

# Fortis Healthcare (India) Ltd

## Forging ahead

**Fundamental Grade** 4/5 (Superior fundamentals)

**Valuation Grade** 4/5 (CMP has upside)

**Industry** Healthcare Providers & Services

Fortis Healthcare (India) Ltd (Fortis), one of the leading healthcare service providers in India, is suitably placed to benefit from strong growth in the healthcare industry. While aggressive bed additions via the inorganic route led to strong growth in the past, greenfield projects and asset-light model will ensure future growth with enhanced return ratios. Synergy benefits from the recent acquisition of a diagnostic business and outstanding litigations are key monitorables. We assign Fortis a fundamental grade of **4/5**, indicating that its fundamentals are **superior** relative to other listed securities in India.

### Journey through the inorganic route ensured growth in the past

Fortis has aggressively followed the inorganic route to increase the bed count from 300 in FY01 to 4,800 installed beds now; 60% through acquisitions. Given the timeline of about three years to set up a hospital, we believe acquisitions have enabled Fortis get a head start on others and register faster growth.

### Greenfield path with focus on asset-light model to aid future growth

Fortis plans to add ~1,400 beds over the next two-three years through greenfield projects. Considering rising real estate costs, particularly in metros/tier I cities, Fortis has adopted the asset-light model for expansion. Of the eight upcoming hospitals, seven are on a lease basis; this will help Fortis grow at a rapid pace and enhance return ratios.

### Key monitorables: SRL acquisition and pending litigations

- 1) Fortis recently acquired 71.4% stake in Super Religare Laboratories (SRL) for Rs 8,030 mn. Since 60-70% of treatment decisions are based on diagnostic results, we expect Fortis to derive synergy benefits in the long term.
- 2) One of the Fortis hospitals in Delhi – Escorts - has pending litigations related to right on leasehold land and tax demand of Rs 969 mn. Since the outcome of litigations is pending, this remains a key monitorable.

### Revenues to grow at a two-year CAGR of 46%, RoCE to increase

We expect revenues to register a two-year CAGR of 46% to Rs 31.4 bn in FY13 driven by addition of new beds and contribution from the diagnostics business. EBITDA margin is expected to remain stable at 14.9% in FY13. RoCE is expected to improve to 6.2% in FY13 from 2.1% in FY11.

### Valuations – the current market price has upside

CRISIL Research has used the discounted cash flow method to value Fortis and arrived at a fair value of Rs 185 per share. While the hospital services business is valued at Rs 156 per share, the 71.4% stake in SRL has been valued at Rs 29 per share. We initiate coverage on Fortis with a valuation grade of **4/5**.

## KEY FORECAST

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	6,354	9,487	14,672	25,488	31,429
EBITDA	825	1,352	2,148	3,662	4,674
Adj PAT	87	564	1,091	1,653	1,907
Adj EPS-Rs	0.8	1.4	3.0	4.0	4.7
EPS growth (%)	NA	83.6	117.6	32.8	15.3
Dividend yield (%)	-	9.8	-	-	-
RoCE (%)	2.2	1.7	2.1	4.8	6.2
RoE (%)	0.9	4.1	4.2	4.3	4.2
PE (x)	138.7	77.7	62.2	41.4	35.9
P/BV (x)	1.3	2.4	2.1	1.5	1.5
EV/EBITDA (x)	22.1	62.7	29.8	19.8	15.4

NM: Not meaningful; CMP: Current Market Price

#FY11 numbers based on abridged financials

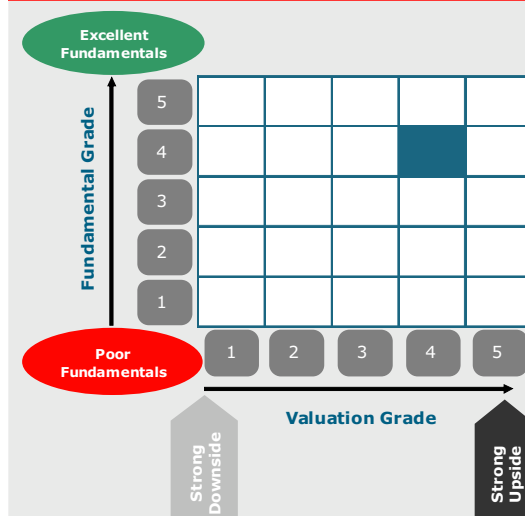
Source: Company, CRISIL Research estimate

July 15, 2011

Fair Value Rs 185

CMP Rs 167

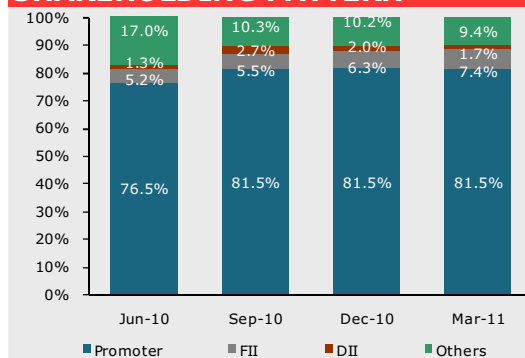
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY/SENSEX	5600/18618
NSE/BSE ticker	FORTIS
Face value (Rs per share)	10
Shares outstanding (mn)	405.7
Market cap (Rs mn)/(US\$ mn)	67,837/1,525
Enterprise value (Rs mn)/(US\$ mn)	64,737/1,455
52-week range (Rs) (H/L)	177 / 124
Beta	0.9
Free float (%)	18.5%
Avg daily volumes (30-days)	275,665
Avg daily value (30-days) (Rs mn)	44

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Fortis	3%	3%	24%	10%
NIFTY	2%	-5%	-1%	4%

## ANALYTICAL CONTACT

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