

# Fortis Healthcare | BUY

## Stable quarter; FY25 Expansion on track

Fortis Healthcare (FORH) reported strong quarter with Revenue/EBITDA growing 12%/26% YoY and beat our estimates by 3%/2% respectively. The Hospital business grew 14.4% YoY to INR 15.5 bn and was driven by 9.7% increase in ARPOBs and an increase in occupancy (67% vs. 64% in 1Q24). The company is on track to add 700 beds in FY25 through brownfield expansion (except Manesar), this will likely lead to faster ramp-up and improved profitability through operating leverage. In the diagnostics segment, Agilus reported flat revenue growth YoY at INR 3.4bn, management mentioned that FY25 will be a year of consolidation, post which industry level growth is the target. FORH will acquire the 31% stake from existing PE investors for INR ~18bn in the coming week and expect the transaction to close over the next two months. FORH's focus on brownfield heavy expansion, cost optimisation across key hospitals and improving EBITDA/occupied bed make it an appealing proposition. We prefer FORH as our 'top pick' in the sector and value Fortis Hospitals at 25x Jun'26 EV/EBITDA and Agilus Diagnostics at 20x to derive a Jun'25 TP of INR 595. Maintain BUY.

- Hospital business:** Revenue grew +14% YoY/+4% QoQ to INR 15.5bn. The main driver was 9.7% YoY increase in ARPOB. Medical travel grew 11% YoY to clock INR 1.3bn. ARPOBs came in at INR 24.1mn p.a. (vs INR 21.9mn YoY). The surgical mix was at 61% for the quarter and was similar YoY. Improvements in focus specialties, which grew 15.7% YoY and contributed 63% to overall hospital business revenues, were key to strong ARPOB performance. Occupancy for the quarter stood at 67% (vs. 64% in 1Q24). International Patient revenues grew 11% to INR 1.3bn vs INR 1.2bn in 1QFY24. The operating EBITDA margins for the quarter were sequentially lower on account of one-off expenses (0.5%) and change in specialty mix (2%). The management re-iterated margin guidance of 20% for the full year.
- Expansion progress:** The company is on track to add 700 beds in FY25. Key to which is the operationalisation of the Manesar facility (100 beds in 2Q). Further, the new tower (50 beds) at the Faridabad facility is expected to be operational in 2HFY25, Phase 1 of the new tower in Noida is expected to operationalise in the same period. Apart from these three facilities, FORH will add 270 beds in FY25 across its BG Road, Shalimar Bagh, Anandpur, FMRI and NBV facilities. The new additions (except Manesar) are brownfield in nature this will likely lead to faster ramp-up and improved profitability through operating leverage.
- Diagnostics business:** Agilus gross revenue was flat YoY at INR 3.4bn and EBITDA declined 17% YoY with margins contracting 16.1% (vs 19.4% YoY) due to rebranding expenses and one-off provisions. During the quarter, Agilus conducted 9.92mn tests (vs 9.95mn YoY, 9.61mn QoQ). Agilus' B2C: B2B revenue mix stood at 54:46 for the quarter (vs 53:47 YoY). The company increased the share of wellness and specialised tests YoY which helped the company increase its average realisation per patient to INR 846 (vs. INR 829 YoY). However, FY25 will be a year of consolidation for the company as they continue promotional campaign (including discounted pricing) and rebranding exercise



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	595
Upside/(Downside)	22.4%
Previous Price Target	595
Change	0.0%

### Key Data – FORH IN

Current Market Price	INR486
Market cap (bn)	INR367.1/US\$4.4
Free Float	63%
Shares in issue (mn)	755.0
Diluted share (mn)	755.0
3-mon avg daily val (mn)	INR886.9/US\$10.6
52-week range	532/308
Sensex/Nifty	79,468/24,298
INR/US\$	84.0

### Price Performance

%	1M	6M	12M
Absolute	5.3	7.5	50.1
Relative*	6.0	-3.4	24.4

\* To the BSE Sensex

### Financial Summary

	(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	62,976	68,929	77,420	88,007	99,597
Sales Growth (%)	10.1	9.5	12.3	13.7	13.2
EBITDA	11,013	12,676	15,097	18,482	21,214
EBITDA Margin (%)	17.5	18.4	19.5	21.0	21.3
Adjusted Net Profit	5,151	5,829	7,339	9,810	11,785
Diluted EPS (INR)	6.8	7.7	9.7	13.0	15.6
Diluted EPS Growth (%)	114.6	13.2	25.9	33.7	20.1
ROIC (%)	7.5	8.0	9.3	11.9	14.1
ROE (%)	7.7	7.8	9.2	11.2	12.2
P/E (x)	71.2	62.9	50.0	37.4	31.1
P/B (x)	5.1	4.8	4.4	4.0	3.6
EV/EBITDA (x)	34.6	30.1	25.0	19.9	16.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 07/Aug/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

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(INR 500mn expense in FY25) which will limit topline growth in FY25. They believe that FY26 onwards industry level growth can be achieved.

- **Agilus put-option:** The existing PE investors (IFC, NYLIM Jacob Ballas, Resurgence) will likely exercise their put option in the coming week, per the management. An independent firm, appointed by the company, values the 31% stake at INR 17.8bn. This stake will be debt funded and the management are comfortable with net debt at 1.5x EBITDA (post fund raise). The incremental interest cost from this fund raise could impact FY26/27 PAT by 6-8%. The transaction is likely to be completed over the next two months post which FORH will hold an 88% stake in Agilus.
- **Key Financials:**
  - Revenue/EBITDA/PAT of INR 18.6bn/3.4bn/1.7bn grew 12%/26%/49% YoY and were +3% /+2%/+17% vs. our estimates.
  - Gross margin was declined 30bps YoY to 75.6% (JMFe: 76.7%).
  - EBITDA margin expanded 200bps YoY at 18.4% (vs. 16.4% YoY; JMFe: 18.5%).
  - EPS was 2.2 (vs. 1.5 YoY).
  - ARPOB for the quarter was INR 24mn (vs. INR 23mn QoQ; INR 22mn YoY).
  - Occupancy was 67% (vs. 66% QoQ; 64%YoY).
  - Agilus conducted 9.92mn tests was flat YoY primarily. Realisation per test stood at INR 341 (vs. INR 344 YoY)

### Exhibit 1. Expansion plans for FY25

*Manesar Facility (~300 Beds) –  
Expected operationalization: Phase 1 Q2FY25  
Phase 2 H2FY25*



*Faridabad New Tower (50 Beds) – Expected operationalization H2FY25*



*Noida New Tower (~145 Beds) –  
Expected operationalization: Phase 1 H2 FY25 | Phase 2 H1 FY26*



*FMRI New Tower (220 Beds) – Expected operationalization H1FY26*



Source: Company

## Exhibit 2. 1QFY25 review

Fortis - P&L (INR mn)	1QFY24	1QFY25	% YoY	1QFY25E	% Delta vs. JMFe	1QFY25E (cons)	% Delta vs. cons	4QFY24	% QoQ
<b>Net Sales</b>	<b>16,574</b>	<b>18,589</b>	<b>12%</b>	<b>18,066</b>				<b>17,859</b>	<b>4%</b>
Other op income	0	0		0				0	
<b>Total Revenue</b>	<b>16,574</b>	<b>18,589</b>	<b>12%</b>	<b>18,066</b>	<b>3%</b>	<b>18,246</b>	<b>2%</b>	<b>17,859</b>	<b>4%</b>
COGS	3,985	4,529	14%	4,209	8%			4,137	9%
Gross Profit	12,589	14,060	12%	13,856	1%			13,722	2%
Gross Profit %	76.0%	75.6%	-32 bps	76.7%	-106 bps			76.8%	-120 bps
Staff Cost	2,845	2,954	4%	3,017	-2%			2,715	9%
Other expenses	7,019	7,681	9%	7,497	2%			7,196	7%
<b>EBITDA</b>	<b>2,725</b>	<b>3,425</b>	<b>26%</b>	<b>3,342</b>	<b>2%</b>	<b>3,558</b>	<b>-4%</b>	<b>3,810</b>	<b>-10%</b>
<b>EBITDA margin (%)</b>	<b>16.4%</b>	<b>18.4%</b>	<b>199 bps</b>	<b>18.5%</b>	<b>-7 bps</b>	<b>19.5%</b>	<b>-107 bps</b>	<b>21.3%</b>	<b>-291 bps</b>
Other Income	81	130	60%	105	24%			98	33%
Finance Cost	315	353	12%	360				347	2%
Depreciation	792	910	15%	930				922	-1%
<b>PBT</b>	<b>1,699</b>	<b>2,293</b>	<b>35%</b>	<b>2,157</b>	<b>6%</b>			<b>2,639</b>	<b>-13%</b>
Exceptional Items	15	2		0				31	
Tax	468	560	20%	539				682	-18%
Tax Rate (%)	27.3%	24.4%		25.0%				25.6%	
Minority Interest & Profit from JV	128	74		201				201	
<b>PAT (Reported)</b>	<b>1,118</b>	<b>1,660</b>	<b>49%</b>	<b>1,417</b>	<b>17%</b>	<b>1,803</b>	<b>-8%</b>	<b>1,787</b>	<b>-7%</b>
PAT margin (%)	6.7%	8.9%		7.8%		9.9%		10.0%	
<b>Diluted EPS (INR)</b>	<b>1.5</b>	<b>2.2</b>	<b>49%</b>	<b>1.9</b>	<b>17%</b>			<b>2.4</b>	<b>-7%</b>
<b>Fortis - Cost margins</b>									
	1QFY24	1QFY25	% YoY	1QFY25E	% Delta vs. JMFe			4QFY24	% QoQ
COGS/sales	24.0%	24.4%	32 bps	23.3%	106 bps			23.2%	120 bps
Staff cost/sales	17.2%	15.9%	-128 bps	16.7%	-81 bps			15.2%	69 bps
Other expenditure/sales	42.4%	41.3%	-103 bps	41.5%	-18 bps			40.3%	103 bps

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	62,976	68,929	77,420	88,007	99,597	
Sales Growth	10.1%	9.5%	12.3%	13.7%	13.2%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>62,976</b>	<b>68,929</b>	<b>77,420</b>	<b>88,007</b>	<b>99,597</b>	
Cost of Goods Sold/Op. Exp	14,547	16,187	18,116	20,418	23,107	
Personnel Cost	10,469	11,195	12,387	13,817	15,438	
Other Expenses	26,947	28,871	31,819	35,291	39,839	
<b>EBITDA</b>	<b>11,013</b>	<b>12,676</b>	<b>15,097</b>	<b>18,482</b>	<b>21,214</b>	
EBITDA Margin	17.5%	18.4%	19.5%	21.0%	21.3%	
EBITDA Growth	3.0%	15.1%	19.1%	22.4%	14.8%	
Depn. & Amort.	3,157	3,425	3,903	4,098	4,248	
EBIT	7,856	9,251	11,194	14,383	16,966	
Other Income	617	383	500	650	750	
Finance Cost	1,291	1,310	1,373	1,373	1,373	
PBT before Excep. & Forex	7,182	8,324	10,320	13,660	16,343	
Excep. & Forex Inc./Loss(-)	736	160	2	0	0	
PBT	7,918	8,485	10,322	13,660	16,343	
Taxes	1,807	2,128	2,581	3,415	4,086	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	661	559	619	686	761	
Reported Net Profit	5,451	5,799	7,123	9,559	11,496	
<b>Adjusted Net Profit</b>	<b>5,151</b>	<b>5,829</b>	<b>7,339</b>	<b>9,810</b>	<b>11,785</b>	
Net Margin	8.2%	8.5%	9.5%	11.1%	11.8%	
Diluted Share Cap. (mn)	755.0	755.0	755.0	755.0	755.0	
<b>Diluted EPS (INR)</b>	<b>6.8</b>	<b>7.7</b>	<b>9.7</b>	<b>13.0</b>	<b>15.6</b>	
Diluted EPS Growth	114.6%	13.2%	25.9%	33.7%	20.1%	
Total Dividend + Tax	0	0	0	0	0	
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	7,401	8,420	10,322	13,660	16,343	
Depn. & Amort.	3,157	3,425	3,903	4,098	4,248	
Net Interest Exp. / Inc. (-)	1,053	1,011	873	723	623	
Inc (-) / Dec in WCap.	-251	196	961	199	517	
Others	-395	168	0	0	0	
Taxes Paid	-2,742	-2,218	-2,581	-3,415	-4,086	
<b>Operating Cash Flow</b>	<b>8,223</b>	<b>11,001</b>	<b>13,479</b>	<b>15,266</b>	<b>17,645</b>	
Capex	-4,736	-10,575	-6,596	-3,500	-5,000	
Free Cash Flow	3,487	426	6,884	11,766	12,645	
Inc (-) / Dec in Investments	493	-1,410	0	0	0	
Others	507	3,122	500	650	750	
<b>Investing Cash Flow</b>	<b>-3,737</b>	<b>-8,864</b>	<b>-6,096</b>	<b>-2,850</b>	<b>-4,250</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	-2,818	1,855	0	0	0	
Others	-1,894	-2,719	-2,128	-2,883	-2,883	
<b>Financing Cash Flow</b>	<b>-4,712</b>	<b>-865</b>	<b>-2,128</b>	<b>-2,883</b>	<b>-2,883</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-214</b>	<b>1,245</b>	<b>5,256</b>	<b>9,532</b>	<b>10,512</b>	
Opening Cash Balance	666	451	2,353	7,608	17,141	
Closing Cash Balance	1,411	2,353	7,608	17,141	27,653	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	72,423	76,629	83,215	91,516	1,01,791	
Share Capital	7,550	7,550	7,550	7,550	7,550	
Reserves & Surplus	64,873	69,079	75,666	83,966	94,241	
Preference Share Capital	0	0	0	0	0	
Minority Interest	8,581	8,932	9,442	10,003	10,620	
Total Loans	7,032	8,583	8,583	8,583	8,583	
Def. Tax Liab. / Assets (-)	665	1,119	1,119	1,119	1,119	
<b>Total - Equity &amp; Liab.</b>	<b>88,700</b>	<b>95,263</b>	<b>1,02,359</b>	<b>1,11,220</b>	<b>1,22,112</b>	
Net Fixed Assets	96,542	1,04,157	1,06,849	1,06,251	1,07,003	
Gross Fixed Assets	1,14,104	1,26,104	1,34,104	1,39,104	1,44,104	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	19,839	27,352	31,255	35,353	39,602	
Capital WIP	2,277	5,405	4,000	2,500	2,500	
Investments	2,103	2,297	2,406	2,532	2,676	
Current Assets	22,248	23,261	29,163	40,061	51,851	
Inventories	1,228	1,074	1,588	1,790	2,026	
Sundry Debtors	5,816	6,278	6,363	7,475	8,459	
Cash & Bank Balances	1,411	2,353	7,608	17,141	27,653	
Loans & Advances	332	392	392	392	392	
Other Current Assets	13,461	13,164	13,211	13,264	13,322	
Current Liab. & Prov.	32,193	34,451	36,058	37,623	39,418	
Current Liabilities	25,084	9,736	11,141	12,483	14,033	
Provisions & Others	7,109	24,715	24,917	25,140	25,384	
Net Current Assets	-9,945	-11,190	-6,895	2,438	12,433	
<b>Total - Assets</b>	<b>88,700</b>	<b>95,263</b>	<b>1,02,359</b>	<b>1,11,220</b>	<b>1,22,112</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	8.2%	8.5%	9.5%	11.1%	11.8%	
Asset Turnover (x)	0.6	0.7	0.8	0.8	0.8	
Leverage Factor (x)	1.6	1.4	1.3	1.3	1.3	
RoE	7.7%	7.8%	9.2%	11.2%	12.2%	

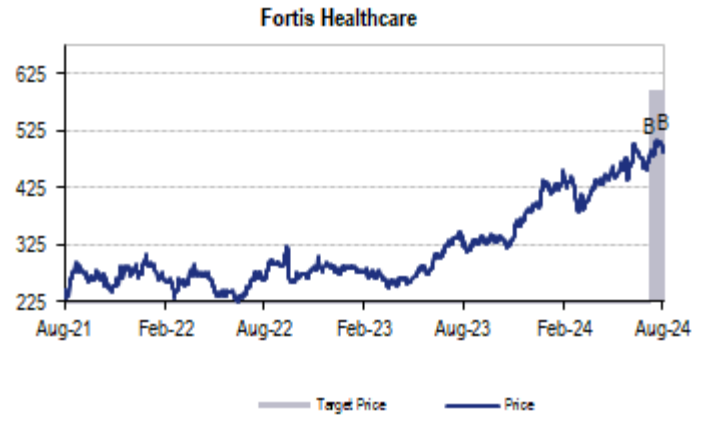
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	95.9	101.5	110.2	121.2	134.8	
ROIC	7.5%	8.0%	9.3%	11.9%	14.1%	
ROE	7.7%	7.8%	9.2%	11.2%	12.2%	
Net Debt/Equity (x)	0.1	0.1	0.0	-0.1	-0.2	
P/E (x)	71.2	62.9	50.0	37.4	31.1	
P/B (x)	5.1	4.8	4.4	4.0	3.6	
EV/EBITDA (x)	34.6	30.1	25.0	19.9	16.9	
EV/Sales (x)	6.1	5.5	4.9	4.2	3.6	
Debtor days	34	33	30	31	31	
Inventory days	7	6	7	7	7	
Creditor days	50	47	49	50	50	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
13-Jul-24	Buy	595	
7-Aug-24	Buy	595	0.0

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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\* REITs refers to Real Estate Investment Trusts.

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