

Fortis Healthcare

 Relative to sector: **Underperformer**

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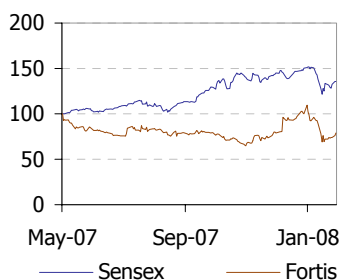
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 227mn
Market cap	: Rs 19.2bn
52 week high/low	: Rs 123/ Rs 68
Avg. daily vol. (6mth)	: 992,300 shares
Bloomberg code	: FORH IN
Reuters code	: FOHE.BO

Shareholding (%) Dec-07 QoQ chg

Promoters	: 74.5	0.0
FIIs	: 5.2	(2.0)
MFs / UTI	: 0.0	(0.2)
Banks / FIs	: 1.0	1.0
Others	: 19.4	1.2

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	RoE (%)	RoCE (%)	EBITDA (Rs)	EV/EBITDA (x)
2007	5,124	(973)	-	(4.3)	96	(27.8)	(2.4)	473	12.9
2008E	4,970	(986)	(2.2)	(4.4)	1	(20.0)	(2.5)	224	105.0
2009E	7,417	(531)	0.6	(2.3)	(46)	(8.8)	2.0	937	27.2
2010E	10,544	84	1.4	0.4	(116)	1.4	7.7	1,788	14.9

Source: *Consensus broker estimates, Company, ENAM estimates

A LOWER TOPLINE IMPACTS RESULTS

Fortis' Q3FY08 results were below our expectations. Sales declined 13% YoY on account of a poor show from its flagship hospital - Escorts Heart Institute in South Delhi (EHIRC). The hospital is coping with the exit of its chief surgeon Naresh Trehan. Margin also suffered due to losses by new hospitals in Jaipur and Vashi.

Key highlights

- **Sales:** Q3 is the strongest quarter seasonally, however Fortis posted weak numbers with a 13% decline YoY on account of poor sales from the EHIRC.
- **EBITDA:** With low volume of high margin heart surgeries coupled with losses from startup hospitals of Vashi and Jaipur margin down by 600bps to 3.3%.
- **PAT:** Boosted by a high other income of Rs 161mn, which includes a total of Rs 110mn from treasury gains and proceeds from land sale.

Other highlights

- Management restructuring at top Hospitals including EHIRC.
- Margin will remain under pressure with losses from two greenfield projects (Gurgaon and Shalimar Bagh) piling up.

Catalysts

- With new hospitals being commissioned we expect reduced dependence on EHIRC. The Vashi Hospital is expected to begin full operations by the end-FY08. With the Malar deal now finalized, the hospital is expected to be integrated by March 2008.
- News flows on inorganic growth initiatives.

Valuations

Due to a higher than expected impact on EHIRC from Naresh Trehan's exit, coupled with the commissioning of 2 large greenfield hospitals, in the next 2 years; we have reduced our EBITDA estimates by 27% and 15% for FY09E and FY10E respectively. In view of lower EBITDA estimates, we have reduced our target price to Rs 64, based on 12X FY10E EBITDA. We assign a sector **Underperformer** rating.

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-07	Dec-06	% Chg	Sep-07	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	1,216	1,396	(12.9)	1,210	0.4	4,970	5,124	(3.0)
EBITDA	48	139	(65.4)	26	85.9	224	473	(52.6)
Other income	161	10	-	77	109.1	450	131	244.5
PBIDT	209	148	40.6	103	103.3	673	603	11.6
Depreciation	250	236	6.2	227	10.1	934	838	11.5
Interest	153	187	(17.9)	141	8.6	556	660	(15.8)
PBT	(195)	(274)	-	(266)	-	(816)	(895)	-
Tax	(2)	-	-	11	-	155	73	112.7
Minority Interest	(9)	(0)	-	(10)	(4.4)	15	7	110.4
PAT	(184)	(274)	-	(267)	(31.0)	(986)	(973)	1.4
No. of shares (mn)	227	227	-	227	-	227	227	-
EBITDA margin (%)	3.9	9.9	-	2.1	-	4.5	9.2	-
PBIDT margin (%)	17.2	10.6	-	8.5	-	13.5	11.8	-
EPS - annualized (Rs.)	(3.2)	(4.8)	-	(4.7)	-	(4.4)	(4.3)	-

Source: Company, ENAM Research

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