

Date: 25th March 2010

MF Global Sector – Healthcare

Fortis Healthcare

Visit Note: Not rated

CMP: Rs177

Investment Highlights

Operational since 2001, Fortis Healthcare (FHL) has grown very aggressively through inorganic route. Today it is second largest private sector healthcare provider on pan India basis with 46 hospitals and 6,700 beds and it treats over 1 mn lives. FHL acquired Escorts Heart Institute and Research Centre in Sept'05, and Wockhardt in Dec'09. FHL has operations in Mauritius, Delhi, Jaipur, Kota, Noida, Mohali, Amritsar, Faridabad, Chennai, Bangalore, Mumbai and Raipur. These hospitals include multi specialty hospitals, as well as super-specialty centres providing tertiary and quaternary healthcare to patients in areas such as cardiac care, orthopedics, neurosciences, oncology, renal care, gastroenterology and mother and child care.

Key rational

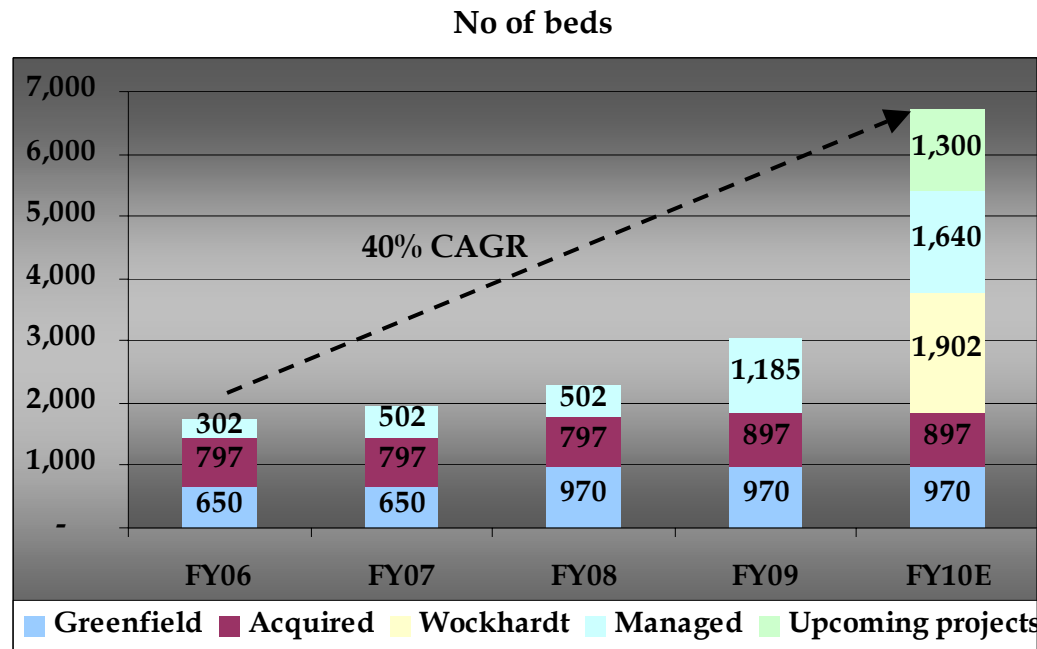
Ability to turnaround: The company's basic focus is to acquire hospital or chain of hospitals, which is underutilized turns it around and improve their profitability. The company achieves it by rationalizing its expenses, decrease average length of stay, there by churning more patients, rationalizing and optimally utilizing experts talent. It had acquired Escorts Delhi hospital in FY07 at that time the company was making operating margin of 10% on sales of Rs2,440 mn. FHL has reduced its bed size from 330 to 280, as well as occupancy level was down from 90% to 80% in FY10, however the company has able to decrease its ALOS (Average length of stay) from 7days in FY07 to 5.2days in FY10. Average revenue per occupied bed (ARPOB) has increased from Rs7.2 mn in FY07 to Rs12 mn in FY10E, which increased its operating margin to 20% in FY10 compared to 10% in FY07.

Managed hospital to improve bottom line: In last nine year, FHL has built very strong brand equity with pan India reach and visibility. On account of its sheer size, centralized sourcing of equipments, medicines and efficiently uses of doctors, the company is able to reduce cost by considerable amount. As a result it has been able to get many hospital under its management with profit share, depending upon improvement in efficiency and turnover. FHL charges a management fees which in most cases is a percentage of revenue on slab basis. Management fees out-paces cost incurred, by a great extent. In addition the company has been able to save heavy investment to set up hospital infrastructure. This asset light model provides very good return ratios. The company has been able to increase no of beds under its management from 302 in FY06 to 1,640 in FY10E.

Sensex				17451
Nifty				5225
Stock Data				
BSE Code				532843
NSE Code				FORTIS
Bloomberg				FORH.IN
Reuters				FOHE.BO
Share Issued (mn)				317.3
Market Cap (Rs mn)				56,233
52 Wk H/L (Rs)				188/66
Face Value (Rs)				10
Avg. daily vol. (12M)				429,406
Return (%)	1m	3m	12m	
Absolute	15.7	46.3	162.8	
Rel. to Sensex	8.6	45.1	77.6	
Key Financials				
	FY08	FY09	9mFY10	
Net sales (Rs mn)	5,071	6,305	6,084	
Opm (%)	4.1	13.6	15.4	
Adj PAT (Rs mn)	(555)	208	423	
Adj EPS (Rs)	(2.3)	0.9	1.3	
P/E (x)	NA	203.2	99.8	
EV/EBIDTA (x)	218.0	53.5	88.1	
RoNW (%)	(7.4)	1.9	24.6	

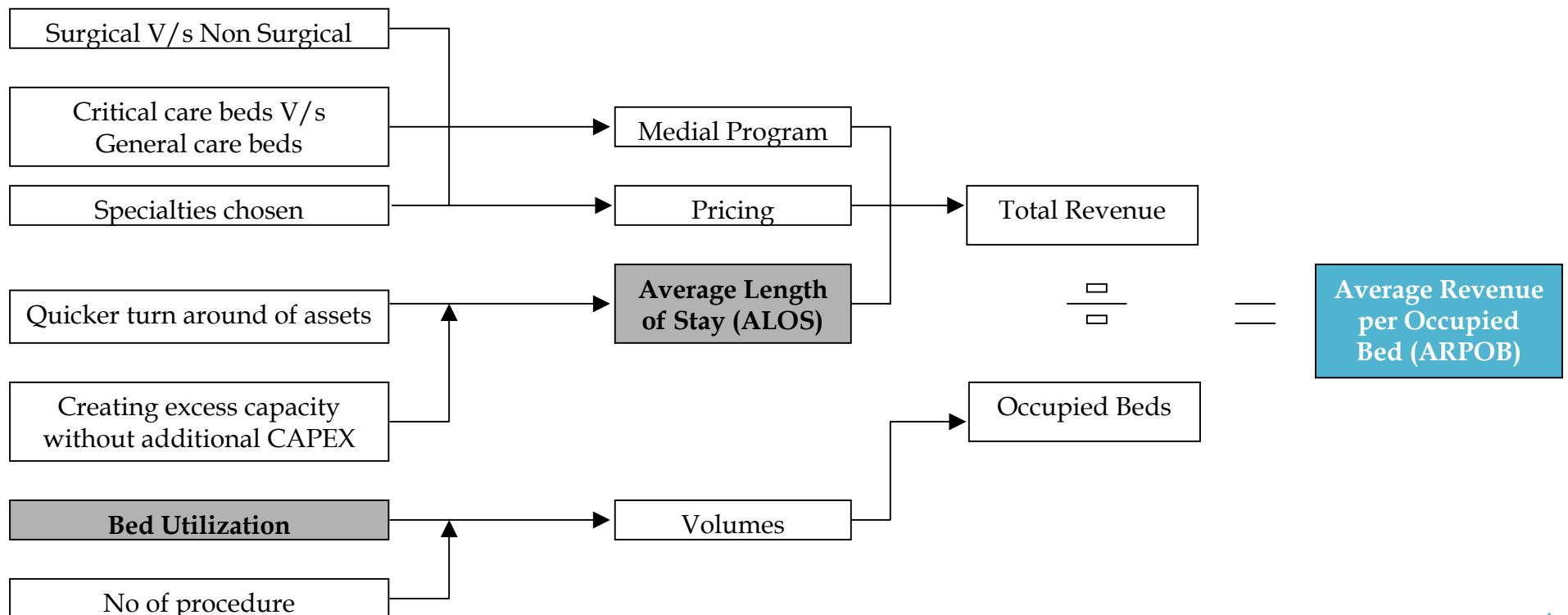
Aggressive ramp up in capacity:

The company has grown by 40% CAGR in last four year to 6,709 beds with 45 hospitals mainly on account of inorganic acquisitions. Main growth was on account of acquisition of Wockhardt hospital that has 856 beds operational and 1,000 beds under construction. This acquisition led to healthy revenue growth of 33.4% CAGR to Rs94 bn over FY06-10E. Going ahead, the company's revenue are expected to grow by 46% CAGR over FY10-12E.

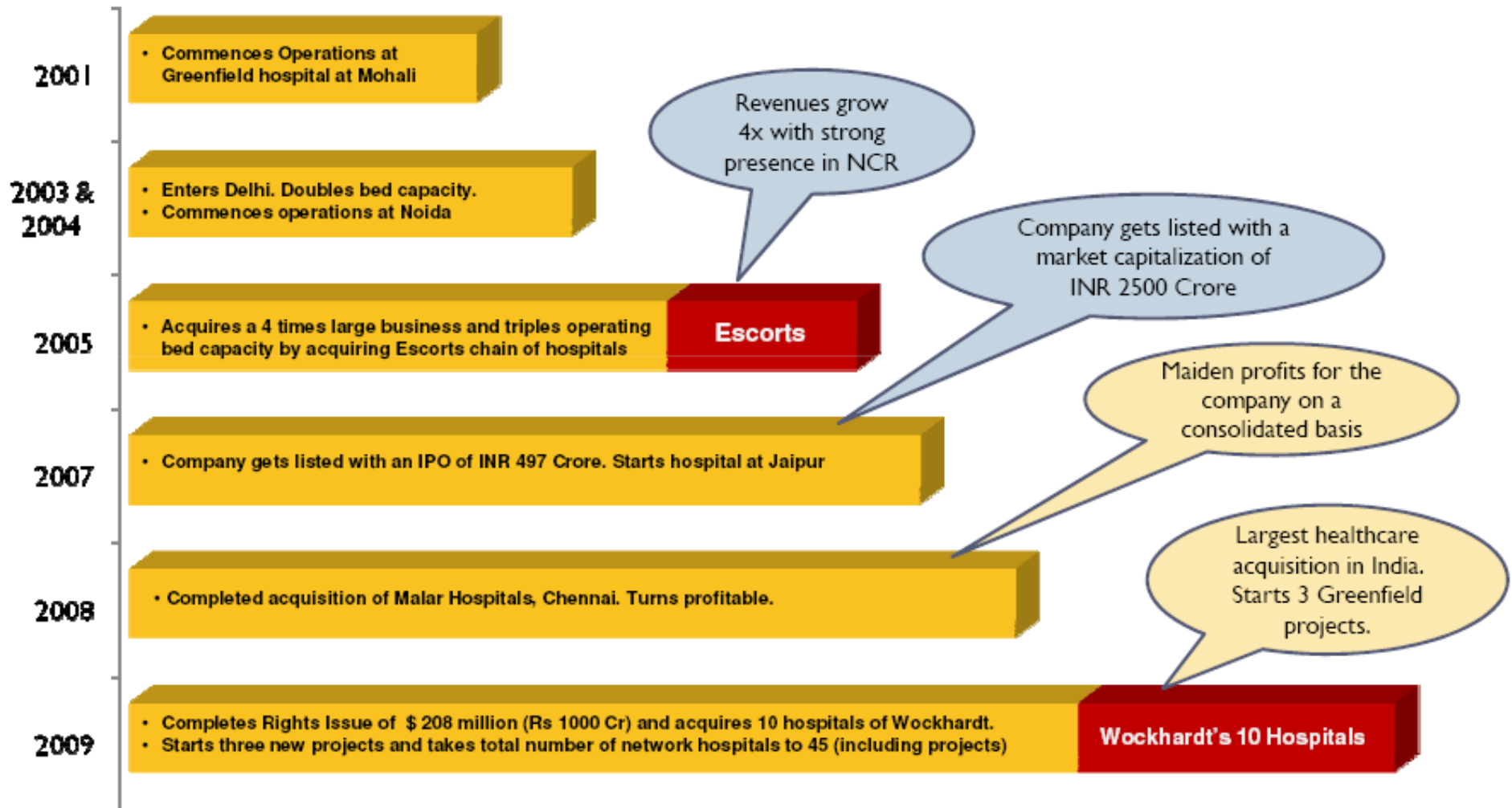


Average Revenue per Occupied Bed – Key driver

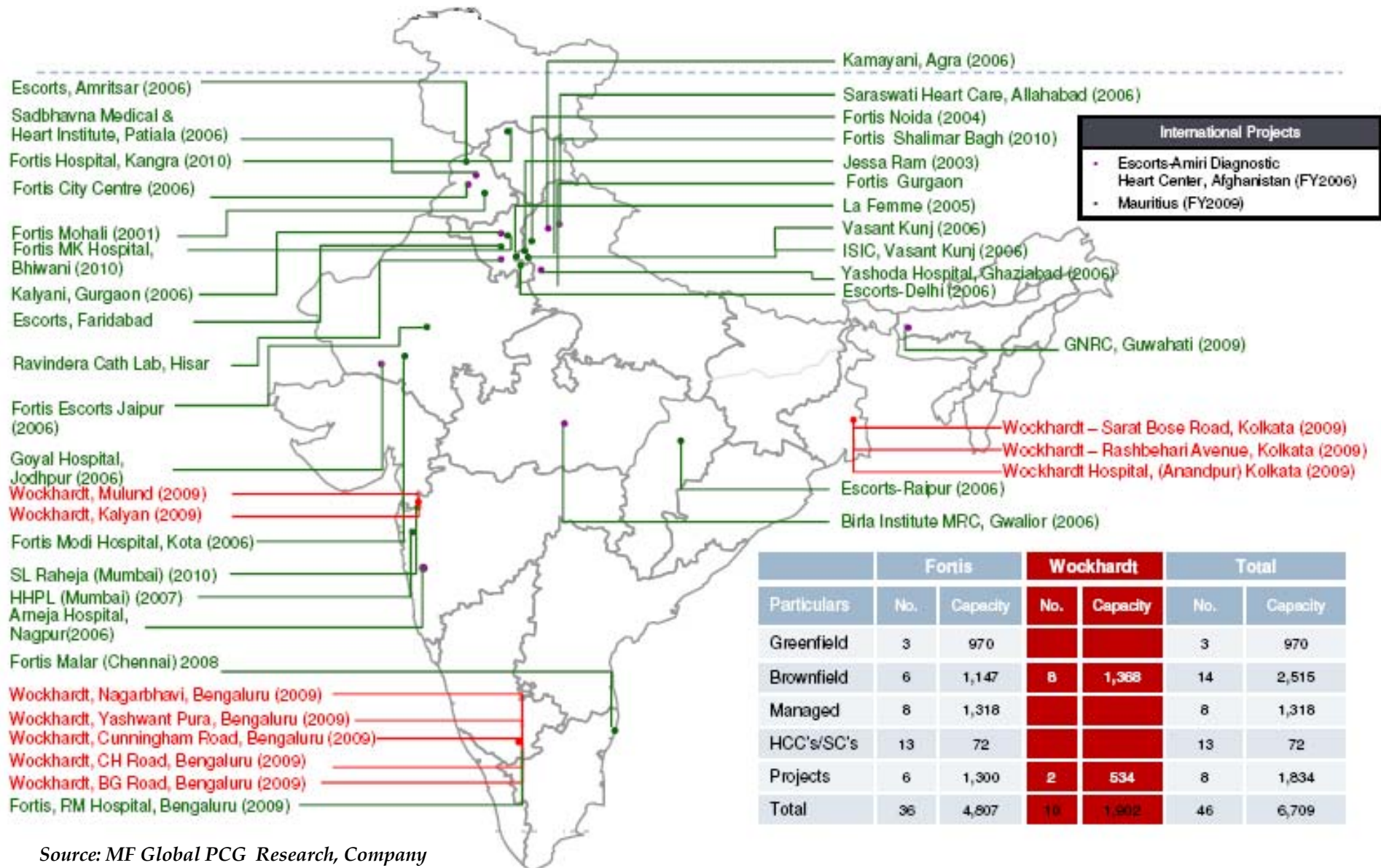
Driving Efficiencies: The company's main aim is to increase average revenue per occupied bed (ARPOB). The company wants to achieve its goal by reducing average length of stay (ALOS), better pricing combine with optimum mix of medical program. The company's main revenue is attributed from various treatments performed on patients and not from its stay in hospital, which might increase occupancy of hospital. Efficient churn out of patients is very important for profitability of hospital. In order to reduce average length of stay, the company selects a medical program, which efficiently use surgical and non-surgical facilities. In addition the IT infrastructure helped digitizing all records of patients there by reducing time delay. The company has streamlined all the operational activities right from entry of patients to its discharge and assigned responsibility of nurses and other support staff at every stages towards patients and hence is able to save considerable time of patients which may get wasted earlier. The company has also set up mobile hospital for many medical programs that doesn't require night stay for patients.



Key Milestone

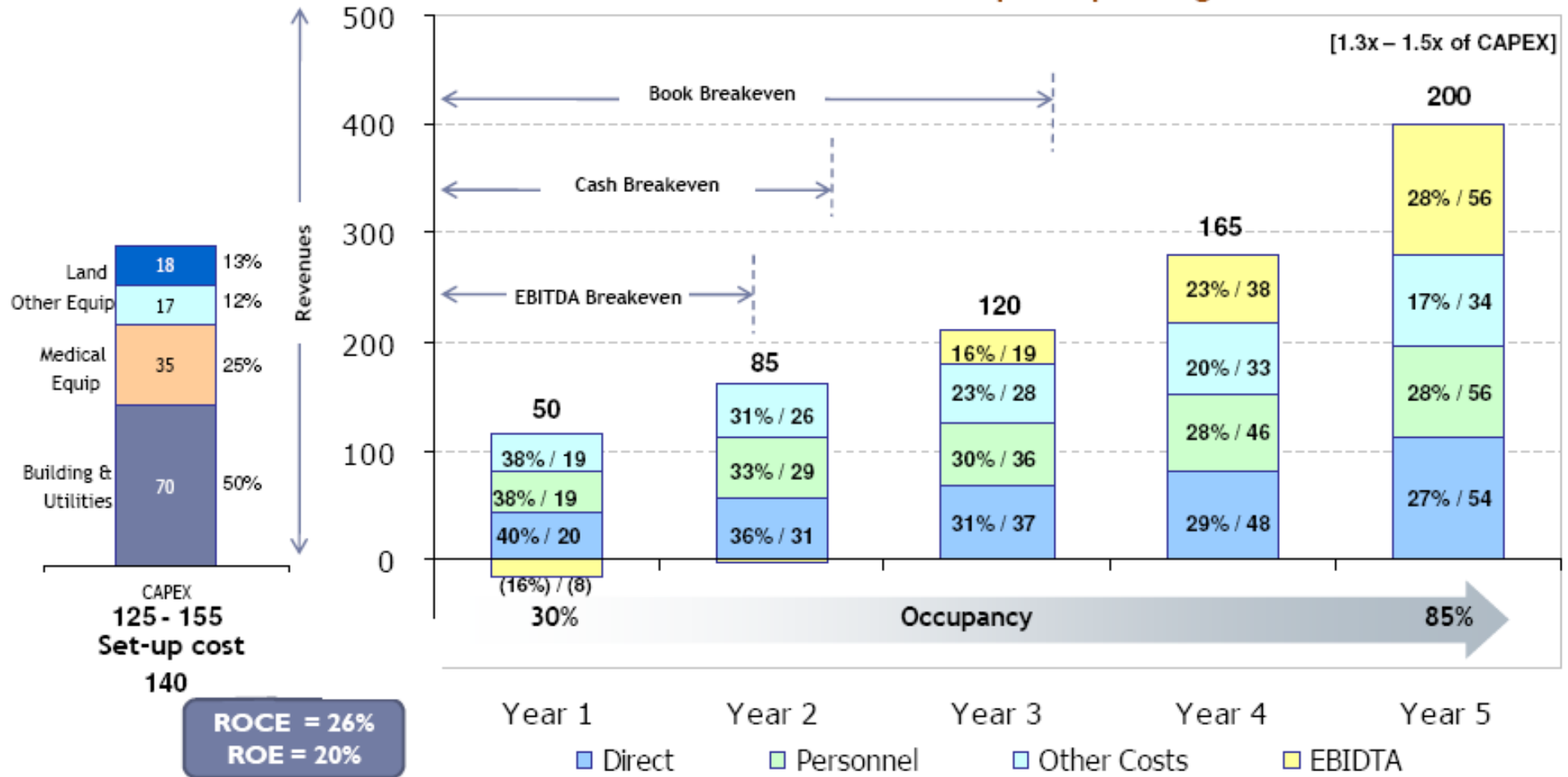


Combined Business Presence – Pan India



A typical tertiary care Model (200 beds)

Indicative Hospital Operating Model



The Parkway acquisition

FHL has taken a big step by acquiring a 23.9% stake in Singapore based Parkway Holdings for \$685.3 mn. Parkway Holdings offers healthcare related services through three group companies, Parkway Health, Parkway Education and Parkway Life REIT. Parkway Health offers healthcare services through its chain of 16 hospitals in Singapore with 1,022 beds, Malaysia (1,900 beds), Brunei (20 beds), India (425 beds in JV with Apollo Hospitals), UAE (260 beds) and China (14 beds). Parkway Education imparts healthcare education and training. Parkway Life REIT is a healthcare real estate firm. On face of it the deal looks expensive in near term at EV/bed of Rs37 mn as compared to EV/bed of Rs9mn for FHL. Parkway acquisition provided FHL presence in six countries in the Asian region with over 10,000 beds. As per management, Indian operations would benefit from the skills sets, technology and capability of Parkway along with scope of medical tourism.

Financials & Valuation

The company has increased its numbers of beds three times to 6,000 in FY10 over last four years mainly on account of inorganic acquisitions, which leads to healthy revenue growth of 33.4% CAGR to Rs94 bn over FY06-10E. Going ahead, the company's revenue are expected to grow by 46% CAGR over FY10-12E. EBIDTA margin has increased from 5% in FY07 to 14% in FY09 and is expected to hit 21% in FY12E on account of increasing ARPOB, decreasing ALOS and economic of scale.

We are very positive on Indian health care industries. With lower availability of hospital beds at 0.86 per 1000 population (V/s 2.2 in China and 2.6 in Brazil), upsurge of insurance, and very high share of Indian at 20% in world diseases burden. The healthcare delivery market in India pegged at around \$38bn in 2008 and expected to grow by 15% CAGR to \$309.2 bn by 2023. Demographic changes, improving income levels, changing lifestyles, and rising insurance penetration etc will result in a rise in discretionary spending on healthcare. These provide strong opportunity to private healthcare providers like Fortis Healthcare. Since majority of facilities owned by FHL are commissioned in last three years it would take time to stabilize and reflect in financials. We do not have a rating on the stock, but are positive on the industry and future prospects of FHL.

Profit & Loss and Balance Sheet – Consolidated - Rs mn

Income Statement	FY06	FY07	FY08	FY09	9mFY10	Balance Sheet	FY06	FY07	FY08	FY09
Net Sales	2,926	5,124	5,071	6,305	6,084	Equity capital	1,710	2,077	2,383	2,387
Raw materials	1,036	1,773	1,615	1,895	1,719	Reserves	(1,105)	1,612	7,368	8,319
Employee expenses	686	1,354	1,384	1,474	1,327	Networth	3,205	3,689	11,251	10,706
Other Exp	972	1,512	1,864	2,078	2,103	Minority Interest	190	194	214	216
Op profit	232	485	209	859	935	Total debt	5,985	5,922	3,755	4,790
Opm(%)	7.9	9.5	4.1	13.6	15.4	Deferred tax	(48)	(144)	16	12
Other income	45	131	409	284	154	Total liabilities	9,332	9,660	15,236	15,724
Depreciation	227	383	468	487	369					
Interest	363	660	555	437	250					
PBT	(314)	(428)	(405)	219	469	Gross fixed assets	5,821	6,607	11,257	11,558
Tax	(9)	73	195	41	36	Less: Cum depreciation	2,193	2,548	2,924	3,349
PAT	(527)	(956)	(601)	177	433	Net fixed assets	3,629	4,059	8,333	8,208
Minority Interest	(38)	6	(50)	27	27	Capital WIP	912	1,026	1,200	1,836
Extraordinary item	-	-	-	64	-	Investments	5	4	331	541
Adj PAT	(489)	(981)	(555)	208	423	Net current assets	517	752	1,438	1,173
Npm(%)	(16.7)	(19.2)	(10.9)	3.3	6.9	Total assets	9,332	9,660	15,236	15,724

Cash Flow and Ratios – Consolidated - Rs mn

Cash flow	FY06	FY07	FY08	FY09	Ratios	FY06	FY07	FY08	FY09
					Growth(%)				
PBT & extraord. Items	(536)	(883)	(360)	186	Net Sales	NA	75.1	(1.0)	24.3
Add: Int. depn. & oth. Exp.	809	1,458	641	796	Adj PAT	NA	100.5	(43.5)	(137.5)
Cash flow from op.	273	575	280	982	Adj EPS	NA	65.1	(50.7)	(137.5)
Net chg in w/c, tax, int.	(527)	(1,269)	408	(2,314)	Per share data (Rs.)				
Net cash flow frm op.	(254)	(694)	688	(1,332)	Adj EPS	(2.9)	(4.7)	(2.3)	0.9
Capital expenditure	(679)	(717)	(1,119)	(1,396)	Book value	18.7	17.8	47.2	44.9
Sale/ purchase of inv	(6,745)	41	(889)	430	DPS	0.6	0.6	-	-
Net cash from inv.	(7,424)	(675)	(2,008)	(966)	Valuation(x)				
Issue of eq/pref sh/warr.	7,257	441	1,885	923	P/E	(61.9)	(37.5)	(76.1)	203.2
Dividend paid	-	-	-	-	P/BV	9.5	10.0	3.8	4.0
Net cash from financing	7,257	441	1,885	923	EV/EBIDTA	155.9	87.5	218.0	53.5
Net chg in cash	(421)	(928)	565	(1,375)	Performance(%)				
Op. cash bal	256	(151)	(1,098)	(544)	RoCE	0.0	1.1	(2.1)	2.4
Cl. Cash bal	(166)	(1,098)	(534)	(1,918)	RoNW	(15.3)	(28.5)	(7.4)	1.9

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