

Fortis Healthcare Ltd.

February 11, 2025 | CMP: INR 627 | Target Price: INR 738

BUY

Expected Share Price Return: 17.6% | Dividend Yield: 0% | Expected Total Return: 17.6%

Change in Estimates	✓
Target Price Change	✓
Recommendation	✗

Company Info	
BB Code	FORH IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	744/375
Mkt Cap (Bn)	INR 474 / \$ 5.4
Shares o/s (Mn)	755.0
3M Avg. Daily Volume	17,38,446

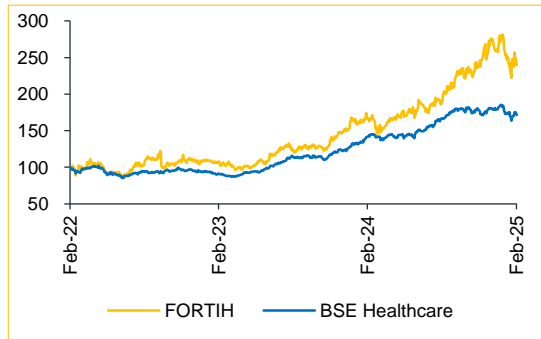
Change in Estimates						
	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	92.8	93.1	-0.3	108.5	111.0	-2.3
EBITDA	20.7	20.6	0.1	24.9	25.4	-2.0
EBITDAM %	22.3	22.2	8bps	23.0	22.9	8bps
PAT	10.8	11.2	-3.4	14.0	14.6	-3.7
EPS	14.3	14.8	-3.4	18.6	19.3	-3.7

Actual vs Consensus			
INR Bn	Q3FY25A	Consensus Est.	Dev. %
Revenue	19.3	18.8	2.3
EBITDA	3.8	3.7	1.2
EBITDAM %	19.5	19.7	-21bps
PAT	2.6	1.8	45.9

Key Financials					
INR Bn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	63.0	68.9	78.7	92.8	108.5
YoY (%)	10.1	9.5	14.2	17.9	16.9
EBITDA	11.0	12.7	15.9	20.7	24.9
EBITDAM %	17.5	18.4	20.2	22.3	23.0
Adj PAT	5.3	5.6	7.0	10.8	14.0
EPS	7.0	7.4	9.2	14.3	18.6
ROE %	7.3	7.3	8.3	11.4	12.9
ROCE %	9.6	10.5	11.2	14.4	16.5
PE(x)	90.0	84.5	68.0	43.8	33.8
EV/EBITDA	43.5	37.8	30.9	23.4	19.0
BVPS	95.9	101.5	110.7	125.0	143.6
FCF	12.7	20.0	22.8	25.3	28.0

Shareholding Pattern (%)			
	Dec-24	Sep-24	Jun-24
Promoters	31.17	31.17	31.17
FII	26.77	25.26	23.31
DII	30.05	30.73	32.31
Public	12.02	12.83	13.22

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE Healthcare	71.4	87.9	20.7
FORH	140.0	121.6	44.4



Deepika Murarka

Email: Deepika.murarka@choiceindia.com

Ph: +91 22 6707 9513

Maitri Sheth

Email: maitri.sheth@choiceindia.com

Ph: +91 22 6707 9511

Hospital & Diagnostic Revenue Surge; PAT Boosted by One-Off Gain

- Revenue stood at INR 19.3 Bn, reflecting a 14.8% YoY increase but a 3.0% QoQ decline (vs. consensus estimates at INR 18.8 Bn).
- Hospital revenue grew by 16.8% YoY to INR 16.2 Bn; Diagnostic revenue increased by 18.0% YoY to INR 3.4 Bn.
- EBITDA rose 32.1% YoY but declined 13.7% QoQ to INR 3.8 Bn, with a margin of 19.5% (+255bps YoY, -241bps QoQ), in line with consensus estimates.
- Adjusted PAT saw strong growth of 85.3% YoY and 8.3% QoQ, reaching INR 2.6 Bn, with a margin of 12.4% (vs. consensus estimates of 9.5%).
- ARPOB stood at INR 67,123 (+9.9% YoY and 3.4% QoQ); Occupancy was recorded at 67%, vs 64% last year and 72% in in Q2FY25.

Hospital Growth to Continue, Driven by 5-6% ARPOB Growth & Capacity Expansion

Fortis' hospital business, which contributes ~83% of total revenue, delivered a strong quarter supported by improved occupancy and ARPOB growth. 11 of 27 facilities accounted for 74% of hospital revenue, reporting an EBITDA margin of 20%. We expect occupancy to improve as new beds and facility capacities become operational. Additionally, a better case mix, with a higher share of high-value specialties such as orthopedics, neurology, and cardiology, is expected to drive growth. Management anticipates ARPOB to grow at 5-6% annually, supported by the addition of 350-450 beds each year.

Agilus Expansion on Track; Rebranding Impact to Fade Post FY25

The company now holds an 89.2% stake in Agilus, and while the business is still adjusting to the impact of rebranding from Fortis to Agilus, the management expects it to taper off post FY25. The company continues to add new customer touch points (CTPs) and has added 500+ in 9MFY25. Going forward, we expect the company to continue expanding its CTPs by adding 500-600 new ones every year. The reduced rebranding expenses will also boost margins, which will be further aided by increased test volumes and an expanded B2C business.

View and Valuation: We have reduced our FY26/27 estimates by 3.4%/3.7% and maintained our 'BUY' rating with a target price of INR 795, valuing the company on an SOTP basis. The Hospital Business is valued at 23x EV/EBITDA, reflecting continued ARPOB growth and capacity expansion, while the Diagnostic Business is valued at 16x EV/EBITDA, factoring in CTP expansion and margin improvement. We expect the company's case mix to improve further, supporting margin expansion in the hospital segment.

Particulars (INR Mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Net Sales	19,283	16,797	14.8	19,884	-3.0
Materials consumed	4,535	3,938	15.2	4,608	-1.6
Gross Profit	14,748	12,859	14.7	15,276	-3.5
Gross Margin (%)	76.5	76.6	-7bps	76.8	-34bps
Employee + Operating Expenses	10,997	10,019	9.8	10,927	0.6
EBITDA	3,751	2,840	32.1	4,348	-13.7
EBITDA Margin (%)	19.5	16.9	255bps	21.9	-241bps
Depreciation	973	869	12.0	951	2.4
EBIT	2,778	1,971	41.0	3,398	-18.2
Interest Cost	452	330	37.0	364	23.9
PBT	2,794	1,832	52.5	2,611	7.0
APAT	2,390	1,290	85.3	2,207	8.3
APAT Margin (%)	12.4	7.7	472bps	11.1	130bps
Adj. EPS (Rs)	3.2	1.7	85.3	2.9	8.3

Management Call - Highlights

Hospital Business

- Hospital revenue is expected to grow 14-15% with 5-6% ARPOB growth.
- ARPOB growth was driven by high-value specialties, including oncology, neurosciences, cardiac sciences, gastroenterology, orthopedics, and renal sciences.
- Specialties accounted for 62% of hospital revenue in Q3 FY25, up from 61% in Q3 FY24.
- YoY Revenue Growth: Oncology: +30%, supported by increased hematology & bone marrow transplant procedures; Neurosciences: +18%, driven by complex neurological surgeries; Robotic Surgery: +77%, contributing to higher ARPOB.
- Revenue from medical travel grew 17% YoY, with international business contributing 8% (unchanged YoY).
- As part of its portfolio rationalization, the company divested Richmond Road Hospital in Bangalore.
- Digital channels (website, app, campaigns) contributed 29.9% to hospital revenue, marking a 36% YoY growth.
- Outlook: Revenue is projected to grow 14-15%, ARPOB by 5-6% annually, and EBITDA margins are expected at 20.5%, with a long-term target of 25%, supported by improved occupancy and case mix.

Greenfield & Brownfield Expansion

- Manesar Greenfield: Commenced operations with 53 operational beds; an additional 50 beds planned by March 2025. Break-even expected by Q1/Q2 FY26.
- The company plans to add 350-450 beds annually through brownfield expansions.

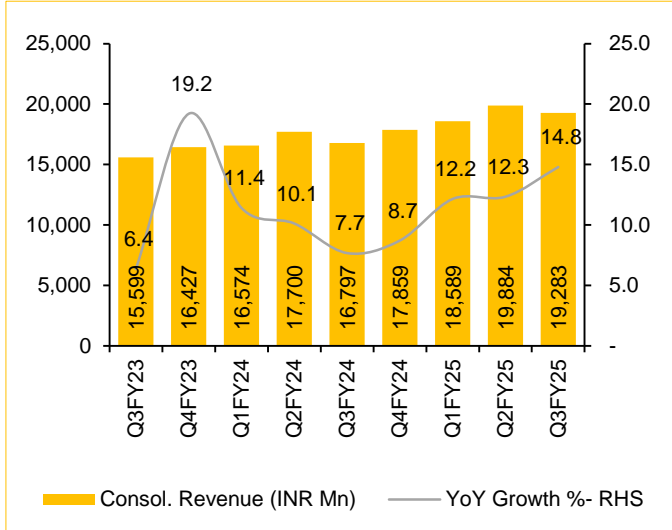
Diagnostic Business

- Raised NCDs to consolidate its stake in Agilus, acquiring 31.5% from private equity investors, increasing its holding to 89.2%.
- Preventive portfolio revenue grew 17%.
- The business is still adjusting to the Agilus rebranding, with branding expenses expected to taper off by FY25-end.
- First lab in India to introduce the FDA-approved Claudin 18.2 test for gastric cancer.
- Outlook: Agilus is expected to align with the broader diagnostics industry's growth by Q2-Q3 FY26, targeting 9-10% annual growth, with an EBITDA margin of 21-22%.

Overall Outlook

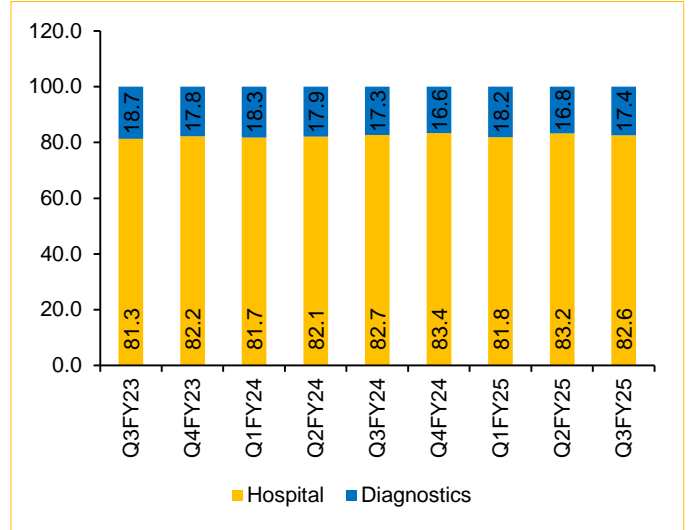
- FY25 capex is planned at INR 9,000 Mn (INR 6,000 Mn for brownfield/greenfield projects, remainder for maintenance).
- Following the private equity stake acquisition, gross debt stands at INR 2,300 crore, with net debt at INR 2,000 crore.

Revenue rises with growth across both hospital and diagnostic segments



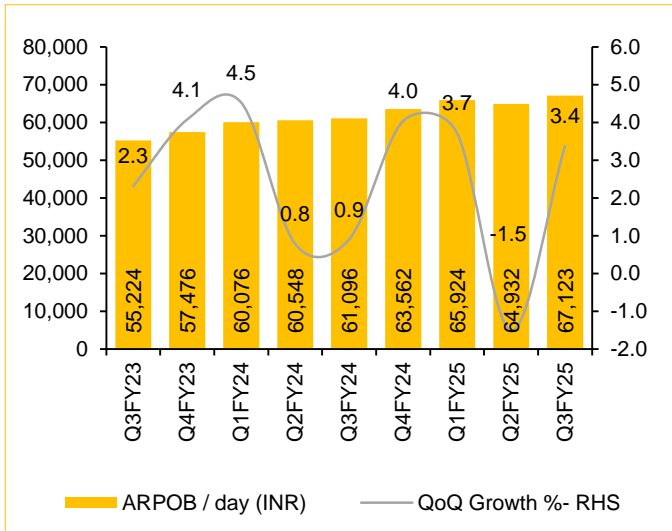
Source: Company, CEBPL

Revenue split for the quarter (INR 19.3 Bn)



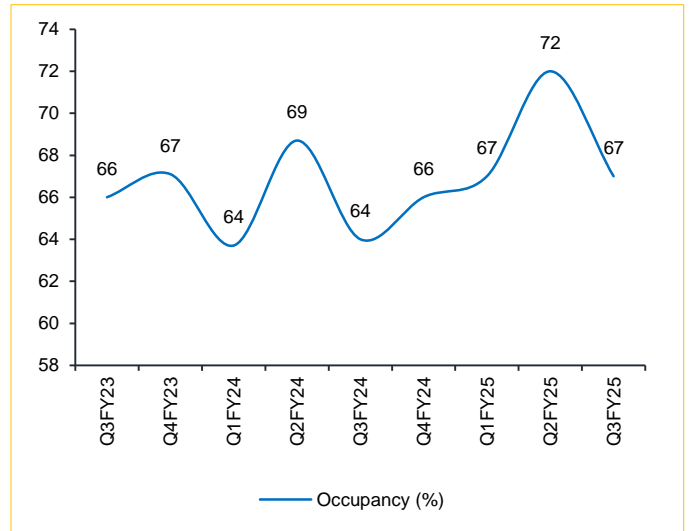
Source: Company, CEBPL

ARPOB increases on the back of improved case mix



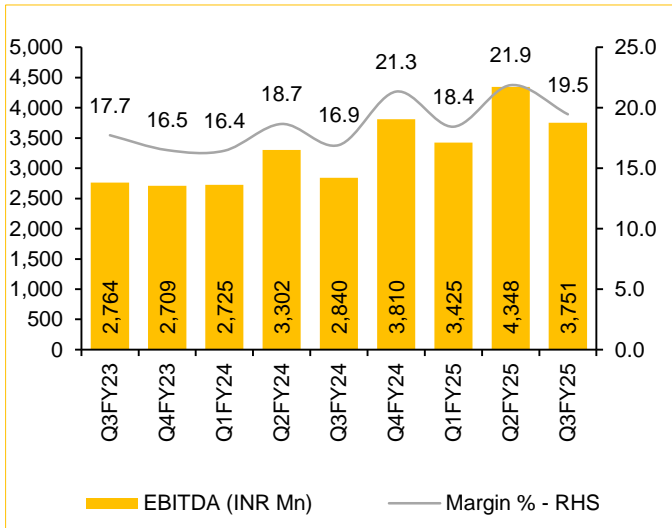
Source: Company, CEBPL

Occupancy dips sequentially but strengthens YoY



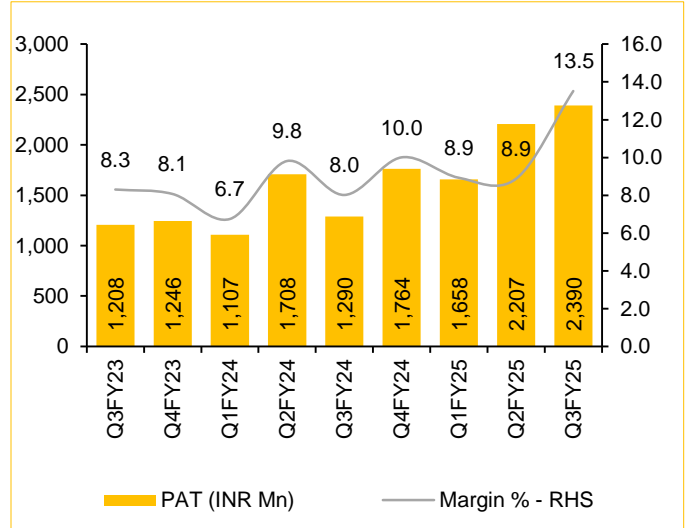
Source: Company, CEBPL

EBITDA and margins see a decline, largely in line with estimates



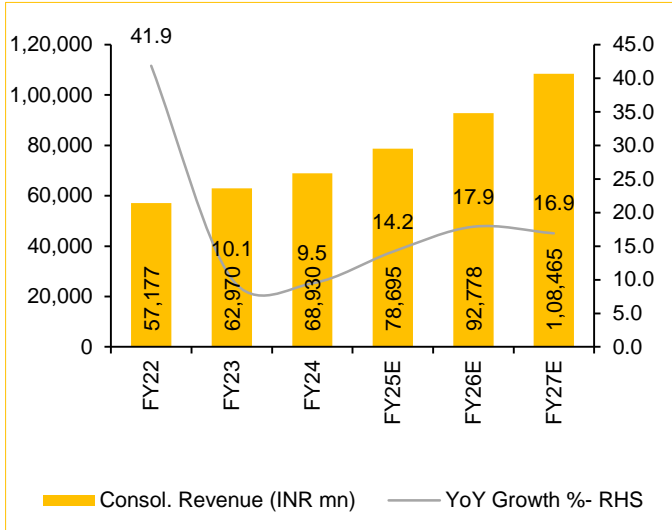
Source: Company, CEBPL

PAT sees robust growth due to one-off expenses



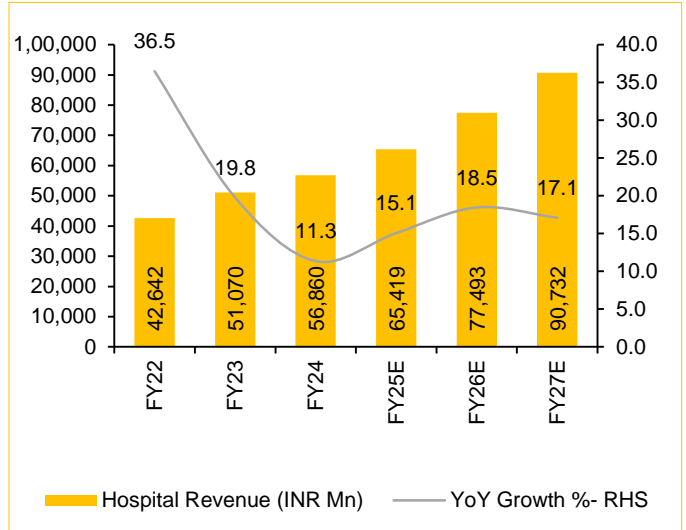
Source: Company, CEBPL

Revenue expected to sustain a 16% CAGR growth trajectory



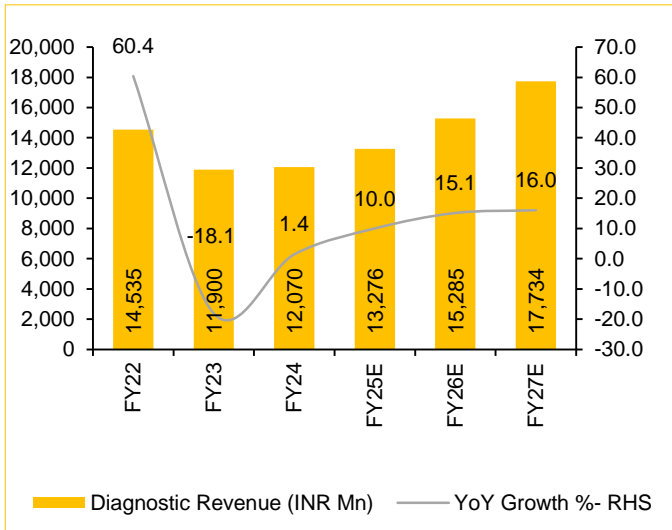
Source: Company, CEBPL

Hospital Revenue to grow at a CAGR of 17%



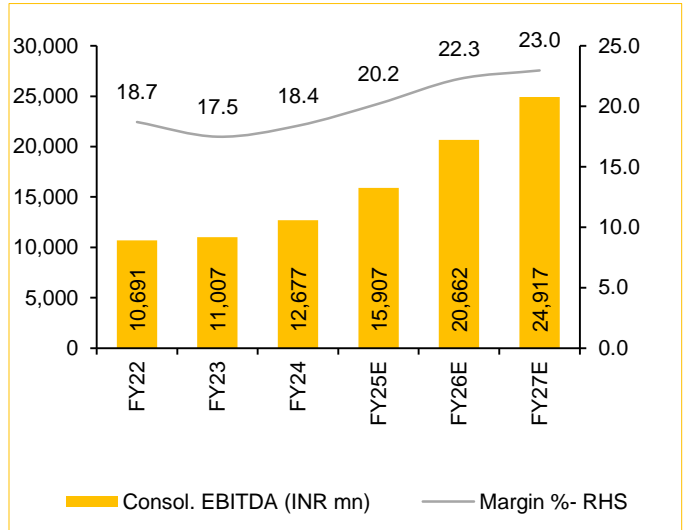
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Diagnostics Revenue to grow at a CAGR of 14%



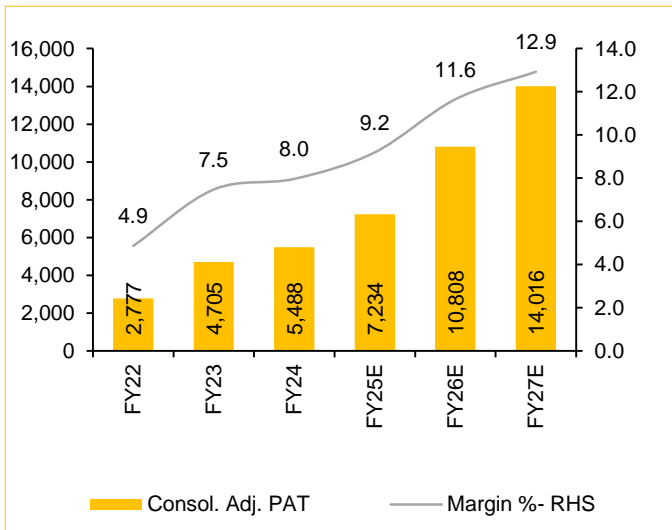
Source: Company, CEBPL

EBITDA and EBITDA margins to grow on the back of improved case mix



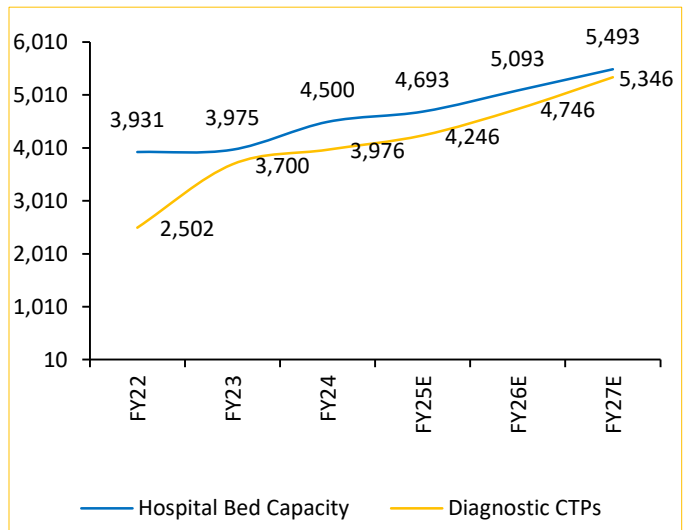
Source: Company, CEBPL

PAT poised for growth with stable margins



Source: Company, CEBPL

Hospital Beds and Diagnostic CTP Trends



Source: Company, CEBPL

Income statement (Consolidated in INR Mn)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	62,970	68,930	78,695	92,778	1,08,465
Gross Profit	48,423	52,743	60,213	71,225	83,488
EBITDA	11,007	12,677	15,907	20,662	24,917
Depreciation	3,157	3,425	3,920	4,253	4,717
EBIT	7,850	9,252	11,987	16,408	20,199
Other Income	617	383	630	928	1,085
Interest Expense	1,291	1,310	1,959	1,645	1,194
PBT	7,513	8,198	9,820	14,944	19,221
Reported PAT	5,264	5,607	6,965	10,808	14,016
EPS	7.0	7.4	9.2	14.3	18.6

Source: Company, CEBPL

Balance sheet (Consolidated in INR Mn)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Net Worth	72,423	76,629	83,594	94,402	1,08,418
Minority Interest	8,581	8,932	8,532	8,132	7,732
Borrowings	9,257	11,550	23,050	19,350	14,050
Trade Payables	7,143	7,278	8,409	9,913	11,589
Other Non-current Liabilities	21,525	5,768	8,096	8,103	9,045
Other Current Liabilities	5,407	22,731	23,694	27,217	29,610
Total Net Worth & Liabilities	1,24,336	1,32,888	1,55,376	1,67,117	1,80,445
Net Block	37,918	40,968	46,048	49,795	53,078
Capital WIP	2,277	5,404	8,123	9,137	9,852
Goodwill & Intangible Assets	45,768	46,061	46,061	46,061	46,061
Investments	2,103	2,298	16,298	16,298	16,298
Trade Receivables	5,816	6,278	7,115	8,388	10,401
Cash & Cash Equivalents	3,627	5,984	5,286	9,250	14,752
Other Non-current Assets	22,205	23,951	24,219	25,582	26,976
Other Current Assets	4,620	1,944	2,226	2,605	3,028
Total Assets	1,24,336	1,32,888	1,55,376	1,67,117	1,80,445

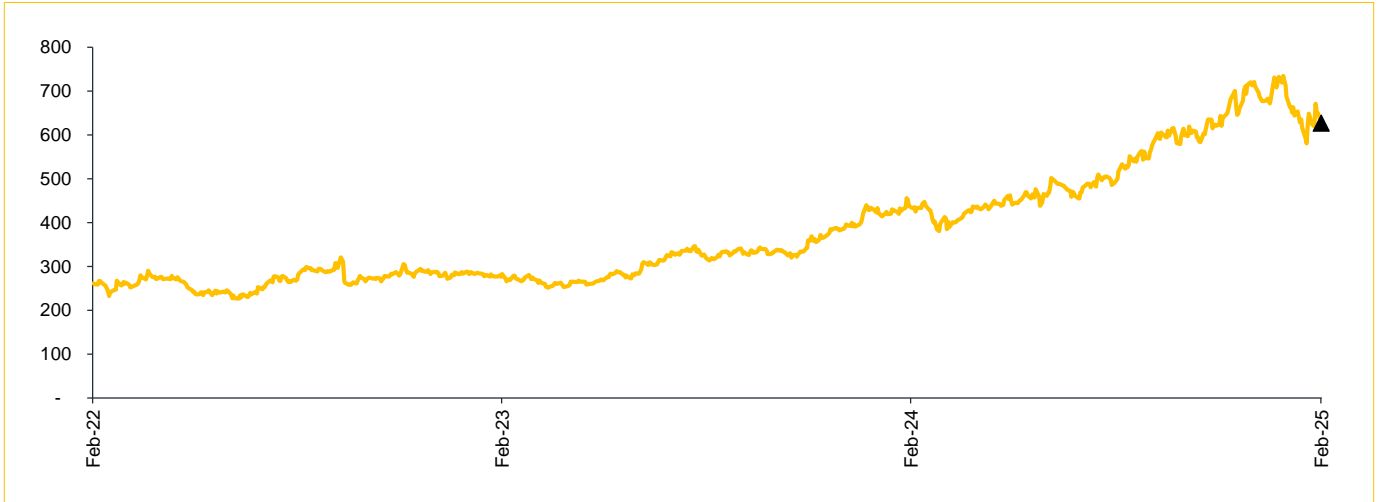
Source: Company, CEBPL

Cash Flows (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash Flows From Operations	8,223	10,619	13,783	17,309	19,996
Cash Flows From Investing	-3,737	-8,864	-23,000	-8,000	-8,000
Cash Flows From Financing	-4,712	-864	9,541	-5,345	-6,494

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios					
Revenues	10.1	9.5	14.2	17.9	16.9
EBITDA	3.0	15.2	25.5	29.9	20.6
PBT	-21.8	9.1	19.8	52.2	28.6
PAT	-0.3	6.5	24.2	55.2	29.7
Margins					
Gross Margin	76.9	76.5	76.5	76.8	77.0
EBITDA Margin	17.5	18.4	20.2	22.3	23.0
PBT Margin	11.9	11.9	12.5	16.1	17.7
Tax Rate	24.1	26.0	25.0	25.0	25.0
PAT Margin	8.4	8.1	8.9	11.6	12.9
Profitability					
Return On Equity (ROE)	7.3	7.3	8.3	11.4	12.9
Return On Invested Capital (ROIC)	22.3	19.6	23.3	21.1	24.5
Return On Capital Employed (ROCE)	9.6	10.5	11.2	14.4	16.5
Financial Leverage					
OCF/EBITDA (x)	0.7	0.8	0.9	0.8	0.8
OCF / Net profit (x)	1.6	1.9	2.0	1.6	1.4
EV/EBITDA (x)					
Earnings					
EPS	7.0	7.4	9.2	14.3	18.6
Shares Outstanding	755.0	755.0	755.0	755.0	755.0
Working Capital					
Inventory Days (x)	30.8	24.2	25.0	25.0	25.0
Receivable Days (x)	33.7	33.2	33.0	33.0	35.0
Creditor Days (x)	41.4	38.5	39.0	39.0	39.0
Working Capital Days	23.1	18.9	19.0	19.0	21.0

Source: Company, CEBPL

Historical share price chart: Fortis Healthcare Limited



Institutional Research Team

Utsav Verma	Head of Research – Institutional Equities	utsav.verma@choiceindia.com	+91 22 6707 9440
Deepika Murarka	Analyst – Pharmaceuticals / Healthcare	deepika.murarka@choiceindia.com	+91 22 6707 9513
Ashutosh Murarka	Analyst – Cement / Building Material	ashutosh.murarka@choiceindia.com	+91 22 6707 9887
Putta Ravi Kumar	Analyst – Defence	ravi.putta@choiceindia.com	+91 22 6707 9908
Aayush Saboo	Analyst – Real Estate & Infrastructure	aayush.saboo@choiceindia.com	+91 22 6707 9512
Maitri Sheth	Analyst – Pharmaceuticals / Healthcare	maitri.sheth@choiceindia.com	+91 22 6707 9511
Bharat Kumar Kudikyala	Associate – Cement / Building Material	bharat.kudikyala@choiceindia.com	+91 22 6707 9887
Arshay Agarwal	Associate – Banking & Financial Services	arshay.agarwal@choiceindia.com	+91 22 6707 9521
Heet Chheda	Associate – Automobile	heet.chheda@choiceindia.com	+91 22 6707 9952
Aryan Goyal	Associate – Auto	aryan.goyal@choiceindia.com	+91 22 6707 9517
Rushil Katiyar	Associate – Information Technology	rushil.katiyar@choiceindia.com	+91 22 6707 9887

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Choice Equity Broking Private Limited-Research Analyst - INH00000222. (CIN. NO.: U65999MH2010PTC198714). Reg. Add.: Sunil Patodia Tower, J B Nagar, Andheri(East), Mumbai 400099. Tel. No. 022-6707 9999

Compliance Officer--Prashant Salián, Email Id – Prashant.salain@choiceindia.com Contact no. 022- 67079999- Ext-2310

Grievance officer-Deepika Singhvi Tel.022-67079999- Ext-834. Email- ig@choiceindia.com

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