

## Fortis Healthcare Ltd

Incorporating SRL acquisition, raise PT to Rs175

*Q4FY11 EBITDA margins declined 150bps YoY to 12.8% on account of new facilities that commenced operations during 4Q. However, trends for mature hospitals remain favorable (over 3 years in operations), with EBITDA margins in range of 20%-25% and occupancy rates close to 80%. FORH has also recently acquired SRL (diagnostics and laboratory testing) and is looking to derive synergies from this acquisition. We revise our earnings estimates to account for SRL, maintain Neutral rating with revised TP of Rs175.*

- SRL acquisition:** Management noted the synergies that could be extracted from SRL acquisition: 1) Access to SRL's distribution network of 400 cities/towns which will benefit FORH's Tier II and III expansion plans, 2) Improved opportunities for conversion of patients from testing to hospital care and vice-versa, 3) Availability of skilled medical talent pool of SRL and 4) Access to large SRL customer database for research and reach. We revise our estimates consolidating the SRL acquisition, raising EBITDA estimates by 22.6%/20.5% for FY12/13 and PAT estimates by 0%/4%.
- Hospitals performance:** For FY11 Occupancy rates declined 200bps to 72% due to 900 new beds added through the year. Although ARPOB declined 2% YoY in FY11, ALOS improved to 3.7 days (vs. 4.1 days in FY10). Mature hospitals (3 years and above) continue to show solid performance with EBITDA margins between 20%-25% and high occupancy rates at 78%-80%. Going forward, we expect margins to pick up as new hospitals ramp up.
- FY11 results highlights:** Revenues up 58% YoY driven by new hospitals. EBITDA margins declined 120bps YoY on back of new facilities and increase in professional charges to doctors (up to 11.8% of revenues vs. 8.2% in FY10). Pre-exceptional/minorities PAT was up 69% YoY.
- TP, valuation, key risks:** We roll forward our TP to Mar-12 (previously Sep-11), now at Rs175, still based on 15x EV/EBITDA. Upside risks include value accretive acquisitions and early break even for new hospitals. Downside risks include expensive acquisitions and delays in expansion plans.

Fortis Healthcare Ltd (Reuters: FOHE.BO, Bloomberg: FORH IN)

Rs in mn, year-end Mar	FY09A	FY10A	FY11A	FY12E	FY13E		
Adjusted EPS (Rs)	0.64	2.61	2.76	4.59	6.38	Shares O/S (mn)	405
EPS growth (%)	-	310.9%	5.7%	66.1%	38.9%	Market cap (Rs mn)	65,730
Revenue	6,306	9,379	14,828	25,658	31,829	Market cap (\$ mn)	1,458
Net Profit	144.2	694.8	1,063.5	1,859.0	2,583.0	Price (Rs)	162.25
DPS (Rs)	0.00	0.00	0.00	0.00	0.00	Date Of Price	31 May 11
Revenue growth (%)	24.4%	48.7%	58.1%	73.0%	24.1%	Free float (%)	17.7%
EBITDA	859	1,413	2,058	3,927	5,078	3-mth trading value (Rs mn)	437.2
EBITDA margin	13.6%	15.1%	13.9%	15.3%	16.0%	3-mth trading value (\$ mn)	9.7
P/E (x)	255.1	62.1	58.7	35.4	25.4	3-mth trading volume (mn)	2.8
P/BV (x)	2.8	2.1	1.8	1.9	1.8	BSE30	18,232
EV/EBITDA (x)	82.2	76.4	30.9	18.5	14.0	Exchange Rate	45.08
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	Fiscal Year End	Mar

Source: Company data, Bloomberg, J.P. Morgan estimates.

### Neutral

FOHE.BO, FORH IN

Price: Rs162.25

▲ Price Target: Rs175.00

Previous: Rs160.00

India

Hospitals

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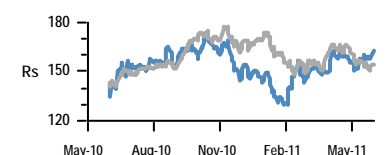
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J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	8.2%	4.8%	10.9%	13.1%
Rel	19.5%	8.8%	8.6%	5.5%

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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### Company Description

Fortis Healthcare Limited is a healthcare company, engaged in providing medical care, tele-medicine, education and research. The company provides healthcare services through network of 30 hospitals (including 10 hospitals acquired from Wockhardt acquired in FY10) spread across 10 states in the country. Fortis provides secondary and tertiary healthcare to patients in specialty areas, such as cardiac care, orthopedics, neuroscience, oncology, renal care, gastroenterology and mother and child care. Fortis also operates one hospital in Mauritius and one heart command center in Afghanistan.

### P&L sensitivity metrics

FY12E	EBITDA impact (%)	EPS impact (%)
Fortis Standalone Occupancy Rate (%)	71%	
Impact of each +5% increase	5%	11%
Fortis Standalone ARPOB-Inpatient (Rs/day)	20,613	
Impact of each +5% increase	3%	8%
Wockhardt network Occupancy Rate (%)	62%	
Impact of each +5% increase	3%	7%
Wockhardt network ARPOB-Inpatient (Rs/day)	19,980	
Impact of each +5% increase	2%	4%

Source: J.P. Morgan estimates.

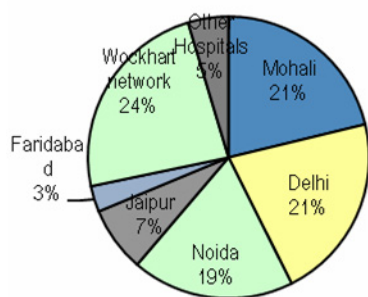
### PT and valuation analysis

Our price target of Rs175 is based on 15.0x FY12E EV/EBITDA, at 30% premium to Asian hospitals peer group.

Relative to Asian peer group, Fortis Healthcare is trading at a premium of 41% and 24% to FY11E and FY12E EV/EBITDAs respectively.

Key Risks to our rating and price target include aggressive expansion through expensive acquisitions, delay in building up of new hospitals or scaling up of existing hospitals and foray into unrelated areas

### FY2011E EBITDA by segment



Source: J.P. Morgan estimates.

### EPS: J.P. Morgan vs consensus

Rs	J. P. Morgan	Consensus	vs. Cons
FY12E	4.6	5.1	-10%
FY13E	6.4	7.0	-9%

Source: Bloomberg and J.P. Morgan estimates.

Table 1: Fortis Healthcare vs. Asian peer valuation comparison

	Curren cy	EBITDA Margin			EV/EBITDA			P/E			P/B			ROE		
		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
FORTIS HEALTHCARE JPMe est	INR	14%	15%	16%	30.5	16.0	12.4	50.1	35.3	25.4	1.8	1.9	1.8	4.3	5.6	7.4
FORTIS HEALTHCARE BB est	INR	14%	16%	17%	30.5	19.7	14.9	50.1	31.7	23.1	1.8	1.8	1.6	4.3	5.9	6.9
APOLLO HOSPITALS	INR	16%	16%	16%	17.0	14.4	12.2	34.2	29.9	26.5	3.5	3.3	2.8	10.7	11.6	12.0
RAFFLES MEDICAL GROUP LTD	SGD	25%	26%	27%	16.6	14.2	12.0	23.9	21.4	17.6	3.8	3.4	3.0	16.5	16.8	18.0
BUMRUNGRAD HOSPITAL PUB	THB	24%	24%	24%	12.3	11.3	10.5	20.1	18.8	16.9	4.3	4.0	3.8	23.5	NM	23.5
BANGKOK DUSIT MED SERVICE	THB	24%	24%	24%	10.8	9.1	8.3	22.8	18.8	16.1	2.9	2.6	2.3	15.4	14.2	14.9
BANGKOK CHAIN HOSPITAL	THB	33%	32%	33%	8.7	7.5	6.9	18.4	16.6	14.7	3.2	3.1	2.8	19.7	19.4	19.9
<b>Average</b>					<b>13.1</b>	<b>11.3</b>	<b>10.0</b>	<b>23.9</b>	<b>21.1</b>	<b>18.4</b>	<b>3.6</b>	<b>3.3</b>	<b>2.9</b>	<b>17.2</b>	<b>15.5</b>	<b>17.6</b>

Source: Bloomberg Consensus estimates for non-rated companies. J.P. Morgan estimates for FORH,APHS. FORH, APHS FY11 nos are actuals. Valuations as on COB 31/05/2011.

Table 2: Fortis: New hospitals expansion plan

Location	Beds	Area & Land Ownership	Date of commencement	Estimated Capex (Rs MM)	Status
Kangra	100	37,000 sq. ft., Lease	Q2 FY12	240	Medical Equipment ordered, civil interior work completed, Facility being handed over to operations
Dehradun	50	27,000 sq. ft., Public-Private partnership	Q3 FY12	150	Civil construction work of the hospital building is complete. Some delays in handing over the premises, Equipment ordered
Gurgaon	450	11 acres, owned	Q4 FY12	3250	Interior work, installation of utility equipment & external devlpt underway. Medical equipment under order. Rs2.35B spent till Mar'11
Peenya, Bangalore	120	~70,000 sq. ft; Lease	FY13	180	Building construction work is delayed by landlord
Ludhiana-1	200	155,000 sq. ft; Lease	Q2 FY13	500	Construction underway, Project on schedule
Ludhiana-2	75	60,000 sq. ft; Lease	FY13	200	Approval from govt. authorities received; design work underway
Gwalior	200	2.5 acres; Lease	FY14	720	CLU permission awaited from authorities
Ahmedabad	200	1550,000 sq. ft; Lease	FY14	500	Approval from govt. authorities awaited
<b>Total</b>	<b>1395</b>			<b>5740</b>	

Source: Company presentation

**Mature hospitals (3 years and above) continue to show solid performance with EBITDA margins between 20%-25% and high occupancy rates at 78%-80%**

Table 3: Fortis Hospitals performance based on maturity

Maturity	Revenue contribution	EBITDA contribution	Average EBITDA margin	Average Occupancy	Average ARPOB (Rs MM)
5 years and above	24%	34%	26.0%	80%	10.0
3-5 years	58%	62%	20.0%	78%	8.3
1-3 years	13%	9%	13.9%	57%	6.3
Upto 1 year	5%	-5%	-18.4%	37%	3.4
<b>Average</b>			<b>18.8%</b>	<b>72%</b>	<b>8.1</b>

Source: Company presentation

**Revenues up 58% YoY driven by new hospitals. EBITDA margins declined 120bps YoY on back of new facilities and increase in professional charges to doctors (up to 11.8% of revenues vs. 8.2% in FY10). Pre-exceptional/minorities PAT was up 69% YoY**

Table 4: Fortis Healthcare Q4/FY11 results summary

	Q4FY10	Q4FY11	% YoY	FY10A	FY11A	% YoY
Revenues	3,269.0	4,112.9	25.8	9,267.5	14,672.9	58.3
Other operating Income	26.2	43.3		111.9	155.3	
Total Income	3,295.2	4,156.2	26.1	9,379.4	14,828.2	58.1
EBITDA	468.6	526.7	12.4	1,413.1	2,057.6	45.6
EBITDA Margin	14.3	12.8		15.2	14.0	1.2
Depreciation	(230.0)	(328.0)	42.6	(599.4)	(1,044.9)	74.3
Interest	(322.5)	(227.2)	(29.5)	(572.9)	(695.9)	21.5
Other Income	347.3	379.8	9.4	493.1	943.5	91.3
PBT	263.4	351.3	33.4	733.9	1,260.3	71.7
Tax	2.3	(29.0)	(1,360.9)	(33.4)	(77.4)	131.7
Tax rate	0.9	8.3		4.6	6.1	
PAT	265.7	322.3	21.3	700.5	1,182.9	68.9
PAT Margin	8.1	7.8		7.6	8.1	
Raw Materials	908.1	1,080.2	19.0	2,626.7	3,929.9	49.6
% of revenues	27.8	26.3		28.3	26.8	
Employee costs	623.2	775.6	24.5	1,950.0	2,731.2	40.1
% of revenues	19.1	18.9		21.0	18.6	
Professional charges to doctors	404.7	493.4	21.9	764.3	1,734.1	126.9
% of revenues	12.4	12.0		8.2	11.8	

Source: Company reports

**We revise our estimates consolidating the SRL acquisition, raising EBITDA estimates by 22.6%/20.5% for FY12/13 and PAT estimates by 0%/4%.**

**Disproportionate decline in FD EPS vs. PAT growth is due to higher minority interest on account of remaining 29.6% non-controlling stake in SRL**

**We roll forward our TP to Mar-12 (previously Sep-11), now at Rs175, still based on 15x EV/EBITDA**

Table 5: Fortis Healthcare earnings revision summary

	FY12E			FY13E		
	Old	New	% Change	Old	New	% Change
Revenues	20,118.7	25,658.3	27.5	24,900.2	31,829.4	27.8
EBITDA	3,203.0	3,927.1	22.6	4,212.7	5,078.3	20.5
EBITDA Margin (%)	15.9	15.3		16.9	16.0	
PAT (pre-exceptional)	1,908.7	1,908.1	(0.0)	2,588.8	2,678.4	3.5
PAT Margin (%)	9.5	7.4		10.4	8.4	
FD EPS (pre-exceptional)	4.7	4.6	(2.4)	6.4	6.4	(0.4)

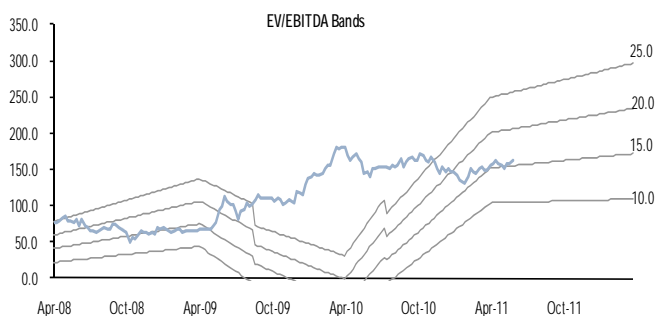
Source: J.P. Morgan estimates

Table 6: FORH implied equity valuation based on EV/EBITDA

FY13E EBITDA (Rs MM)	5,078.3
Target EBITDA Multiple (x)	15.0
Target Mar-13E EV (Rs MM)	76,175.1
(-) Net Debt FY13E (Rs MM)	(4,653.6)
(-) Minorities FY13E (Rs MM)	467.4
Target Equity Value (Rs MM)	71,054.1
No. of Shares (MM)	405.1
<b>Target price per share (Rs)</b>	<b>175.4</b>

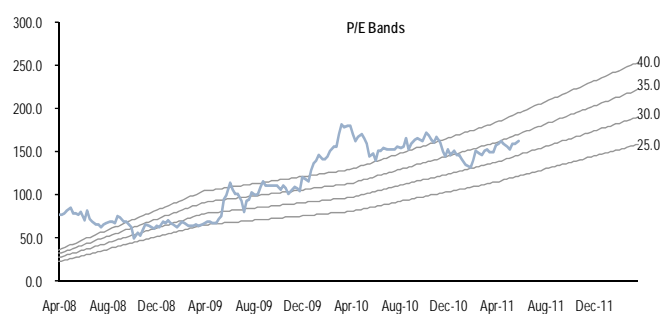
Source: J.P. Morgan estimates. Target EV/EBITDA multiple is at 30% premium to Asian hospitals peer group.

Figure 1: FORH EV/EBITDA bands (x)



Source: Company reports, Bloomberg, J.P. Morgan estimates

Figure 2: FORH P/E bands (x)



Source: Company reports, Bloomberg, J.P. Morgan estimates

**JPM Q-Profile**

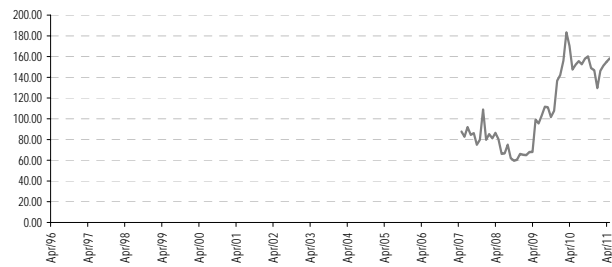
**Fortis Healthcare (India) Ltd. (INDIA / Health Care)**

As Of: 27-May-2011

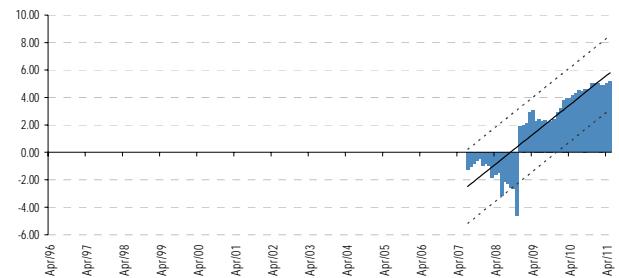
**Global Equity Quantitative Analysis**

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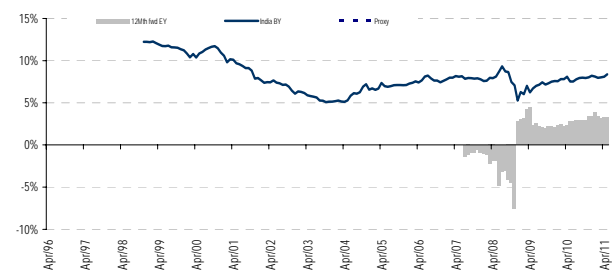
**Local Share Price** Current: **158.20**



**12 Mth Forward EPS** Current: **5.18**



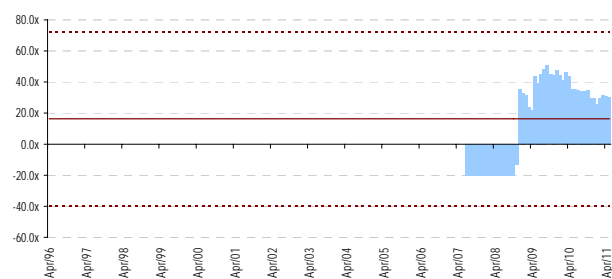
**Earnings Yield (& local bond Yield)** Current: **3%**



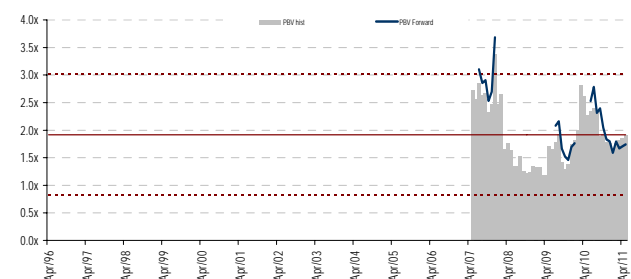
**Implied Value Of Growth\*** Current: **75.47%**



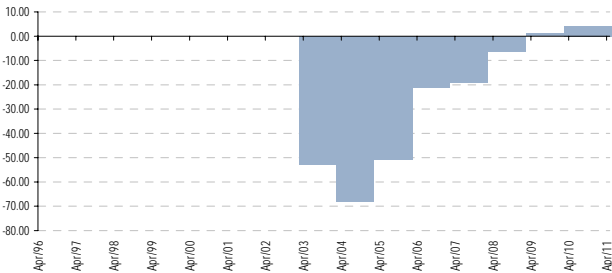
**PE (1Yr Forward)** Current: **30.5x**



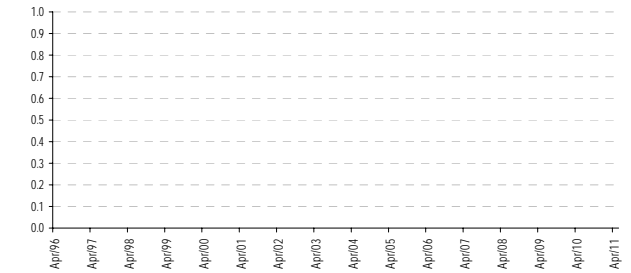
**Price/Book Value** Current: **1.9x**



**ROE (Trailing)** Current: **4.26**



**Dividend Yield (Trailing)** Current: **0.00**



**Summary**

Fortis Healthcare (India) Ltd.		SEDOL		B1XC098		As Of:		27-May-11			
INDIA						Local Price:		158.20			
Health Care						EPS:		5.18			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	30.48x	-20.00	50.48	30.48	16.30	72.33	-39.73	-166%	66%	0%	-47%
P/BV (Trailing)	1.90x	1.18	3.38	1.79	1.92	3.01	0.83	-38%	78%	-6%	1%
Dividend Yield (Trailing)	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
ROE (Trailing)	4.26	-67.98	4.26	-18.98	-25.74	25.88	-77.37	-1697%	0%	-546%	-705%
Implied Value of Growth	75.5%	0.60	1.63	0.82	0.92	1.37	0.47	-21%	116%	9%	22%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

\* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

## Fortis Healthcare Ltd: Summary of Financials

Income Statement						Cash flow statement					
Rs in millions, year end Mar	FY10	FY11	FY12E	FY13E	FY14E	Rs in millions, year end Mar	FY10	FY11	FY12E	FY13E	FY14E
Revenues	9,379	14,828	25,658	31,829	37,615	PBT	734	1,260	2,168	3,348	4,477
% change Y/Y	48.7%	58.1%	73.0%	24.1%	18.2%	Depr. & amortization	599	1,045	1,449	1,564	1,679
Gross Profit	4,340	6,436	11,504	14,477	17,286	Change in working capital	-2	-1,158	-2,137	30	-990
% change Y/Y	45.7%	48.3%	78.7%	25.8%	19.4%	Other	134	1,503	617	595	354
EBITDA	1,413	2,058	3,927	5,078	6,179	Cash flow from operations	1,325	2,572	1,837	4,868	4,625
% change Y/Y	64.5%	45.6%	90.9%	29.3%	21.7%						
EBIT	814	1,013	2,478	3,514	4,500	Capex	-10,440	-3,498	-11,511	-2,500	-2,500
% change Y/Y	119.0%	24.5%	144.7%	41.8%	28.1%	Net Interest	-573	-696	-855	-575	-335
EBIT Margin	8.7%	6.8%	9.7%	11.0%	12.0%	Other	-34,583	27,449	1,300	0	0
Net Interest	-573	-696	-855	-575	-335	Free cash flow	-9,115	-925	-9,674	2,368	2,125
Earnings before tax	734	1,260	2,168	3,348	4,477						
% change Y/Y	235.9%	71.7%	72.1%	54.4%	33.7%	Equity raised/(repaid)	7,080	18,548	0	0	0
Tax	-34	-77	-260	-670	-895	Debt raised/(repaid)	50,023	-43,823	1,478	-3,500	-3,000
as % of EBT	4.6%	6.1%	12.0%	20.0%	20.0%	Other	-876	-696	-855	-575	-335
Net income	695	1,064	1,859	2,583	3,446	Dividends paid	0	0	0	0	0
% change Y/Y	381.9%	53.1%	74.8%	38.9%	33.4%	Beginning cash	585	13,113	13,666	5,915	4,207
Shares outstanding	-	-	-	-	-	Ending cash	13,113	13,666	5,915	4,207	2,998
EPS (reported)	2.61	2.76	4.59	6.38	8.51	DPS	0.00	0.00	0.00	0.00	0.00
% change Y/Y	310.9%	5.7%	66.1%	38.9%	33.4%						
Balance sheet						Ratio Analysis					
Rs in millions, year end Mar	FY10	FY11	FY12E	FY13E	FY14E	Rs in millions, year end Mar	FY10	FY11	FY12E	FY13E	FY14E
Cash and cash equivalents	13,113	13,666	5,915	4,207	2,998	Gross margin	46.3%	43.4%	44.8%	45.5%	46.0%
Accounts receivable	1,567	2,477	4,330	4,217	5,073	EBITDA margin	15.1%	13.9%	15.3%	16.0%	16.4%
Inventories	238	376	755	640	770	Operating margin	8.7%	6.8%	9.7%	11.0%	12.0%
Others	2,151	3,401	5,409	5,790	6,966	Net margin	7.4%	7.2%	7.2%	8.1%	9.2%
Current assets	17,069	19,920	16,408	14,855	15,807						
						Sales per share growth	26.8%	9.2%	64.4%	24.1%	18.2%
LT investments	34,485	902	902	902	902	Sales growth	48.7%	58.1%	73.0%	24.1%	18.2%
Net fixed assets	16,649	19,102	23,372	24,308	25,128	Net profit growth	381.9%	53.1%	74.8%	38.9%	33.4%
Total Assets	79,402	49,903	54,348	53,725	55,494	EPS growth	310.9%	5.7%	66.1%	38.9%	33.4%
Liabilities						Interest coverage (x)	2.47	2.96	4.59	8.84	18.46
Short-term loans	0	0	0	0	0	Net debt to equity	201.4%	-8.2%	18.6%	12.5%	7.0%
Payables	1,944	3,073	4,131	5,232	6,295	Working Capital to Sales	(1.5%)	(1.5%)	3.7%	(1.2%)	(1.2%)
Others	1,749	1,760	2,805	1,887	1,997	Sales/assets	0.19	0.23	0.49	0.59	0.69
Total current liabilities	3,693	4,833	6,936	7,120	8,292	Assets/equity	3.84	1.47	1.57	1.44	1.36
Long-term debt	54,706	10,883	12,361	8,861	5,861	ROE	4.1%	3.9%	5.4%	7.2%	8.8%
Other liabilities	3	0	0	0	0	ROCE	1.7%	1.7%	5.4%	7.5%	9.7%
Total Liabilities	58,403	15,717	19,297	15,981	14,153						
Shareholders' equity	20,654	33,885	34,690	37,273	40,718						
BVPS	77.70	88.01	85.63	92.01	100.51						

Source: Company reports and J.P. Morgan estimates.

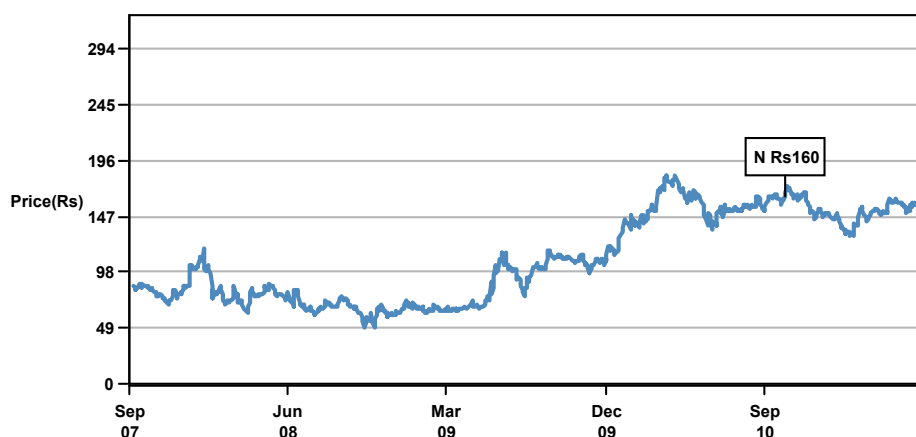
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**Fortis Healthcare Ltd (FOHE.BO) Price Chart**



Date	Rating	Share Price (Rs)	Price Target (Rs)
05-Oct-10	N	165.55	160.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 05, 2010. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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