Equities

3 December 2010 | 27 pages

Indian Hospitals

All Is Well

- **Healthy Play** — We remain positive on the Indian healthcare delivery space, as pricing & profitability remain firm despite aggressive expansion plans of leading companies. Key operating metrics (ARPOBs, ALOS, Occupancy) are improving & balance sheets are in good shape. Better disclosure (more granularity) levels have also helped investors appreciate the value in the biz. We raise TPs on both coverage stocks (APLH.BO & FOHE.BO) & upgrade FOHE.BO to Buy (1L).

- **High Growth Continues in 1HFY11** — Numbers were better than expected at all levels for both companies. Sector revenues & EBITDA grew by 46% & 32% YoY respectively, while adjusted sector PAT grew 68% YoY. EBITDA margins dipped 10bps YoY & rose 130bps QoQ – better than expected, given that both companies added new beds during the period. Other key operating metrics (occupancy, ARPOBs & ALOS) also improved for both companies.

- **Aggressive Expansion Plans** — The three leading firms (Apollo, Fortis & Max) should between them add c5,300 beds over the next 3-4 years – a c42% increase on their current installed base – at a total outlay of Rsc24bn. The new beds are spread across metros & Tier 2 cities. Companies are also increasingly leasing the land for their hospitals in a bid to reduce upfront outflow & improve RoIs.

- **Healthy Balance Sheets** — Companies appear comfortable on leverage (Apollo: 0.4x; Fortis: -0.3x) & should be able to expand without unduly pressurizing B/Ss. With asset T/O rising & margins remaining steady (despite new bed additions), we expect RoIs to gradually improve (albeit remaining low at an aggregate level).

- **Fortis Healthcare: Concerns Ease; Upgrade to Buy** — Our twin concerns – viz. expensive foray into international markets & stretched valuations – have eased over the last few months. Fortis' decision to avoid a bidding war on Parkway & intent to focus on India through the listed entity is encouraging. Also, post the recent weakness (down 14% – underperformed APLH.BO by 46% – over last 9 m), we find the stock attractive at 13 x FY12E EBIDTA. We upgrade to Buy (1L) for a TP of 190.

- **Apollo Hospitals: Raise TP to 600** — Having gained scale, Apollo seems well placed to absorb initial losses on new beds & grow profitably (as seen in 1HFY11). Despite the recent strength in the stock, valuations are reasonable (13 x FY12E EBIDTA). We maintain Buy (1L) for a TP of 600 (15xFY12E EBIDTA), even as we lower risk rating to Low.

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	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	Old	New	Old	New	Old	New	Old	New
APLH.BO	1M	1L	Rs420.00	Rs600.00	Rs16.10	Rs16.55	Rs19.78	Rs21.83
FOHE.BO	3M	1L	Rs145.00	Rs190.00	Rs4.04	Rs3.58	Rs6.50	Rs6.80

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Contents

All Is Well

We remain positive on the Indian healthcare delivery space, as pricing & profitability remain firm despite aggressive expansion plans of leading companies. Almost all key operating metrics (ARPOBs, ALOS, Occupancy) are improving for the leading companies, while balance sheets are also in good shape. We also believe that the better disclosures (more granularity) being provided by the industry have helped investors appreciate the value in the business.

We raise target prices for both Indian hospital stocks under coverage – Apollo Hospitals (to Rs600/sh) & Fortis Healthcare (to Rs190/sh) – as we roll forward to March 12E EBIDTA & raise target multiple (14x to 15x) for Apollo. We also upgrade Fortis Healthcare to Buy (1L) from Sell (1M) earlier, following recent weakness.

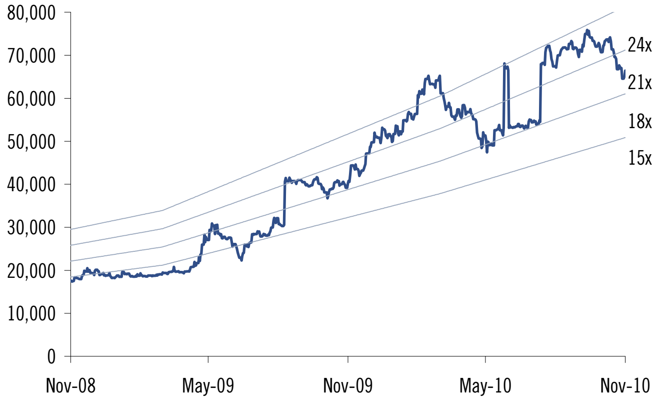
Raising Target Prices

We raise our target prices on both Indian hospital stocks under our coverage – Apollo Hospitals (to Rs600/share) & Fortis Healthcare (to Rs190/share). This is on the back of rolling forward to March 2012E EBIDTA and raising target multiple for Apollo to 15x from 14x earlier. We continue to value Fortis (16x) at a slight premium to Apollo (15x), given that the former is a pure hospitals play.

Figure 1. Apollo – EV/EBITDA bands (8-yr)

Source: Citi Investment Research and Analysis

Figure 2. Fortis – EV/EBITDA bands (2-yr)



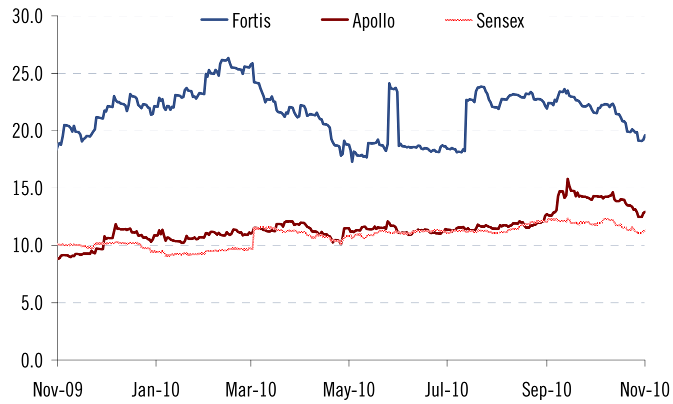
Source: Citi Investment Research and Analysis

We have traditionally preferred Apollo Hospitals to Fortis Healthcare, owing to the former's more attractive valuations. However, post the stock price movements over the last year or so (Apollo has outperformed Fortis by c46% since the beginning of FY11), this gap has narrowed considerably. We now find both stocks attractive. Fortis appears to be better placed on the balance sheet front (with significant net cash), while Apollo could have catalysts in the form of value unlocking in its retail pharmacy business and / or Healthcare BPO associate co (Apollo HealthStreet).

Figure 3. Fortis EV/EBITDA – Relative to Apollo

Source: Citi Investment Research and Analysis

Figure 4. Apollo, Fortis EV/EBITDA v/s Sensex



Source: Citi Investment Research and Analysis

Figure 5. Indian Hospitals – Comparison of the Leading Listed Entities

	Apollo	Fortis	Max India
Business Overview			
No. of Beds	**8,064**	**3,400**	**927**
Owned	4,563	2,500	927
Managed	3,501	900	-
Planned Expansion (No. of Beds)	2,668	1,579	1050
Estimated Cost	11,713	6,690	5,700
Geographical Presence	Pan India	Pan India	NCR Region
No. of Hospitals	47	50	8 Hospitals / 9 Primary Clinics
Hospital Mix	Secondary & Tertiary Hospitals	Mainly Tertiary Hospitals	Primary, Secondary & Tertiary Facilities
Other Businesses	Pharmacies, Healthcare BPO	None	Insurance, Specialty Products
Financial Metrics			
Hospital Revenues (FY10)	15,351	9,379	5340
Revenue CAGR (FY06-10)	25%	34%	32%
EBITDA Margins	22.3%	15.0%	4.4%
RoCE (Hospitals)	14.0%	1.7%	N/A
Hospitals as a% of Total Revenues	75%	100%	7%
Operating Metrics			
Avg. Revenue/Bed Day	10,749	25,197	20,431
Occupancy	76%	65%	73%
ALOS	5.3	4.1	3.4

Source: Company Reports & CIRA Estimates

Numbers Reflect Continuing Buoyancy

Both hospital companies in our coverage universe (Apollo Hospitals & Fortis Healthcare) reported good results for 1HFY11 – with numbers being better than expected at all levels. Sector revenues & EBITDA grew by 46% & 32% YoY respectively, while adjusted sector PAT rose 68% YoY. EBITDA margins dipped 10bps YoY & improved 130bps QoQ. This was better than we expected, given that both companies have added new beds during the period. Other key operating metrics (occupancy, ARPOBs & ALOS) also improved.

Both Apollo and Fortis reported better-than-expected numbers

Fortis grew faster due to the addition of ten hospitals from Wockhardt Hospitals

Apollo has managed to improve EBIT margins despite addition of new beds – as older beds saw better occupancy & retail pharmacies achieved EBIDTA break even in 2Q

Figure 6. Indian Healthcare – 1HFY11 Earnings Summary (Rs m, %)*

Hospitals	1HFY10	1HFY11	% Ch YoY	2HFY10	% Ch QoQ
Net Sales	12,379	18,055	*45.9*	15,258	*18.3*
RM Costs	5,562	7,640	*37.4*	6,569	*16.3*
Gross Profit	**6,817**	**10,415**	***52.8***	**8,688**	***19.9***
Gross Margin (%)	*55*	*58*		*57*	
Staff Costs	2,167	2,994	*38.2*	2,647	*13.1*
Other Expenses	2,665	4,556	*71.0*	1,256	*262.7*
Total Expenditure	10,393	15,190	46.2	13,027	16.6
EBITDA	**1,986**	**2,865**	***31.5***	**2,231**	***20.6***
EBITDA Margin (%)	***16.0***	***15.9***	***(10 bps)***	***14.6***	***130ps***
Interest	368	534	*45.3*	583	*(8.4)*
Depreciation	489	790	*61.4*	653	*20.8*
Other Income	134	306	*128.0*	696	*(56.0)*
PBT Before EO items	1,264	1,848	*46.2*	1,691	*9.3*
Tax	370	441	*19.3*	366	*20.4*
Effective Tax Rate (%)	*29.2*	*23.8*	*-540bps*	*21.6*	*-180bps*
MI/(Share of associates' profit)	13	-72		2	
Recurring PAT	**881**	**1,479**	***67.9***	**1,323**	***11.8***
One-off Items (net of tax)	100	160		0	
Reported PAT	981	1,639	*67.1*	1,323	*23.9*

Source: Company Reports and CIRA Estimates *includes Apollo & Fortis numbers

Figure 7. India Healthcare – 1HFY11 metrics for key hospitals

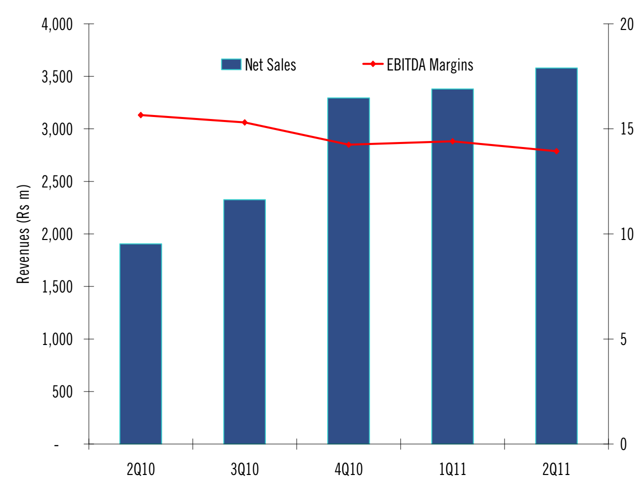
	Apollo (standalone)	Fortis	Max Healthcare
Sales Growth (YoY)	25%	85% *(Organic: c26%)*	34%
Bed Additions			
Over Apr-Sept '10	95	330 *approx.*	177
Margin Expansion (bps)			
EBIT – Hospitals	20	-40	80 *(EBITDA)*
EBIT – Overall	70	-40	N/A
Rev/bed day (Rs)	19,376	22,740	20,742
Occupancy	80%	76%	69%
ALOS (days)	5.0	4.1	3.6

Source: Company Reports and CIRA Estimates

Figure 8. Apollo (Healthcare Services) – Quarterly Performance (Rs m, %)

Source: Company Reports

Figure 9. Fortis Healthcare – Quarterly Performance (Rs m, %)



Source: Company Reports

Aggressive Expansion plans

Apollo plans to add c2,600 beds by FY14, including c825 beds as a part of its *Reach* initiative

This would add c23% to its current base of operating beds

To be largely funded by internal accruals and debt

Figure 10. AHEL – Expansion Plans (Cost in Rs m)

Project	Beds	Project Cost	AHEL's Share	Expected in
JV Hospitals/ Investments				
Bangalore	52	60	60	Nov-10
New Delhi	136	400	0	Nov-10
Thane	250	2,000	500	Mar-13
AHEL's Own Projects				
Secunderabad	150	370	370	Apr-10
Hyderabad-International Block	100	1,225	1,225	Mar-11
Hyderguda	175	443	443	Jun-11
Bilaspur-Onco Expansion	300	80	80	Sep-11
Chennai-Main Expansion	30	100	100	Sep-12
Belapur	700	3,500	3,500	Jun-13
Masina	350	1,400	1,400	Jun-13
Vizag	300	1,150	1,150	Jun-13
Total	**1,843**	**11,065**	**8,911**	
Reach India				
Karaikudi	100	260	260	Sep-10
Ayanambakkam	200	700	700	Jun-12
Nasik	125	520	520	Jun-12
Nellore	200	667	667	Oct-12
Trichy	200	655	655	Jun-13
Total	**2,668**	**13,867**	**11,713**	

Source: Company Reports and CIRA Estimates

Fortis plans to increase the number beds in its network from c1,600 by end FY13

Fortis' Gurgaon and Kangra hospital are on track to be commissioned by early FY12

Also focusing on an asset light growth strategy by entering into several O&M contracts

Figure 11. Fortis Healthcare – Expansion Plans

Project	No of beds	Expected Cost	Expected in
Expansion Plans			
Gurgaon	450	3,750	Jun-11
Kangra	100	240	Jun-11
Peenya Bangalore	120	180	Dec-11
Ludhiana-1	200	500	Mar-12
Ludhiana-2	75	200	Mar-12
Mulund, Mumbai	234	600	Mar-12
Ahmedabad	200	500	Jun-12
Gwalior	200	720	Sep-12
Total	**1,579**	**6,690**	

Source: Company Reports

Balance sheets remain healthy

Capital efficiency is improving on the back of higher profitability as well as better asset turnover

Fortis' return ratios are depressed by the high cash balance & intangibles (on acquisitions) on its books

Both companies appear comfortable on leverage, though Fortis appears better placed due to high liquid investments and cash on its books

Fortis raised funds through an FCCB issue and a warrants issue during 1HFY11 – originally planned to fund the Parkway Holdings buyout but now available for future investment

Figure 12. Indian Hospitals – Capital Efficiency Meter – Breakdown of Return Ratios

	Apollo Hospitals				Fortis Healthcare			
	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
Return on Cap Employed (ROCE)	**10%**	**12%**	**15%**	**15%**	**2%**	**5%**	**7%**	**8%**
PBIT Margin	**13%**	**14%**	**15%**	**15%**	**14%**	**16%**	**17%**	**17%**
EBITDA Margin	15%	16%	17%	18%	15%	16%	18%	17%
Depreciation/Sales	4%	4%	4%	4%	6%	5%	4%	3%
Total Asset Turnover (Sales/CE)	**0.77**	**0.90**	**0.99**	**1.02**	**0.12**	**0.30**	**0.40**	**0.45**
Sales/Fixed Assets	1.25	1.37	1.43	1.43	0.35	0.58	0.77	0.89
Sales/Net Current Assets	3.37	4.46	5.73	6.26	0.7	8.6	13.7	23.1
Inventory Days	25	23	22	22	9	6	6	6
Debtor Days	40	36	34	34	61	44	44	44
Investments/Capital Employed	16%	15%	14%	12%	46%	45%	46%	47%
Return on Equity (ROE)	**8%**	**11%**	**13%**	**14%**	**3%**	**4%**	**7%**	**8%**
Net Margin	6%	7%	8%	8%	7%	10%	14%	14%
Total Asset Turnover	0.77	0.90	0.99	1.02	0.12	0.30	0.40	0.45
Leverage (CE/Equity)	1.6	1.6	1.6	1.6	3.7	1.4	1.3	1.3

Source: Company data, Citi Investment Research estimates

Figure 13. Apollo and Fortis – FY11E Debt Metrics

Debt Metrics	RIC	Market Cap (US$ m)	Net Debt (Rs m)	Net Debt to Equity (x)	Net Debt to EBITDA (x)	Interest Coverage (EBITDA)
Apollo Hospitals	APLH.BO	1,391	8.002	0.4	1.92	6.0x
Fortis Healthcare	FOHE.BO	1,384	(10,273)	(0.3)	(3.12)	5.8x

Source: Citi Investment Research and Analysis

Global Valuations

Figure 14. Global Hospital Valuation Map

Company	RIC	CIR Rating	Price 2 Dec 10	Market Cap US$ m	P/E CY10E	P/E CY11E	EV/EBITDA CY10E	EV/EBITDA CY11E	EPS CAGR ('09-11E)	EBITDA CAGR ('09-11E)	RoCE CY09	RoE CY09
Tenet Healthcare Corp	THC.N	2S	4.3	2,064	13.6	13.6	5.6	4.9	47%	8.6	6.3%	31.8%
Health Management Assc.	HMA.N	1H	9.1	2,288	11.0	11.0	7.1	6.0	29%	11.1	8.4%	142.1%
LifePoint Hospitals Inc	LPNT.O	1M	35.1	1,847	10.6	10.6	6.6	5.9	15%	7.7	6.8%	7.3%
Community Health Systems	CYH.N	1H	32.0	2,964	9.2	9.2	6.7	6.1	13%	6.5	7.5%	12.9%
Bumrungrad Hospital	BH.BK	NR	32.3	788	15.5	15.5	11.3	8.6	20%	18.0	N/A	24.5%
Bangkok Dusit Medical	BGH.BK	NR	37.5	1,587	15.2	15.2	10.8	7.9	32%	22.9	N/A	13.5%
Bangkok Chain Hospital	KH.BK	NR	6.5	357	12.0	12.0	8.4	nm	15%	nm	N/A	21.3%
Ramsay Health Care	RHC.AX	2M	10.5	3,066	18.4	16.8	10.3	8.9	13%	13.8	9.6%	12.8%
Apollo Hospitals*	**APLH.BO**	**1M**	**508.1**	**1,391**	**30.6**	**23.2**	**16.3**	**13.2**	**31.6%**	**28.3%**	**9.8%**	**7.9%**
Fortis Healthcare*	**FOHE.BO**	**3M**	**154.3**	**1,384**	**42.7**	**22.5**	**24.3**	**13.4**	**56.4%**	**73.3%**	**1.7%**	**3.4%**

**Year ending Mar-31*

Source: Citi Investment Research and Analysis estimates

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy/Low Risk	**1L**
from Buy/Medium Risk	
Price (03 Dec 10)	Rs506.90
Target price	Rs600.00
from Rs420.00	
Expected share price return	18.4%
Expected dividend yield	2.0%
Expected total return	**20.4%**
Market Cap	Rs62,637M
	US$1,387M

Price Performance (RIC: APLH.BO, BB: APHS IN)

Apollo Hospitals (APLH.BO)

Raise TP to 600

- **Raise TP to 600** — Apollo remains an attractive play on Indian healthcare delivery, given its national footprint & rising scale. Having gained scale, it appears well placed to absorb the initial losses on new hospitals & grow profitably (as reflected in the last couple of quarters). Despite the recent strength in the stock, valuations remain reasonable (13xFY12E EBIDTA). Maintain Buy for a TP of 600 (15xFY12E EBIDTA), even as we lower risk rating to Low (as suggested by our quantitative risk rating system).
- **Raising Estimates & Target Price** — Our revenue & EBIDTA estimates are higher by 6%/2% & 9%/7% respectively for FY11/12, on the back of better than expected 1HFY11, accelerated expansion plans & improving retail pharmacy margins. We raise our TP to 600, as we roll over to Mar 12E & raise our target EV/EBIDTA multiple to 15x (14x earlier). The higher multiple is to factor in any potential unlocking of value from the retail pharmacy and / or the healthcare BPO (Apollo Healthstreet) businesses.
- **Aggressive Expansion Plans** — Apollo plans to set up c2,600 beds over the next four years (up to FY14) at a cost of cRs11.7bn – largely to be funded via a combination of internal accruals & debt. This represents a c32% increase over its current base of 8,064 beds. A strong balance sheet (net D/E of ~0.3x in FY10) offers room for further leverage. We expect the pick-up in the pace of expansion to fuel growth rates going forward.
- **Healthy Trends in 1H** — Revenues grew 30%, with good traction in hospitals & pharmacies. EBIDTA margin improved 86bps on higher ARPOBs, better case-mix & retail pharmacies turning EBIDTA positive. Hospitals saw healthy growth (+25%) & higher EBIT margin (+c20bps) – the latter despite new bed additions. New beds (up by 253 YoY), higher ARPOBs, better case mix & faster turnaround of new hospitals helped. Pharmacy sales grew 40% YoY, led by c60% growth in new pharmacies (net addition of 138 stores) & 19% growth in same store sales.
- **Key Catalysts** — a) Scale up in occupancy levels at its key hospitals; b) Rising profitability of its retail pharmacy biz: EBIDTA break even a bit earlier than expected; c) Progress on spinning off its retail pharmacy biz or unlocking value from its healthcare BPO associate, Apollo Healthstreet (39.4% holding); d) Any move to separate the operating & property aspects of the business: for instance, through a REIT structure; e) Any fiscal incentives or other policy thrust for the sector.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2009A	1,065	8.84	34.5	57.3	4.2	7.7	0.7
2010A	1,376	11.14	26.0	45.5	3.8	8.8	0.7
2011E	2,045	16.55	48.6	30.6	3.5	12.0	1.3
2012E	2,698	21.83	31.9	23.2	3.3	14.7	1.7
2013E	3,139	25.40	16.4	20.0	3.0	15.7	2.0

Source: Powered by dataCentral

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	57.3	45.5	30.6	23.2	20.0
EV/EBITDA adjusted (x)	28.0	22.0	16.3	13.2	11.2
P/BV (x)	4.2	3.8	3.5	3.3	3.0
Dividend yield (%)	0.7	0.7	1.3	1.7	2.0
Per Share Data (Rs)					
EPS adjusted	8.84	11.14	16.55	21.83	25.40
EPS reported	8.51	11.14	16.55	21.83	25.40
BVPS	121.92	133.81	142.89	154.87	168.81
DPS	3.33	3.50	6.62	8.73	10.16
Profit & Loss (RsM)					
Net sales	16,142	20,265	25,485	30,061	34,841
Operating expenses	-14,507	-18,009	-22,211	-25,867	-29,897
EBIT	**1,635**	**2,257**	**3,274**	**4,194**	**4,944**
Net interest expense	-459	-602	-700	-735	-875
Non-operating/exceptionals	283	361	424	513	567
Pre-tax profit	**1,459**	**2,016**	**2,997**	**3,972**	**4,636**
Tax	-490	-676	-961	-1,274	-1,497
Extraord./Min.Int./Pref.div.	56	36	8	0	0
Reported net income	**1,025**	**1,376**	**2,045**	**2,698**	**3,139**
Adjusted earnings	1,065	1,376	2,045	2,698	3,139
Adjusted EBITDA	2,267	3,006	4,176	5,247	6,350
Growth Rates (%)					
Sales	32.7	25.5	25.8	18.0	15.9
EBIT adjusted	23.9	38.1	45.1	28.1	17.9
EBITDA adjusted	23.5	32.6	38.9	25.6	21.0
EPS adjusted	34.5	26.0	48.6	31.9	16.4
Cash Flow (RsM)					
Operating cash flow	**1,130**	**-983**	**2,985**	**3,927**	**3,899**
Depreciation/amortization	632	750	903	1,054	1,406
Net working capital	-207	-2,714	306	465	-313
Investing cash flow	**-3,352**	**-2,136**	**-3,191**	**-3,499**	**-4,816**
Capital expenditure	-3,680	-3,885	-3,191	-3,499	-4,816
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**2,835**	**4,158**	**-109**	**-1,434**	**1,167**
Borrowings	1,384	2,426	868	500	2,000
Dividends paid	-470	-504	-923	-1,217	-1,416
Change in cash	**613**	**1,040**	**-315**	**-1,007**	**251**
Balance Sheet (RsM)					
Total assets	**26,243**	**32,417**	**34,550**	**37,158**	**41,535**
Cash & cash equivalent	3,286	3,182	2,898	2,101	1,484
Accounts receivable	1,744	2,228	2,514	2,800	3,245
Net fixed assets	12,590	15,757	18,045	20,490	23,900
Total liabilities	**11,289**	**15,641**	**16,660**	**17,787**	**20,442**
Accounts payable	2,148	3,340	3,491	4,118	4,773
Total Debt	6,706	9,132	10,000	10,500	12,500
Shareholders' funds	**14,954**	**16,776**	**17,890**	**19,370**	**21,093**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	14.0	14.8	16.4	17.5	18.2
ROE adjusted	7.7	8.8	12.0	14.7	15.7
ROIC adjusted	7.6	8.1	10.1	11.5	11.9
Net debt to equity	22.9	35.5	39.7	43.4	52.2
Total debt to capital	31.0	35.2	35.9	35.2	37.2

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Raise TP to 600

We raise our TP on Apollo Hospitals to Rs600/sh, as we raise FY11E/12E EBIDTA by 2%/7% & roll over to 15x FY12E EBIDTA. Having gained scale, Apollo appears well placed to absorb the initial losses on new hospitals & grow profitably. Despite the recent strength in the stock, valuations remain reasonable at 13xFY12E EBIDTA. We also lower our risk rating to Low & maintain Buy (1L).

Revising Estimates & Target Price

We revise our estimates as under:

- **Revenues**: Our revenue estimates are higher by 6%/9% in FY11E/12E, as we incorporate Apollo's aggressive expansion plans (adding c2,600 beds by FY14) and health traction in 1HFY11 for both the hospital and the pharmacy businesses.
- **EBIDTA**: We also raise EBITDA estimates by 2%/7% for FY11E/12E. The lower increase in EBIDTA estimates is mainly due to low EBITDA margins from the pharmacies (marginally profitable in 1H).
- **Net Income**: We raise net income estimates by 5%/13% for FY11E/12E in line with growth and factoring in for lower than expected depreciation.
- We also introduce FY13 estimates and forecast 20% & 28% CAGRs in sales and EBIDTA over FY10-13E.

Figure 15. Earnings Revision

	Revenues		EBITDA		Net Income	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
New	25,485	30,061	4,176	5,247	2,045	2,698
Old	24,081	27,458	4,094	4,915	1,940	2,383
Change (%)	*6%*	*9%*	*2%*	*7%*	*5%*	*13%*

Source: Citi Investment Research and Analysis estimates

Raising target price to Rs600/share

We raise our target price to Rs600/share. This is on the back of our higher EBIDTA estimates, roll forward to March 12E EBIDTA (March 11E earlier) & using a marginally higher EV/EBIDTA multiple (15x v/s 14x earlier). The latter is to factor in any potential unlocking of value from the retail pharmacy and / or the healthcare BPO (Apollo Healthstreet) businesses.

Apollo plans to add c2,600 beds in the period FY10-14, including c825 beds as a part of its *Reach* initiative

Secunderabad – own hospital, Bangalore and New Delhi JV hospitals, Karaikudi-reach hospitals have already come online in FY11.

Apollo will also be benefited in the next one year by commissioning of three projects - Hyderabad-Intl block, Hyderguda and Bilaspur-onco block

Figure 16. AHEL – Expansion Plans (Cost in Rs m)

Project	Beds	Project Cost	AHEL's Share	Expected in
JV Hospitals/ Investments				
Thane	250	2,000	500	Mar-13
Bangalore	52	60	60	Nov-10
New Delhi	136	400	0	Nov-10
AHEL's Own Projects				
Hyderabad-International Block	100	1,225	1,225	Mar-11
Secunderabad	150	370	370	Apr-10
Hyderguda	175	443	443	Jun-11
Chennai-Main Expansion	30	100	100	Sep-12
Belapur	700	3,500	3,500	Jun-13
Masina	350	1,400	1,400	Jun-13
Bilaspur-Onco Expansion	300	80	80	Sep-11
Vizag	300	1,150	1,150	Jun-13
Total	**1,843**	**11,065**	**8,911**	
Reach India				
Nellore	200	667	667	Oct-12
Trichy	200	655	655	Jun-13
Ayanambakkam	200	700	700	Jun-12
Nasik	125	520	520	Jun-12
Karaikudi	100	260	260	Sep-10
Total	**2,668**	**13,867**	**11,713**	

Source: Company Reports and CIRA Estimates

Capital efficiency appears depressed due to high proportion of investments which generate lower returns

Return ratios have been improving, should continue to improve

Figure 17. Apollo – Capital Efficiency Meter

	FY09	FY10	FY11E	FY12E	FY13E
RoCE	**8%**	**10%**	**12%**	**15%**	**15%**
PBIT/Sales	11%	13%	14%	15%	15%
EBITDA/Sales	14%	15%	16%	17%	18%
Depreciation/Sales	4%	4%	4%	4%	4%
Asset Turnover	0.73	0.77	0.90	0.99	1.02
Sales/Fixed Assets	1.25	1.25	1.37	1.43	1.43
Sales/Net Current Assets	4.88	3.37	4.46	5.73	6.26
Inventory Days	26	25	23	22	22
Debtor Days	39	40	36	34	34
Investments /Capital Employed	27%	16%	15%	14%	12%
RoE	**6%**	**8%**	**11%**	**13%**	**14%**
Net Margin	6%	6%	7%	8%	8%
Asset Turnover	0.73	0.77	0.90	0.99	1.02
Leverage (CE/Equity)	1.5	1.6	1.6	1.6	1.6

Source: Citi Investment Research and Analysis

Net Debt to equity remains comfortable at 0.4x – could increase to 0.5x given Apollo's expansion plans

Figure 18. Apollo – Debt Metrics

	FY09	FY10	FY11E	FY12E	FY13E
Net Debt / (Cash)	4,262	6,858	8,002	9,298	11,915
Net Debt/Equity	0.29	0.42	0.46	0.49	0.57
Net Debt/EBITDA	1.88	2.28	1.92	1.77	1.88
Interest Coverage (PBIT)	4.0x	4.3x	5.0x	6.1x	6.0x
Interest Coverage (EBITDA)	4.9x	5.0x	6.0x	7.1x	7.3x

Source: Citi Investment Research and Analysis

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Data as of: 26-Nov-10

Radar Screen Quadrant Definitions

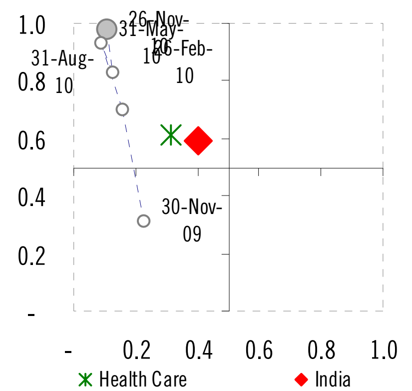
Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Quants View – Glamour

Apollo Hospitals Enterprise currently lies in the Extreme corner of the Glamour quadrant of our Value-Momentum map with strong momentum but relatively weak value scores. It has been a resident there for the past nine months. Compared to its peers in the Health Care sector, Apollo Hospitals Enterprise fares worse on the valuation metric but better on the momentum metric. Similarly, compared to its peers in its home market of India, Apollo Hospitals Enterprise fares worse on the valuation metric but better on the momentum metric.

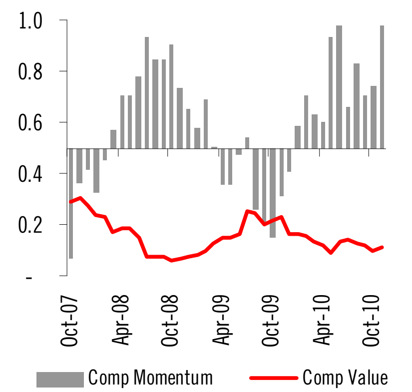
From a macro perspective, Apollo Hospitals Enterprise has a low Beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from a weaker US dollar.

Figure 19. Radar Quadrant Chart History



Source: CIRA

Figure 20. Radar Valuation and Momentum Scores



Source: CIRA

Figure 21. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	7.06	Implied Trend Growth (%)	21.66
FY(-1)	8.60	Trailing PE (x)	41.40
FY0	11.10	Implied Cost of Debt (%)	4.76
FY1	13.95	Standardised MCap	(0.12)
FY2	16.84		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 22. Stock Performance Sensitivity to Key Macro Factors

Region	0.33	Commodity ex Oil	(0.23)
Local Market	0.37	Rising Oil Prices	0.00
Sector	0.14	Rising Asian IR's	0.06
Growth Outperforms Value	(0.38)	Rising EM Yields	(0.09)
Small Caps Outperform Large Caps	0.26	Weaker US$ (vs Asia)	1.80
Widening US Credit Spreads	(0.02)	Weaker ¥ (vs US$)	(0.05)

Source: Citi Investment Research and Analysis

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy/Low Risk	**1L**
from Sell/Medium Risk	
Price (03 Dec 10)	Rs153.05
Target price	Rs190.00
from Rs145.00	
Expected share price return	24.1%
Expected dividend yield	0.0%
Expected total return	**24.1%**
Market Cap	Rs61,997M
	US$1,373M

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

Fortis Healthcare (FOHE.BO)

Concerns Ease; Upgrade to Buy

- **Upgrade to Buy (1L); TP of Rs190** — Our twin concerns – viz. expensive foray into international markets & stretched valuations – have eased over the last few months. Fortis' decisions to avoid a bidding war on Parkway & intent to focus on India through the listed entity are encouraging. Also, post the recent weakness (down 14% – underperformed APLH.BO by 46% – over last 9 m), we find the stock attractive at 13 x FY12E EBIDTA.

- **Reasonable Valuations** — High valuation has been the primary reason behind our Sell rating. This no longer appears to be a major issue. Over the last 9m, the stock has declined 14%, underperforming the BSE Sensex & Apollo Hospitals (APLH.BO) by 46% and 27% respectively. Valuations are now reasonable at 13 x FY12E EBIDTA. Its valuation premium over Apollo has also come off considerably. This makes us more comfortable.

- **Focus on India** — We view Fortis' decision to avoid a bidding war & sell its stake in Parkway positively. While an attractive asset, we found valuations (21x FY11E EBIDTA) expensive & feared that it would too much pressure on its B/S, restricting its ability to grow in India. We are also encouraged by the management's indication that Fortis H/C would focus on growth opportunities in India & the group's international initiatives would be undertaken through a different entity.

- **Healthy Balance Sheet to aid Expansion Plans** — Having sold its stake in Parkway Holdings, Fortis has net cash of cRs5.5bn on its books. This leaves it well placed to pursue growth opportunities (organic & inorganic) in India. Fortis intends to add c1,600 beds over the next 3 years – a 47% increase on its current base. Further, given the fragmented nature of the industry & high capital intensity in the biz, consolidation appears set to pick up – we see Fortis as a key participant.

- **Revising Estimates & Target Price** — We raise our FY12 revenue estimate by 4% while lowering FY11 & FY12 EBIDTA estimates by 16% (higher cost on promotion of acquired hospitals) & 7% (higher revenues in new hospitals) respectively. We also introduce FY13 estimates & forecast FY10-13E sales & EBIDTA CAGRs of 40% & 47% respectively. We raise our TP to Rs190/share, as we roll over to 16x March 12E EBIDTA (16x June 11E earlier).

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2009A	145	0.64	138.5	nm	3.2	1.3	0.0
2010A	695	2.19	242.5	69.9	2.7	4.8	0.0
2011E	1,549	3.58	63.6	42.7	1.8	5.6	0.0
2012E	2,942	6.80	89.8	22.5	1.7	7.6	0.0
2013E	3,619	8.37	23.0	18.3	1.5	8.7	0.0

Source: Powered by dataCentral

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	nm	69.9	42.7	22.5	18.3
EV/EBITDA adjusted (x)	77.1	48.4	24.3	13.4	10.7
P/BV (x)	3.2	2.7	1.8	1.7	1.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	0.64	2.19	3.58	6.80	8.37
EPS reported	0.92	2.19	4.00	6.80	8.37
BVPS	47.21	57.37	85.79	92.60	100.97
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	6,305	9,379	15,475	21,253	25,792
Operating expenses	-5,934	-8,566	-13,688	-18,234	-22,040
EBIT	**371**	**814**	**1,787**	**3,019**	**3,752**
Net interest expense	-437	-573	-569	-160	-140
Non-operating/exceptionals	347	493	868	735	810
Pre-tax profit	**282**	**734**	**2,086**	**3,594**	**4,422**
Tax	-41	-34	-286	-539	-663
Extraord./Min.Int./Pref.div.	-32	-5	-71	-114	-140
Reported net income	**208**	**695**	**1,729**	**2,942**	**3,619**
Adjusted earnings	145	695	1,549	2,942	3,619
Adjusted EBITDA	859	1,413	2,521	3,818	4,510
Growth Rates (%)					
Sales	24.3	48.8	65.0	37.3	21.4
EBIT adjusted	243.0	119.2	119.6	69.0	24.3
EBITDA adjusted	311.5	64.6	78.4	51.5	18.1
EPS adjusted	138.5	242.5	63.6	89.8	23.0
Cash Flow (RsM)					
Operating cash flow	**562**	**1,437**	**2,827**	**4,751**	**5,477**
Depreciation/amortization	487	599	734	799	758
Net working capital	-476	-2	-8	324	269
Investing cash flow	**-966**	**-45,023**	**9,549**	**-3,564**	**-4,500**
Capital expenditure	-1,396	-10,440	-2,000	-2,000	-2,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**923**	**56,160**	**-24,556**	**-1,000**	**-1,000**
Borrowings	-357	24,740	-41,706	-1,000	-1,000
Dividends paid	0	0	0	0	0
Change in cash	**519**	**12,574**	**-12,180**	**187**	**-23**
Balance Sheet (RsM)					
Total assets	**18,169**	**76,950**	**54,844**	**58,556**	**62,634**
Cash & cash equivalent	579	13,114	863	936	773
Accounts receivable	1,335	1,567	1,857	2,550	3,095
Net fixed assets	10,044	16,649	17,915	19,117	20,359
Total liabilities	**7,253**	**58,400**	**17,333**	**17,951**	**18,222**
Accounts payable	1,935	2,901	3,541	5,159	6,430
Total Debt	4,790	54,706	13,000	12,000	11,000
Shareholders' funds	**10,917**	**18,550**	**37,511**	**40,605**	**44,412**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.6	15.1	16.3	18.0	17.5
ROE adjusted	1.3	4.8	5.6	7.6	8.7
ROIC adjusted	2.2	3.8	5.6	8.9	11.0
Net debt to equity	38.6	224.2	32.4	27.2	23.0
Total debt to capital	30.5	74.7	25.7	22.8	19.9

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Concerns Easing; Upgrade to Buy

We upgrade Fortis to Buy, Low Risk (1L) for a TP of Rs190/sh. Our twin concerns – viz. expensive foray into international markets & stretched valuations – have eased over the last few months and we see Fortis as an attractive play on the fast growing Indian healthcare delivery market.

Upgrade to Buy (1L)

We upgrade Fortis to Buy, Low Risk (1L) for a target price of Rs190/share.

What has changed?

Our twin concerns – viz. expensive foray into international markets & stretched valuations – have eased over the last few months. Fortis' decision to avoid a bidding war on Parkway & intent to focus on India through the listed entity are encouraging. Also, post the recent weakness (down 14% – underperformed APLH.BO by 46% – over last 9 m), we find the stock attractive at 13 x FY12E EBIDTA.

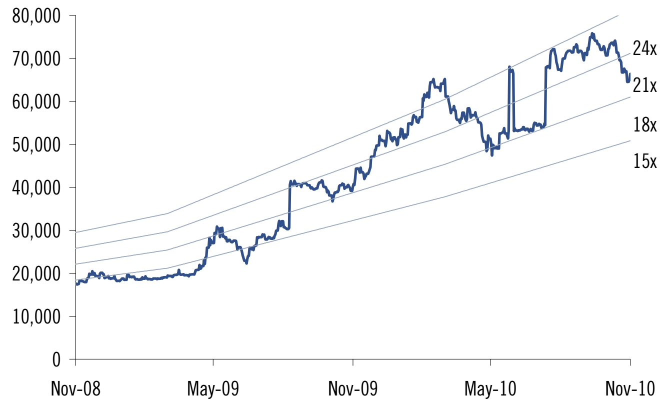
Reasonable valuations post recent underperformance

High valuation has been the primary reason behind our Sell rating. This no longer appears to be a major issue post the recent weakness in the stock. Over the last nine months, the stock has declined 14%, in the process underperforming the BSE Sensex and Apollo Hospitals (APLH.BO) by 46% and 27% respectively. The stock now trades at much a much more reasonable EV/EBIDTA of 13 x FY12E. Its valuation premium over Apollo has also come off considerably. This makes us more comfortable on the stock.

Figure 23. Fortis EV/EBITDA – Relative to Apollo

Source: Citi Investment Research and Analysis

Figure 24. Fortis – EV/EBITDA bands (2-yr)



Source: Citi Investment Research and Analysis

Focus back on India

Our other concern related to Fortis' intended acquisition of majority control in Parkway Holdings, a leading hospitals group based in Singapore). While no doubt an attractive asset, we found valuations (21 x FY11E EBIDTA) on the expensive side and feared that it would too much pressure on its balance sheet, restricting its ability to grow in India. We thus view Fortis' decision to avoid a bidding war with Khazanah and sell its stake in Parkway. We are also encouraged by the management's recent indication that Fortis Healthcare would focus on growth opportunities in India and the group's international initiatives would be undertaken through a different entity.

Robust growth set to continue

With a much stronger balance sheet (net cash of Rs c5.5 bn), we believe Fortis is well placed to pursue growth opportunities in India. Demand for healthcare services remains robust and continues to grow, while there is a relative dearth of good quality healthcare delivery providers. Further, given the fragmented nature of the industry and high capital intensity (especially with real estate costs on the rise) in the business, we expect consolidation to pick up. Fortis Healthcare is likely to be one of the key beneficiaries of these trends.

We forecast 40% and 47% CAGRs in revenues and EBIDTA over FY10-13E – on the back of new bed additions as well as rising occupancies and better operating metrics (higher ARPOBs, lower ALOS) in existing hospitals.

Revising Estimates & Target Price

We revise our estimates for FY11 & FY12 as under:

- **Revenues** – We raise our FY12 revenue estimate by 4% to factor in higher revenues in the new hospitals at Shalimar Bagh, Kolkata & the Mulund expansion. We also expect 2-3 new projects to be commissioned in FY12
- **EBIDTA** – We factor in higher cost on promotion of acquired hospitals (from Wockhardt Hospitals) in FY11 & higher revenues in new hospitals. This lowers our adjusted EBITDA (excluding expenses incurred on the Parkway Holdings acquisition) estimates by 16% and 7% for FY11E and FY12E respectively.
- **Net Income** – Our adjusted net income (excluding all items related to the Parkway Holdings acquisition) estimates change -11%/+5% for FY11E/FY12E. Fully diluted EPS (assuming FCCBs as equity) stands at Rs3.6 & Rs6.8 respectively for FY11E & FY12E – down 11% & up 5% for FY11E & FY12E respectively.
- **Balance Sheet** – We have incorporated all fund raising by the company (warrants converted into equity capital, FCCBs) as well as sale of stake in Parkway Holdings. Fortis now has net cash of Rs c5.5 bn (FCCBs included in debt).

Figure 25. Earnings Revision

	Revenues		EBITDA		EPS	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
New	15,475	21,253	2,521	3,818	3.6	6.8
Old	15,535	20,308	3,004	4,126	4.04	6.50
Change (%)	*0%*	*5%*	*-16%*	*-7%*	*-11%*	*5%*

Source: Citi Investment Research and Analysis estimates

Raising TP to Rs190

We raise our target price to Rs190/share from Rs145/share, as we roll over to 16x March 12E EBIDTA from 16x June 11E EBIDTA earlier.

Figure 26. Fortis Healthcare – Expansion Plans

Project	No of beds	Expected Cost	Expected in
Expansion Plans			
Gurgaon	450	3,750	Jun-11
Kangra	100	240	Jun-11
Peenya Bangalore	120	180	Dec-11
Ludhiana-1	200	500	Mar-12
Ludhiana-2	75	200	Mar-12
Mulund, Mumbai	234	600	Mar-12
Ahmedabad	200	500	Jun-12
Gwalior	200	720	Sep-12
Total	**1,579**	**6,690**	

Source: Company Reports

Capital efficiency improving on the back of improving profitability of existing hospitals & improved asset turnover

Fortis' return ratios are depressed by the high cash balance & intangibles (on acquisitions) on its books

Figure 27. Fortis – Capital Efficiency Meter

	FY09	FY10	FY11E	FY12E	FY13E
RoCE	**3%**	**2%**	**5%**	**7%**	**8%**
PBIT/Sales	**10%**	**14%**	**16%**	**17%**	**17%**
EBITDA/Sales	14%	15%	16%	18%	17%
Depreciation/Sales	8%	6%	5%	4%	3%
Asset Turnover	**0.35**	**0.12**	**0.30**	**0.40**	**0.45**
Sales/Fixed Assets	0.38	0.35	0.58	0.77	0.89
Sales/Net Current Assets	5.4	0.7	8.6	13.7	23.1
Inventory Days	8	9	6	6	6
Debtor Days	77	61	44	44	44
Investments /Capital Employed	3%	46%	45%	46%	47%
RoE	**1%**	**3%**	**4%**	**7%**	**8%**
Net Margin	2%	7%	10%	14%	14%
Asset Turnover	0.35	0.12	0.30	0.40	0.45
Leverage (CE/Equity)	1.4	3.7	1.4	1.3	1.3

Source: Citi Investment Research and Analysis estimates

Comfortable debt levels with a negative net D/E of 0.3x (FY11E)

Figure 28. Fortis – Debt Metrics

	FY09	FY10E	FY11E	FY12E	FY13E
Net Debt / (Cash)	3,897	7,333	(10,273)	(12,337)	(14,983)
Net Debt/Equity	0.30	0.36	(0.27)	(0.30)	(0.34)
Net Debt/EBITDA	4.54	5.19	(3.12)	(2.66)	(2.79)
Interest Coverage (PBIT)	1.4x	2.3x	5.6x	27.8x	37.7x
Interest Coverage (EBITDA)	2.0x	2.5x	5.8x	28.9x	38.3x

Source: Citi Investment Research and Analysis estimates

Quants View - Glamour

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Data as of: 26-Nov-10

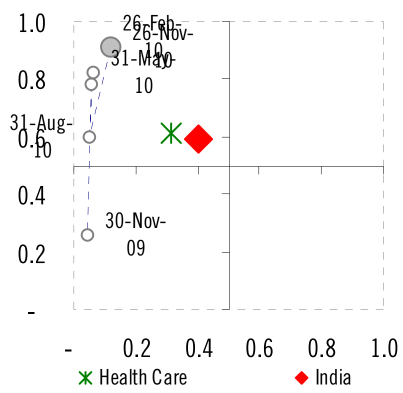
Radar Screen Quadrant Definitions

Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Fortis Healthcare currently lies in the Extreme corner of the Glamour quadrant of our Value-Momentum map with strong momentum but relatively weak value scores. It has been a resident there for the past nine months. Compared to its peers in the Health Care sector, Fortis Healthcare fares worse on the valuation metric but better on the momentum metric. Similarly, compared to its peers in its home market of India, Fortis Healthcare fares worse on the valuation metric but better on the momentum metric.

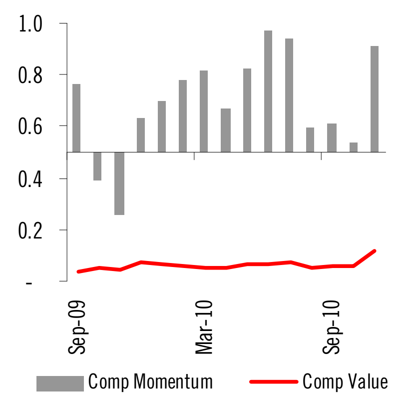
From a macro perspective, Fortis Healthcare has a low Beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from tightening US credit spreads, and a weaker US dollar.

Figure 29. Radar Quadrant Chart History



Source: CIRA

Figure 30. Radar Valuation and Momentum Scores



Source: CIRA

Figure 31. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	(2.49)	Implied Trend Growth (%)	94.93
FY(-1)	0.64	Trailing PE (x)	43.64
FY0	2.62	Implied Cost of Debt (%)	4.23
FY1	3.83	Standardised MCap	(0.23)
FY2	5.61		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 32. Stock Performance Sensitivity to Key Macro Factors

Region	0.77	Commodity ex Oil	0.02
Local Market	0.93	Rising Oil Prices	(0.14)
Sector	0.13	Rising Asian IR's	0.19
Growth Outperforms Value	(0.67)	Rising EM Yields	0.18
Small Caps Outperform Large Caps	0.37	Weaker US$ (vs Asia)	2.16
Widening US Credit Spreads	(0.42)	Weaker ¥ (vs US$)	0.26

Source: Citi Investment Research and Analysis

Apollo Hospitals

Valuation

Our target price for Apollo is Rs600. While there are few listed comparables in the domestic market, the company has a reasonable and well-diversified global peer group. Some of these are much bigger than Apollo, but we see healthcare growth opportunities as greater in India than in developed markets given the country's current low expenditure and health care penetration. Notionally, P/E and EV/EBITDA relative to earnings growth would seem to be ideal tools to value Apollo, given the high predictability and stability of earnings streams in the healthcare services industry. Yet we believe that this method may not be optimal, since high interest and depreciation charges incurred upfront would lead to earnings not fully reflecting operating performance. We therefore use EV/EBIDTA vs. EBIDTA CAGR as our primary methodology to value Apollo Hospitals. We believe Indian hospitals should trade at a premium to their global counterparts given the much higher growth opportunity in the Indian market. We benchmark our target sector multiple with comparable peers in the Asia Pac region. Our current EV/EBIDTA multiple of 15x is also in the range that Apollo has traded over the last several years. At 15x Mar 12E EBITDA we arrive at our target price of Rs600.

Risks

We rate Apollo Hospitals as Low Risk based on our quantitative risk-rating system, which tracks historical share price volatility. Main downside risks to our target price and estimates include: 1) Apollo Hospital has a fixed-cost-intensive business with high operating leverage. Inability to scale up occupancy and realizations could depress capital efficiency; 2) The business requires large investments in technology-intensive medical equipment that could be rendered obsolete quickly by rapid progress in technology; and 3) Slippage in service quality by Apollo's primary-care franchisees could dilute its brand equity.

Fortis Healthcare

Valuation

Our target price for Fortis is Rs190. 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 Mar'12E EBITDA we arrive at a target price of Rs190.

Risks

Our risk rating for Fortis is Low Risk as suggested by our quants-based rating system, which tracks 260-day historical share price volatility. Key downside risks that could prevent the stock from achieving our rating and target price include: (1) Slower than expected ramp up in occupancy rates; (2) Inability to effectively integrate the hospitals acquired from Wockhardt Hospitals; (3) Any acquisition at very aggressive valuations could hurt

Appendix A-1

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The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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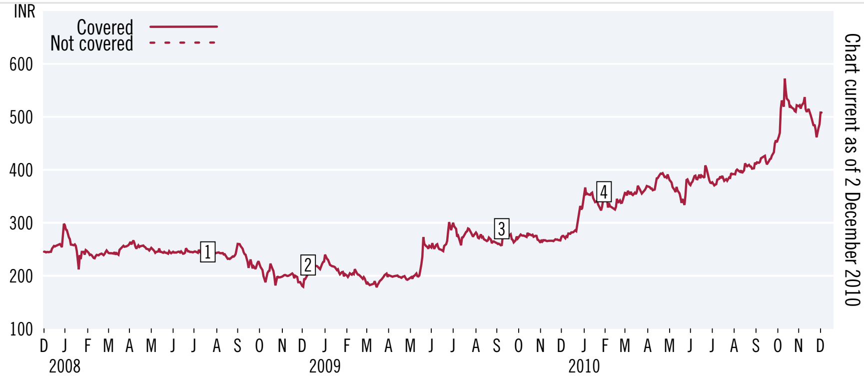
Apollo Hospitals (APLH.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Prashant Nair, CFA



Date	Rating	Target Price	Closing Price
1 21-Jul-08	1M	*291.00	243.05
2 9-Dec-08	1M	*228.50	204.08
3 8-Sep-09	1M	*330.00	258.08
4 29-Jan-10	1M	*420.00	342.08

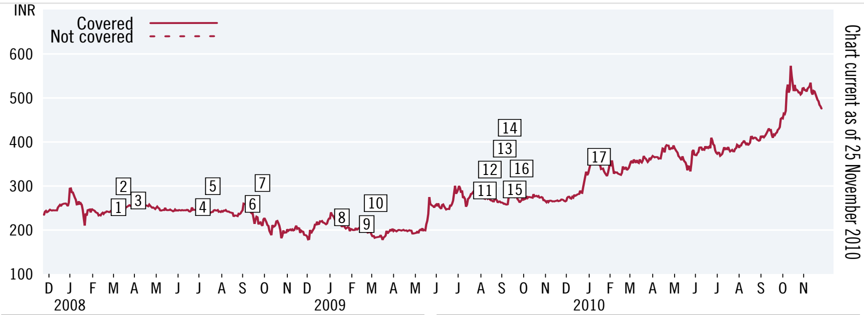
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Apollo Hospitals Enterprise Ltd (APLH.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



Date	Rating	Target Price	Closing Price
1 10-Mar-08	*3	-	241.83
2 17-Mar-08	*5	-	242.73
3 7-Apr-08	*4	-	262.55
4 7-Jul-08	*5	-	244.20
5 21-Jul-08	*3	-	241.23
6 15-Sep-08	*4	-	238.93
7 29-Sep-08	*3	-	209.65
8 19-Jan-09	*5	-	207.33
9 23-Feb-09	*4	-	200.38
10 6-Mar-09	*5	-	183.13
11 7-Aug-09	*2	-	271.00
12 14-Aug-09	*5	-	269.60
13 4-Sep-09	*3	-	259.83
14 11-Sep-09	*5	-	292.30
15 18-Sep-09	*3	-	274.58
16 29-Sep-09	*5	-	267.88
17 15-Jan-10	*4	-	348.35

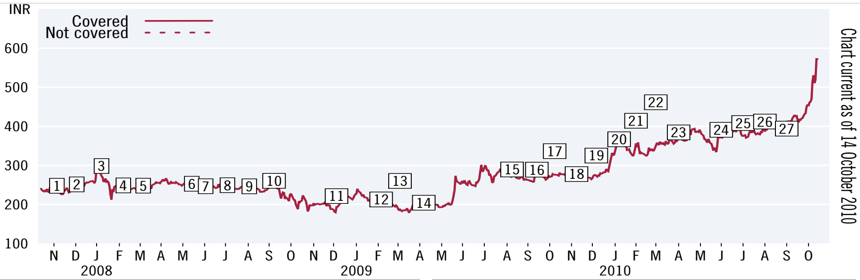
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Apollo Hospitals Enterprise Ltd (APLH.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



	Date	Rating	Target Price	Closing Price
1	6-Nov-07	*10	-	232.38
2	4-Dec-07	*7	-	245.40
3	8-Jan-08	*4	-	272.65
4	7-Feb-08	*7	-	240.10
5	6-Mar-08	*6	-	242.55
6	14-May-08	*5	-	251.45
7	3-Jun-08	*6	-	245.33
8	3-Jul-08	*8	-	245.93
9	3-Aug-08	*5	-	242.80
10	8-Sep-08	*8	-	255.25
11	4-Dec-08	*6	-	193.45
12	5-Feb-09	*9	-	200.70
13	4-Mar-09	*7	-	186.75
14	7-Apr-09	*8	-	196.75
15	10-Aug-09	*5	-	281.50
16	14-Sep-09	*7	-	276.33
17	8-Oct-09	*9	-	275.68
18	9-Nov-09	*10	-	266.60
19	7-Dec-09	*9	-	272.63
20	7-Jan-10	*7	-	355.15
21	1-Feb-10	*6	-	356.18
22	1-Mar-10	*7	-	343.50
23	1-Apr-10	*9	-	369.45
24	1-Jun-10	*5	-	372.90
25	1-Jul-10	*7	-	374.95
26	1-Aug-10	*8	-	391.80
27	1-Sep-10	*7	-	413.63

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Fortis Healthcare (FOHE.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Prashant Nair, CFA

	Date	Rating	Target Price	Closing Price
1	6-Mar-08	*3M	*75.00	72.15
2	21-Jul-08	*3H	*60.00	64.05
3	9-Dec-08	3H	*59.00	62.70
4	8-Sep-09	*3M	*110.00	113.60
5	19-Mar-10	3M	*145.00	177.55

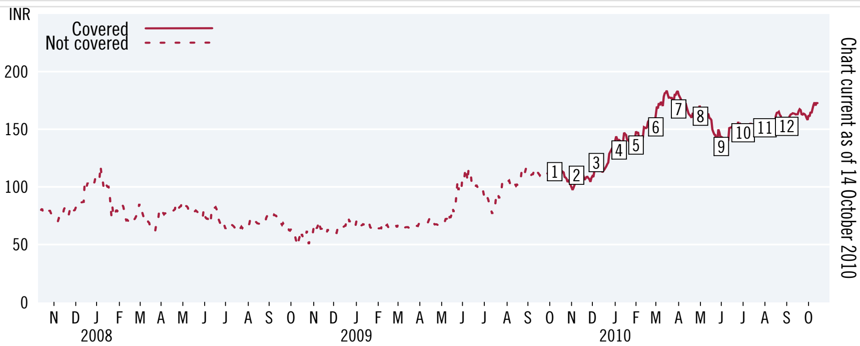
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Fortis Healthcare Ltd (FOHE.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since October 8 2009



	Date	Rating	Target Price	Closing Price
1	8-Oct-09	*6	-	107.60
2	9-Nov-09	*8	-	104.30
3	7-Dec-09	*9	-	120.35
4	7-Jan-10	*8	-	140.70
5	1-Feb-10	*6	-	148.15
6	1-Mar-10	*8	-	156.00
7	1-Apr-10	*7	-	179.90
8	1-May-10	*9	-	170.40
9	1-Jun-10	*5	-	135.05
10	1-Jul-10	*8	-	154.10
11	1-Aug-10	*10	-	155.50
12	1-Sep-10	*9	-	156.20

* Indicates change

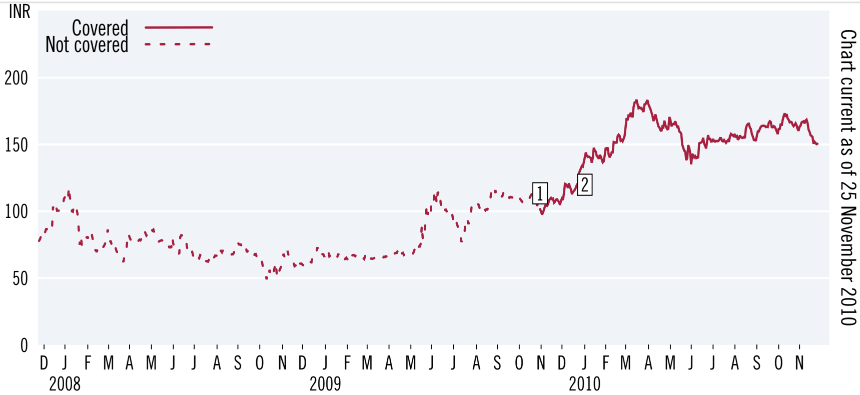
Rating/target price changes above reflect Eastern Standard Time

Fortis Healthcare Ltd (FOHE.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin

Covered since October 30 2009



Date	Rating	Target Price	Closing Price
1 30-Oct-09	*5	-	101.60
2 1-Jan-10	*4	-	136.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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% of companies in each rating category that are investment banking clients	48%	45%	39%
Citi Investment Research & Analysis Quantitative World Radar Screen Model Coverage	30%	40%	30%
% of companies in each rating category that are investment banking clients	21%	23%	21%
Citi Investment Research & Analysis Quantitative Decision Tree Model Coverage	48%	0%	52%
% of companies in each rating category that are investment banking clients	59%	0%	47%
Citi Investment Research & Analysis Quantitative European Value & Momentum Screen	30%	40%	30%
% of companies in each rating category that are investment banking clients	49%	52%	47%
Citi Investment Research & Analysis Asia Quantitative Radar Screen Model Coverage	20%	60%	20%
% of companies in each rating category that are investment banking clients	19%	20%	23%
Citi Investment Research & Analysis Australia Radar Model Coverage	50%	0%	50%
% of companies in each rating category that are investment banking clients	27%	0%	26%

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