

# Fortis Healthcare (India) Ltd

Q2FY12 first cut – Another disappointing quarter

Fundamental Grade 4/5 (Superior fundamentals)  
Valuation Grade 5/5 (CMP has strong upside)

Industry Healthcare Providers & Services

Fortis Healthcare (India) Ltd's (Fortis') Q2FY12 results were significantly below CRISIL Research's expectations. Though revenue grew by 70% y-o-y (aided by acquisition of Super Religare Laboratories (SRL) in May 2011), it was marginally below our expectations. Consolidated EBITDA margin was in line with our expectations but net loss of Rs 36 mn (adjusted for forex loss on external borrowings) was substantially below our profit estimates due to higher interest cost, lower-than-expected other income and losses in SRL. We will revise our estimates downwards post interaction with the management. We maintain our fundamental grade of **4/5**.

## Q2FY12 result analysis

- Revenues grew by 70.5% y-o-y to Rs 6,101 mn aided by consolidation of Fortis' subsidiary - SRL. The hospital business registered strong growth of 35% y-o-y to Rs 4,830 mn supported by growth in the existing hospitals. The diagnostic business reported revenues of Rs 1,270 mn with a contribution of ~21% to the consolidated top line.
- EBITDA margin improved by ~200 bps y-o-y to 14.3% supported by margin expansion in the existing hospitals. While the hospital business reported margin of 15% (up ~250 bps y-o-y), the diagnostic business had margin of 11.4%.
- The company reported net loss of Rs 126 mn in Q2FY12 against a profit of Rs 748 mn in Q2FY11. However, these are not comparable as Fortis had made a profit of ~Rs 180 mn on the Parkway deal in FY11. Even after adjusting for the forex loss of ~Rs 90 mn, Fortis has a net loss of Rs 36 mn in Q2FY12. This is on account of lower other income and increase in debt and, subsequently, high interest costs. Since there is a delay in SRL's IPO, interest costs impacted profitability of the diagnostic business. For Q2FY12, SRL had net loss of Rs 320 mn.

## Valuation: Current market price has strong upside

We continue to use the discounted cash flow method to value Fortis. We maintain our fair value of Rs 185 per share. Given the current market price, our valuation grade is **5/5**.

## KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	6,354	9,487	15,037	25,488	31,429
EBITDA	825	1,352	2,199	3,662	4,674
Adj PAT	87	564	833	1,653	1,907
Adj EPS-Rs	0.8	1.4	2.2	4.0	4.7
EPS growth (%)	NM	364.9	15.7	96.9	15.3
Dividend yield (%)	-	9.8	0.6	-	-
RoCE (%)	2.2	1.7	2.0	4.7	6.2
RoE (%)	0.9	4.1	3.2	4.3	4.2
PE (x)	138.7	77.7	60.1	30.5	26.5
P/BV (x)	1.3	2.4	1.5	1.1	1.1
EV/EBITDA (x)	22.1	62.7	26.8	14.9	11.5

NM: Not meaningful; CMP: Current market price

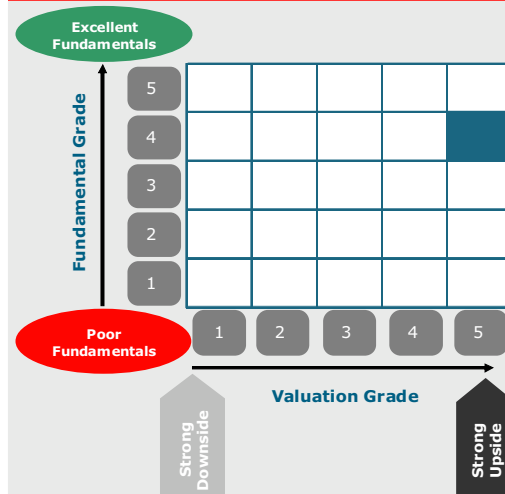
Source: Company, CRISIL Research estimate

November 14, 2011

Fair Value Rs 185

CMP Rs 124

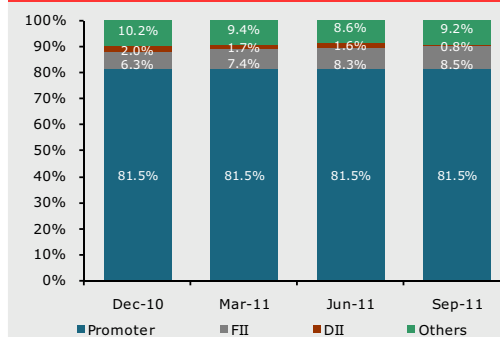
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY / SENSEX	5148/17119
NSE / BSE ticker	FORTIS
Face value (Rs per share)	10
Shares outstanding (mn)	405
Market cap (Rs mn)/(US\$ mn)	50,030/999
Enterprise value (Rs mn)/(US\$ mn)	58,788/1,174
52-week range (Rs) (H/L)	176/118
Beta	0.9
Free float (%)	18.5%
Avg daily volumes (30-days)	583,507
Avg daily value (30-days) (Rs mn)	73.2

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Fortis	-1%	-23%	-22%	-23%
NIFTY	0%	1%	-7%	-15%

## ANALYTICAL CONTACT

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