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Stock Update

Fortis Healthcare Ltd.

30-Aug-2021



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare Facilities	Rs. 294.5	Buy in the Rs 283-284 band and add on dips to Rs 256-257 band	Rs. 307	Rs. 330	2 quarters

HDFC Scrip Code	FORHEAEQNR
BSE Code	532843
NSE Code	FORTIS
Bloomberg	FORH IN
CMP Aug 27, 2021	294.5
Equity Capital (Rs cr)	754.9
Face Value (Rs)	10.0
Equity Share O/S (cr)	75.5
Market Cap (Rs cr)	22234
Book Value (Rs)	81.1
Avg. 52 Wk Volumes	3755391
52 Week High	296.9
52 Week Low	123.2

Share holding Pattern % (June 2021)	
Promoters	31.2
Institutions	45.9
Non Institutions	22.9
Total	100.0

Retail Research Risk Rating:

	Blue*	
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* Refer at the end for explanation on Risk Ratings

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Our Take:

Fortis Healthcare Limited (FHL) – an IHH Healthcare Berhad company – is a leading integrated healthcare services provider with 27 healthcare facilities, 4100 operational beds (including O&M model) and over 425 network diagnostic centres. FHL has a long and established track record having favourable hospital maturity mix profile with large network of healthcare facilities. It has presence across various healthcare verticals, including secondary, tertiary care and diagnostics. Fortis Healthcare is well positioned to capitalise on the positive outlook for healthcare services - better affordability, widening medical insurance coverage, growing healthcare awareness and government boost. With its corporate governance issues behind it, the association of FHL with IHH has provided an opportunity to gain from international experience and world class standards in patient care. Fortis Healthcare, under the new management undertook a comprehensive strategic review and prioritized key areas that would drive revenues and operational performance.

The ongoing litigation at the Hon'ble Supreme Court has delayed the ability of the company to carry out the planned expansion activities to some extent. Any positive update in the legal proceedings would further strengthen its operational performance and financial position.

On June 07, 2021, we had issued initiating coverage report on [Fortis Healthcare Ltd](#) with buy at LTP (Rs 226.95) and add on dips to Rs 199-200 band for base case target of Rs 249 and bull case target of Rs 271. The stock hit a high of Rs 274.4 on Aug 3 and our bull case target was achieved. On account of its higher revenue growth and improved margin profile in Q1FY22 results, we are revising the target upwards.

Valuation & Recommendation:

Hospital business is well positioned and has demonstrated healthy operational efficiency. Sustained focus on cost optimisation and brownfield expansion remains the key trigger. Management's focus of achieving best-in class occupancy of 73-75% levels by turning around the lagging facilities, upgrading existing infrastructure and strengthening its presence in other key specialties would support better margin for its hospital business. On the diagnostics side, increased specialty test mix and focused B2C penetration, improved home collection services and calibrated expansion of collection centers are likely to set SRL on decent growth trajectory. **We believe the base case fair value of the stock is Rs 307 (46x FY23E EPS, 19x FY23E EV/EBITDA) and the bull case fair value of the stock is Rs 330 (49.5x FY23E EPS, 20.3x FY23E EV/EBITDA) over the next two quarters. Investors can buy the stock in the band of Rs 283-284 (42.5x FY23E EPS,**

17.5x FY23E EV/EBITDA) and add on dips to Rs 256-257 band (38.5x FY23E EPS, 15.7x FY23E EV/EBITDA). At LTP of Rs 294.5, the stock is trading at 44.3x FY23E EPS, 18.1x FY23E EV/EBITDA.

Financial Summary (Consolidated):

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	1,410.3	606.0	132.7	1,252.4	12.6	4,469.4	4,632.3	4,030.1	5,842.0	6,390.5
EBITDA	275.3	-103.3	-366.5	197.3	39.5	225.2	609.5	404.4	1,063.2	1,195.0
Depreciation	72.9	71.7	1.8	71.5	2.0	232.9	291.7	290.6	304.1	324.1
Other Income	7.8	4.5	76.2	6.3	23.7	92.4	52.6	46.6	58.4	63.9
Interest Cost	38.4	41.1	-6.5	40.6	-5.4	336.8	205.1	165.9	160.6	140.1
Tax	55.8	-20.4	-373.7	48.0	16.2	113.6	147.9	99.5	165.6	200.3
PAT	430.6	-187.9	-329.2	62.4	590.5	-365.7	17.5	-104.9	491.4	594.5
Adjusted PAT	263.6	-178.9	-247.3	43.2	510.5	-298.9	57.9	-109.8	557.9	502.4
EPS (Rs)	3.5	-2.4	-247.3	0.6	510.3	-4.9	0.8	-1.5	7.4	6.7
RoE-%						-5.6	0.9	-1.7	8.7	7.3
P/E (x)						-60.0	382.5	-202.6	39.9	44.3
EV/EBITDA (x)						103.4	38.6	57.4	21.7	18.9

(Source: Company, HDFC sec)

Q1FY22 Result Review:

Fortis Healthcare Ltd reported robust revenue of Rs 1410.3cr (up 132.7%/12.6% YoY/QoQ) mainly driven by covid revenue and healthy performance of diagnostic business due to consolidation of SRL DDRC JV on acquisition of remaining 50% stake. The company reported healthy EBITDA margin of 19.5% as against 15.8% in Q4FY21 on the back of improved performance in diagnostic segment. EBITDA stood at Rs 275.3cr vs Rs 197.3cr in the previous quarter. PBT (before exceptional items) stood at Rs 171.8cr as against Rs 91.5cr in Q4FY21. During the quarter, the company reported an exceptional gain of Rs 306.1cr related to remeasurement of the previously held equity interest of SRL in the SRL-DDRC JV at its fair value post-acquisition of the balance 50% stake in the said JV in April 2021. PAT came in at Rs 430.6cr.

Hospital business posted a revenue of Rs 1006.3cr (up 106.1%/2.5% YoY/ QoQ), while diagnostic business recorded revenues of Rs 441.4cr (up 214.4%/44.4% YoY/QoQ). Hospital business reported EBITDA of Rs 149.6cr as against a loss of Rs 85cr in Q1FY1, while it was Rs



139.4cr in the previous quarter (14.9% margin in Q1FY22 versus 14.2% in Q4FY21). Diagnostic business reported EBITDA of Rs 134.9cr as against a loss of Rs 10.6cr in Q1FY1, while it was Rs 67.2cr in Q4FY21 (30.6% margin in Q1FY22 vs 22% in Q4FY21).

Hospital business recorded decent revenue due to significant rise in contribution from covid business and steady oncology business. Overall occupancy for the quarter stood at 65% as compared to 37% in Q1FY21 and 64% in Q4FY21. Covid occupancy stood at 27% in the quarter, non-covid occupancy was 39%. Non-covid occupancy improved from 30% in May to 47% in June 2021. While occupancy remained similar in Q1FY22 vs Q4FY21, select hospitals such as Shalimar Bagh, Jaipur, Anandpur, Road, FMRI and Vashi witnessed an increase in occupancy versus Q4FY21. Most hospitals reached pre-covid level revenues in Q4FY21 however growth in Q1FY22 over trailing quarter was impacted due to second wave of covid in April & May. Average revenue per occupied bed (ARPOB) for the quarter stood at Rs 1.62cr vs Rs 1.51cr in the corresponding quarter last year and Rs 1.70cr in Q4FY21. Higher contribution from low ARPOB Covid business impacted the overall ARPOB. Non-covid ARPOB was at Rs 1.97cr up 8.5% QoQ.

SRL recorded highest ever quarterly revenues of Rs 441cr with margins at 30.6%. The increase in revenue and margin is partly attributable to consolidation of the SRL DDRC JV and the huge demand for covid and covid allied tests as a result of the second wave of the pandemic. Covid revenue contribution to overall diagnostics revenues stood at 26% in Q1FY22 vs 17% in Q4FY21. SRL added 3 new labs and 108 new collection centers taking the total number of customer touch points to 2,354 as on June 30, 2021. It conducted a total of ~10.6 million tests (covid and non-covid) in Q1FY22 versus 7.6 million tests in Q4FY21 and 3.3 million tests in Q1FY21. Average realisation per test remained broadly unchanged at Rs 414 as against Rs 418 in Q1FY21 (Rs 400 in Q4FY21). Home collection visits increased by 6.7x vs Q1FY21, contributing 12% of total B2C revenues in Q1FY22. SRL completed its acquisition of the 50% stake in the DDRC SRL JV consolidating its leadership position in the Kerala market. With this acquisition SRL's B2C: B2B revenue mix significantly strengthened to 54:46 in the quarter (Q4FY21 at 45:55).

Concall Highlights:

Hospital Business

- Occupancy in July dipped to 61% because of decline in covid share. This will go up further as non-covid work returns and is expected to stabilise at 65% over next couple of months. The management is targeting 75% as optimal occupancy level in next three quarters.
- Plans to add around 1300 beds in the next 2-4 years; all of which are brownfield expansion; in adjusting premises and majority in Delhi NCR region which are operating at 70% occupancy. Apart from that, bed additions would be in couple of other units in Mumbai



and Kolkata, where building are near completion. Bed Additions - FMRI (Gurgaon) - 50 beds; Noida 160 beds; Mulund 80 beds; Anandpur (Kolkata) 90 beds.

- Investments in equipment mainly on onco specialty. Adding newer technology within this year. Looking to develop FMRI as a destination oncology center. To add cellular therapies and advanced radiation therapies.
- As there were a lot of uncertainties in the last one and half years, there were no pricing levers used at all. There would be some pricing initiatives.
- Non-covid ARPOB growing at 8.5% to Rs 1.97cr from last quarter. Ex-covid expect ARPOB to be at ~Rs 1.9cr.
- Focus on improving payor mix; increase cash and TPA business. Limit scheme business share to 15-17%.

SRL (Diagnostic Business)

- SRL is on a firm footing. There are no plans of divesting SRL and it continues to be a strategic holding for Fortis.
- Covid contribution to come down to 14-15% of revenues. Expect sustainable margin at around 22-24%. Next couple of years would target to reach 25-30% margin levels.
- DDRC gross revenues were Rs 69cr (40% revenues from covid). Without DDRC revenues, SRL has seen growth of 21% YoY.
- Home collection revenue was at Rs 30cr in Q1FY22. It conducted 2.35 lakhs home visits and is providing home collection services across 140 cities.
- Launched 3 labs and added 108 new collection centres to its network in Q1FY22.

Other key highlights

- Litigation - Hearings have been concluded. Courts reopened in the month of July after summer break and the order is expected by August end/September.
- Maintenance capex of Rs 150cr. It is slightly on higher side because the company was not able to spend much prior to 2019, there is a lot of accumulated maintenance capex. Growth capex Rs 200cr every year.
- Total revenue from vaccines was Rs 45cr. Demand has come down in private sector and there are a lot of problems in terms of supply of vaccines. It may not be a significant number going forward both in terms of topline or bottomline.
- Net debt to EBITDA was at 0.90x vs 1.04x in Q4FY21.

Recent Triggers:

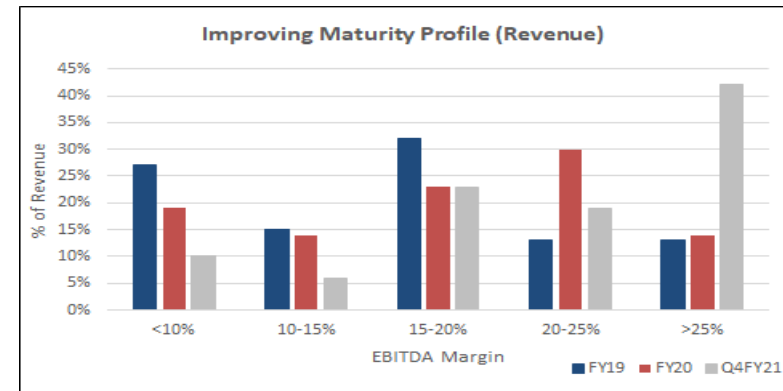
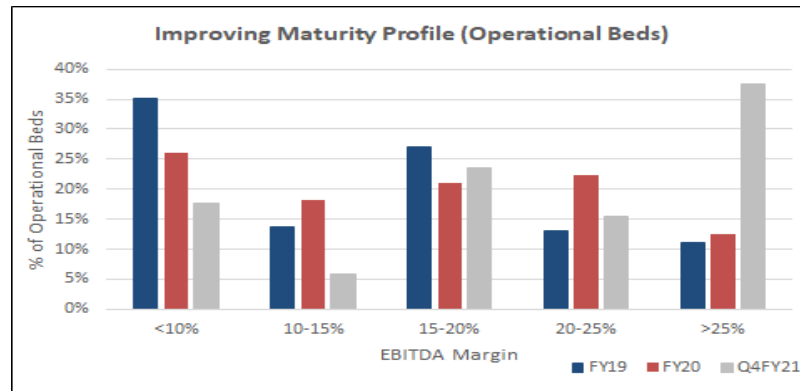
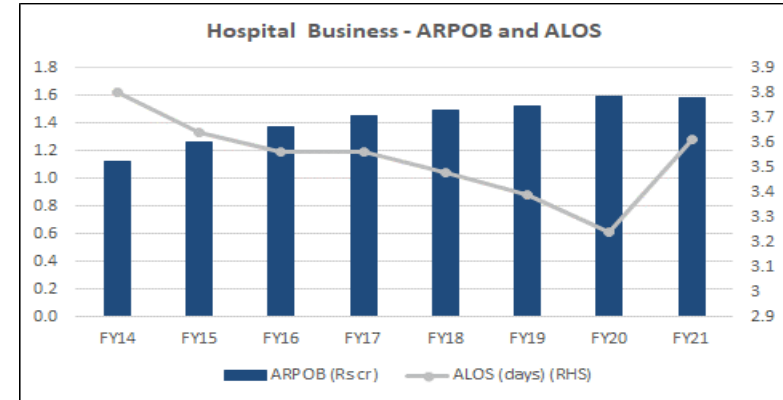
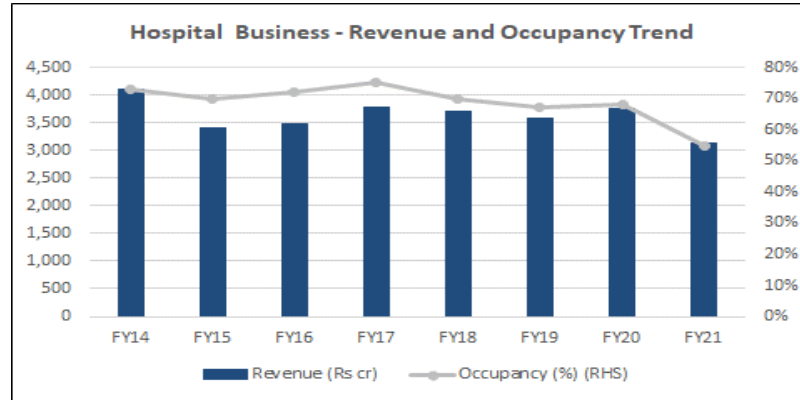
Well positioned Hospital Business – Brownfield expansion, focus on other key specialties by enhancing talent base, improving maturity mix and medical tourism:

Fortis' Hospital business is well positioned and has demonstrated healthy operational efficiency with industry leading ARPOB and capacity utilisation. The company undertook a comprehensive strategic review and prioritized key areas to drive revenues and operational performance. These include aspects related to evaluating the current portfolio of the company's facilities and planned bed expansion, initiating cost optimisation measures across the network, investing in technology and medical equipment and further strengthening its clinical excellence program. The focus is on increasing the profitability of the business which led to consolidation of its geographical presence by investing in, transforming and scaling up high potential units and evaluating the divestments of low potential units. In FY20, the company made exits in certain non-core facilities in Bikaner, Udaipur, Aashlok and Mauritius hospital.

As the business returns to normalisation, the management's focus would be on re-gaining lost business due to the pandemic in two major specialties – Cardiac Sciences and Orthopedics – and at the same time continue to invest in and build strong talent in high growth specialties such as Oncology, Neurosciences, Gastro Sciences and Renal to improve margins. The company is in the process of augmenting its medical infrastructure across select facilities such as Cath labs in Noida and FMRI, high end neuro-sciences equipment in Jaipur, a bone marrow transplant unit in Noida and pressure swing adsorption oxygen generating plants across 8 facilities. It strengthened its clinical talent base with the on-boarding of eminent clinicians in the areas of Orthopedics, Oncology, Pulmonology, Anesthesia and Non-Invasive cardiology.

Furthermore, the company plans to commission over 1,300 new beds over the next 3 to 4 years in existing facilities to leverage economies of scale – majority of bed additions are planned in Noida, BG Road, Anandapur, Mulund, Shalimar Bagh, FMRI, Mohali and Arcot Road. As the bed additions would largely be brownfield expansion in the existing facilities, it would allow faster operationalization of beds and relatively lower start-up costs as compared to greenfield beds. Fortis has embarked on an expansion journey along with turning around the lagging facilities, which are low-occupancy and low-EBITDA.

Improving maturity mix would be key growth lever for its hospital business. Many hospitals showed higher margins in Q4FY21 compared to FY20 due to various cost optimisation measures by the management. Recovery in international patient flows, which picked-up momentum in Q4FY21, would further support higher occupancy levels. Higher international business is a positive due to better margin realisation. Digital initiatives have enabled to further increase its patient footfalls.

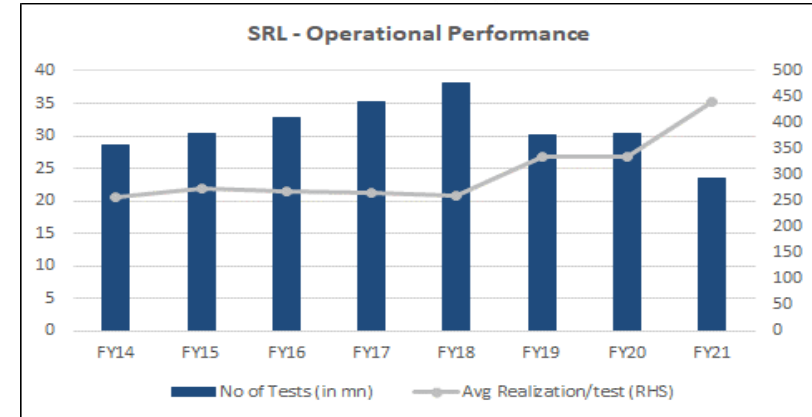
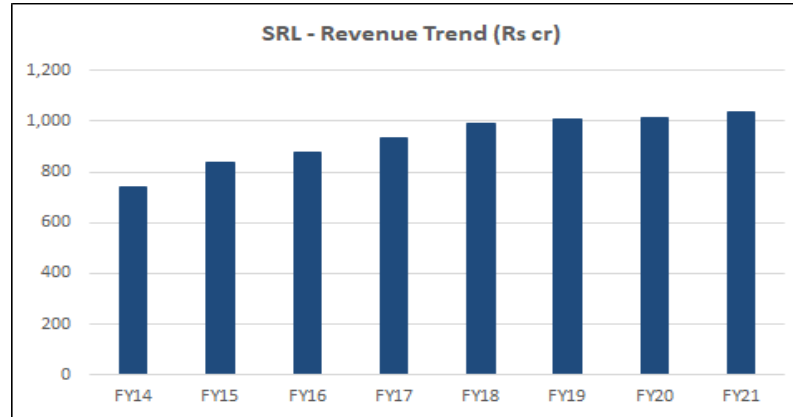


(Source: Company, HDFC sec)

Diagnostic Business - Strong footprint and industry tailwinds:

SRL (diagnostics business) has a presence in over 600 cities and towns, with an established strength of over 425 laboratories, 20+ radiology / imaging centers; 48+ Accreditations (NABL/NABH/CAP) and a footprint spanning 2250+ customer touch points providing a

wide bandwidth and reach. Continuing to leverage the B2C model, SRL has added 498 customer touch points (in FY21) across key urban and semi-urban cities of India with focused action on building presence in all tier cities.



(Source: Company, HDFC sec)

SRL completed the acquisition of the 50% stake in the DDRC SRL JV consolidating its leadership position in the Kerala market and consolidated its position as the second largest diagnostic chain (in terms of revenue). Earlier, its geographic share from South India was low but with this acquisition, it has considerably improved its market share in South India and has become a true pan-India player with equitable distribution across all geographies. It further complements its strategy of growing the B2C business segment and expanding the product portfolio comprising lifestyle diseases tests, specialised tests and preventive packages. With the acquisition of SRL DDRC JV, its B2C:B2B revenue mix has significantly strengthened to 54:46 in Q1FY22 (Q4FY21 at 45:55).

Increased specialty test mix and focused B2C penetration, improved home collection services and expansion of collection centers are likely to set SRL on growth path. In order to optimally utilize its collection center (CC) and lab infrastructure, SRL has significantly improved its collection center (CC) to lab ratio which stands at 10.8 CCs per lab (in Q1FY22) versus 8.6 over a year ago. SRL scaled up its home collection services to serve more and more patients through the Home visit model. SRL offers home collection service in 90 cities/ districts.



Calibrated network expansion in both B2B & B2C segment coupled with tailoring product portfolio towards value accretive specialised test is likely to improve topline growth, better than industry growth. Faster shift of unorganized business to organized players, potential consolidation, likely increase in preventive check-ups and sizeable scale would benefit the large organized players having strong balance sheet.

Digital Transformation Initiatives:

Healthcare delivery is expected to witness a significant transition going forward with an emphasis on technology, digitisation and information systems. Virtual consultations by healthcare professionals could become the mainstream care delivery model post-pandemic. Home healthcare services have picked up during the last one year and expected to continue to gain traction given the current environment. In the diagnostics space, preventive care and the wellbeing testing segment is expected to grow at a higher pace compared to the industry growth rate. Integrated health tracking mobile applications, government initiatives, and online services such as booking appointment online for preventive healthcare check-ups, obtaining reports online, home collection of samples will further augment future growth in this industry.

In FY21, the company achieved some key milestones in its journey to become a digital-first organisation. Its telemedicine and video-based consults increased rapidly across the Fortis network amidst the pandemic, touching a peak of 15% of total consults – one of the highest across the country. It successfully rolled out its in-house, customised HIS platform, OneFortis, enabling a seamless experience for patients, employees, vendors, and other stakeholders across the network. The MyFortis platform customer lifecycle management will be fully integrated with other Fortis digital systems in the coming months. Digital initiatives have enabled the company to further increase its patient footfalls. Tele/ video consultations increased 3x in Q1FY22 over Q4FY21 with Fortis facilities conducting over 50,000 tele/video consults in the quarter. Revenues from digital channels such as websites, My Fortis app and online campaigns increased 2.5x over the corresponding previous quarter.

COVID-19 has demonstrated how important it is to have access to fast, reliable tests. Technology-led diagnostics, home collection, on-line reports and the like shall play a critical role to improve customer experience. There is also a requirement to adopt a more analytical approach towards gathering health data to monitor public health and establish trends which can be made possible through digital means and advanced technologies like machine learning and Artificial Intelligence (AI). SRL diagnostics also developed its technological infrastructure to handle the surge in testing, specifically with respect to home collection. Technology such as AI tools, data analytics, and



ChatBots were leveraged to improve customer experience and ensure the safety of those conducting the tests. The company recorded more people booking tests online for home visits. In the last quarter, it saw acceleration in the number of consumers signing up for the mobile app. Roughly 3.3 million patients have an SRL Diagnostics mobile app.

Long term Triggers:

Strong market position in Hospital & Diagnostic Business: Fortis is India's leading integrated healthcare service provider having pan India presence of 27 hospitals (including 4 network hospitals), ~4100 operational beds. Fortis is a well-known brand in the Indian healthcare space and has diversified presence across multiple healthcare verticals, such as secondary care, tertiary care, quaternary care, and diagnostics. Wide distribution of specialty treatment at hospital ensures proper diversification of revenue stream of hospitals. SRL has established a strong brand in both retail and B2B diagnostics, has a presence in over 600 cities and towns, with an established strength of over 425 laboratories, 20+ radiology / imaging centers; 48+ Accreditations (NABL/NABH/CAP) and a footprint spanning 2250+ customer touch points. SRL customer base is wide across country diversifying business from any kind of regional risk (especially after DDRC acquisition).

Established track record of the new promoter: IHH Healthcare Berhad (IHH) acquired ~31% stake in Fortis Group, has been classified as the promoter of Fortis Group. IHH Healthcare Berhad is a leading premium healthcare provider operating in the home markets of Malaysia, Singapore, Turkey and India. The group's portfolio comprises of premium-brand healthcare assets, collectively representing a unique multi-market investment position in the healthcare sector. 'Mount Elizabeth', 'Gleneagles', 'Pantai', 'Parkway', 'Acibadem' brands are among its most prestigious brands in Asia and Central and Eastern Europe. The association with IHH has provided an opportunity to gain from international experience and world class standards in patient care.

Company's Transformational Journey - Under new Promotor and Board: The strategic partnership of IHH Healthcare Berhad, one of the largest healthcare groups, has spurred a major transformational journey for the company. It has overseen the successful 'RHT Health Trust' buyback and has helped put in place a new management with vast industry experience. Fortis Healthcare under the new management undertook a comprehensive strategic review and prioritized key areas that would drive revenues and operational performance. These include evaluating the current portfolio of facilities and planned bed expansion, initiating cost optimization measures across the network, investing in technology and medical equipment and further strengthening its clinical excellence program. To optimize costs, third party contracts have been renegotiated, new doctor patient engagement models were tested and adopted, and higher output

was sought from the diagnostic arm of the business. With the view of sustaining profitability, the company rationalized its investments in network hospitals and made an exit from a few. The company re-ignited its capital expenditure program which was at a standstill due to liquidity constraints in the previous years. The company over the next 3-4 years plans to expand its capacity by commissioning 1,300 new beds in existing facilities to leverage economies of scale.

Quarterly Trend:

Hospital Business	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue (Rs cr)	893.9	967.4	913.1	972.5	954.3	913.4	488.3	746.4	906.8	982.1	1006.3
EBITDA (Rs cr)	99.7	92.1	92.1	122.9	125.3	101.9	-87.0	62.6	132.2	135.4	143.4
EBITDA Margin (%)	11.2%	9.5%	10.1%	12.6%	13.1%	11.2%	-17.8%	8.4%	14.6%	13.8%	14.3%
Occupancy-%	68%	68%	66%	72%	68%	65%	37%	57%	64%	64%	65%
ARPOB (Rs in cr per annum)	1.51	1.53	1.57	1.55	1.62	1.62	1.51	1.49	1.58	1.70	1.62

Diagnostic Business	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue (Rs cr)	242.6	251.1	258.5	276.6	249.4	231.9	140.4	282.4	306.2	305.7	441.4
EBITDA (Rs cr)	36.8	48.6	53.5	63.8	33.5	25.9	-17.2	63.5	66.1	61.8	131.9
EBITDA Margin (%)	15.2%	19.4%	20.7%	23.1%	13.4%	11.2%	-12.3%	22.5%	21.6%	20.2%	29.9%
No of Test (in mn)	7.3	7.4	7.8	8.4	7.5	6.8	3.4	5.9	6.7	7.6	10.6
Avg Realisation per test (Rs)	331	336	329	327	334	342	418	473	459	400	414

(Note: Consolidated numbers, Source: Company, HDFC sec)

Concerns:

- **High competition:** The healthcare sector is competitive, as increasing healthcare providers (newer and existing hospitals, low-cost nursing homes, etc) try to establish themselves among patients. Increasing subsidies from the government and improvement in services from the government hospitals may cause attrition in patients and disrupt business sustainability. With the advancing technology and newer medical interventions, several hospitals are evolving with their services as well.
- **Operational Risk:** As significant capex incurred for new hospitals, or laboratory, delay in ramp-up will impact EBITDA and affect cashflow generation. Any delay in commissioning or expansion (reaching breakeven) of new facilities may impact overall growth, thus

impacting overall financials. Hospital business, being a highly capital intensive business, can deliver high EBITDA margin/RoCE only through high utilization level. Lower occupancy level in hospitals could impact its profitability.

- **Ongoing Litigations and Investigations by SEBI & SFIO:** Fortis Group, due to its erstwhile promoters is facing multiple investigations and litigations; any adverse ruling may impact the company's operations and its credit profile.
- **Discontinuation of leases:** The company's operations are carried on leased hospital buildings and stand-alone pharmacies. In the event of these leased properties are not renewed or are not renewed on favourable terms to the company, its business operations would be disrupted.
- **Recruitment and retaining of medical talent:** This is one of the key hurdles faced by the industry that limits growth. Given the scarcity of quality resources, recruiting and retaining medical talent is a key challenge, especially with the competition also hunting for similar resources.
- **Price Regulation:** Government regulating prices for critical medical treatment (including that of medical devices) which private hospital charges from patient remains a risk to revenues and margins.

Company Profile:

Fortis Healthcare Limited (FHL) – an IHH Healthcare Berhad Company – is a leading integrated healthcare services provider in India. It is one of the largest healthcare organizations in the country with 27 healthcare facilities and 4100 operational beds (including O&M model) as of March 31, 2021. Fortis offers a full spectrum of integrated healthcare services ranging from clinics to quaternary care facilities and a wide range of ancillary services to patients in Cardiac Care, Orthopedics, Neurosciences, Oncology, Renal Care, Metabolic diseases care and mother and childcare. Healthcare verticals of the company primarily comprise day care specialty, diagnostics and tertiary and quaternary care. The company has entered women and child health and well-being segments through its brand, 'La Femme' and has four facilities under this brand. SRL Ltd, a subsidiary of Fortis Healthcare, is among the leading diagnostic laboratory chains with an established strength of over 425 laboratories, 20+ radiology / imaging centers; and a footprint spanning 2250+ customer touch points.

The erstwhile promoters, Malvinder Singh and Shivinder Singh, who were involved in diversion of funds and misrepresentation of financials statements, were forced to reduce their stake to less than 1% (Feb 2018) after the Supreme Court allowed lenders to invoke the pledge against shares of FHL held as security. Thereafter, the search for a new promoter began and bids were invited from investors. IHH was the winning bidder and became the new promoter, investing around Rs 4,000cr in the company against fresh issuance for around 31.1% stake. IHH also plans to bring open offer for acquiring up to 26% stake in FHL, subject to the subscription by the minority shareholders to the open offer. Pursuant to order dated December 14, 2018 passed by the Court, the open offer has been put on hold. In order to reinforce complete dissociation with erstwhile promoters, the board has proposed to rename the Fortis brand as 'Parkway', which is a strong international brand belonging to IHH while a neutral name will be considered for SRL. Fortis Healthcare draws strength from its partnership with global major and parent company, IHH, to build upon its culture of world-class patient care and superlative clinical excellence.

Ongoing legal proceedings:

- The Supreme Court, through its order dated November 15, 2019, had initiated suo moto contempt proceedings against FHL with regard to the IHH Healthcare Berhard (IHH) equity infusion and purchase of RHT Health Trust (RHT) assets. This matter is sub-judice due to a Supreme Court order, but hearings have concluded. Orders have been reserved and the company expects to get some clarity in couple of months.
- The Securities and Exchange Board of India (SEBI) and the Serious Fraud Investigation Office (SFIO) are investigating into alleged financial irregularities at the company. Furthermore, on November 20, 2020, SEBI issued a show-cause notice to FHL and its wholly owned subsidiary, Fortis Hospitals Ltd for alleged involvement in diversion of funds by the erstwhile promoters and misrepresentation of the financials, thereby not safeguarding investor interests. The hearings are currently ongoing. The outcome of these matters including any punitive action may have a bearing on the credit risk profile.
- On April 09, 2021, SEBI issued another Show cause notice to various notices including Escorts Heart Institute and Research Centre Limited (EHIRCL), wholly owned subsidiary of FHL. It is alleged, that EHIRCL has aided and abetted the routing of funds from the Company, for the benefit of the erstwhile promoter entities. FHL and EHIRCL have filed its response and made submissions in personal hearing. Outcome of hearing is awaited.

- On August 14, 2020 an application has been submitted before the Hon'ble Supreme Court of India seeking permission for change of name, brand and logo of Fortis and its subsidiaries. The Board gave approval for the change in the name and branding of the Company and its subsidiaries to 'Parkway,' an internationally acclaimed brand in the field of healthcare, belonging to IHH Healthcare Berhad, the current promoters of Fortis Healthcare. SRL Limited would no longer be using the brand 'SRL' and would seek to develop a new neutral brand name and identity, unrelated to the IHH group, for use in the diagnostics business. These changes are subject to guidance by the Hon'ble Supreme Court of India and the matter is sub-judice.

Peer Comparison (Consolidated):

	Mcap (Rs cr)	Sales				EBITDA Margin (%)				PAT			
		FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Fortis Healthcare	22,234	4,632	4,030	5,842	6,390	13.2	10.0	18.2	18.7	58	-110	558	502
Narayana Hrudayalaya	10,458	3,128	2,582	3,684	4,254	13.5	7.1	17.8	19.2	119	-14	282	364
Shalby	2,040	487	431	684	738	16.8	20.1	18.0	18.5	28	42	64	72

	RoCE (%)				P/E				EV/EBITDA			
	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Fortis Healthcare	4.4	2.0	10.4	11.4	382.5	negative	39.9	44.3	38.6	57.4	21.7	18.9
Narayana Hrudayalaya	10.9	3.6	17.5	17.8	93.0	negative	37.1	28.8	26.5	60.7	17.0	13.5
Shalby	7.5	6.8	9.9	10.2	74.1	48.1	31.9	28.3	25.2	23.1	16.6	15.3

(Source: Company, HDFC sec)

Fortis Healthcare Ltd.

Financials (Consolidated):

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	4469.4	4632.3	4030.1	5842.0	6390.5
Growth (%)	-2.0	3.6	-13.0	45.0	9.4
Operating Expenses	4244.1	4022.8	3625.7	4778.8	5195.5
EBITDA	225.2	609.5	404.4	1063.2	1195.0
Growth (%)	-17.5	170.6	-33.6	162.9	12.4
EBITDA Margin (%)	5.0	13.2	10.0	18.2	18.7
Depreciation	232.9	291.7	290.6	304.1	324.1
EBIT	-7.7	317.8	113.8	759.2	870.9
Other Income	92.4	52.6	46.6	58.4	63.9
Interest expenses	336.8	205.1	165.9	160.6	140.1
PBT	-252.1	165.4	-5.5	657.0	794.7
Tax	113.6	147.9	99.5	165.6	200.3
RPAT	-365.7	17.5	-104.9	491.4	594.5
APAT	-298.9	57.9	-109.8	557.9	502.4
Growth (%)	-70.4	-119.4	-289.4	-608.2	-9.9
EPS	-4.9	0.8	-1.5	7.4	6.7

Balance Sheet

As at March (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	755.0	755.0	755.0	755.0	755.0
Reserves	5845.9	5906.1	5364.9	5922.7	6425.1
Shareholders' Funds	6600.8	6661.1	6119.8	6677.7	7180.1
Minority's Interest	511.7	544.5	598.0	872.8	1006.3
Long Term Debt	674.6	1166.6	1199.3	1234.3	959.3
Net Deferred Taxes	15.5	-81.3	-81.5	-101.5	-121.5
Long Term Prov & Others	92.4	85.1	1715.8	1919.7	1916.6
Total Source of Funds	7895.0	8376.0	9551.4	10602.9	10940.9
APPLICATION OF FUNDS					
Net Block & Goodwill	8505.7	8817.3	8800.9	9561.1	9587.0
CWIP	420.9	188.8	163.1	163.1	163.1
Other Non-Current Assets	892.9	1008.4	783.7	1032.3	1146.6
Total Non-Current Assets	9819.4	10014.5	9747.7	10756.6	10896.7
Current Investments	79.3	0.0	0.0	0.0	0.0
Inventories	56.5	78.2	76.8	96.0	105.0
Trade Receivables	542.4	458.8	389.9	528.2	560.3
Cash & Equivalents	855.9	266.0	416.6	571.5	672.2
Other Current Assets	132.5	137.6	153.6	211.3	232.9
Total Current Assets	1666.6	940.5	1036.8	1407.0	1570.4
Short-Term Borrowings	1232.4	390.4	207.8	212.8	112.8
Trade Payables	753.5	597.6	548.2	720.3	752.9
Other Current Liab & Prov	1605.1	1591.0	477.0	627.6	660.6
Total Current Liabilities	3591.0	2578.9	1233.0	1560.7	1526.3
Net Current Assets	-1924.4	-1638.5	-196.2	-153.7	44.1
Total Application of Funds	7895.0	8376.0	9551.4	10602.8	10940.9

Fortis Healthcare Ltd.

Cash Flow Statement

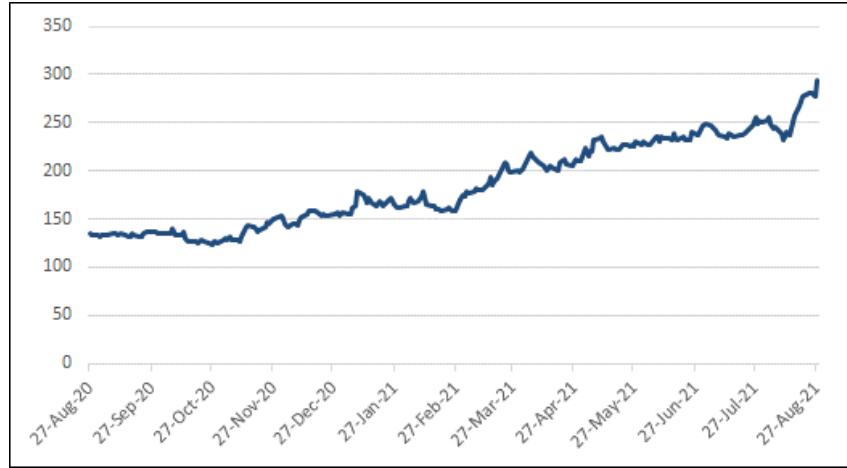
(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	-110.1	239.4	43.3	963.1	794.7
Non-operating & EO items	-69.1	-48.5	-7.0	-495.1	-114.4
Interest Expenses	263.0	174.8	123.9	160.6	140.1
Depreciation	232.9	291.7	290.6	304.1	324.1
Working Capital Change	-247.4	-146.4	-12.7	128.4	21.5
Tax Paid	-247.8	-339.5	47.5	-165.6	-200.3
OPERATING CASH FLOW (a)	-178.5	171.5	485.5	895.6	965.8
Capex	-82.6	-136.6	-211.5	-650.0	-350.0
Free Cash Flow	-261.1	34.9	274.0	245.6	615.8
Investments	339.1	79.7	0.0	30.0	0.0
Non-operating income	-3,535.9	120.4	81.0	0.0	0.0
INVESTING CASH FLOW (b)	-3,279.3	63.5	-130.6	-620.0	-350.0
Debt Issuance / (Repaid)	648.1	-656.8	25.7	40.0	-375.0
Interest Expenses	-401.3	-204.9	-168.6	-160.6	-140.1
FCFE	-14.3	-826.7	131.0	124.9	100.7
Share Capital Issuance	4,009.8	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	4,256.6	-861.6	-142.9	-120.6	-515.1
NET CASH FLOW (a+b+c)	798.8	-626.6	212.0	154.9	100.7

Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
PROFITABILITY RATIOS (%)					
EBITDA Margin	5.0	13.2	10.0	18.2	18.7
EBIT Margin	1.9	8.0	4.0	14.0	14.6
APAT Margin	-6.7	1.3	-2.7	9.5	7.9
RoE	-5.6	0.9	-1.7	8.7	7.3
RoCE	1.2	4.4	2.0	10.4	11.4
SOLVENCY RATIOS					
Debt/EBITDA (x)	8.5	2.6	3.5	1.4	0.9
D/E (x)	0.3	0.2	0.2	0.2	0.1
PER SHARE DATA (Rs)					
EPS	-4.9	0.8	-1.5	7.4	6.7
CEPS	-0.9	4.6	2.4	11.4	10.9
Dividend	0.0	0.0	0.0	0.0	0.0
BVPS	87.4	88.2	81.1	88.5	95.1
TURNOVER RATIOS					
Debtor days	41.3	39.4	38.4	28.7	31.1
Inventory days	5.0	5.3	7.0	5.4	5.7
Creditors days	62.7	53.2	51.9	39.6	42.1
VALUATION					
P/E (x)	-60.0	382.5	-202.6	39.9	44.3
P/BV (x)	3.4	3.3	3.6	3.3	3.1
EV/EBITDA (x)	103.4	38.6	57.4	21.7	18.9
EV/Revenues (x)	5.2	5.1	5.8	4.0	3.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0	0.0

(Source: Company, HDFC sec)

One Year Price Chart



(Source: Company, HDFC sec)

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