-5,144	-2,332	-3,615
Cash flow from financing activities (c)	-8,616	-1,429	-5,173	-4,083	-3,697
Net change in cash (a+b+c)	-6,296	2,075	-1,663	2,379	3,771
Opening cash balance	7,941	1,819	2,612	1,432	3,045
Adjustments	174	-1,281	766	-766	-
Ending cash balance	1,819	2,612	1,432	3,045	6,816
Other bank balances	841	1,554	2,695	1,696	1,982
Cash and Bank on balance sheet	2,660	4,166	4,127	4,742	8,797

Source: Company, SMIFS Research Estimates

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Analyst holding in stock: **NO**

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Contact us:

SMIFS Limited. (<https://www.smifs.com/>)

Compliance Officer:

Sudipto Datta,

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5401 / +91 33 6634 5401

Email Id.: compliance@smifs.com

Mumbai Office:

206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India

Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: institutional.equities@smifs.com

Kolkata Office:

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: (D) +91 33 6634 5408, (B) +91 33 4011 5400

Email Id: smifs.institutional@smifs.com
