

May 24, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	330		360	
Sales (Rs. m)	69,959	77,360	70,407	79,170
% Chng.	(0.6)	(2.3)		
EBITDA (Rs. m)	12,735	14,981	13,698	16,054
% Chng.	(7.0)	(6.7)		
EPS (Rs.)	8.6	10.8	9.6	11.9
% Chng.	(10.0)	(9.2)		

Key Financials - Consolidated

Ye Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	57,176	62,976	69,959	77,360
EBITDA (Rs. m)	10,690	11,013	12,735	14,981
Margin (%)	18.7	17.5	18.2	19.4
PAT (Rs. m)	2,401	5,151	6,522	8,170
EPS (Rs.)	7.4	6.8	8.6	10.8
Gr. (%)	(605.8)	(7.2)	26.6	25.3
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.9	7.7	8.6	9.8
RoCE (%)	10.6	10.4	11.4	12.9
EV/Sales (x)	3.9	3.5	3.1	2.8
EV/EBITDA (x)	20.8	20.0	17.2	14.2
PE (x)	39.1	42.2	33.3	26.6
P/BV (x)	3.5	3.0	2.8	2.5

Key Data

FOHEBO | FORH IN

52-W High / Low	Rs.325 / Rs.220
Sensex / Nifty	61,774 / 18,285
Market Cap	Rs.217bn/ \$ 2,626m
Shares Outstanding	755m
3M Av g. Daily Value	Rs.211.42m

Shareholding Pattern (%)

Promoter's	31.17
Foreign	31.22
Domestic Institution	18.98
Public & Others	18.63
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.4	1.1	17.2
Relative	5.4	1.9	2.6

Param Desai

paramdesai@plindia.com | 91-22-66322259

Sanketa Kohale

sanketakhale@plindia.com | 91-22-66322426

Scale-up in hospital margins is key

Quick Pointers:

- Brownfield expansion of 250 beds in FY24.
- Reiterates margin guidance at 20% in FY24E; 1-2% incremental margin growth through divestment of non-profitable assets.

Our FY24/25E EBITDA estimates stands reduced by ~7% as we factor in lower margins across segments. Fortis Healthcare (FORH) Q4FY23 adjusted EBITDA for one offs (Rs115mn) was 9% below our estimate, led by lower profitability in diagnostic segment. Though margins across segments in Q4 were below our estimates, we remain positive on margin improvement in hospital segment aided by 1) improving case and payor mix 2) cost rationalization initiatives and 3) traction in international patient's footfall. We expect 17% Pre IND AS EBITDA CAGR over FY23-25E. At CMP, stock is trading at 16.5x EV/EBITDA on FY25E, adjusted for SRL stake. Maintain 'Buy' rating with revised TP of Rs.330 (earlier Rs. 360) valuing at 18x EV/EBITDA on FY25E. Resolution of legal issues and monetization of non-profitable assets would be a key additional trigger for re-rating.

- **Hospital segment continues to improve:** Hospital business revenue grew 7% QoQ to Rs.13.5bn vs our estimates of Rs.13.1bn. Diagnostic business saw net revenue de-growth of 13% YoY (flat QoQ) to Rs. 2.9bn. Non-Covid revenues grew by 12% YoY. Hospital occupancy improved to 67% vs 66.1% QoQ on seasonality. ARPOB further improved at a healthy rate of 12% YoY and 4% QoQ to Rs.57.5K on better specialty and case mix. Net debt further decreased by Rs1.4bn QoQ to Rs 3.3bn. Capex stood at Rs3bn for FY23.
- **EBITDA miss; Adj. hospital margin at 16.8%:** FORH reported consolidated EBITDA of Rs 2.7bn. Adjusted for one offs, EBITDA came in at Rs2.81bn; up 2% QoQ. Sequentially, margins decreased by 120 bps to 16.5%. Hospital business EBITDA came in at Rs 2.2bn (6% below our estimates), up 5% QoQ. Overall hospital OPM came in at 16.4% (down 20 bps QoQ). International patients contributed 8.4% (9% in Q3) to total hospital revenues while surgical mix was 57% in Q4 (59% in FY23 vs 53% in FY22). Diagnostic business EBITDA came in at Rs 495mn, adj for one offs came in at Rs600mn below our estimate, down 8% QoQ. Adjusted diagnostic margins came in at 20.7% down 150 bps QoQ.
- **Key con-call takeaways: (1)** Margins compression was due to two one off; Rs. 65mn for provisions for doubtful debt in HP government contract and Rs. 50mn spend towards CSR in diagnostic segment in Q4FY23. **(2)** Margin guidance of 300bps improvement to 20%; growth levers would be resulted from better payor and case mix, cost optimization efforts and divestment plan of loss making units **(3)** Mgmt expects double digit revenue growth in hospital segment to be around 11-12%, ARPOB growth of 6-7% and occupancy target of 70% in FY24. **(4)** Total brownfield capex guidance at Rs. 6-7bn in FY24; of which Rs. 2.5-3bn will be maintenance capex. **(5)** Plans to divest facilities at Chennai-Arcot unit incurring EBITDA loss of Rs360mn for FY23. This would aid 1-2% incremental margin growth. **(6)** Guided non-surgical work to contribute 40% of revenue. **(7) Diagnostics biz** - SRL added 285 new customer touch-point centers in Q4FY23 taking the total number of collection centers to 3,700. B2C: B2B mix stood at 53:47 in Q4. Non-Covid revenues grew 12% YoY, aided by volumes and case mix.

Exhibit 1: Q4FY23 Result Overview (Rs mn)– EBIDTA miss across segment

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	16,427	13,781	19.2	15,599	5.3	62,976	57,176	10.1
COGS	3,824	3,232	18.3	3,583	6.7	14,547	13,572	7.2
<i>% of Net Sales</i>	<i>23.3</i>	<i>23.4</i>		<i>23.0</i>		<i>23.1</i>	<i>23.7</i>	
Employee Cost	2,608	2,379	9.6	2,627	(0.7)	10,469	9,729	7.6
<i>% of Net Sales</i>	<i>15.9</i>	<i>17.3</i>		<i>16.8</i>		<i>18.3</i>	<i>17.0</i>	
Other Expenses	7,286	5,958	22.3	6,625	10.0	26,947	23,197	16.2
<i>% of Net Sales</i>	<i>44.4</i>	<i>43.2</i>		<i>42.5</i>		<i>47.1</i>	<i>40.6</i>	
Total	13,718	11,569	18.6	12,834	6.9	51,963	46,498	11.8
EBITDA	2,709	2,212	22.4	2,764	(2.0)	11,013	10,678	3.1
<i>Margins (%)</i>	<i>16.5</i>	<i>16.1</i>		<i>17.7</i>		<i>17.5</i>	<i>18.7</i>	
Other Income	138	60	130.2	117	17.9	617	285	116.3
Interest	317	300	5.7	334	(4.9)	1,291	1,469	(12.1)
Depreciation	818	773	5.8	828	(1.2)	3,157	3,008	5.0
PBT	1,712	1,199	42.7	1,720	(0.5)	7,182	6,486	10.7
Tax	451	394	14.4	440	2.6	1,807	1,978	(8.7)
<i>Tax rate %</i>	<i>26.4</i>	<i>32.9</i>		<i>25.6</i>		<i>25.2</i>	<i>30.5</i>	
PAT	1,261	805	56.6	1,281	(1.6)	5,375	4,508	19.2
Share in (loss)/profit of associate	17	63	(73.0)	26		218	242	(9.6)
Minority Interest	58	191	(69.8)	126		443	2,348	(81.2)
EO items	(105)	(2)	5,170.0	(115)		(736)	(3,150)	(76.6)
Reported PAT	1,326	680	95.0	1,296	2.3	5,887	5,551	6.1

Source: Company, PL

Exhibit 2: Hospital revenues increased 7% QoQ

Revenues	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Hospital	13,505	10,409	29.7	12,674	6.6	51,073	42,641	19.8
<i>% of Total Sales</i>	<i>82.2</i>	<i>75.5</i>		<i>81.3</i>		<i>81.1</i>	<i>74.6</i>	
Diagnostic	2,920	3,370	(13.4)	2,920	-	11,890	14,532	(18.2)
<i>% of Total Sales</i>	<i>17.8</i>	<i>24.5</i>		<i>18.7</i>		<i>18.9</i>	<i>25.4</i>	
Total Revenues	16,425	13,779	19.2	15,594	5.3	62,963	57,173	10.1

Source: Company, PL

Exhibit 3: Hospital EBIDTA inclined 5% QoQ while diagnostic EBIDTA saw a drop of 24% QoQ

EBIDTA	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Hospital	2,212	1,414	56.4	2,110	4.8	8,622	6,555	31.5
<i>% OPM</i>	<i>16.4</i>	<i>13.6</i>		<i>16.6</i>		<i>16.9</i>	<i>15.4</i>	
Diagnostic	495	799	(38.0)	654	(24.3)	2,390	4,120	(42.0)
<i>% OPM</i>	<i>17.0</i>	<i>23.7</i>		<i>22.4</i>		<i>20.1</i>	<i>28.4</i>	
Total Revenues	2,707	2,213	22.3	2,764	(2.1)	11,012	10,675	3.2

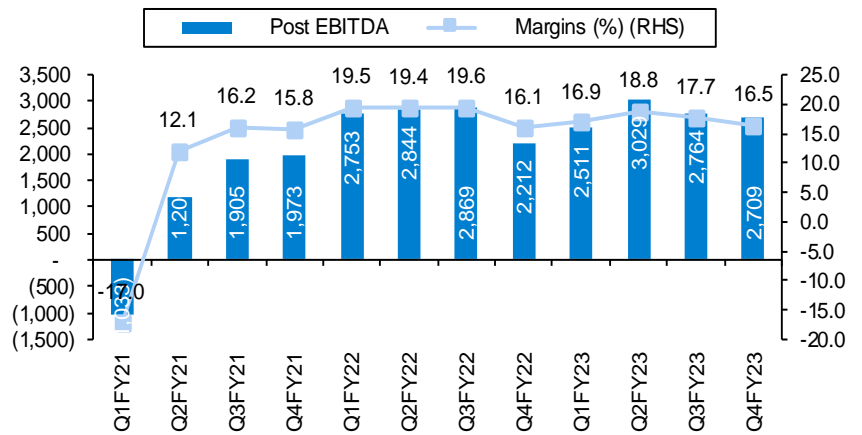
Source: Company, PL

Exhibit 4: Five hospitals below 10% margins

EBITDA for Q3FY23	No. Of facilities (#)	Revenue contribution (%)	Beds (#)	ARPOB (INR mn)	Occupancy (%)
>25%	2	20	614	25.7	68
20-25%	9	31	1,426	16.1	71
15-20%	3	27	754	25.2	75
10-15%	3	12	466	22.0	66
<10%	5	10	715	14.1	52
Total/Average	22	100	3,975	20.6	66

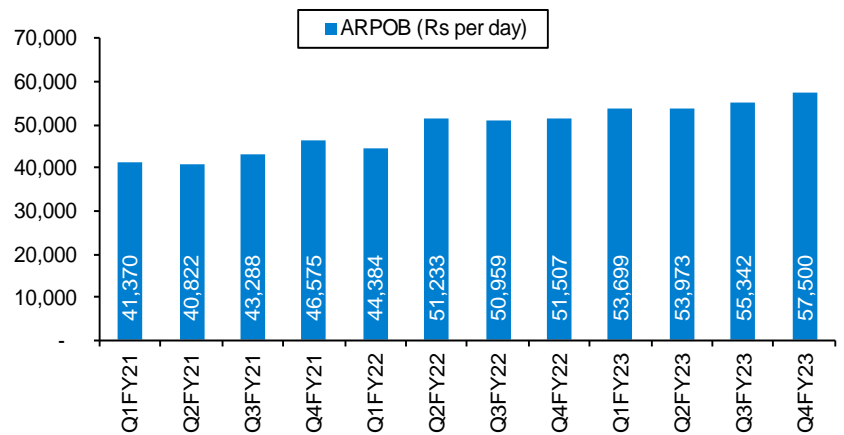
Source: Company, PL

Exhibit 5: Margins declined by one offs and lower diagnostic profitability



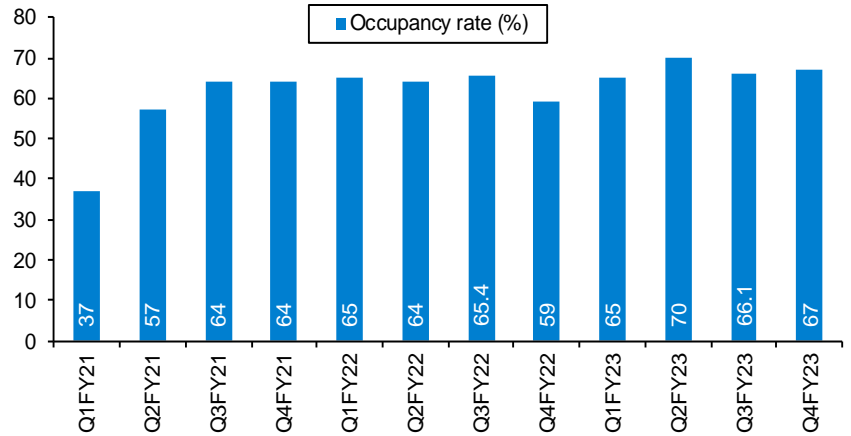
Source: Company, PL

Exhibit 6: Healthy ARPOB aided by better case and payor mix



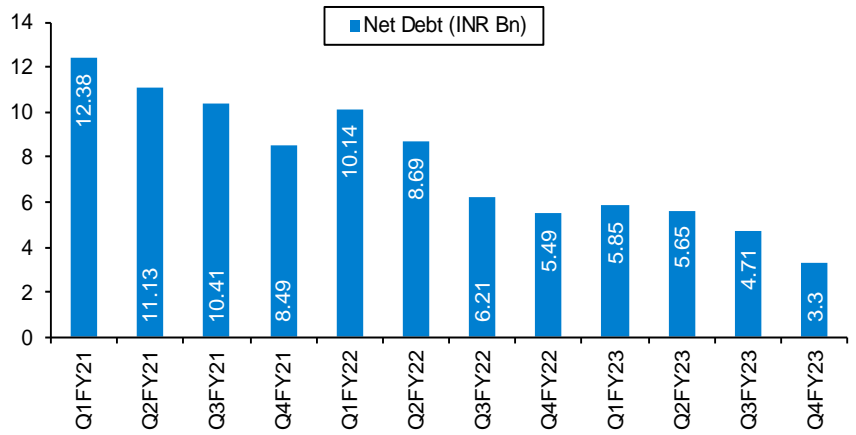
Source: Company, PL

Exhibit 7: Occupancy improved QoQ to 67%



Source: Company, PL

Exhibit 8: Net debt further decreased QoQ by Rs. 1.4bn



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	57,176	62,976	69,959	77,360
YoY gr. (%)	41.9	10.1	11.1	10.6
Cost of Goods Sold	13,572	14,547	16,440	18,180
Gross Profit	43,604	48,429	53,519	59,180
Margin (%)	76.3	76.9	76.5	76.5
Employee Cost	9,729	10,469	13,292	14,698
Other Expenses	23,185	26,947	27,491	29,501
EBITDA	10,690	11,013	12,735	14,981
YoY gr. (%)	164.3	3.0	15.6	17.6
Margin (%)	18.7	17.5	18.2	19.4
Depreciation and Amortization	3,008	3,157	3,406	3,614
EBIT	7,681	7,856	9,329	11,367
Margin (%)	13.4	12.5	13.3	14.7
Net Interest	1,469	1,291	996	685
Other Income	273	617	750	900
Profit Before Tax	6,486	7,182	9,084	11,582
Margin (%)	11.3	11.4	13.0	15.0
Total Tax	1,978	1,807	2,362	3,011
Effective tax rate (%)	30.5	25.2	26.0	26.0
Profit after tax	4,508	5,375	6,722	8,570
Minority interest	2,348	443	500	700
Share Profit from Associate	242	218	300	300
Adjusted PAT	2,401	5,151	6,522	8,170
YoY gr. (%)	(318.7)	114.6	26.6	25.3
Margin (%)	4.2	8.2	9.3	10.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,401	5,151	6,522	8,170
YoY gr. (%)	(318.7)	114.6	26.6	25.3
Margin (%)	4.2	8.2	9.3	10.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,401	5,151	6,522	8,170
Equity Shares O/s (m)	755	755	755	755
EPS (Rs)	7.4	6.8	8.6	10.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	83,632	86,719	92,719	97,719
Tangibles	83,632	86,719	92,719	97,719
Intangibles	-	-	-	-
Acc: Dep / Amortization	30,707	33,865	37,271	40,884
Tangibles	30,707	33,865	37,271	40,884
Intangibles	-	-	-	-
Net fixed assets	52,925	52,854	55,448	56,834
Tangibles	52,925	52,854	55,448	56,834
Intangibles	-	-	-	-
Capital Work In Progress	1,935	2,278	2,278	2,278
Goodwill	41,232	41,410	41,410	41,410
Non-Current Investments	1,036	2,103	2,103	2,103
Net Deferred tax assets	(121)	(665)	(665)	(665)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	1,229	1,228	1,368	1,514
Trade receivables	5,122	5,816	7,108	7,870
Cash & Bank Balance	4,127	3,627	3,726	7,998
Other Current Assets	7,533	11,551	12,706	13,977
Total Assets	1,18,848	1,24,336	1,29,615	1,37,452
Equity				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	54,233	64,873	71,395	79,565
Total Network	61,782	72,423	78,944	87,115
Non-Current Liabilities				
Long Term borrowings	7,791	5,722	5,722	5,722
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,866	1,309	(191)	(1,691)
Trade payables	6,609	7,143	8,530	9,443
Other current liabilities	25,794	22,825	21,195	20,748
Total Equity & Liabilities	1,18,848	1,24,336	1,29,615	1,37,452

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	6,486	7,182	9,084	11,582
Add. Depreciation	3,008	3,157	3,406	3,614
Add. Interest	1,469	1,291	996	685
Less Financial Other Income	273	617	750	900
Add. Other	(4,835)	736	-	-
Op. profit before WC changes	6,128	12,367	13,485	15,881
Net Changes-WC	4,505	(2,337)	(2,830)	(1,712)
Direct tax	(1,978)	(1,807)	(2,362)	(3,011)
Net cash from Op. activities	8,654	8,223	8,294	11,157
Capital expenditures	(2,155)	(4,472)	(6,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	(2,989)	735	300	300
Net Cash from Inv. activities	(5,144)	(3,737)	(5,700)	(4,700)
Issue of share cap. / premium	-	-	-	-
Debt changes	(3,051)	(2,625)	(1,500)	(1,500)
Dividend paid	-	-	-	-
Interest paid	(1,469)	(1,291)	(996)	(685)
Others	970	(1,069)	-	-
Net cash from Fin. activities	(3,549)	(4,985)	(2,496)	(2,185)
Net change in cash	(39)	(500)	98	4,272
Free Cash Flow	6,499	3,750	2,294	6,157

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	14,879	16,072	15,599	16,427
YoY gr. (%)	5.5	9.9	6.4	19.2
Raw Material Expenses	3,492	3,649	3,583	3,824
Gross Profit	11,387	12,423	12,016	12,603
Margin (%)	76.5	77.3	77.0	76.7
EBITDA	2,511	3,029	2,764	2,709
YoY gr. (%)	(8.8)	6.5	(3.7)	22.4
Margin (%)	16.9	18.8	17.7	16.5
Depreciation / Depletion	743	769	828	818
EBIT	1,768	2,260	1,937	1,891
Margin (%)	11.9	14.1	12.4	11.5
Net Interest	312	328	334	317
Other Income	207	155	117	138
Profit before Tax	1,663	2,603	1,835	1,817
Margin (%)	11.2	16.2	11.8	11.1
Total Tax	420	496	440	451
Effective tax rate (%)	25.3	19.1	24.0	24.8
Profit after Tax	1,243	2,107	1,395	1,366
Minority interest	121	139	126	58
Share Profit from Associates	100	75	26	17
Adjusted PAT	1,223	2,044	1,296	1,326
YoY gr. (%)	(53.6)	91.3	11.0	95.0
Margin (%)	8.2	12.7	8.3	8.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,223	2,044	1,296	1,326
YoY gr. (%)	(53.6)	91.3	11.0	95.0
Margin (%)	8.2	12.7	8.3	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,223	2,044	1,296	1,326
Av g. Shares O/s (m)	-	-	-	-
EPS (Rs)	1.6	2.7	1.7	1.8

Source: Company Data, PL Research

Key Financial Metrics

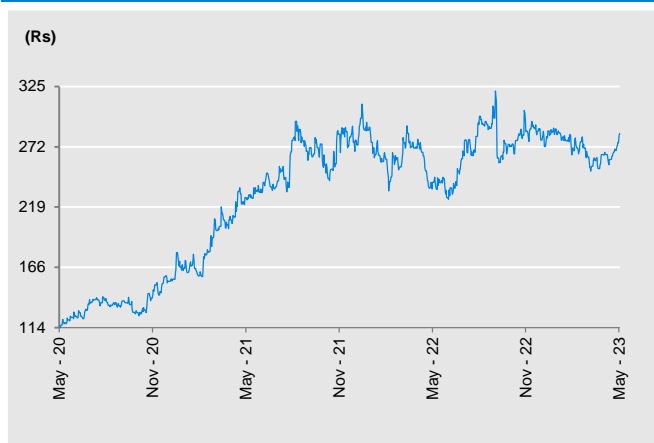
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	7.4	6.8	8.6	10.8
CEPS	7.2	11.0	13.2	15.6
BVPS	81.8	95.9	104.6	115.4
FCF	8.6	5.0	3.0	8.2
DPS	-	-	-	-
Return Ratio(%)				
RoCE	10.6	10.4	11.4	12.9
ROIC	6.7	6.5	7.4	8.8
RoE	3.9	7.7	8.6	9.8
Balance Sheet				
Net Debt : Equity (x)	0.1	0.0	0.0	0.0
Net Working Capital (Days)	(2)	(1)	0	0
Valuation(x)				
PER	39.1	42.2	33.3	26.6
P/B	3.5	3.0	2.8	2.5
P/CEPS	40.1	26.1	21.9	18.4
EV/EBITDA	20.8	20.0	17.2	14.2
EV/Sales	3.9	3.5	3.1	2.8
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Hospital	42,642	51,072	56,865	62,956
Diagnostic	14,535	11,904	13,094	14,404
International biz revenues	(1)	0		

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	360	256
2	13-Feb-23	BUY	360	272
3	06-Jan-23	BUY	360	285
4	14-Nov-22	BUY	360	304
5	06-Oct-22	BUY	330	266
6	09-Aug-22	BUY	330	269
7	07-Jul-22	BUY	330	238
8	27-May-22	BUY	330	235

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	265	240
3	Aurobindo Pharma	BUY	565	522
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	3,098
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	360	256
9	Glenmark Pharmaceuticals	Reduce	570	609
10	HealthCare Global Enterprises	BUY	375	274
11	Indoco Remedies	BUY	430	328
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,975
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	980	827
18	Sun Pharmaceutical Industries	BUY	1,175	997
19	Torrent Pharmaceuticals	BUY	1,820	1,578
20	Zydus Lifesciences	Accumulate	520	508

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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