

## Fortis Healthcare Ltd

NEUTRAL

Choice

In Q3FY24, Fortis's performance fell below our expectations across various metrics. The revenue stood at INR 16.7bn, reflecting a 7.7% YoY increase but a 5.1% QoQ decrease. Within the revenue, the hospital business contributed INR 13.8bn, showing a 9.6% YoY growth but a 4.4% QoQ decline, while diagnostics contributed a net revenue of INR 2.9bn. ARPOB/day remained relatively unchanged sequentially and grew by 10.6% YoY, reaching INR 61,096. The occupancy rate for the quarter was 64%, down from 66% the previous year. EBITDA was INR 2.8bn, reflecting a 2.7% YoY increase but a 14% QoQ decrease. The margin was 16.9%, down by 82bps YoY and 175bps QoQ, primarily due to a decline in the diagnostic business margin (11.4% in Q3FY24 compared to 19.6% in Q2FY24). The hospital business margin came in at 18.0%, slightly lower than the 18.4% reported in Q2FY24.

- Robust revenue growth in Hospital Business with Specialty expansion:** The Hospital Business recorded a 9.6% YoY revenue growth, attributed to a rise in ARPOB reaching INR 22.3mn (+10.6% YoY). Focused medical specialties, including oncology, orthopedics, renal sciences, cardiac sciences, neurosciences, and gastroenterology, accounted for 61.4% of Q3FY24 revenue, up from 60.9% in Q3FY23. Specific specialties like gastroenterology, neurosciences, and oncology reported impressive growth rates of 20%, 13%, and 12%, respectively, compared to the corresponding quarter last year. International Patient revenues remained steady at INR 1,130mn, contributing 7.7% to overall hospital revenue. The Surgical and Non-Surgical revenue ratio stood at 58:42, a slight shift from 59:41 last year. Hospital operating EBITDA reached INR 2,508mn with an 18% margin, marking an increase in its contribution to 88%, up from 76% last year.
- Ludhiana Facility Inauguration and Bed Expansion Plans:** The company inaugurated a new 70-bed facility in Ludhiana, the second in the city and fourth in Punjab, contributing to a total bed capacity of 772 in the region. Further expansion plans include adding 250 beds in FY24 and approximately 2,200 beds from FY23 to FY28. Additional beds will be incrementally added to key facilities, fostering operating leverage and margin expansion, with a brownfield approach for Shalimar Bagh, FMRI, and Noida expansions, while the Manesar facility represents a ramp-up of an existing non-operational hospital.
- EBITDA Margin Guidance and Occupancy Trends:** The management maintains its EBITDA margin guidance of 20% for FY24, driven by occupancy improvement. They aim to achieve a 25% EBITDA margin in 3-4 years through bed expansion. Jan-Feb occupancy trends are healthy, and the management expects 70% occupancy levels in Q4 and the next year.

**Outlook and Valuation:** We remain optimistic on Fortis due to: 1) The significant brownfield bed addition; 2) ARPOB growth led by high end specialty services; 3) Improvement in occupancy levels; 4) Healthy FCF generation and ROE/ROCE curve moving upwards. We value the stock based on the SOTP methodology to arrive at a price target of Rs.447 and maintain **NEUTRAL** rating.

## Quarterly performance

Particulars (Rs.mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	16,797	15,599	7.7	17,700	(5.1)
Materials consumed	3,938	3,583	9.9	4,127	(4.6)
Gross Profit	12,859	12,016	7.0	13,572	(5.3)
Employee Expenses	2,821	2,627	7.4	2,814	0.2
Professional Fees to Dr.	3,627	3,288	10.3	3,736	(2.9)
Operating Expenses	3,572	3,337	7.1	3,721	(4.0)
EBITDA	2,840	2,764	2.7	3,302	(14.0)
Depreciation	869	828	5.0	841	3.3
EBIT	1,971	1,937	1.7	2,461	(19.9)
Interest Cost	330	334	(1.2)	318	3.6
PBT	1,832	1,861	(1.6)	2,327	(21.3)
NCI Share	4	(126)	5.7	(102)	(104.3)
RPAT	1,347	1,296	3.9	1,737	(22.5)
APAT	1,285	1,208	6.4	1,708	(24.8)
Adj. EPS (Rs)	1.7	1.6	6.4	2.3	(24.8)

Margin Analysis	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Gross margin %	76.6	77.0	(48)	76.7	(12)
Employee Exp. % of Sales	16.8	16.8	(5)	15.9	90
Prof. fees % of Sales	21.6	21.1	51	21.1	48
Other Op. Exp % of Sales	21.3	21.4	(12)	21.0	24
EBITDA Margin (%)	16.9	17.7	-82bps	18.7	-175bps
Tax Rate (%)	26.7	23.6	308	21.0	574
APAT Margin (%)	7.7	7.7	-9bps	9.7	-200bps

Source: Company, CEBPL

Feb 9, 2023	
CMP (Rs)	438
Target Price (Rs)	445
Potential Upside (%)	1.4

## Company Info

BB Code	FORH IN
ISIN	INE061F01013
Face Value (Rs.)	10.0
52 Week High (Rs.)	469.5
52 Week Low (Rs.)	245.4
Mkt Cap (Rs bn.)	334.3
Mkt Cap (\$ bn.)	4.0
Shares o/s (Mn.)/F.F(%)	754.9/69
Adj. TTM EPS (Rs)	7.0
FY26E EPS (Rs)	12.5

## Shareholding Pattern (%)

	Dec-23	Sep-23	Jun-23
Promoters	31.17	31.17	31.17
DII's	29.42	26.31	30.03
FII's	23.72	26.55	22.17
Public	15.71	15.97	16.65

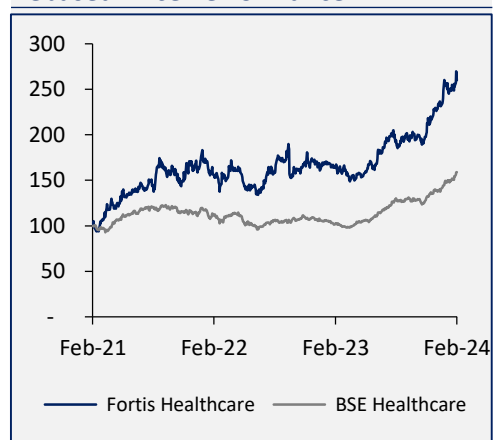
## Relative Performance (%)

YTD	3Y	2Y	1Y
BSE HC	59.03	43.14	54.89
Fortis	159.63	68.26	56.80

## Year end March (INR bn)

Particular	FY23	FY24E	FY25E	FY26E
Revenue	62.9	70.9	82.2	86.7
Gross Profit	48.4	54.6	63.1	66.5
EBITDA	11.0	14.1	16.1	16.9
EBITDA (%)	17.5	19.9	19.6	19.5
EPS (INR)	7.0	9.5	11.7	12.5

## Rebased Price Performance



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## CEBPL Estimates vs Actual

Particulars (Rs.mn)	Actual	CEBPL Est.	Deviation (%)
Revenue	16,797	17,971	(6.5)
EBIDTA	2,840	3,232	(12.1)
EBIDTA Margin (%)	16.9	18.0	-108bps
Adj. PAT	1,285	1,658	(22.5)

Source: Company, CEBPL

## Changes in Estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	82,179	84,195	-2.4	86,664	87,168	-0.6
EBITDA	16,135	16,533	-2.4	16,908	17,007	-0.6
EBITDA margin(%)	19.6	19.6	3	19.5	19.5	-0.0
APAT	8,836	9,740	-9.3	9,461	10,158	-6.9
EPS	11.7	12.9	-9.3	12.5	13.5	-6.9

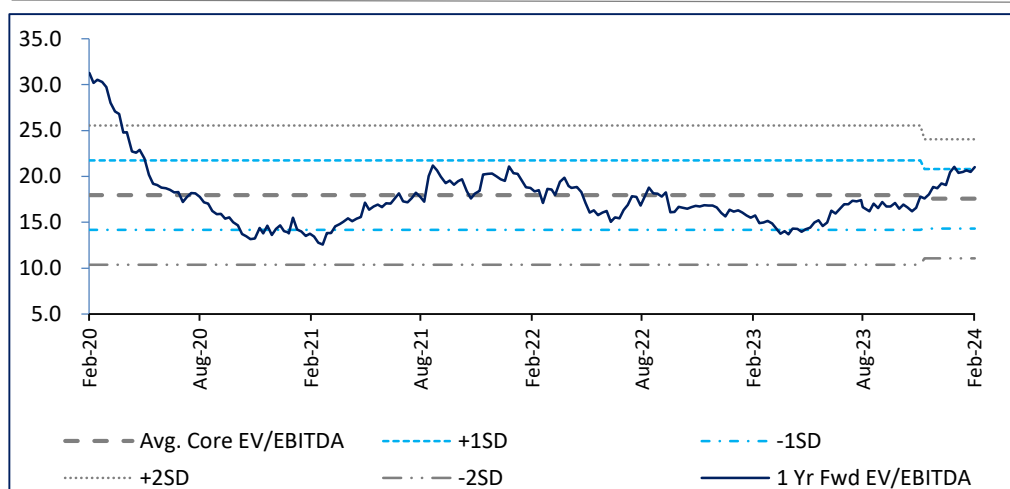
Source: Company, CEBPL

## Valuation Methodology

Particulars	Rs. Mn	Allotted Multiple (x)	Value (Rs. Mn)
Hospital Business EBITDA (FY26E) (A)	14,450	20	2,88,993
Diagnostic Business EBITDA (FY26E) (B)	2,318	16	37,085
<b>Enterprise Value (A+B)</b>			<b>3,26,078</b>
Less: Net Debt (FY26E) (C)			-5,276
<b>(A+B-C)</b>			<b>3,31,355</b>
Share of Profit from JV / Associate (FY2IE) (D)	270	17	4,590
<b>Implied Market Cap</b>			<b>3,35,945</b>
Value per share			445

Source: Company, CEBPL

## 1 Year Forward EV/EBITDA (x) band



Source: Company, CEBPL

## Management Call - Highlights

### Hospital Business

- Hospital operating EBITDA contribution increased to 88% from 76% YoY, reflecting positive momentum in the hospital business, sustaining overall profit margins.
- International patient revenue remained flat due to geopolitical reasons and slow patients from specific countries, but better performance is expected from Q4 onwards.
- Occupancy levels in Jan-Feb showed positive trends, with an expectation of reaching 70% in Q4 and the next year.
- Portfolio rationalization included divesting two loss-making facilities in Chennai (Malar concluded on Feb 24, Vadapalani concluded on July 23).
- No further divestments are planned in hospitals, but continuous portfolio evaluation may lead to future decisions.
- ARPOB growth driven by high-end and complex cases is expected to continue, with anticipated growth of ~5% going forward.
- Cost of medical talent is projected to decrease with increased occupancy and hospital scale-up, staying below current levels.

### Digital Business

- Positive progress in digital transformation, notably with the implementation of EMR (Electronic Medical Records).
- Revenue from digital channels, including websites, the myFortis app, and online campaigns, witnessed a 32% YoY growth.
- The contribution of digital channels to overall hospital revenues increased to 25.7%, up from 21.5% in Q2FY24.
- The company introduced a new patient feedback management system, MyFeedback, enhancing patient engagement by collecting feedback through WhatsApp and QR codes.

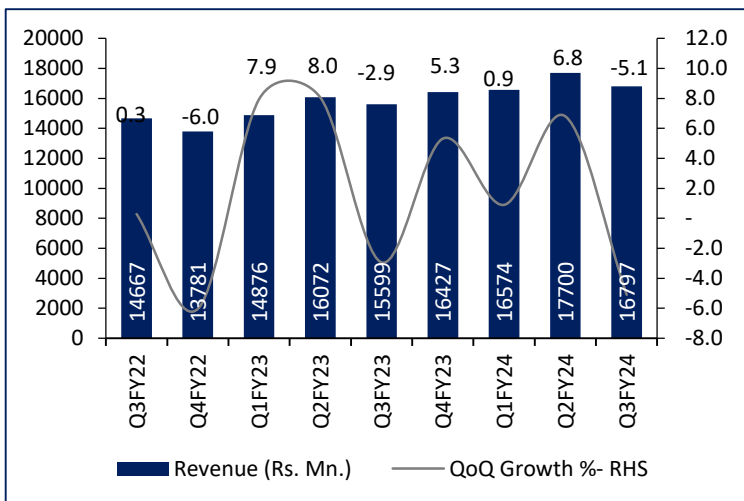
### Capacity Expansion

- The company inaugurated a new 70-bed facility in Ludhiana, the second in the city and fourth in Punjab, contributing to a total bed capacity of 772 in the region.
- The company plans to add 710 beds in FY25, with 350 from the acquired hospital in New York and over 300 from the Manesar facility, following a cost optimization strategy.
- The operationalization of beds will be phased to ensure effective cost management.
- The Manesar facility is expected to become operational by mid-year.
- The 1000+ bed expansion plan in Delhi over the next 2 years includes brownfield expansions in Shalimar Bagh, FMRI, and Noida, along with the ramp-up of the existing Manesar hospital.
- The Capex for 9MFY24 is 4,500mn.
- Efforts are underway to add radio oncology to the Jaipur hospital, with an anticipated timeline of 1-1/2 years, aiming to move the hospital above the 15% margin range.

### Others

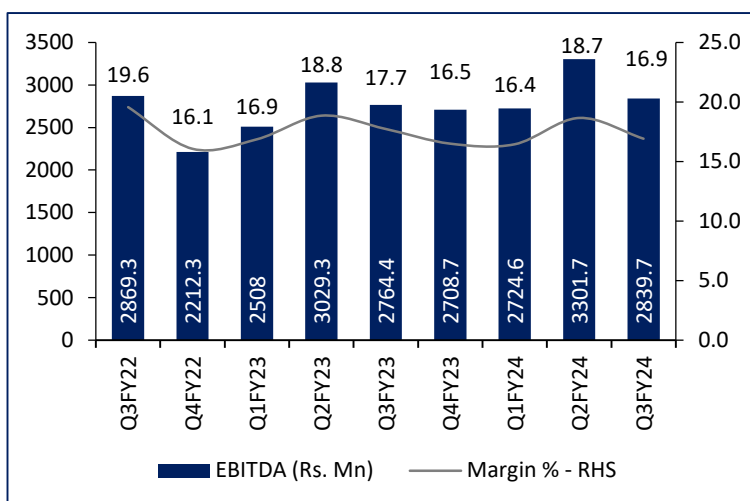
- A 0.5-0.6% margin improvement is expected from divestment, with additional benefits from increased occupancy and cost improvements. The impact of the new Ludhiana facility is anticipated to be realized in Q4.
- The company has commissioned several medical programs during the quarter, including the introduction of U.P.'s first advanced AI-powered state-of-the-art lab at Fortis Hospital, Noida, NeuroIQ and Smart Neuro Lab at Fortis Hospital, Faridabad, and the launch of a cutting-edge surgical robot at Fortis Hospital, Anandpur, Kolkata.

Revenue (Rs mn) & QoQ growth (%)



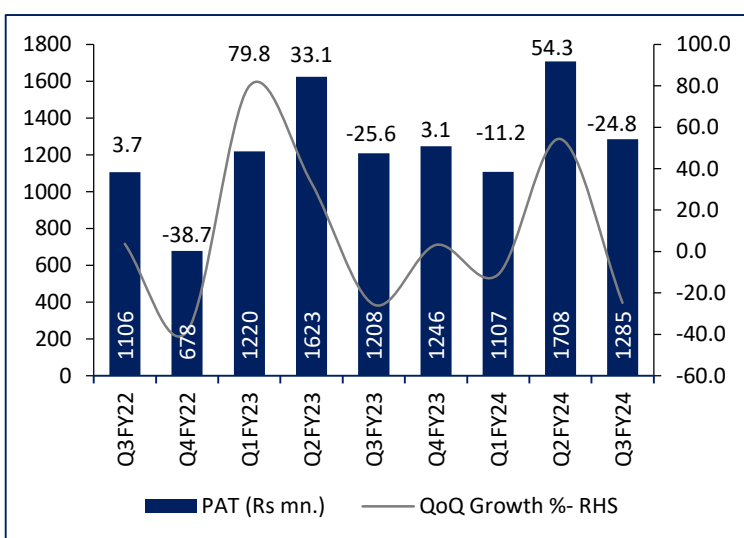
Source: Company, CEBPL

EBITDA (Rs mn) & Margin (%)



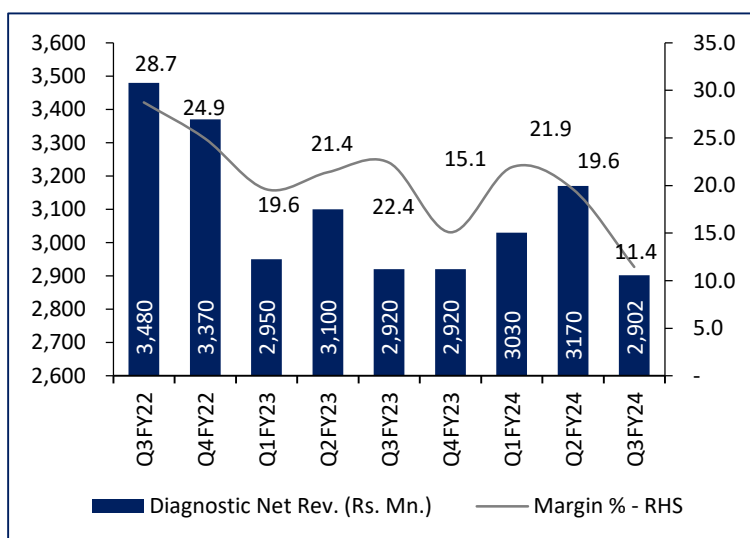
Source: Company, CEBPL

Adj. PAT (Rs mn) & QoQ growth (%)



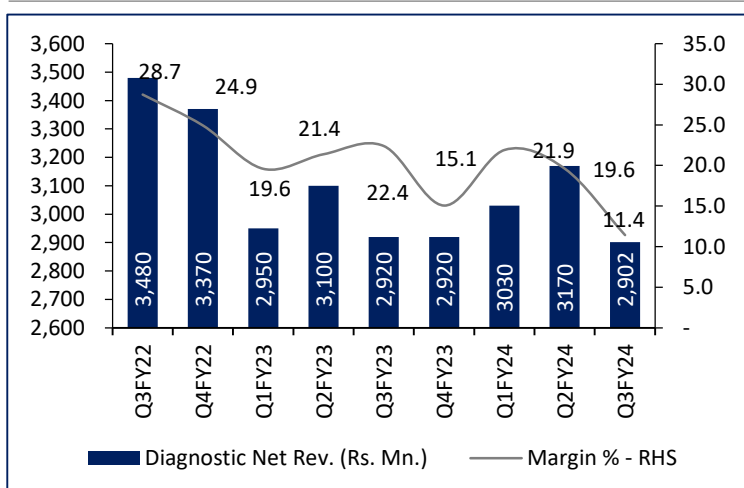
Source: Company, CEBPL

Diagnostic Net Rev. (Rs. Mn.) & Margin %



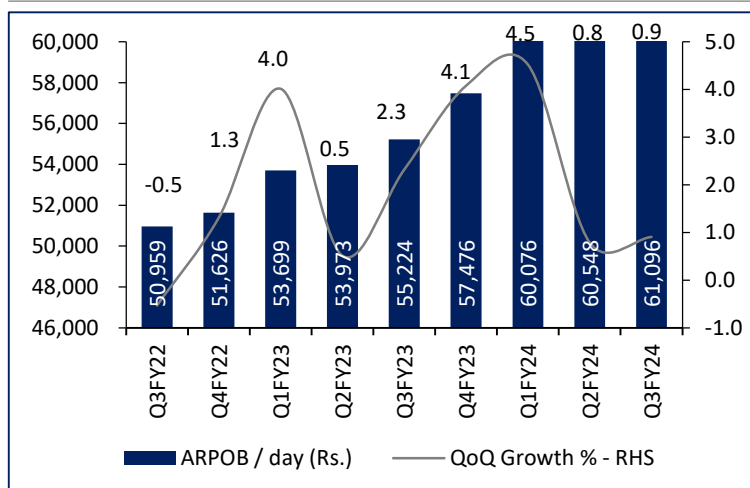
Source: Company, CEBPL

Hospital Revenue (Rs. Mn.) & Margin %



Source: Company, CEBPL

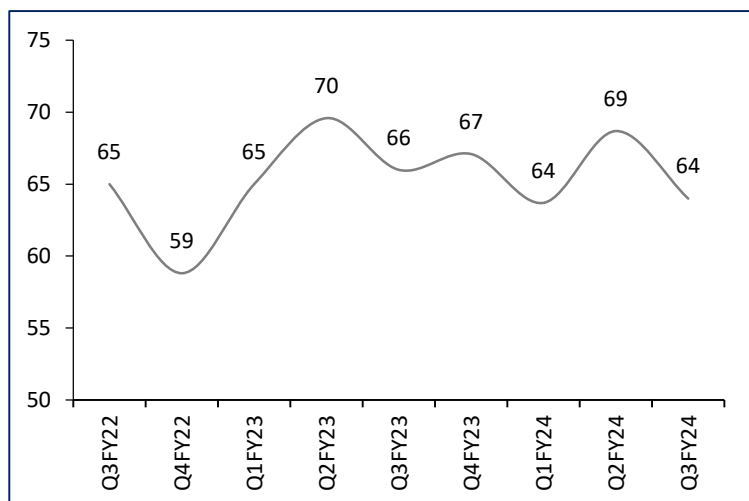
ARPOB/day (Rs.) & QoQ Growth



Source: Company, CEBPL

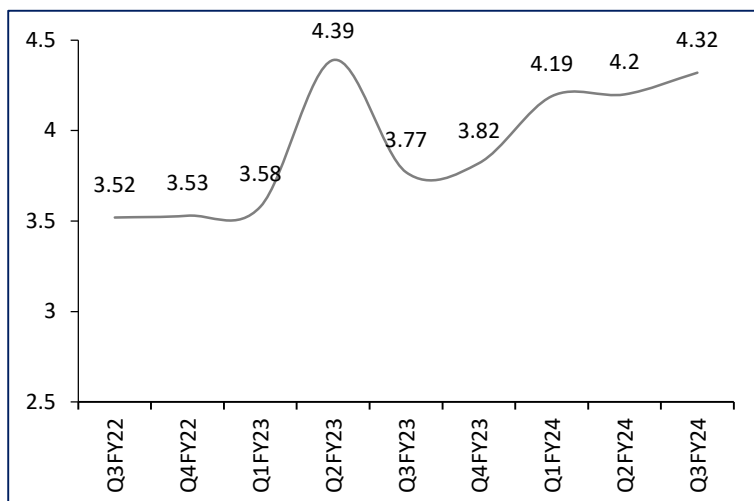
Source: Company, CEBPL

Occupancy (%)



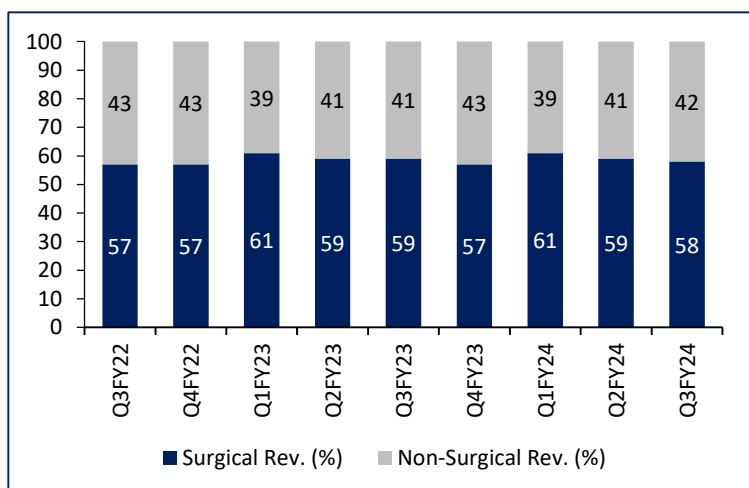
Source: Company, CEBPL

ALOS (Days)



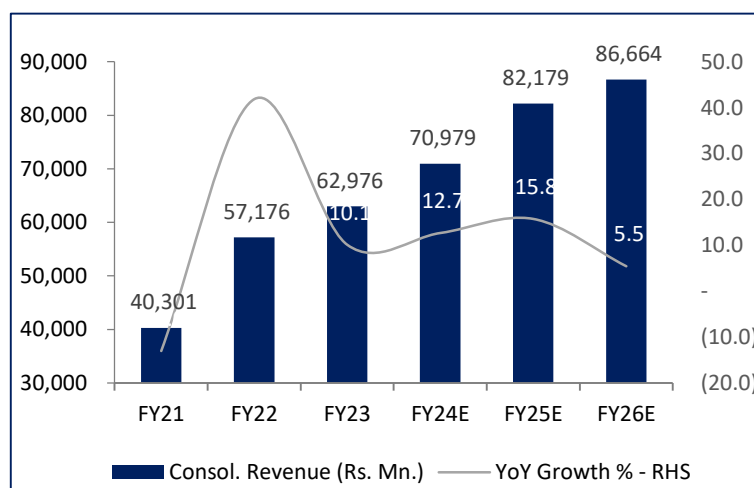
Source: Company, CEBPL

Surgical Revenue vs Non-Surgical Revenue (%)



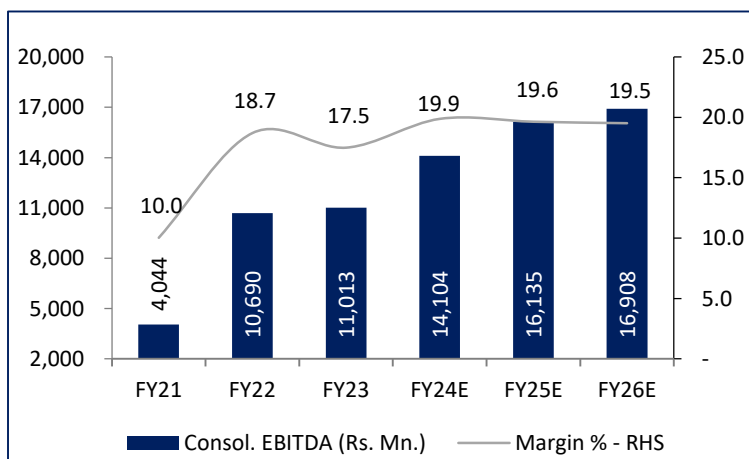
Source: Company, CEBPL

Revenue (Rs mn) & YoY growth (%)



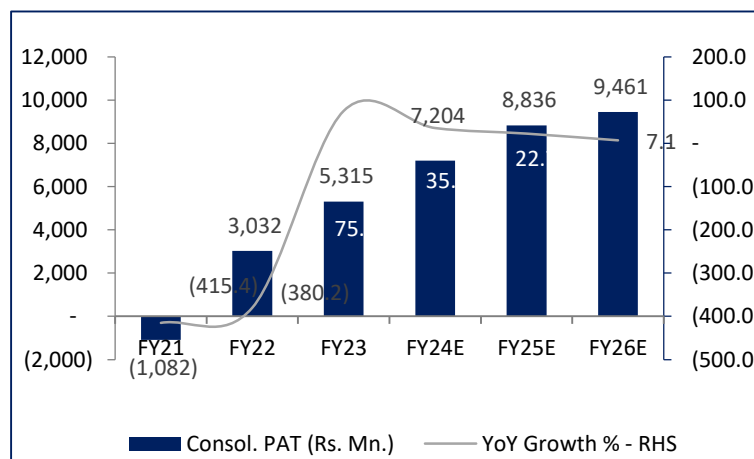
Source: Company, CEBPL

EBITDA (Rs mn) & Margin (%)



Source: Company, CEBPL

Adj. PAT (Rs mn) & YoY Growth (%)



Source: Company, CEBPL

## Income statement (Consolidated in INR Mn.)

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	40,301	57,176	62,976	70,979	82,179	86,664
Gross profit	30,542	43,604	48,429	54,562	63,103	66,549
EBITDA	4,044	10,690	11,013	14,104	16,135	16,908
Depreciation	2,906	3,008	3,157	3,485	3,675	3,752
EBIT	1,138	7,681	7,856	10,619	12,459	13,156
Interest expense	1,659	1,469	1,291	1,106	841	606
Other Income	466	273	617	400	400	225
EO Items	12	3,150	736	-	-	-
Profit from Associate	476	242	218	250	270	270
Minority Interest	536	2,348	443	418	380	323
Reported PAT	(1,098)	5,551	5,887	7,204	8,836	9,461
Adjusted PAT	(1,082)	3,032	5,315	7,204	8,836	9,461
EPS	(1.4)	4.0	7.0	9.5	11.7	12.5
NOPAT	(1,477)	6,143	6,111	7,964	9,344	9,867

## Balance sheet (Consolidated in INR Mn.)

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net worth	61,198	61,782	72,423	79,626	88,463	97,924
Minority Interest	5,980	8,300	8,581	9,000	9,380	9,703
Deferred tax	(815)	121	665	665	665	665
Total debt	15,306	12,549	9,257	7,757	6,257	4,757
Other liabilities & provisions	17,158	21,931	17,418	16,118	14,818	13,518
Total Net Worth & liabilities	98,827	1,04,684	1,08,343	1,13,166	1,19,582	1,26,566
Net Fixed Assets	87,991	94,157	94,264	97,779	1,00,059	98,707
Capital Work in progress	1,649	1,935	2,278	1,800	1,500	1,500
Investments	1,860	1,036	2,103	2,603	4,503	6,003
Cash & bank balance	4,166	4,127	3,627	5,066	5,179	10,033
Loans & Advances & other assets	5,999	6,712	9,622	8,385	9,585	10,785
Net Current Assets	1,327	844	76	2,599	3,936	9,572
Total Assets	98,827	1,04,684	1,08,343	1,13,166	1,19,582	1,26,566
Capital Employed	82,484	82,632	90,261	96,383	1,04,100	1,12,384
Invested Capital	78,318	78,505	86,634	91,317	98,920	1,02,350
Net Debt	11,140	8,422	5,630	2,691	1,078	(5,276)
FCFF	2,739	6,499	5,950	3,729	6,154	10,735

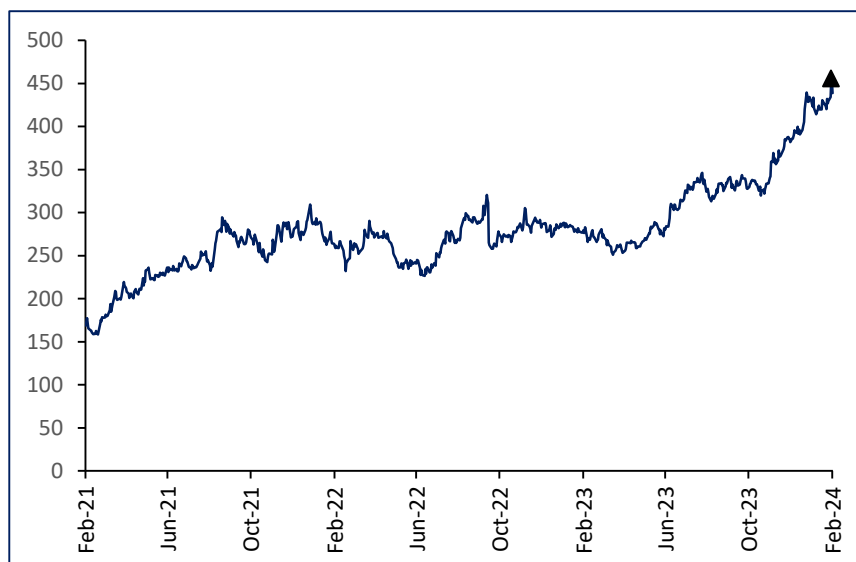
Source: Company, CEBPL

Particulars (Rs. In Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Cash flows from Operations	4,855	8,654	10,423	10,729	12,109	13,135
Capex	(2,115)	(2,155)	(4,472)	(7,000)	(5,955)	(2,400)
FCF	2,739	6,499	5,950	3,729	6,154	10,735
Cash flows from Investing	(1,351)	(5,143)	(3,737)	(7,500)	(7,855)	(3,900)
Cash flows from Financing	(1,429)	(5,173)	(4,712)	(2,606)	(2,341)	(2,106)

Ratio Analysis	FY21	FY22	FY23E	FY24E	FY25E	FY26E
<b>Growth Ratios</b>						
Revenue (%)	(13.0)	41.9	10.1	12.7	15.8	5.5
EBITDA (%)	(33.6)	164.3	3.0	28.1	14.4	4.8
PAT (%)	(415.4)	(380.2)	75.3	35.5	22.7	7.1
<b>Margin ratios</b>						
EBITDA margins (%)	10.0	18.7	17.5	19.9	19.6	19.5
PAT Margins (%)	(2.7)	5.3	8.4	10.1	10.8	10.9
<b>Performance ratios</b>						
OCF/EBITDA (X)	1.2	0.8	0.9	0.8	0.8	0.8
OCF/IC (%)	6.2	11.0	12.0	11.7	12.2	12.8
RoE %	(1.8)	4.9	7.3	9.0	10.0	9.7
ROCE %	1.4	9.3	8.7	11.0	12.0	11.7
RoIC(Post tax) %	(1.7)	7.8	7.8	9.2	10.2	10.0
ROIC(Pre tax) %	1.3	9.8	10.0	12.3	13.6	13.3
<b>Turnover Ratio (Days)</b>						
Inventory	7	8	8	9	9	9
Debtors	41	33	33	35	36	36
Payables	50	42	44	43	42	42
Cash Conversion Cycle	(26)	(21)	(23)	(13)	(6)	(2)
<b>Financial Stability ratios</b>						
Net debt to Equity (x)	0.2	0.1	0.1	0.0	0.0	(0.1)
Net debt to EBITDA (x)	2.8	0.8	0.5	0.2	0.1	(0.3)
Interest Cover (x)	0.7	5.2	6.1	9.6	14.8	21.7
<b>Valuation metrics</b>						
Fully diluted shares (mn)	755	755	755	755	755	755
Price (Rs)	438.65	438.65	438.65	438.65	438.65	0
Market Cap(Rs. Mn)	3,31,161	3,31,161	3,31,161	3,31,161	3,31,161	-
PE(x)	(306)	109	62	46	37	-
EV (Rs.mn)	3,36,321	3,31,283	3,28,210	3,24,852	3,22,859	-14,979
EV/EBITDA (x)	83	31	30	23	20	-1
Book value (Rs/share)	81	82	96	105	117	130
Price to BV (x)	5.4	5.4	4.6	4.2	3.7	-
EV/OCF (x)	69	38	31	30	27	-1

Source: Company, CEBPL

## Historical recommendations and target price: Fortis Healthcare



### Fortis Healthcare

1. 21-03-2022	OUTPERFORM,	Target Price Rs.312
2. 25-05-2023	ADD,	Target Price Rs.319
3. 08-08-2023	NEUTRAL,	Target Price Rs.333
4. 12-11-2023	NEUTRAL,	Target Price Rs.364
5. 08-02-2024	NEUTRAL,	Target Price Rs.445

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<b>OUTPERFORM</b>	The security is expected to generate more than 15% returns over the next 12 months
<b>ADD</b>	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
<b>NEUTRAL</b>	The security expected to show downside or upside returns by 5% over the next 12 months
<b>REDUCE</b>	The security expected to show less than -5% to greater than -15% over the next 12 months
<b>UNDERPERFORM</b>	The security is expected to generate returns in excess of -15% over the next 12 months

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