

Fortis Healthcare Ltd

Sensex: 532843

CMP: INR 168

Target Price: INR 215



Healthcare

Fortis Healthcare Limited delivered a strong quarterly performance with all round improvement in hospital and diagnostic business. Hospital business occupancy reached 64% during the quarter vs 57% in Q2 FY21 due to improvement in non-covid occupancy and patient returning to elective surgery. ARPOB/ALOS has improved sequentially from 1.49cr/3.86days to 1.58cr/3.81days. Diagnostic business has seen steady improvement with covid related tests revenue fell to 24% during the quarter. Diagnostic business conducted 6.67mn tests during the quarter vs 5.92mn tests in Q2FY21. Diagnostic business reported highest ever revenue and EBITDA during the quarter. We maintain buy recommendation on Fortis Healthcare with a target price of INR 215, valuing hospital business at 18x of FY23 EV/EBITDA and diagnostic business at 35x of FY23 EV/EBITDA.

Hospital business recovered well post Covid

Hospital revenue has improved as Covid infection has come down, with vaccine rolled out since mid-january business is expected to improve further. Hospital occupancy saw a steady improvement with encouraging increase in non-covid occupancy partly offset by reduction in Covid related occupancy. Overall occupancy improved to 64% (57% in Q2FY20), Non-Covid occupancy was at 46% in Q3 vs 38% in Q2 FY21. Patients returning for elective surgery treatments have led surgical volumes growth reflecting normalization; elective surgery revenues have grown 33% QoQ. ARPOB/ALOS has improved sequentially from 1.49cr / 3.86days to 1.58cr / 3.81days. Medical tourism revenue contributed 5.0% to total revenues as compared to 1.3% in Q2FY21 and 10.7% in Q3FY20. We have upgraded our forecast for revenue growth and EBITDA margin, leading to EBITDA of INR 7,393mn in FY23.

Diagnostic business continue to post strong growth

Diagnostic business has seen steady improvement, though Covid related tests revenue fell during the quarter. B2B and B2C, both segment reported strong growth during the quarter, while home collection revenue surged 141% YoY. Diagnostic business conducted 6.67mn tests during the quarter vs 7.45mntests in 3QFY20 and 5.92mn tests in Q2FY21. Covid test volumes i.e. RT-PCR tests for the quarter were 8.38 lakh versus 5.17 lakh (including JVs) in Q2FY21. The business continues to focus on improving the B2C:B2B revenue mix and executing on its channel and product strategy in order to further accelerate business momentum.

Sector tailwind will continue to support Fortis

Healthcare spend has strong tailwind to grow at 14-15% annually due to increase in spending power and rising lifestyles related diseases. India availability of doctor/bed is significantly lower to WHO benchmark. India healthcare spend at 3.6% of GDP way behind OECD developed and emerging economies. Diagnostic business is ripe for strong decadal growth as spend on preventive tests increases, organized players will gain market share. Diagnostics accounts for ~5% of the total health system cost, but it influences 95% of the remaining costs. 70% of the medical decision on treatment as based on lab based results, ensuring sustainable growth for diagnostic industry.

Valuation and Outlook

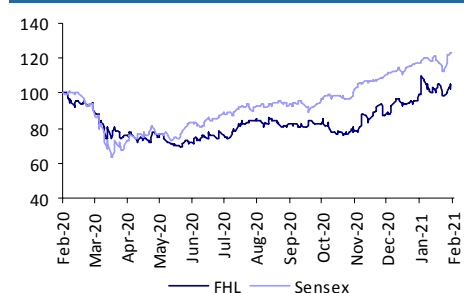
We have upgraded our valuation for hospital business to 18x of FY23 EV/EBITDA (Valued INR 162/share), due to linear business recovery post Covid, factoring in assets heavy nature of business. Diagnostic business continue to be valued at 35x FY23 EV/EBITDA (valued INR 51/share), is an asset light business with opportunity to market share gain and rising spending from customers. We have also considered 20% hold co discount in SRL, keeping in view of separate minority interest at the operating entity. We maintain BUY recommendation on with a target price of 215 (earlier TP 200).

Key Risks

Key Risks include government interfering with price charged by private hospital on critical medical treatment. Earlier, government has asked hospitals to lower prices for stent and knee transplant. Any untoward outcome from Supreme Court on IHH investment in Fortis poses key risks to our recommendation.

Shareholding (%)	Dec-20
Promoters	31.17
FIIS	36.83
DII	12.19
Others	19.81

Relative Price Performance



Key Data	
BSE Code	532843
NSE Symbol	FORTIS
Bloomberg Code	FORH:IN
Reuters Code	FOHE.NS
Shares Outstanding (mn)	755
Face Value	10.0
Mcap (INR bn)	126
52 Week H/L	182/113
30day Avg. Vol, NSE	3.15mn

(INR mn)	FY20	FY21E	FY22E	FY23E
Revenue	46,310	39,538	49,716	55,306
EBITDA	6,372	4,327	7,938	9,808
EBITDA margin (%)	14%	11%	16%	18%
EBITDA growth (%)	108%	-32%	83%	24%
EBIT	3,455	812	4,396	6,171
PAT	514	-252	2,419	3,865
Attributable PAT	178	-779	1,821	3,189
EPS (INR)	0.24	-1.03	2.41	4.22
P/E (x)	709	-162	69	40
EV/EBITDA	21.2	31.2	17.0	13.8
BVPS (INR)	88.2	87.2	89.6	93.8
P/B (x)	1.90	1.92	1.87	1.79
RoCE (%)	4%	1%	5%	7%



Quarterly performance

	3Q FY21	2Q FY21	3Q FY20	% Chg QoQ	% Chg YoY
Operational Update					
Hospital occupancy	64%	57%	68%		
Hospital ARPOB	1.58	1.49	1.62	6%	-2%
Tests - diagnostic	6.70	5.94	7.45	13%	-10%
Hospital Revenue	907	746	954	22%	-5%
Diagnostic Revenue	270	248	215	9%	26%
Operating Revenue	1,177	995	1,168	18%	1%
EBITDA	200.6	145.6	161.9	38%	24%
EBITDA Margin (%)	17.0%	14.6%	13.9%		
Depreciation & Amortisation	73	74	70	-2%	5%
EBIT	128	71	92	79%	39%
EBIT Margin (%)	11%	7%	8%	51%	38%
Net Interest expense	31.8	16.4	43.1	94%	-26%
Share of JV/Associates	17.7	8.2	4.2	116%	321%
PBT	103.1	38	48.1	171%	114%
Tax	49.3	22.6	117.5	118%	-58%
PAT	53.9	15.5	-69.3	248%	178%
Attributable PAT	29.9	15.5	-69.3	93%	143%

Change in EPS forecast:

We have increased our forecast by ~18% for FY22/FY23 due to strong recovery as infection has come down significantly and vaccine roll out will lead to normalization faster.



Financials

Income Statement

Y/E (INR mn)	FY20	FY21E	FY22E	FY23E
Operating Revenue	46,310	39,538	49,716	55,306
Operating Expense	39,938	35,211	41,778	45,498
EBITDA	6,372	4,327	7,938	9,808
EBITDA margin (%)	14%	11%	16%	18%
Depreciation & Amortization	2,917	3,514	3,542	3,637
EBIT	3,455	812	4,396	6,171
EBIT margin (%)	7%	2%	9%	11%
Net Interest expense	1,462	1,149	1,163	1,006
PBT	1,993	-337	3,233	5,165
Tax	1,479	-85	814	1,300
PAT	514	-252	2,419	3,865
Attributable PAT	178	-779	1,821	3,189

Key Ratios

Y/E	FY20	FY21E	FY22E	FY23E
EPS	0.24	-1.03	2.41	4.22
DPS	0.0	0.0	0.0	0.0
BVPS	88.2	87.2	89.6	93.8
RoCE	4%	1%	5%	7%
RoE	1%	0%	3%	5%
Net Debt/Equity	0.12	0.13	0.12	0.09
Net Working Capital Days	-5	-4	-4	-4
P/E(x)	709.2	-162.3	69.5	39.7
P/BV(x)	1.90	1.92	1.87	1.79
EV/EBITDA	21.22	31.25	17.03	13.79

Balance Sheet

Y/E (INR mn)	FY20	FY21E	FY22E	FY23E
Fixed Assets	39,222	39,516	40,584	42,370
WIP	1,888	1,982	2,082	2,186
Right to use	10,983	11,080	11,372	11,844
Goodwill	37,208	37,208	37,208	37,208
Intangible Assets	760	760	760	760
JV & Associates	1,745	1,745	1,745	1,745
Interest Earning Assets	4,452	4,316	4,334	4,421
Other Non Current Assets	11,123	11,123	11,123	11,123
Inventory	782	706	734	863
Trade Receivables	4,588	4,704	4,891	5,755
Other Current Assets	727	727	727	727
Total Assets	1,13,477	1,13,867	1,15,558	1,19,001
Shareholder Fund	66,611	65,831	67,652	70,841
Minority Interest	5,445	5,972	6,571	7,247
Borrowing	13,166	13,904	12,943	11,440
Lease Liabilities	2,403	2,403	2,403	2,403
Trade Payables	5,976	5,880	6,113	7,193
Other Non current Liabilities	3,968	3,968	3,968	3,968
Other current Liabilities	15,909	15,909	15,909	15,909
Total Liabilities	1,13,478	1,13,867	1,15,559	1,19,002

Cash Flow

Y/E	FY20	FY21E	FY22E	FY23E
PAT	514	-252	2,419	3,865
Net Interest Expense	1,462	1,149	1,163	1,006
Depreciation & Amortization	2,917	3,514	3,542	3,637
Change in Working Capital	-1,255	136	-19	-86
CFO	1,715	4,275	7,143	8,594
Capex	1,366	4,000	5,000	6,000
Net Interest exp	1,462	1,149	1,163	1,006
Other Changes (balancing fig)	-2,224			
Change in Net investment	604	-5,149	-6,163	-7,006
Closing Net debt	8,714	9,588	8,608	7,020
FCFF	2,320	-874	980	1,588



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