

May 27, 2022

Q4FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	330		362	
Sales (Rs. m)	61,606	69,246	62,397	70,122
% Chng.	(1.3)	(1.3)		
EBITDA (Rs. m)	11,224	13,793	12,037	14,633
% Chng.	(6.8)	(5.7)		
EPS (Rs.)	6.9	9.9	7.4	10.5
% Chng.	(6.5)	(5.9)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	40,301	57,176	61,606	69,246
EBITDA (Rs. m)	4,044	10,690	11,224	13,793
Margin (%)	10.0	18.7	18.2	19.9
PAT (Rs. m)	(1,098)	2,401	5,218	7,438
EPS (Rs.)	(1.5)	7.4	6.9	9.9
Gr. (%)	(289.5)	(605.8)	(6.0)	42.5
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(1.7)	3.9	8.1	10.5
RoCE (%)	1.5	10.6	11.0	13.4
EV/Sales (x)	4.6	3.2	2.9	2.5
EV/EBITDA (x)	45.9	17.1	16.1	12.5
PE (x)	(161.4)	31.9	34.0	23.8
P/BV (x)	2.9	2.9	2.6	2.4

Key Data

FOHE.BO | FORH IN

52-W High / Low	Rs.314 / Rs.224
Sensex / Nifty	54,885 / 16,352
Market Cap	Rs.177bn / \$ 2,284m
Shares Outstanding	755m
3M Avg. Daily Value	Rs.374.13m

Shareholding Pattern (%)

Promoter's	31.17
Foreign	29.82
Domestic Institution	15.52
Public & Others	23.49
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(14.0)	(17.2)	3.7
Relative	(10.9)	(13.8)	(3.4)

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Below est. led by COVID; growth on track

Quick Pointers:

- Hospital business occupancy impacted from Omicron; will be back to normalcy from Q1FY23.
- Guided +10% revenue growth with +16.5% OPM in FY23 for hospital segment; SRL margins at 22-23%.

Fortis Healthcare (FORH) reported revenues growth of 10% YoY (declined 6% QoQ) to Rs.13.7bn vs our estimates of Rs.13.4bn. Hospital business revenues declined 7% QoQ to Rs. 10.4bn, in line with our est. Diagnostic business saw revenue growth of 25% YoY (declined 3% QoQ) to Rs. 3.4bn vs our est. of Rs.3bn. While Hospital occupancy stood at 59% vs 65.4% QoQ, ARPOB improved 11% YoY to Rs.51.5K on better payor mix. Occupancy should normalize from Q1FY23, in our view. Net debt reduced by Rs 720mn QoQ at Rs 5.49bn.

FORH witnessed strong recovery in both segments during FY22. We expect margins across segments to improve, given 1) increasing volume in diagnostics business and 2) improving product mix in hospital segment along with cost rationalization initiatives. We expect 14% EBITDA CAGR over FY22-24E. At CMP, stock is trading at 14.5x EV/EBITDA on FY24E adjusted for SRL stake and rental. Our FY23E & FY24E EBITDA stands cut by ~5%. We recommend 'Buy' rating with revised TP of INR 330/share (Rs362 earlier). We value diagnostics at 22x (25X earlier) FY24E EV/EBITDA and hospitals at 20x FY24E EV/EBITDA. Resolution of legal issues would be a key additional trigger for re-rating.

- EBITDA below our est; healthy ARPOB growth:** Consolidated EBITDA reported at Rs2.21bn (our est. at Rs2.43bn), grew +12% YoY; decreased 23% QoQ. Margins were affected by ~350 bps QoQ to 16.1%, due to lower occupancy in hospital segment impacted from Omicron. Hospital business EBITDA came in at Rs1.41bn; down 24% QoQ. Overall hospital OPM came in at 13.6% (contracted by 310 bps qoq). Loss from Chennai Arcot hospital was at Rs106mn (flat QoQ). Adj for this unit, hospital OPM came in at 14.6%. Diagnostic business EBITDA reported at Rs 799mn; in line with our est. up 29% YoY (down 20% QoQ). Diagnostic margins contracted by 490 bps QoQ to 23.7%. B2C share was at 54:46.
- Key con-call takeaways:** (1) FORH witnessed 65% occupancy in March'22, guided to reach 70% by end of FY23. (2) ARPOB is sustainable in nature on specialty mix and improved payor mix aided by increasing contribution from international and insurance business. Mgmt aims international business to reach at 10-12% by end of FY23 from 5% in FY22. (3) Hospital segment: Revenue growth target of 10% with margins at +16.5% considering cost-input pressure in FY23. Guided 2-year target of +18% EBITDA margins and +20% margins over 5 years. (4) In SRL business, 22-23% margin is sustainable. (4) Brownfield expansion target – Guided to add 200 operational beds in FY23 vs 120 beds that were commissioned in FY22. The company plans to add 1350 beds in next 3-4 years which are currently at designing stage. Plans to reach bed capacity of 5000 beds in next 5 years. (5) In new hospitals category, Delhi and Jaipur to see double digit margins by end of FY24. (6) Capex guidance of Rs 4bn for FY23. (8) No verdict from supreme court as of now. (9) In SRL business, COVID revenue contribution will be around 5-6% for FY23 vs ~20% in FY22.

Exhibit 1: Q4FY22 Result Overview (Rs mn) – EBITDA below estimates

Y/e March	4QFY22	4QFY21	YoY gr. (%)	3QFY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Net Sales	13,781	12,524	10.0	14,667	(6.0)	57,176	40,301	41.9
COGS	3,232	2,963	9.1	3,336	(3.1)	13,572	9,759	39.1
<i>% of Net Sales</i>	<i>23.4</i>	<i>23.7</i>		<i>22.7</i>		<i>23.7</i>	<i>24.2</i>	
Employee Cost	2,379	2,196	8.3	2,511	(5.3)	9,729	8,490	14.6
<i>% of Net Sales</i>	<i>17.3</i>	<i>17.5</i>		<i>17.1</i>		<i>17.0</i>	<i>21.1</i>	
Other Expenses	5,958	5,393	10.5	5,950	0.1	23,197	18,008	28.8
<i>% of Net Sales</i>	<i>43.2</i>	<i>43.1</i>		<i>40.6</i>		<i>40.6</i>	<i>44.7</i>	
Total	11,569	10,552	9.6	11,797	(1.9)	46,498	36,257	28.2
EBITDA	2,212	1,973	12.1	2,869	(22.9)	10,678	4,044	164.0
<i>Margins (%)</i>	<i>16.1</i>	<i>15.8</i>		<i>19.6</i>		<i>18.7</i>	<i>10.0</i>	
Other Income	60	63	(5.5)	67	(10.5)	285	466	(38.7)
Interest	300	406	(26.1)	381	(21.1)	1,469	1,659	(11.5)
Depreciation	773	715	8.1	761	1.5	3,008	2,906	3.5
PBT	1,199	915	31.1	1,795	(33.2)	6,486	(54)	(12,044.9)
Tax	394	480	(17.9)	512	(23.0)	1,978	994	99.0
<i>Tax rate %</i>	<i>32.9</i>	<i>52.5</i>		<i>28.5</i>		<i>30.5</i>	<i>(1,831.3)</i>	
PAT	805	435	85.1	1,282	(37.2)	4,508	(1,049)	(529.8)
Share in (loss)/profit of associate	63	187		51		242	476	
Minority Interest	191	192		250		2,348	536	
EO items	(2)	(2)		(84)		(3,150)	(13)	
Reported PAT	680	432	57.4	1,167	(41.8)	5,551	(1,096)	NA

Source: Company, PL

Exhibit 2: Break-up of Revenues

Y/e March	4QFY22	4QFY21	YoY gr. (%)	3QFY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Hospital	10,409	9,822	6.0	11,182	(6.9)	42,641	31,236	36.5
<i>% of Net Sales</i>	<i>75.5%</i>	<i>78.4%</i>		<i>76.2%</i>		<i>74.6%</i>	<i>77.5%</i>	
Diagnostic	3,370	2,702	24.7	3,484	(3.3)	14,532	9,057	60.5
<i>% of Net Sales</i>	<i>24.5%</i>	<i>21.6%</i>		<i>23.8%</i>		<i>25.4%</i>	<i>22.5%</i>	
Total Revenues	13,779	12,524	10.0	14,666	(6.0)	57,173	40,293	41.9

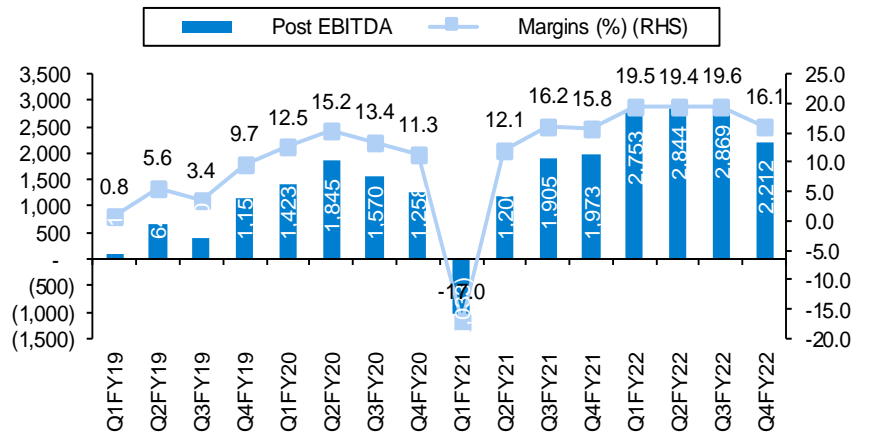
Source: Company, PL

Exhibit 3: Break up of EBITDA

Y/e March	4QFY22	4QFY21	YoY gr. (%)	3QFY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Hospital	1,414	1,627	(13.1)	1,868	(24.3)	6,555	2,588	153.3
<i>% of Net Sales</i>	<i>63.9%</i>	<i>72.5%</i>		<i>65.2%</i>		<i>61.4%</i>	<i>59.8%</i>	
Diagnostic	799	618	29.3	997	(19.9)	4,120	1,743	136.4
<i>% of Net Sales</i>	<i>36.1%</i>	<i>27.5%</i>		<i>34.8%</i>		<i>38.6%</i>	<i>40.2%</i>	
Total Revenues	2,213	2,245	(1.4)	2,865	(22.8)	10,675	4,331	146.5

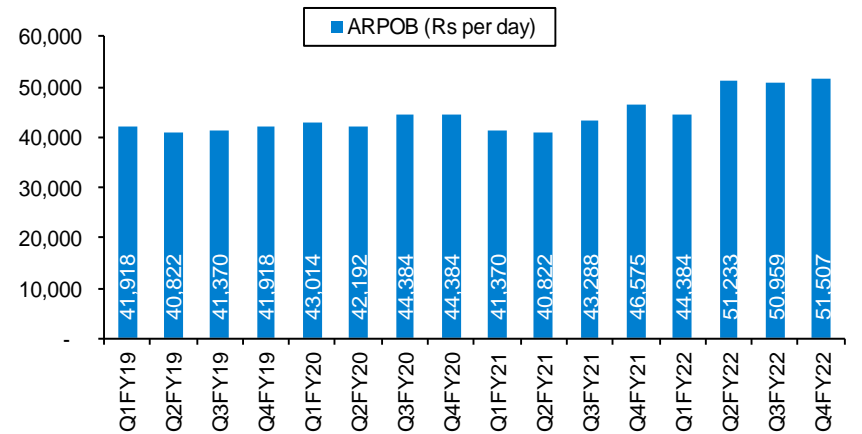
Source: Company, PL

Exhibit 4: Margins impacted by hospital segment



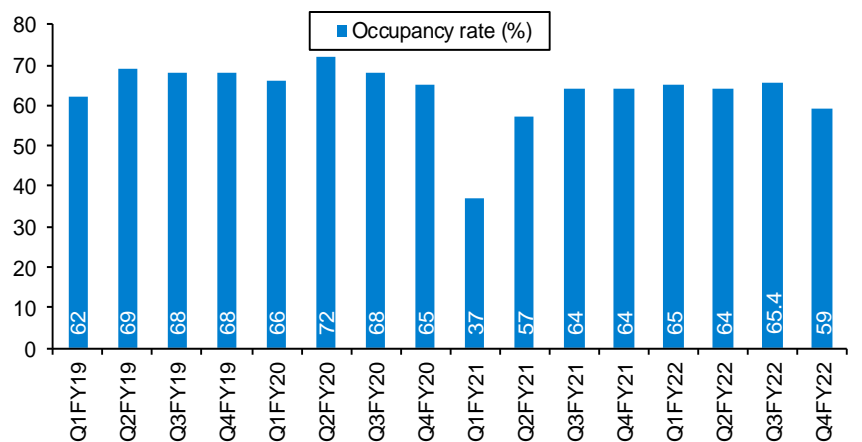
Source: Company, PL

Exhibit 5: ARPOB improvement on specialty & payor mix



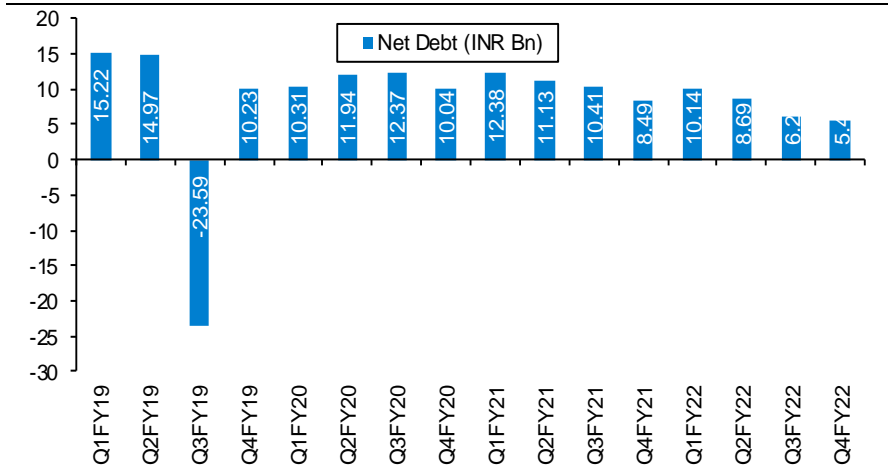
Source: Company, PL

Exhibit 6: Lower occupancy due to Omicron



Source: Company, PL

Exhibit 7: Net debt reduced by Rs. 720mn



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	40,301	57,176	61,606	69,246
YoY gr. (%)	(13.0)	41.9	7.7	12.4
Cost of Goods Sold	9,759	13,572	14,477	16,273
Gross Profit	30,542	43,604	47,129	52,973
Margin (%)	75.8	76.3	76.5	76.5
Employee Cost	8,490	9,729	11,705	13,157
Other Expenses	18,008	23,185	24,200	26,023
EBITDA	4,044	10,690	11,224	13,793
YoY gr. (%)	(33.6)	164.3	5.0	22.9
Margin (%)	10.0	18.7	18.2	19.9
Depreciation and Amortization	2,906	3,008	3,174	3,341
EBIT	1,138	7,681	8,049	10,453
Margin (%)	2.8	13.4	13.1	15.1
Net Interest	1,659	1,469	1,060	799
Other Income	466	273	400	600
Profit Before Tax	(55)	6,486	7,389	10,254
Margin (%)	(0.1)	11.3	12.0	14.8
Total Tax	995	1,978	1,921	2,666
Effective tax rate (%)	(1,815.0)	30.5	26.0	26.0
Profit after tax	(1,049)	4,508	5,468	7,588
Minority interest	536	2,348	500	400
Share Profit from Associate	476	242	250	250
Adjusted PAT	(1,098)	2,401	5,218	7,438
YoY gr. (%)	(289.5)	(318.7)	117.3	42.5
Margin (%)	(2.7)	4.2	8.5	10.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(1,098)	2,401	5,218	7,438
YoY gr. (%)	(289.5)	(318.7)	117.3	42.5
Margin (%)	(2.7)	4.2	8.5	10.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1,098)	2,401	5,218	7,438
Equity Shares O/s (m)	755	755	755	755
EPS (Rs)	(1.5)	7.4	6.9	9.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	78,473	83,632	87,632	91,632
Tangibles	78,473	83,632	87,632	91,632
Intangibles	-	-	-	-
Acc: Dep / Amortization	27,699	30,707	33,882	37,222
Tangibles	27,699	30,707	33,882	37,222
Intangibles	-	-	-	-
Net fixed assets	50,774	52,925	53,750	54,410
Tangibles	50,774	52,925	53,750	54,410
Intangibles	-	-	-	-
Capital Work In Progress	1,649	1,935	1,935	1,935
Goodwill	37,217	41,232	41,232	41,232
Non-Current Investments	1,860	1,036	1,036	1,036
Net Deferred tax assets	815	(121)	(121)	(121)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	768	1,229	1,001	1,126
Trade receivables	3,899	5,122	5,763	6,484
Cash & Bank Balance	4,166	4,127	4,346	11,705
Other Current Assets	7,076	7,533	8,286	9,115
Total Assets	111,547	118,848	121,058	130,752
Equity				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	53,649	54,233	59,451	66,888
Total Network	61,198	61,782	67,000	74,438
Non-Current Liabilities				
Long Term borrowings	9,677	7,791	7,791	7,791
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,030	1,866	366	(1,134)
Trade payables	5,482	6,609	7,204	8,105
Other current liabilities	20,694	25,794	23,442	26,147
Total Equity & Liabilities	111,547	118,848	121,058	130,752

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	(55)	6,486	7,389	10,254
Add. Depreciation	2,906	3,008	3,174	3,341
Add. Interest	1,659	1,469	1,060	799
Less Financial Other Income	466	273	400	600
Add. Other	(3)	-	-	-
Op. profit before WC changes	4,507	10,963	11,624	14,393
Net Changes-WC	(127)	4,505	(2,924)	1,931
Direct tax	475	(1,978)	(1,921)	(2,666)
Net cash from Op. activities	4,855	13,489	6,779	13,658
Capital expenditures	(2,185)	(5,151)	(4,000)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	834	(1,689)	-	-
Net Cash from Inv. activities	(1,351)	(6,840)	(4,000)	(4,000)
Issue of share cap. / premium	0	-	-	-
Debt changes	(832)	(3,051)	(1,500)	(1,500)
Dividend paid	-	-	-	-
Interest paid	(1,659)	(1,469)	(1,060)	(799)
Others	493	(2,169)	-	-
Net cash from Fin. activities	(1,998)	(6,688)	(2,560)	(2,299)
Net change in cash	1,506	(39)	218	7,359
Free Cash Flow	2,670	8,338	2,779	9,658

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	14,103	14,625	14,667	13,781
YoY gr. (%)	132.7	47.0	24.6	10.0
Raw Material Expenses	3,496	3,508	3,336	3,232
Gross Profit	10,607	11,117	11,330	10,549
Margin (%)	75.2	76.0	77.3	76.6
EBITDA	2,753	2,844	2,869	2,212
YoY gr. (%)	(366.5)	137.0	50.7	12.1
Margin (%)	19.5	19.4	19.6	16.1
Depreciation / Depletion	729	745	761	773
EBIT	2,023	2,098	2,108	1,440
Margin (%)	14.3	14.3	14.4	10.4
Net Interest	384	403	381	300
Other Income	78	80	67	60
Profit before Tax	4,779	1,778	1,878	1,201
Margin (%)	33.9	12.2	12.8	8.7
Total Tax	558	514	512	394
Effective tax rate (%)	11.7	28.9	27.3	32.8
Profit after Tax	4,221	1,264	1,366	807
Minority interest	1,671	237	250	191
Share Profit from Associates	85	42	51	63
Adjusted PAT	2,636	1,069	1,167	680
YoY gr. (%)	(247.4)	(2,833.0)	290.4	57.4
Margin (%)	18.7	7.3	8.0	4.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,636	1,069	1,167	680
YoY gr. (%)	(247.4)	(2,833.0)	290.4	57.4
Margin (%)	18.7	7.3	8.0	4.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,636	1,069	1,167	680
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	3.5	1.4	1.5	0.9

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	(1.5)	7.4	6.9	9.9
CEPS	2.4	7.2	11.1	14.3
BVPS	81.1	81.8	88.7	98.6
FCF	3.5	11.0	3.7	12.8
DPS	-	-	-	-
Return Ratio(%)				
RoCE	1.5	10.6	11.0	13.4
ROIC	1.1	6.7	6.9	8.8
RoE	(1.7)	3.9	8.1	10.5
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.1	(0.1)
Net Working Capital (Days)	(7)	(2)	(3)	(3)
Valuation(x)				
PER	(161.4)	31.9	34.0	23.8
P/B	2.9	2.9	2.6	2.4
P/CEPS	98.0	32.8	21.1	16.4
EV/EBITDA	45.9	17.1	16.1	12.5
EV/Sales	4.6	3.2	2.9	2.5
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Hospital	31,236	42,642	48,025	54,035
Diagnostic	9,062	14,535	13,581	15,211
International biz revenues	3	(1)		

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	BUY	362	271
2	03-Mar-22	BUY	362	285

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,772	4,537
2	Aster DM Healthcare	BUY	234	193
3	Aurobindo Pharma	Accumulate	759	699
4	Cipla	BUY	1,085	926
5	Divi's Laboratories	Accumulate	4,300	3,898
6	Dr. Reddy's Laboratories	BUY	4,900	3,929
7	Eris Lifesciences	BUY	850	670
8	Fortis Healthcare	BUY	362	271
9	Glenmark Pharmaceuticals	Accumulate	550	477
10	HealthCare Global Enterprises	BUY	316	292
11	Indoco Remedies	BUY	430	350
12	Ipca Laboratories	BUY	1,180	1,002
13	Krishna Institute of Medical Sciences	BUY	1,638	1,262
14	Lupin	Hold	600	635
15	Max Healthcare Institute	BUY	427	355
16	Narayana Hrudayalaya	BUY	773	634
17	Sun Pharmaceutical Industries	BUY	1,050	931
18	Torrent Pharmaceuticals	BUY	3,560	2,753
19	Zydus Lifesciences	BUY	450	357

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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