Company

19 March 2010 | 14 pages

Fortis Healthcare (FOHE.BO)

Sell: Quality but Expensive

Equity ☑
Target price change ☑
Estimate change ☑

- **Gaining Scale** — In this note, we take stock of the two large acquisitions done by Fortis in the last few months – ten hospitals from Wockhardt Hospitals (WHL) and 23.9% stake in Parkway Holdings – which has made it the largest hospital group from India. While we believe the former is a good, synergistic deal and attractively valued, the latter appears quite expensive and potentially dilutive in the near term.

- **Raising Estimates & TP** — We raise our FY11/12 EBIDTA estimates by 33%/44%, as we add the hospitals acquired from WHL into our numbers. We also raise TP to Rs145 (from Rs110), based on 16x FY11E EBIDTA. We continue to like the Indian healthcare delivery story and believe that Fortis is well positioned to grow. However at 22x FY11E EBIDTA, we find the stock expensive. We maintain our Sell/Medium Risk (3M) rating.

- **WHL Hospitals Provides Scale & Pan-India Presence** — The 10 hospitals acquired from WHL provides scale (operating beds up 73%, revenues up 49%, EBITDA up 54%) and access to key cities such as Mumbai, Bengaluru & Kolkata. We expect these hospitals to contribute 30% & 33% of revenues and 34% & 36% of EBITDA in FY11E & 12E respectively. They also provide access to much wider talent pool, as well as scope to exploit synergies in purchase & supply management, marketing, training & development and project implementation.

- **Parkway: Good Asset But Expensive** — Fortis' move to buy TPG Capital's stake in Parkway reveals its ambition to be a serious player in international markets. While Parkway is a high quality asset with strong growth prospects, the acquisition appears expensive at c21x CY11E EBIDTA. While Fortis gets management control, we see few direct synergies between the two entities beyond sharing multi-specialty capabilities and medical know-how, access to cutting edge technology in stem cell therapy and organ transplantation.

Sell/Medium Risk	3M
Price (18 Mar 10)	Rs177.35
Target price	Rs145.00
from Rs110.00	
Expected share price return	-18.2%
Expected dividend yield	0.0%
Expected total return	**-18.2%**
Market Cap	Rs56,277M
	US$1,238M

Price Performance (RIC: FOHE.BO, BB: FORH IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2008A	-376	-1.66	70.5	nm	3.6	-5.0	0.0
2009A	145	0.64	138.5	nm	3.8	1.3	0.0
2010E	643	2.03	216.9	87.5	2.6	4.0	0.0
2011E	1,282	4.04	99.3	43.9	2.5	5.8	0.0
2012E	2,063	6.50	61.0	27.3	2.3	8.7	0.0

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	nm	nm	87.5	43.9	27.3
EV/EBITDA adjusted (x)	nm	70.5	41.3	21.4	15.9
P/BV (x)	3.6	3.8	2.6	2.5	2.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	-1.66	0.64	2.03	4.04	6.50
EPS reported	-2.45	0.92	2.03	4.04	6.50
BVPS	49.60	47.21	67.17	71.20	77.71
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	5,071	6,305	9,125	15,535	20,308
Operating expenses	-5,331	-5,934	-8,156	-13,586	-17,387
EBIT	**-260**	**371**	**969**	**1,949**	**2,921**
Net interest expense	-555	-437	-352	-595	-665
Non-operating/exceptionals	230	347	200	220	242
Pre-tax profit	**-584**	**282**	**817**	**1,574**	**2,498**
Tax	-16	-41	-123	-236	-375
Extraord./Min.Int./Pref.div.	45	-32	-52	-57	-60
Reported net income	**-555**	**208**	**643**	**1,282**	**2,063**
Adjusted earnings	-376	145	643	1,282	2,063
Adjusted EBITDA	209	859	1,502	3,004	4,126
Growth Rates (%)					
Sales	-2.4	24.3	44.7	70.2	30.7
EBIT adjusted	8.1	243.0	161.1	101.2	49.9
EBITDA adjusted	-62.4	311.5	75.0	99.9	37.4
EPS adjusted	70.5	138.5	216.9	99.3	61.0
Cash Flow (RsM)					
Operating cash flow	**121**	**485**	**446**	**2,296**	**3,446**
Depreciation/amortization	468	487	533	1,054	1,205
Net working capital	-101	684	-867	-249	-119
Investing cash flow	**-2,008**	**-966**	**-13,000**	**-4,000**	**-4,000**
Capital expenditure	-1,119	-937	-13,000	-4,000	-4,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,885**	**923**	**13,179**	**1,000**	**1,000**
Borrowings	-2,261	1,010	3,210	1,000	1,000
Dividends paid	0	0	0	0	0
Change in cash	**-2**	**442**	**624**	**-704**	**446**
Balance Sheet (RsM)					
Total assets	**17,016**	**18,169**	**32,575**	**37,038**	**41,783**
Cash & cash equivalent	161	579	1,187	493	986
Accounts receivable	959	1,335	1,916	2,796	3,656
Net fixed assets	9,533	10,044	18,511	21,457	24,252
Total liabilities	**5,558**	**7,253**	**11,011**	**14,127**	**16,702**
Accounts payable	1,245	1,935	2,484	4,599	6,174
Total Debt	3,755	4,790	8,000	9,000	10,000
Shareholders' funds	**11,458**	**10,917**	**21,563**	**22,912**	**25,081**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	4.1	13.6	16.5	19.3	20.3
ROE adjusted	-5.0	1.3	4.0	5.8	8.7
ROIC adjusted	-2.2	2.2	3.9	5.7	7.8
Net debt to equity	31.4	38.6	31.6	37.1	35.9
Total debt to capital	24.7	30.5	27.1	28.2	28.5

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Powered by: dataCentral

Quality but Expensive

We take stock of the two large acquisitions done by Fortis Healthcare in the last few months – ten hospitals from Wockhardt Hospitals (WHL) and 23.9% stake in Parkway Holdings – which has made it the largest hospital group from India. While we believe the former is a good, synergistic deal and attractively valued, the latter appears quite expensive and potentially dilutive in the near term.

We raise our sales & EBIDTA estimates over FY11-12, as we add the hospitals acquired from WHL into our numbers. We also raise target price to Rs145/share, based on 16x FY11E EBIDTA. We continue to like the Indian healthcare delivery story and believe that Fortis is well positioned to grow; however, at current valuations (22x FY11E & 16x FY12E EBIDTA), we find the stock expensive. We maintain our Sell rating.

Inorganic Leap

Two acquisitions – one accretive, one dilutive

Fortis has made two large acquisitions (10 hospitals from WHL & 23.9% stake in Parkway Holdings) in FY10 and, in the process, evolving from a medium sized regional player to a large group with interests across India and Asia. In our view, the WHL hospitals gave it a presence in key cities of Mumbai, Bengaluru & Kolkata, came at attractive valuations & would be accretive from the outset. On the other hand, while we view Parkway as a great asset, we believe valuations are on the high side and financial synergies are limited. The former was funded by a Rs10bn rights issue while the latter would also need a fair infusion of fresh equity and some incremental going forward.

Parkway – Going International

First step in achieving its global ambition

Fortis has signed a definitive agreement to acquire TPG Capital's 23.9% stake in Parkway Holdings (Singapore) for US$685.3m. Post the acquisition, it also plans to seek four seats on the board and nominate its current Chairman, Mr Malvinder Singh, as the Chairman of Parkway. This represents the first step in Fortis' plans to become an international player. It intends to look for opportunities in Asia as well as outside the continent in future.

About Parkway

A good quality asset

Parkway is one of Asia's leading healthcare providers, with a presence in Singapore (1,022 beds), Malaysia (1,900 beds), India (425 beds), UAE (260 beds), Brunei (20 beds) & China (14 beds). It also has a GP clinic network (Parkway Shenton) and provides radiology (through Medi-Rad Associates) and laboratory (through Parkway Laboratory Services) services. Besides, it owns a 35.4% stake in Parkway Life REIT, which invests in healthcare / healthcare related real estate assets.

In CY09, it had revenues, EBITDA & rec. PAT of S$979m, S$194m & S$118m respectively. Citi analyst, Horng Han Low, expects Parkway Holdings to report revenues of S$1.15bn & S$1.25bn and net profit of S$137m & S$154m in CY10E &11E respectively.

Singapore accounts for c66% of Parkway's topline – mature market, steady growth

Malaysia (thru 40% stake in Pantai) – accounts for 26% of revenues – is a key growth driver going forward

Limited presence in India

Figure 1. Parkway – Summary of Hospitals Operations

Country	No. of Hospitals	No. of beds	Comments
Singapore	3 (operational) + 1 (under construction)	1,022	Owns 3 three private hospitals in Singapore. Is setting up a new 350 bed hospital (under construction). Singapore contributes c66% of Parkway's revenues.
Malaysia	8 (operational) + 5 (planned)	1,900	Owns 40% in Pantai Holdings - Malaysia's largest private healthcare provider with 8 hospitals. This region is a key driver, given the company's plans for five more hospitals (~1000 beds), as it looks to boost its market share from 25% to 40%. This region accounts for 26% of Parkway's revenues.
India	1 (operational)+ 1 (under construction)	425	Apollo Gleneagles Hospital in Kolkata – a 50:50 JV with Apollo Hospitals. Setting up a cancer centre at Gleneagles - expected to be operational in Mar '10. Also setting up a 500 bed hospital in Mumbai, through a 50:50 JV with Koncentric Investments. Accounts for c6% of Parkway's topline.
UAE	1 (under construction)	260	A 260 bed women & children hospital - Design works in progress, construction expected to begin in 1QCY10
Brunei	1 (operational)	20	The hospital houses a cardiac centre & an out patient facility
China	2 (operational)	14	Two primary care centers in Shanghai

Source: Company Reports and Citi Investment Research and Analysis

Singapore is the largest contributor

While Singapore is the largest contributor to Parkway's topline, the market appears to have matured and is growing at a steady pace, leading to a mere 9% CAGR in revenues over CY09-11E (Citi est.).

Malaysian operations would likely be the key growth driver

Going forward, its presence in Malaysia (thru Pantai) is likely to be the key growth driver, for revenues and profitability. Citi analyst, Horng Han Low, believes that "*operating environment* [in Malaysia] *is conducive for private healthcare providers to significantly increase patient load*" (see note dated 4 Jan 2010, Stronger Earnings and Activities in the Pipeline). This is also reflected in Parkway's aggressive expansion plans in Malaysia, where it is planning to set up five more hospitals.

Limited presence in India

Parkway's presence in India is limited and is mainly through its JV with Apollo Hospitals – Apollo Gleneagles in Kolkata. It will be interesting to see how things evolve on this front after Fortis gets management control. While the management has indicated that things will continue as before, we see an inherent conflict of interest, with Fortis setting up a large hospital of its own (414 beds) to add to its current 67 bed hospital in Kolkata.

What does Fortis gain?

Leading presence in Asia & sharing of multi-specialty capabilities

The deal makes Fortis the largest Indian healthcare company and a leading player in Asia, with a network (owned & managed) of 62 hospitals and 10,000+ beds – giving them a Pan-Asia platform for future growth.

While direct synergies are few, especially in terms of financials, there are quite a few intangible upsides in the form of sharing multi-specialty capabilities and medical know-how, access to cutting edge technology in stem cell therapy and organ transplantation. It would also give additional visibility to the Fortis brand in other Asian markets. There is also limited geographic overlap between the two groups, which is a positive.

Limited financial synergies

On the other hand, we do not see any material upside being realized through cost saving / operational synergies, given that Parkway is already a well run business, there is not much geographical overlap and the basic nature of the hospitals business (limited linkages between different hospitals).

Stretched Valuations

Deal valuation builds in strategic control – potentially dilutive in near term

The deal values Parkway at US$2.8bn and works out to EV / EBIDTA of 23x CY10E & 21x CY11E based on Citi estimates of CY10 & CY11 EBIDTA. The steep valuations possibly reflect the intangible upsides and the strategic control that Fortis hopes to gain from the acquisition. However, given the limited ability to improve operations in Parkway and the price paid, we expect the acquisition to be dilutive in the near term. Parkway has also not been growing fast in the past (sales & EBIDTA CAGRs of 15% & 9% respectively over CY05-09) and we do not expect any significant change in this trend going forward.

Figure 2. Parkway Acquisition - Valuations

	CY10E	CY11E
EV/Sales (x)	4.2	3.9
EV/EBITDA (x)	22.9	20.9
P/E (x)	29.4	26.1

Source: CIRA estimates

Funding – Mainly Equity

Significant equity dilution on the cards

The outlay of US$685.3m is quite high in relation to Fortis' balance sheet. Fortis has indicated that a significant portion of this amount would be raised through issue of fresh equity / equity-linked instruments. It has board approval to raise up to Rs12.5bn through issue of equity / equity linked instruments. Besides, it also has c90m worth of warrants outstanding (issued as a part of the rights issue – one warrant for every share issued), which it can call on. Any shortfall beyond this is likely to be made up by raising fresh debt. Fortis expects to remain within the 1:1 debt equity range, post the transaction.

In the interim, Fortis plans to fund the acquisition through bridge loans of Rs2.5bn. We believe that the proposed equity dilution would be quite significant given Fortis' current market capitalization and could remain a technical overhang on the stock.

Wockhardt Acquisition – Scale & Presence

Fortis has purchased, from Wockhardt Hospitals, ten hospitals (two of which are under construction) – two in Mumbai, five in Bengaluru and three in Kolkata – for an EV of Rs9.1bn (incl. Rs1.9bn for those under construction). Most of the management and clinical team in these hospitals have also moved over to Fortis.

856 beds currently operational at the eight commercialized hospitals – expansion plans (512 beds) in progress, primarily at Mulund & BG Road hospitals

The hospital at Sarat Bose Road, Kolkata is a secondary care hospital specializing in dental and ophthalmology procedures – primarily an outpatient facility

The Kolkata hospitals are Fortis' first foray into East India

Figure 3. Hospitals Acquired by Fortis from WHL

City	Location	Bed Capacity
Existing		
Mumbai	Mulund	567
Mumbai	Kalyan	60
Bengaluru	BG Road	451
Bengaluru	Cunningham Road	128
Bengaluru	Chord Road	40
Bengaluru	Nagar Bhavi	55
Kolkata	Rashbehari Avenue	67
Kolkata	Sarat Bose Road	-
Total Existing Bed Capacity (856 operational)		**1,368**
Under Construction		
Bengaluru	Yeshwantpura	120
Kolkata	Anandpur	414
Total Bed Capacity		**1,902**

Source: Company Reports

What does Fortis gain?

Pan Indian presence

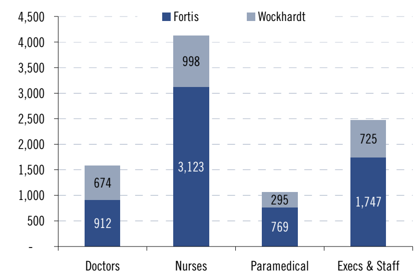
Fortis' presence (prior to this deal) was primarily restricted to North India (primarily the National Capital Region). This deal will change that by giving it access to other high potential markets such as Mumbai (West), Bengaluru (South) & Kolkata (East) through a set of well run hospitals. We expect this deal to help Fortis emerge as a well known pan Indian healthcare delivery player.

Figure 4. Bed Capacity – Region wise Distribution*

	North Zone (NCR, Punjab, Rajasthan)		West & Central (Maharashtra, Gujarat, Chhattisgarh)		South Zone (AP, TN, Karnataka, Kerala)		East Zone (West Bengal)		Total	
	Hospitals	Beds	Hospitals	Beds	Hospitals	Beds	Hospitals	Beds	Hospitals	Beds
Fortis Network	13	2,312	3	480	2	350	-	-	18	3,142
Acquired from Wockhardt	-	-	2	627	5	794	3	481	10	1,902
Total	**13**	**2,312**	**5**	**1,107**	**7**	**1,144**	**3**	**481**	**28**	**5,044**

Source: Company Reports *includes own & managed bed capacity – including planned projects in WHL (operational bed count would be lower)

Figure 5. Employee Count (pre/post acquisition)

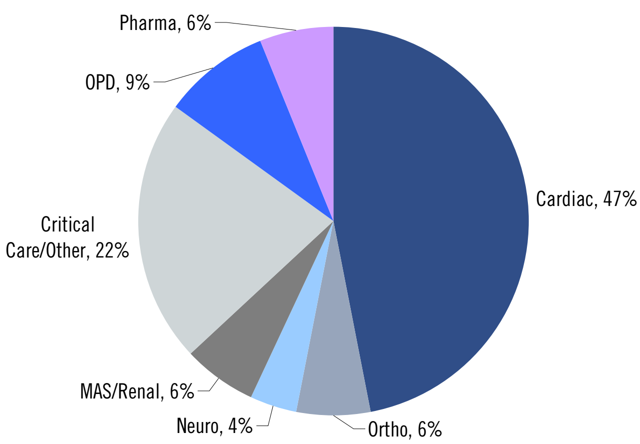


Source: Company Reports

Scale

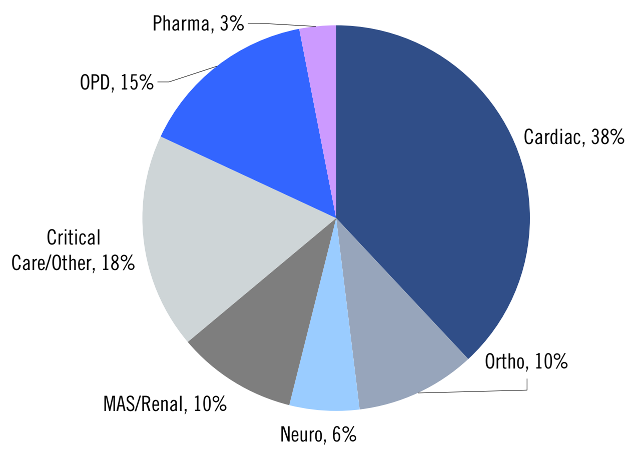
Post the acquisition, Fortis is the leading private healthcare provider in 7 states viz. Delhi, Maharashtra, Karnataka, Punjab, Haryana, Rajasthan and Uttar Pradesh. Besides bed capacity (see Figure 3), the deal also materially enhances the number of operating beds (up 73%), revenues (up 49%) and EBIDTA (up 54%), according the company. Beyond financials, it also gives it a much wider talent pool – in terms of doctors and nurses – and scope to exploit synergies in the areas of purchase & supply management, marketing, training & development and project implementation.

Figure 6. FHL – Therapy wise Revenue Breakup



Source: Company Reports

Figure 7. WHL – Therapy wise Revenue Breakup



Source: Company Reports

Earnings & Target Price Revision

Figure 8. Earnings Revision

	FY10E	FY11E	FY12E
Revenues (Rs m)			
New	9,125	15,535	20,308
Old	8,661	11,071	13,144
Change (%)	*5%*	*40%*	*55%*
EBITDA (Rs m)			
New	1,502	3,004	4,126
Old	1,554	2,254	2,871
Change (%)	*-3%*	*33%*	*44%*
Net Profit (Rs m)			
New	643	1,282	2,063
Old	575	1,028	1,442
Change (%)	*12%*	*25%*	*43%*
EPS (Rs)			
New	2.0	4.0	6.5
Old	2.5	4.5	6.4
Change (%)	*-20%*	*-11%*	*2%*

Source: CIRA estimates

We incorporate the WHL acquisition into our forecasts. We have not yet included Parkway Holdings and intend to do so once the deal is closed. Our revised estimates reflect the following key changes:

- Our revenue estimates are higher by 5%, 40% & 55%, primarily on the back of the hospitals acquired from WHL (see detailed revenue break up in Figure 13). We expect Wockhardt to contribute to 30% & 33% of overall revenues in FY11 & FY12 respectively. We have marginally lowered our estimates for the Fortis set of hospitals as they were tracking behind our estimates in 9MFY10.

- Our EBITDA estimates are lower by 3% in FY10, due to lower than expected profitability in several key hospitals, including Escorts Faridabad & Escorts Amritsar. Our EBITDA estimates are higher by 33% & 44% in FY11 & FY12 due to the full impact of Wockhardt acquisition. We expect the acquired hospitals to contribute 34% & 36% of overall EBITDA in FY11 & 12E respectively. However, we have lowered our estimates from the Fortis group of hospitals given the trend in 9MFY10.

- Our net profit estimates are 12%, 25% & 43% higher for FY10, FY11 and FY12 respectively – bottomline is dragged down by higher interest and depreciation post the Wockhardt acquisition. Our EPS estimates are lower by 20% & 11% over FY10E & FY11E and higher by 2% in FY12E respectively due to the higher share count post the rights issue.

Raising Target Price to Rs145/share

We raise our target price on Fortis to Rs145/share, as we roll forward to March '11E EBITDA and raise our target multiple to 16x from 15x earlier. We believe Fortis' greater scale and geographical diversification post the WHL hospitals acquisition merit a higher multiple.

While we remain positive on the business, we believe the stock is on the expensive side – leading us to maintain our Sell rating.

Figure 9. Global Hospitals Valuations Map

		CIR	Price*	M Cap	P/E			EV/EBITDA			EPS CAGR	EBITDA CAGR	RoCE	RoE
Company	RIC	Rating	18-Mar-10	US$m	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	('10-12E)	('10-12E)		
Parkway	PARM.SI	1L	3.2	2,615	31.3	26.7	23.7	22.0	19.9	18.1	14.9%	10.2%	6.0%	8.8%
Tenet Health	THC.N	2S	5.7	2,723	43.6	30.2	23.7	6.6	6.3	5.9	35.7%	5.8%	9.4%	82.0%
Health Mgmt Assc.	HMA.N	1H	8.1	2,024	16.3	13.6	11.7	7.2	6.8	6.3	18.1%	7.4%	9.1%	77.2%
LifePoint Hosp.	LPNT.O	1M	35.6	1,954	14.3	13.2	12.4	6.8	6.2	5.7	7.6%	8.8%	7.1%	8.0%
Community Health	CYH.N	1H	37.6	3,501	14.1	12.3	10.8	7.4	6.8	6.4	14.3%	7.7%	7.8%	16.6%
Bumrungrad	BH.BK	NR	31.0	699	21.5	17.5	15.8	17.4	10.0	9.0	16.6%	39.4%	N/A	24.1%
Bangkok Dusit	BGH.BK	NR	24.8	936	17.5	15.5	13.6	18.4	7.5	6.5	13.3%	68.6%	N/A	12.4%
Bangkok Chain	KH.BK	NR	5.2	265	12.6	11.9	11.2	9.8	6.4	5.8	6.0%	30.1%	N/A	21.1%
Healthscope	HSP.AX	2M	4.3	1,267	14.1	12.5	13.4	10.8	8.1	7.5	2.5%	20.5%	9.0%	8.8%
Ramsay Health	RHC.AX	1M	13.5	2,511	22.2	18.2	16.0	11.8	9.4	7.9	17.7%	22.5%	9.6%	15.6%
Apollo Hospitals	**APLH.BO**	**1M**	**716.5**	**973**	**27.7**	**22.3**	**18.1**	**12.8**	**12.0**	**10.3**	**23.7%**	**11.8%**	**8.4%**	**10.3%**
Fortis Healthcare	**FOHE.BO**	**3M**	**177.4**	**1,238**	**87.5**	**43.9**	**27.3**	**42.0**	**21.6**	**15.8**	**79.1%**	**65.7%**	**6.1%**	**5.5%**

Source: IBES estimates for Not Rated (NR) stocks, Citi Investment Research and Analysis estimates *in local currency

Financials

Figure 10. Fortis Healthcare – Consolidated P&L (Rs m, %)

	FY09	FY10E	FY11E	FY12E
Revenues	**6,305**	**9,125**	**15,535**	**20,308**
Operating Expenses	5,447	7,623	12,531	16,183
EBITDA	**859**	**1,502**	**3,004**	**4,126**
EBITDA Margin (%)	*13.6*	*16.5*	*19.3*	*20.3*
Interest	437	352	595	665
Depreciation/Amortisation	487	533	1,054	1,205
Other Income	284	200	220	242
PBT	**219**	**817**	**1,574**	**2,498**
Tax	41	123	236	375
Profit After Tax	177	695	1,338	2,123
Exceptional Items	63	-	-	-
MI/Share of Associates Profit	(32)	(52)	(57)	(60)
Reported PAT	**208**	**643**	**1,282**	**2,063**

Source: Company, Citi Investment Research and Analysis estimates

Figure 11. Fortis Healthcare – Consolidated Balance Sheet (Rs m)

	FY09	FY10E	FY11E	FY12E
Share Capital	2,387	3,291	3,291	3,291
Reserves and Surplus	10,799	19,863	19,863	19,863
Shareholders Funds	**13,186**	**23,154**	**23,154**	**23,154**
Loan Funds	**4,790**	**8,000**	**9,000**	**10,000**
Minority Interest	216	250	317	424
Deferred Liabilities	12	96	249	486
Total Liabilities	**18,204**	**31,501**	**32,720**	**34,064**
Gross Block	11,558	20,558	24,558	28,558
Less Depreciation	3,349	3,883	4,937	6,142
Net Block	**8,208**	**16,675**	**19,620**	**22,416**
CWIP & others	1,836	1,836	1,836	1,836
Total	10,044	18,511	21,457	24,252
Goodwill	**3,961**	**7,961**	**7,961**	**7,961**
Investments	541	541	541	541
Cash and Bank Balances	579	1,187	493	986
Other Current Assets	3,056	4,471	6,835	8,530
Current Liabilities and Provisions	2,462	3,011	5,127	6,702
Net Current Assets	**1,173**	**2,647**	**2,202**	**2,813**
Miscellaneous Expenditure	5	5	5	5
Debit Balance in P&L account	**2,480**	**1,836**	**555**	**(1,5086)**
Total Assets	**18,204**	**31,501**	**32,720**	**34,064**

Source: Company, Citi Investment Research and Analysis estimates

Figure 12. Fortis Healthcare – Consolidated Cash Flow Statement (Rs m)

	FY09	FY10E	FY11E	FY12E
Reported Net Income	208	643	1,282	2,063
Depreciation	487	533	1,054	1,205
Change in working capital	684	(867)	(249)	(119)
Other	(900)	119	219	343
Operating cash flow	**480**	**429**	**2,306**	**3,492**
Capital expenditure	(937)	(13,000)	(4,000)	(4,000)
Investments	(29)	-	-	-
Free Cash Flow	**(486)**	**(12,571)**	**(1,694)**	**(508)**
Shares issued	-	9,969	-	-
Change in borrowings	1,010	3,210	1,000	1,000
Dividend paid	-	-	-	-
Others	(88)	-	-	-
Change in Cash	**437**	**607**	**(694)**	**492**
Opening Cash balance	136	579	1,187	493
Closing Cash balance	**573**	**1,187**	**493**	**986**

Source: Company, Citi Investment Research and Analysis estimates

Figure 13. Fortis Healthcare – Key Hospitals' Revenues (Rs m)

	FY09	FY10E	FY11E	FY12E
Fortis, Mohali + Amritsar	1,577	1,711	2,105	2,419
Fortis, Noida	956	1,149	1,422	1,664
Fortis, Shalimar Bagh, Delhi			548	1,002
Fortis, Gurgaon			211	816
Escorts, Delhi	2,080	2,721	3,179	3,598
Escorts, Faridabad	594	760	933	1,160
Escorts, Amritsar	411	515	642	757
Escorts, Jaipur	382	637	861	1,087
Fortis, Sheshadripuram(67% stake)		102	127	164
Fortis, Malar (51% stake)		616	659	705
Fortis Healthcare (FHL)	**6,000**	**8,211**	**10,687**	**13,372**
Wockhardt Mulund		1,040	1,603	2,431
Wockhardt Kalyan		78	127	167
Wockhardt BG Road		1,241	1,838	2,323
Wockhardt Cunningam Road		465	609	669
Wockhardt Chord Road		47	61	67
Wockhardt Nagar Bhavi		67	86	93
Wockhardt Rashbehari Avenue		207	266	286
Wockhardt Yeshwantpura			22	126
Wockhardt Anandpur			83	598
Wockhardt Hospitals		**3,145**	**4,695**	**6,760**
Total Hospitals Revenues*		**8,997**	**15,381**	**20,132**

Source: Company, Citi Investment Research and Analysis estimates

*Reported FY10 revenues for Fortis would reflect only 3 months of revenues from the Wockhardt hospitals.

Figure 14. Fortis HC – Expansion Plans

Location	No. of Beds	Area & Land Ownership	Expected date of commencement
Shalimar Bagh, NCR	350	7 Acres Owned	Q4' 10
Kolkata, West Bengal	414	Owned 294,931 Sq ft	Q3' 11
Gurgaon, NCR	450	11 Acres, Owned	Q4' 11
Peenya, Bengaluru	120	B. Lease ~70,000 Sq ft	Q4' 11
Ludhiana – 2, Punjab	100	1,00,000 sq ft. B. Lease	Q4' 12
Ludhiana – 1, Punjab	200	1,55,000 sq. ft., B. Lease	Q1' 13
Ahmedabad, Gujarat	200	1,55,000 sq. ft., B. Lease	Q2' 13

Source: Company Reports

Fortis Healthcare

Company description

Fortis Healthcare was incorporated in 1996, set up and owned by the erstwhile founders of India's largest pharmaceutical company, Ranbaxy Laboratories. It is a professionally managed company with a broad management team, headed by Mr. Shivinder Singh (founder shareholder and Managing Director). The company went public in May 2007. It is one of the largest hospital chains in India with a network of 38 hospitals and c5,000 beds under management in the country. The company has made two large acquisitions in the last few months – ten hospitals from Wockhardt Hospitals (WHL) and 23.9% stake in Parkway Holdings which has made it the largest hospital group from India.

Investment strategy

We rate Fortis as Sell/Medium Risk (3M) with a target price of Rs145. While Fortis looks well placed to gain from the growing market for healthcare delivery services in India over the longer term, at current levels it is one of the most expensive hospital stocks globally and upside looks limited. While we appreciate the need to value Indian hospitals at a premium to global peers, owing to higher growth rates, we believe any re-rating from current levels will be difficult. Our Sell rating is purely a valuation call and we would look to get more constructive on any share price weakness.

Valuation

Our target price for Fortis is Rs145. We prefer to use EV/EBIDTA versus EBIDTA CAGR as the primary method to value the company. We believe that hospital companies in India would have a predictable and steady revenue stream, given high unmet demand and low but growing penetration of organized healthcare. However, given that these companies are still in an investment phase, we believe EBIDTA provides a much better reflection of the operating profitability of the business at this point. Fortis has only one directly comparable company listed on the Indian market - Apollo Hospitals. We value Fortis at a slight premium to Apollo, at 16x EBITDA (vs 15x for Apollo) as we believe Fortis' greater scale & geographical diversification post the WHL hospitals acquisition merit a higher multiple. Our current EV/EBIDTA multiple of 16x is also in the range that Fortis has traded over the last several years. At 16x June '11E EBITDA we arrive at a target price of Rs145.

Risks

Our risk rating for Fortis is Medium Risk as suggested by our quants-based rating system, which tracks 260-day historical share price volatility. Key upside risks that could prevent the stock from achieving our rating and target price include: (1) Faster than expected ramp up in occupancy rates, especially in Escorts, could lead to the company beating our earnings estimates; (2) Better than expected performance of the WHL acquisition, could change the outlook for the stock; (3) Any progress on Fortis' plan to unlock value in its land holding could also trigger an upward move in the stock price.

Appendix A-1

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Fortis Healthcare (FOHE.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Prashant Nair, CFA
Covered since July 11 2007

	Date	Rating	Target Price	Closing Price
1	10-Jul-07	*1M	*100.00	81.40
2	6-Mar-08	*3M	*75.00	77.95
3	21-Jul-08	*3H	*60.00	62.15
4	9-Dec-08	3H	*59.00	62.95
5	8-Sep-09	*3M	*110.00	110.95

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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