

# Fortis Healthcare (FORHEA)

## RESULT UPDATE ✓

### WHAT'S CHANGED...

PRICE TARGET.....	Changed from Rs 106 to Rs 88
EPS (FY09E).....	Changed from Rs -0.97 to Rs 0.26
EPS (FY10E) (Introduced).....	Rs 0.70
RATING.....	Unchanged

<b>Current price</b> Rs 67.6	<b>Target price</b> Rs 88
<b>Potential upside</b> 30.2%	<b>Time Frame</b> 12-18 months

**OUTPERFORMER**

Rashes Shah  
Rashes.shah@icicidirect.com

## On the road to recovery

For the first time, Fortis Healthcare reported positive consolidated net profit of Rs 94 lakh for the first quarter of FY09. On a standalone basis, however, the company reported net loss of Rs 1.44 crore for the same period. The consolidated revenues for Q1FY09 were Rs 139.35 crore which grew by 7.8% Y-o-Y and 4.9% Q-o-Q. Overall occupancy levels remained flat compared with the corresponding quarter of the previous year. On an individual performances basis, Escorts Heart & Super Speciality Institute (EHSSI), Amritsar recorded revenue growth of 28.9% Y-o-Y whereas Escorts Heart Institute & Research Centre (EHIRC), New Delhi recorded a de-growth of 15.6%. Total expenditures for the current quarter stood at Rs 125.19 crore which grew by 5.6% Y-o-Y, but Q-o-Q it declined by 5.7%. Major contributors to the total expenditure were employee costs and other costs, which grew 10% and 9.7%, respectively on Y-o-Y.

### Valuations

With the huge expected demand in the tertiary care segment, along with the changes in demography, we expect Fortis to benefit in the long-term from its metro-focused multi-speciality facilities with expertise in cardiac care. We have revised our target price downwards taking into consideration rising inflation and interest costs and arrived at price target of Rs 88 through our DCF valuation on a base case scenario. We believe the current business seems fairly valued while an up tick can be expected once the extended bed base becomes operational in FY10.

### Key Financials

Rs in crore	01FY09	Q1FY08	y-o-y growth %	Q4FY08	q-o-q growth %	FY09E	FY10E
Net Sales	139.35	129.22	7.8%	132.84	4.9%	630.82	914.65
Other Income	9.00	5.42	66.1%	14.17	-36.5%	36.86	47.13
Total Expenditure	125.19	118.52	5.6%	132.72	-5.7%	570.81	836.30
EBIDTA	14.16	10.70	32.3%	0.12	11478.1%	60.01	78.35
Interest	10.93	17.04	-35.9%	8.63	26.7%	47.05	49.78
Depreciation	11.65	9.28	25.5%	12.74	-8.5%	42.32	54.78
PBT	0.58	-10.20	-105.7%	-7.07	-108.2%	7.50	20.92
Exceptional Items	0.00	0.00	0.0%	0.00	0.0%	0.00	0.00
Tax	0.51	15.15	-96.6%	3.49	-85.4%	2.03	5.65
PAT	0.07	-25.35	-100.3%	-10.56	-100.7%	5.48	15.27
Minority Interest	-0.40	-1.84	-78.3%	-1.26	-68.3%	1.50	1.58
Share of profits from Associates	0.47	-0.03	-1666.7%	-0.59	-179.4%	1.90	2.28
Extraordinary Items	0.00	0.00	0.0%	0.00	0.0%	0.00	0.00
Net Profit	0.94	-23.54	-104.0%	-9.89	-109.5%	5.88	15.98
OPM	10.2%	8.3%	22.7%	0.1%	10937.3%	9.5%	8.6%
NPM	0.6%	-17.5%	-103.6%	-6.7%	-109.4%	0.9%	1.7%
EPS (Basic & Diluted)	0.04	-4.35	-101.0%	-1.75	-102.4%	0.26	0.70

Source: Company, ICICIdirect.com Research

## Outlook

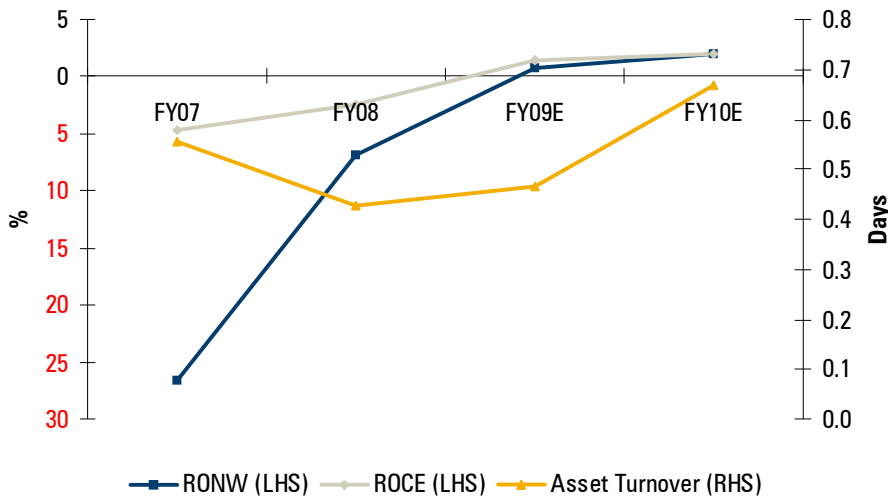
### Growth plan

Fortis has been expanding aggressively through greenfield projects, acquisitions and management contracts. Currently, it has a bed base of 1,800, including 286-managed beds. Going forward, the company plans to continue with its aggressive expansion by strengthening its position in the NCR region and spread to the western and southern regions of India. Fortis announced the commencement of Malar Hospital, it had acquired in September 2007, from February 2008. The 258 bed multi-specialty hospital in Shalimar Bagh is expected to start operating by late 2009 while the Gurgaon medicity, which would be under O&M, is expected to be launched in 2010.

### Returns to improve with improvement in asset turnover ratio

Healthcare is a capital intensive industry and does not experience high return ratios. In FY10, we expect bed expansion in existing facility leading to better asset utilisation. We expect the asset turnover ratio to improve from 0.43 to 0.67 in FY10. Consequently, we foresee improvement in RoE from 0.72% in FY09E to 1.92% in FY10. RoCE would increase from 1.44% in FY09E to 1.89% in FY10. It must be noted that Fortis would be increasing its leverage for capex and future acquisitions.

#### Exhibit 1: Returns to improve gradually



Source: Company, ICICIdirect.com Research

## Concerns

The key risk to Fortis operations arises from the litigation surrounding EHRC and its subsidiaries. EHRC is currently involved in legal proceedings that challenge its initial incorporation as a company and its acquisition by the Fortis group. The company's right to operate its Delhi facility on leasehold land has also been disputed by the lessor — the Delhi Development Authority. If the Escorts case goes against the company, it would result in suspension of EHRC operations, which contributes around 53% of total revenues of the company.

## RATING RATIONALE

ICICIdirect endeavours to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

**Outperformer:** 20% or more;

**Performer:** Between 10% and 20%;

**Hold:**  $\pm 10\%$  return;

**Underperformer:** -10% or more.

**Pankaj Pandey**

**Head - Research**

**pankaj.pandey@icicidirect.com**

**ICICIdirect Research Desk,  
ICICI Securities Limited,  
Gr. Floor, Mafatlal House,  
163, HT Parekh Marg,  
Backbay Reclamation  
Churchgate, Mumbai – 400 020**

**research@icicidirect.com**

---

## ANALYST CERTIFICATION

We /I, *Rashes Shah*, CA research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

## Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Rashes Shah*, CA research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Rashes Shah*, CA research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.