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Q1FY22 result review
and earnings revision

Pharmaceuticals

Target price Rs282

Earnings revision

(%)	FY22E	FY23E
Sales	3.3	3.0
EBITDA	6.4	5.9

Target price revision

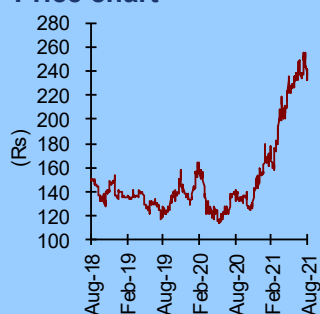
Rs282 from Rs268

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	31.2	31.2	31.2
Institutional investors	49.0	48.0	45.9
MFs and others	10.7	12.3	14.0
Banks, FI's	1.2	1.2	1.2
FII's	37.1	34.6	30.7
Others	19.8	20.8	22.9

Source: BSE India

Price chart



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INDIA

ICICI Securities

Fortis Healthcare

BUY
Maintained

Solid performance, turnaround in progress

Rs237

Fortis Healthcare (FHL) reported Q1FY22 performance better than estimates driven by business recovery across hospitals & diagnostics, continued focus on cost optimisation and incremental upside from covid-19 tests. We expect the performance improvement to continue in coming quarters and estimate strong growth in FY22E. Revenue grew 133% YoY to Rs14.1bn (I-Sec: Rs13.4bn) with hospitals growing 106% and SRL (diagnostics) growing 244%. EBITDA margin improved 370bps QoQ led by higher revenue driving operating leverage and cost control. Management has taken steps to reduce personnel and S,G&A costs and the benefits are visible from last few quarters. We remain positive on growth recovery, cost optimisation efforts and potential operating leverage outlook. Retain BUY with a revised target price of Rs282/share (earlier: Rs268/share).

- **Revenue recovery strong:** Revenue grew at 2-year CAGR of 11.3% with a growth of 5.0% in hospitals and 15.3% in ex-covid diagnostics during the quarter. This hospital business growth was primarily driven by increase in occupancy, though the ARPOB was lower due to higher covid-19 patients. The recovery has begun and we expect the occupancy to remain above 65% in coming quarters. Fortis will add 1,300 beds in existing hospitals over next few years which would add revenue growth. The diagnostic business growth was led by 26% contribution from covid-19 tests and strong recovery in non-covid tests (+33.3% QoQ). We estimate positive growth in non-covid diagnostics business to continue and expect a strong 60% growth in FY22E including acquisition of DDRC, Kerala.
- **Cost optimisation initiatives driving benefits:** EBITDA margin in Q1FY22 was at 19.5%, up 370bps QoQ mainly due to operating leverage from higher revenue and cost control. The company has taken various cost control measures to reduce personnel and S,G&A expenses and benefits are accruing. We believe the cost control measures along with gradual revenue growth recovery would help in improving EBITDA margin by 820bps over FY21-FY23E to 18.3%.
- **Outlook:** We raise revenue/EBITDA estimates by 3-4%/6-7% for FY22E-FY23E to factor in strong recovery in diagnostics and higher covid-19 tests revenue. We believe base business has normalised and estimate revenue and EBITDA CAGRs at 26.0% and 69.9% respectively over FY21-FY23E. Supreme Court judgement on the pending open offer by IHH is still awaited. Fortis is administering the approved vaccines currently at its hospitals which may drive further upside.
- **Valuations and risks:** We remain positive on the stock and maintain **BUY** considering healthy margin recovery and potential upside from vaccines. We raise our target price to Rs282/share based on EV/EBITDA of 20x hospital and 26x diagnostics business on FY23E EBITDA (earlier Rs268/share). Key downside risk: ongoing regulatory concerns with any adverse ruling in Supreme Court case and delay in margin recovery.

Market Cap	Rs179bn/US\$2.4bn
Reuters/Bloomberg	FOHE.BO/FORH IN
Shares Outstanding (mn)	755.0
52-week Range (Rs)	255/124
Free Float (%)	68.8
FII (%)	30.7
Daily Volume (USD/'000)	12,930
Absolute Return 3m (%)	2.5
Absolute Return 12m (%)	78.3
Sensex Return 3m (%)	14.6
Sensex Return 12m (%)	46.2

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	46,323	40,301	56,391	63,959
Net Income (Rs mn)	579	(1,098)	2,206	5,314
EPS (Rs)	1.1	(1.4)	2.9	7.0
% Chg YoY	128.5	(227.7)	(303.9)	140.8
P/E (x)	211.3	(165.4)	81.1	33.7
CEPS (Rs)	5.0	2.4	7.0	11.3
EV/E (x)	31.5	47.0	18.8	15.5
Dividend Yield (%)	-	-	-	-
RoCE (%)	2.4	(3.4)	3.2	5.9
RoE (%)	1.3	(1.7)	3.5	8.0

Table 1: Q1FY22 result review*(Rs mn, year ending March 31)*

	Q1FY22	Q1FY21	YoY % Chg	Q4FY21	QoQ % Chg
Net Sales	14,103	6,060	132.7	12,524	12.6
EBITDA	2,753	(1,033)	(366.5)	1,973	39.5
Other income	163	73	123.5	251	(34.8)
PBIDT	2,916	(960)	(403.8)	2,224	31.1
Depreciation	729	717	1.8	715	2.0
Interest	384	411	(6.5)	406	(5.4)
Extra ordinary income/ (exp.)	3,061	5		2	
PBT	4,864	(2,083)	(333.5)	1,104	340.7
Tax	558	(204)	(373.7)	480	16.2
Minority Interest	1,671	(90)	(1,964.5)	192	770.6
Reported PAT	2,636	(1,789)	(247.3)	432	510.5
Adjusted PAT	(75)	(1,793)	(95.8)	430	(117.4)
EBITDA margins (%)	19.5	(17.0)	3650bps	15.8	370bps

Source: Company data, I-Sec research

Table 2: Revenue mix*(Rs mn, year ending March 31)*

	Q1FY22	Q1FY21	YoY % Chg	Q4FY21	QoQ % Chg
Hospitals	10,063	4,883	106.1	9,822	2.5
SRL	4,040	1,175	243.8	2,702	49.5
Total	14,103	6,058	132.8	12,524	12.6

Source: Company data, I-Sec research

Valuations

We expect EBITDA to register a CAGR of 69.9% over FY21-FY23E driven by revenue CAGR of 26.0%. Margin would expand to 18.3% by FY23 from 10.0% in FY20. This would be driven by continuous growth in the hospital business, recovery in SRL, operating leverage and cost rationalisation.

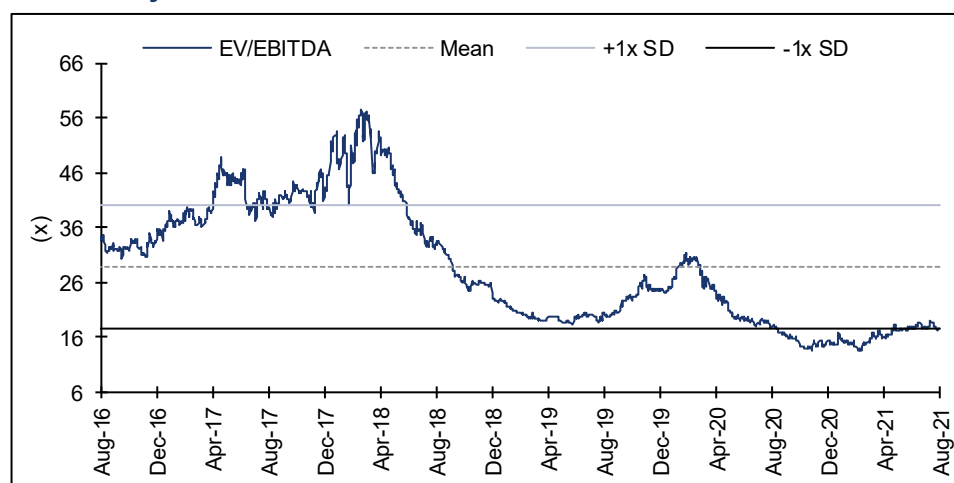
The stock currently trades at EV/EBITDA of 18.8x FY22E and 15.5x FY23E. We remain optimistic on the future outlook considering strong growth in the hospitals with increasing occupancy & ARPOB, inherent traction in the diagnostic industry for SRL and the cost control initiatives employed by the current management and additional upside from the vaccine opportunity. Maintain **BUY** with a revised target price of Rs282/share (earlier: Rs268/share) based on SoTP (EV/EBITDA of 20x hospital business and 26x SRL).

Table 3: Sum of the parts (SoTP) valuation

	FY23E EBITDA	(x)	Values (Rs mn)
Hospitals	7,901	20	158,802
SRL	3,767	26	55,726
EV			214,528
Less: Net debt			1,738
Implied Mkt Cap			212,790
Total value per share			282

Source: Company data, I-Sec research

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Summary financials (consolidated)

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Hospitals	37,535	31,239	41,893	48,425
SRL	8,788	9,062	14,498	15,533
Total Revenue	46,323	40,301	56,391	63,959
yoy Growth%	3.6	(13.0)	39.9	13.4
Total Op. Exp.	40,228	36,257	46,523	52,286
EBITDA	6,095	4,044	9,868	11,672
Margins %	13.2	10.0	17.5	18.3
YoY Growth%	161.1	(23.7)	74.4	4.3
Depreciation	2,917	2,906	3,054	3,237
EBIT	3,178	1,138	6,814	8,435
Other Income	648	941	466	466
Interest	2,051	1,659	1,381	1,081
Exceptional Items (net)	-402	12	0	0
PBT	1,374	433	5,899	7,820
Tax	459	995	1,487	1,971
Tax Rate (%)	33.4	229.8	25.2	25.2
Profit from associates	-	-	-	-
Minority Interest	336	536	2,207	536
Reported PAT	579	(1,098)	2,206	5,314
Adj PAT	847	(1,082)	2,206	5,314
Net Margins (%)	1.3	(2.7)	3.9	8.3

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	7,550	7,550	7,550	7,550
Reserves & Surplus	59,061	53,649	55,855	61,168
Total Equity	66,611	61,198	63,404	68,718
Minority Interest	5,445	5,980	8,187	8,722
Total Debt	15,943	15,306	12,306	9,306
Deferred Liabilities	(813)	(815)	(815)	(815)
Capital Employed	87,186	81,669	83,081	85,931
Current Liabilities	22,363	26,176	29,135	30,397
Total Liabilities	109,549	107,845	112,217	116,328
Net Fixed Assets	90,061	89,640	90,586	91,349
Investments	1,745	1,860	1,614	1,614
Inventory	782	768	1,074	1,218
Debtors	4,588	3,899	5,456	6,188
Other Current Assets	9,714	7,512	8,111	8,392
Cash and Equivalents	2,660	4,166	5,377	7,568
Total Cur. Assets	19,488	18,205	21,631	24,979
Total Assets	109,549	107,845	112,217	116,328

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	1,374	433	5,899	7,820
Depreciation	2,917	2,906	3,054	3,237
Net Chg in WC	(1,255)	16	178	(46)
Taxes	(3,395)	475	(1,487)	(1,971)
Others	23	(633)	319	150
CFO	(335)	3,196	7,964	9,191
Capex	(627)	(2,126)	(4,000)	(4,000)
Net Investments made	868	80	247	-
Others	363	694	-	-
CFI	604	(1,351)	(3,753)	(4,000)
Change in Share capital	0	-	-	-
Change in Debts	(6,568)	257	(3,000)	(3,000)
Div. & Div Tax	-	-	-	-
Others	400	(596)	-	-
CFF	(6,168)	(339)	(3,000)	(3,000)
Total Cash Generated	(5,899)	1,506	1,211	2,191
Cash Opening Balance	8,559	2,660	4,166	5,377
Cash Closing Balance	2,660	4,166	5,377	7,568

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	1.1	(1.4)	2.9	7.0
YoY Growth%	128.5	(227.7)	(303.9)	140.8
Cash EPS	5.0	2.4	7.0	11.3
EBITDA - Core (%)	13.2	10.0	17.5	18.3
NPM (%)	1.3	(2.7)	3.9	8.3
Net Debt to Equity (x)	0.2	0.2	0.1	0.0
P/E (x)	211.3	(165.4)	81.1	33.7
EV/EBITDA Core (x)	31.5	47.0	18.8	15.5
P/BV (x)	2.7	2.9	2.8	2.6
EV/Sales (x)	4.1	4.7	3.3	2.8
RoCE (%)	2.4	(3.4)	3.2	5.9
RoE (%)	1.3	(1.7)	3.5	8.0
RoIC (%)	2.3	(2.9)	3.0	5.8
Book Value (Rs)	88.2	81.1	84.0	91.0
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
Asset Turnover Ratio	0.4	0.4	0.5	0.6
Avg Collection days	5	7	6	7
Avg Inventory days	53	52	42	45

Source: Company data, I-Sec research

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