

June 02, 2011

## FORTIS HEALTHCARE (INDIA) LTD.

**HOLD**

**Fortis Healthcare (India) Ltd.** (Fortis) is an established chain of super specialty hospitals based in national capital region of Delhi, incorporated in 2001. The company also has operations across Kolkata, Mumbai, Navi Mumbai, Punjab, Raipur, Jaipur, Chennai, Kota and Bengaluru. It has a chain of 48 hospitals, comprising of 2,605 owned operational beds and 1,129 managed operational beds.

- Fortis is focusing on limited capital investment model, in which the company's fund outlay will be limited only to medical equipments. It is concentrating on operating facilities on management contracts/reverse management contracts and public-private partnerships, which we believe will help the company to scale up at a faster pace and improve its capital return profile.
- Fortis' aggressive expansion holds key to future growth. We expect that the company will add 1,400 new owned beds over the next two years, increasing its number of owned beds to nearly 4,100 by FY13. It also plans to add another 500 beds in the managed beds segment over the next two years, aided by recent deals.
- In FY11, Fortis added significant number of operating beds through the commissioning of three Greenfield hospitals in various parts of the country.
- The company continues to record continuous revenue growth in the past few quarters supported by additional revenue inflow from newly acquired hospitals. In the last quarter, Fortis added nearly 350 beds with the addition of four hospitals at Alwar, Dehradun, Pondicherry and Mysore.
- The company's strategy to expand its reach in the domestic market and especially into tier II and tier III cities has added more value to its core business in terms of occupancy and average revenue per operating bed (ARPOB).

**Based on a consolidated FY13 P/E multiple of 36.5, the fair value for the company works out to be Rs 184.5**

### Financial Snapshot

Projections (Rs Mn)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue	5,166	5,044	6,200	9,267	14,673	19,548	24,923
Y-o-Y Growth %		-2.4%	22.9%	49.5%	58.3%	33.2%	27.5%
EBITDA	596	610	1,199	1,921	4,985	3,839	4,717
Y-o-Y Growth %		2.4%	96.6%	60.2%	159.5%	-23.0%	22.9%
PAT	-981	-580	125	614	1,288	1,579	2,047
Y-o-Y Growth %		-40.9%	-121.5%	392.1%	109.9%	22.6%	29.7%
EPS Rs	-2.4	-1.4	0.3	1.5	3.2	3.9	5.1
BVPS Rs	3.5	17.8	47.2	44.9	58.7	79.6	102.4
EBIDTA %	11.5%	12.1%	19.3%	20.7%	34.0%	19.6%	18.9%
NPM %	-19.0%	-11.5%	2.0%	6.6%	8.8%	8.1%	8.2%
ROE %	-	-	0.7%	3.4%	5.4%	4.9%	4.9%
PER x						41.4	31.9
P/B Ratio						2.0	1.6

[www.fullertonsecurities.co.in](http://www.fullertonsecurities.co.in)

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

**Strong Buy** – Expected Returns > 20% p.a.

**Buy** – Expected Returns from 10 to 20% p.a.

**Hold** – Expected Returns from 0% to 10% p.a.

**Reduce** – Expected Returns from 0% to 10% p.a. with possible downside risk

**Sell** – Returns < 0%



### STOCK DATA

BSE / NSE Code	532843 / FORTIS
Bloomberg Code	FORH IN EQUITY
No. of Shares (Mn)	405
Sensex / Nifty	18,608.8 / 5,592.0

### PRICE DATA

CMP Rs (01st Jun' 11)	161.4
Beta	0.55
Market Cap (Rs mn)	65,383
52 Week High-low	177.20 - 127.80
Average Daily Volume	279798

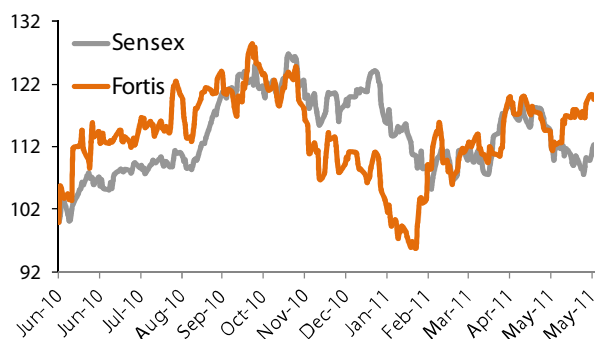
### STOCK RETURN (%)

	30D	3M	6M	1Y
Fortis	4.3%	8.8%	6.5%	19.7%
Sensex	-2.8%	0.9%	-6.3%	12.3%
Nifty	-2.7%	1.3%	-6.2%	12.5%

### SHARE HOLDING PATTERN (%)

Promoter	81.5
Institution	9.1
Others	9.4
<b>Total</b>	<b>100.0</b>

### 1 Year Price Performance (Rel. to Sensex)



Page | 1

Call us at  
**39400800**

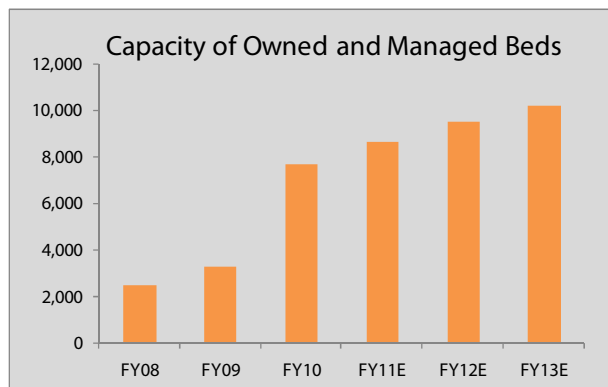
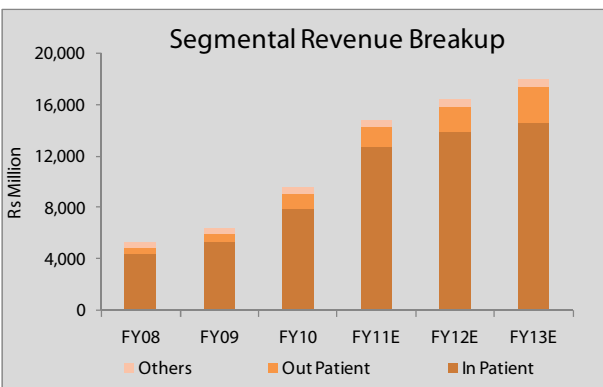


## BUSINESS PROFILE

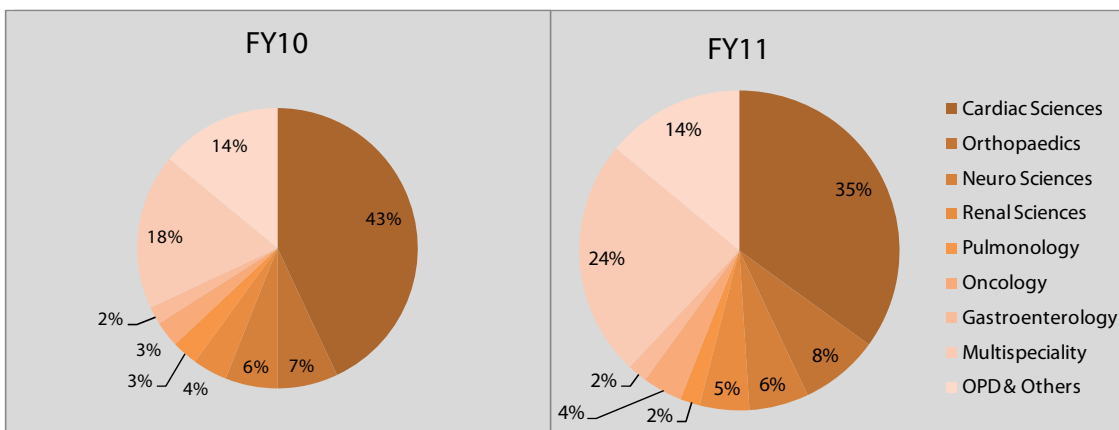
Fortis is a private healthcare company based in India, engaged in providing medical care, tele-medicine, education and research. The company provides health care services through a network of 56 hospitals, Fortis provides secondary and tertiary healthcare to patients in specialty areas, such as cardiac 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.

Fortis' business can be classified into inpatient business, outpatient business and other business segments which include income from medical services, academic services etc. In the inpatient business, occupancy rate declined to 72% in FY11 from 74% in FY10 and ARPOB eased to Rs 8.1mn from Rs 8.3mn during the same period. However, average length of stay has improved to 3.7days, from 4.1 days recorded in FY10.

**Fortis provides health care services through a network of 56 hospitals**



**In FY11, average length of stay has improved to 3.7days, from 4.1days recorded in FY10**



**During the last quarter, Fortis has added nearly 350 beds**

Out of 56 hospitals, 18 are owned by Fortis, having a capacity of ~4,500 beds of which almost 59% are operational, 30 are managed by them, having a capacity of ~2,000 beds of which almost 58% are operational and 8 projects having a capacity of ~1,900 beds. The company continues its growth momentum in line with its strategy to expand in tier II and tier III cities. During the last quarter, Fortis has added nearly 350 beds (~1000 beds added in FY11) with the addition of four hospitals at Alwar, Dehradun, Pondicherry and Mysore.

## INVESTMENT RATIONALE

### Expected to attain capital efficiency due to adoption of leasing model

Drastic increase in real estate costs over the past few years has made ownership models unviable, especially in metros and tier I cities. This is prompting hospital chains to look at the leasing of real estate. For instance, Apollo Hospitals has leased five hospitals and Fortis is also looking at its expansion through a leased model. One of the models that Fortis is evaluating is to tie up with land owners in tier II cities, have the land owners develop the building infrastructure as per the specifications provided by Fortis, and then enter into a long-term lease agreement. The company is also evaluating options to take over and refurbish an existing hospital, in return for a fixed lease. Of the eight new hospitals that Fortis is looking to add over the next three years, seven are on either leased or partnership models and only one facility entails capital expenditure on real estate. We believe that a shift towards such models will help Fortis scale up at a faster pace and will improve its capital return profile.

**Fortis' 16 out of 50 hospitals recorded all time high revenues during the last quarter**

### Strong expansion drive to continue

Fortis is expected to continue with its expansion drive. In the last quarter alone, the company has added ~350 beds with the addition of four hospitals at Alwar, Dehradun, Pondicherry and Mysore. We expect strong growth momentum for Fortis to continue, driven by new bed additions. We estimate owned operating beds for Fortis to increase at a much rapid pace in the coming years. In addition, we expect a rapid scale-up in managed beds, aided by recent deals will help the company to add 500 beds over the next two years.

**Fortis has also inaugurated oncology block at Mulund-Mumbai in Q4FY11**

### However asset light model to pressurize margins

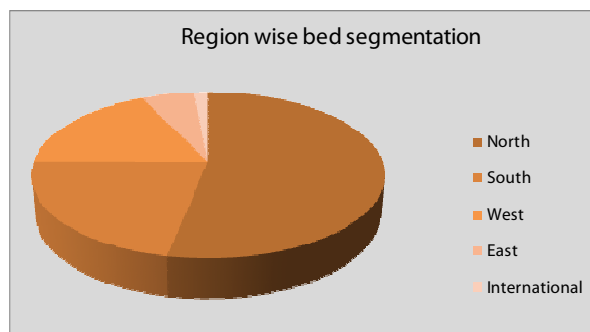
We anticipate near-term margin expansion to be limited due to rapid new room additions and shift towards rental models, where operating margins will be lower compared to owned real estate models. This will hamper the company's profitability and we expect in the coming years the company's margins to remain under pressure.

### Upcoming Green Field Projects:

Sr. No	Location	Beds	Commencement	Capex Rs.mn
1	Kangra	100	Q2FY12	240
2	Dehradun	50	Q3FY12	150
3	Gurgaon	450 in phase I, total size 1000 beds	Q4FY12	3250
4	Ludhiana	275	FY13	700
5	Bangalore	120	FY13	180

**Of the eight new hospitals that Fortis is looking to add over the next three years, seven are on either leased or partnership models**

In addition to the above mentioned green field projects, Fortis is planning to add another 400 beds in FY14 with a CAPEX of Rs 1,220mn in the cities of Gwalior and Ahmedabad.



[www.fullertonsecurities.co.in](http://www.fullertonsecurities.co.in)

Page | 3





## BUSINESS PERFORMANCE & PEER COMPARISON

Net profit of Fortis rose 150.70% to Rs 427.2mn in the quarter ended March 2011 as against Rs 170.4mn during the previous quarter ended March 2010. Sales rose 12.70% to Rs 625.5mn in the quarter ended March 2011 as against Rs 555.0mn during the previous quarter ended March 2010.

For the audited full year, net profit rose 370.50% to Rs 1,418.1mn in the year ended March 2011 as against Rs 301.4mn during the previous year ended March 2010. Sales rose 23.42% to Rs 2,482.9mn in the year ended March 2011 as against Rs 2,011.7mn during the previous year ended March 2010.

In the consolidated results, the company reported net profit after minority interest of Rs 293.9mn in the quarter ended March 2011 as against Rs 271.9mn during the previous quarter ended March 2010. Sales reported to Rs 4,112.9mn in the quarter ended March 2011 as against Rs 3,269.0mn during the previous quarter ended March 2010.

In the consolidated full year results, the company reported net profit after minority interest of Rs 1,243.6mn in the year ended March 2011 as against Rs 694.8mn during the previous year ended March 2010. Sales reported to Rs 14,672.9mn in the year ended March 2011 as against Rs 9,267.5mn during the previous year ended March 2010.

During the year 2010-11, the company realigned its strategy and decided to mainly focus on growing its footprint in the domestic market. In line with this objective, there has been significant growth for Fortis in India.

The year witnessed a number of firsts in the network hospitals. The heart transplant at Fortis Malar, bone marrow transplant at Fortis Noida, radiation therapy at Fortis Mulund and many rare complex surgeries by the team of eminent surgeons has taken the Fortis brand of healthcare delivery to new heights and made the network hospitals preferred destinations for high quality care.

The bed capacity at various hospitals was expanded to cater to the increasing patient load and simultaneously new state-of-the-art technologies were deployed to improve diagnostic capabilities, and thus enhance the ability to perform new complex procedures.

In order to fund its ambitious growth plans, the company raised USD 100mn through 5% Foreign Currency Convertible Bonds and also called up warrants from the holders of the rights shares, thereby infusing Rs 13,420mn of equity during the year.

### Peer Comparison

Fortis is the second largest player in the hospital segment in India after Apollo Hospitals. Apollo however has dominance in the southern part of India, whereas Fortis has its market mainly in the northern part of the country. So the market for both the leading players doesn't overlap each other. Unlike Apollo, Fortis is also expanding its presence in the tier II and tier III cities and has presence in small cities such as Dehradun, Pondicherry etc. The company has better ALOS (3.7-3.8 days) compared to Apollo (5.0-5.2 days). Even Fortis' asset light model will help it to pace up its expansion drive as this will help the company to setup its hospitals at lesser CAPEX.

### Peer Group Comparison

Companies	Revenue (Rs. mn)	EBIDTA Margin (%)	PAT Margin (%)	ROE (%)	P/E (x)	P/B (x)	CMP (Rs.)	FV (Rs.)	EV (Rs. mn)	EV/EBIDTA (x)
Fortis	14,673	34%	5%	4%	73.7	2.8	161	10.0	73307	14.7
Apollo Hospital	20,265	16%	6%	2%	156.0	3.7	496	5.0	61425	18.5

[www.fullertonsecurities.co.in](http://www.fullertonsecurities.co.in)

Page | 4

**Consolidated sales reported to Rs 14,672.9mn in FY11 as against Rs 9,267.5mn during the previous year**

**In FY11, the company reported consolidated net profit of Rs 1,243.6mn as against Rs 694.8mn during the previous year**

**Apollo has dominance in the southern part of India, whereas Fortis has its market mainly in the northern part of the country**

Call us at  
**39400800**



**Disclaimer:** This document is prepared by Epitome Global Services Private Limited exclusively for Fullerton Securities & Wealth Advisors Ltd (FSWA) customers. This document is not for public distribution and has been furnished to you solely for your information and you are notified that you should not further copy, modify, use or distribute the information in any way unless you obtain written consent from FSWA. The information provided in the document is on the "best effort" basis and is subject to change depending on several factors, including general market conditions. While reasonable care to compile the document but the accuracy and completeness cannot be guaranteed either by FSWA or any other person or entity associated with it. The returns shown are merely estimates and forecasts and are not necessarily indicative of future performance and can change without notice. The document is prepared only for your information and is not sufficient for making an investment decision. You should rely on your own investigations and seek professional advice for investment decision. Neither FSWA nor any person connected with it, accepts any liability either arising from the use of this document or due to any inadvertent error in the information contained in this document. Financial investments carry risks including principal risk and therefore you should seek professional advice prior to making any investment decision. The risk of any losses occurring by use of this report or document will be entirely yours. The investments covered in this report are not guaranteed. Also past performance of an investment or fund is not an indication of future performance. FSWA, its affiliates, or associates, or any regulatory or other body or entity assumes no liability or responsibility for investment results or losses arising out of investment decisions made by you. This document is not to be considered as an offer to sell or a solicitation to buy any security or financial product. FSWA reserves the right to modify or alter the terms and conditions of the use of this service or discontinue, temporarily or permanently, the information and services provided (or any part thereof) at any time, with or without prior notice and FSWA shall not be liable to you for any suspension, modification, or termination of the information and services provided herein.

June 02, 2011

## VALUATION

We expect Fortis' revenues to grow at a CAGR of 30.3% over FY11-13 to Rs 24.9bn. We further estimate that PAT would grow at a CAGR of 26.1% over the same period to Rs 2.0bn in FY13 from Rs 1.3bn in FY11. The company was trading at a 2 year forward P/E multiple of 21.5x in FY09 and has expanded to reach a level of 30.6x in FY11.

Going forward, with expansion into tier II/III cities, improving ARPOB, declining ALOS, improving operational performance and improving capital efficiency will help Fortis to pace up its profitability in the upcoming years as the company is concentrating more towards its domestic hospital segment. Taking into consideration all the points, we believe that the company's 2 year forward P/E multiple would expand further to 36.5x by FY13.

**So based on a consolidated FY13 P/E multiple of 36.5, the fair value for the company works out to be Rs 184.5.**

We recommend a '**HOLD**' rating on the stock.

**We expect Fortis' revenues to grow at a CAGR of 30.3% over FY11-13 to Rs 24.9bn**

## Financial Analysis and Projections

Particulars (Rs Mn)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E
Net Revenue	5,166	5,044	6,200	9,267	14,673	19,548	24,923
Other Income	88	437	460	629	4,825	2,127	2,674
Total Income	5,254	5,481	6,661	9,897	19,498	21,675	27,597
Operating Expenditure	4,658	4,871	5,461	7,975	14,513	17,836	22,880
Depreciation	838	468	488	599	1,045	1,313	1,668
EBIT	-242	142	712	1,322	3,940	2,526	3,049
EBIT Margin (%)	-4.7%	2.8%	11.5%	14.3%	26.9%	12.9%	12.2%
Interest	660	552	437	573	2,500	762	762
Profit Before Tax	-902	-410	275	749	1,440	1,764	2,287
Less: Tax	73	196	39	33	152	185	240
PAT after MI	-981	-580	125	614	1,288	1,579	2,047
PAT Margin (%)	-19.0%	-11.5%	2.0%	6.6%	8.8%	8.1%	8.2%
ROE (%)	-	-	0.7%	3.4%	5.4%	4.9%	4.9%
EPS (Rs)	-2.4	-1.4	0.3	1.5	3.2	3.9	5.1
BVPS (Rs)	3.5	17.8	47.2	44.9	58.7	79.6	102.4
<b>Valuation Ratios (x)</b>						<b>FY12E</b>	<b>FY13E</b>
P/E						41.4	31.9
P/B						2.0	1.6

**Based on a consolidated FY13 P/E multiple of 36.5, the fair value for the company works out to be Rs 184.5**



Board of Directors		
Director Name	Current Position	Description
Mr. Malvinder Mohan Singh	Non-Executive Chairman	Mr. Malvinder Mohan Singh is Non-Executive Chairman of the Board of Fortis Healthcare Ltd. He is one of the Promoters, graduated in Economics from St. Stephen's College, Delhi and holds an MBA degree from the Fuqua School of Business, Duke University, U.S.A. Prior to this, Mr. Malvinder was the Chairman, Managing Director and CEO of Ranbaxy Laboratories Ltd. Mr. Malvinder put Ranbaxy in a position of leadership and consummated over 14 inorganic deals across geographies in less than two years. He unlocked value in Ranbaxy's business model and focussed the Company on future growth by monetizing on-going patent challenges, investing resources in high growth emerging markets and forging strategic research alliances with global big pharma. He has been responsible for advising and counseling management on corporate decisions, providing strategic guidance and overseeing management of the business and ensuring ethical behaviour. He is also a member of the Young Global Leaders Forum (YGL), an initiative of the World Economic Forum (WEF). He is also a member of the board of visitors at the Fuqua School of Business, Duke University and serves on the board of the INSEAD Global India Council. A member of the Board of Trade, constituted by the Ministry of Commerce & Industry, Government of India, from 2004 to 2009, Mr. Malvinder advises the Government on critical Policy issues relating to the country's Foreign Trade, with the objective of significantly advancing India's exports. Mr. Malvinder is also a member of the Board of the Indian Council for Research on International Economic Relations (ICRIER).
Mr. Shivinder Mohan Singh	Managing Director	Mr. Shivinder Mohan Singh is Managing Director, Executive Director of Fortis Healthcare Ltd. An alumnus of Doon School and an Honours Graduate in Mathematics from St. Stephens College, Delhi, Mr. Shivinder has done his MBA with specialization in health sector management from the Duke University Business School, USA. Mr. Shivinder Mohan Singh is also the Managing Director of Escorts Heart Institute And Research Centre Limited and is also one of the principal promoters and Director on the boards of Religare Enterprises Limited, Super Religare Laboratories Limited and Fortis Clinical Research Limited. He was, till recently, one of the key promoters of Ranbaxy Laboratories Limited.
Mr. Harpal Singh	Non-Executive Non Independent Director	Mr. Harpal Singh is Non-Executive Non Independent Director and was Executive Chairman of Fortis Healthcare Limited. He graduated with a B.A. (Honors) degree in Economics from St. Stephen's College, Delhi and holds a B.S. degree in Economics and a Master's degree in Public Affairs from the California State University at Hayward (C.S.C.H.), California, U.S.A. Mr. Harpal Singh has had diverse and wide-ranging experience of over 35 years in the corporate sector and has held senior positions in various TATA group companies, Hindustan Motors Limited, Mahindra and Mahindra Limited and Shaw Wallace. He is a member of the Board of Directors of Escorts Heart Institute and Research Centre Ltd., Religare Enterprises Ltd., Religare Technova Ltd. and Super Religare Laboratories Ltd. Mr. Singh is also Chairman of Impact Projects Ltd. and Impact Agencies Ltd. Mr. Harpal Singh serves and has been on the Board of some of the schools in the country which include The Doon School, The Shriram School, The Scindia School and The Yadavindra Public School. He is Vice Chairman of the Salwan Schools Trust. He is also a member of the Punjab Education Board. He is a Member of the Board and of the Executive Committee of Public Health Foundation of India. He is a Member of the Board of the Baba Farid University of Punjab and is an Advisory Board Member of the SRM University of Chennai. He is a Member of the Board of Advisors of the National Institute of Information Technologies (NIIT) University and a member of its Board of Management. Mr. Harpal Singh is a member of the Board of Indian Institute of Technology, Indore.
Mr. Sunil Godhwani	Non-Executive Non-Independent Director	Mr. Sunil Godhwani is Non-Executive Non-Independent Director of Fortis Healthcare Ltd. since February 26, 2009. He is a graduate in Chemical Engineering and has a Master's Degree in Industrial Engineering & Finance from Polytechnic Institute of New York. He has over 20 years of experience in business. He is the CEO & Managing Director of Religare Enterprises Limited and the Chairman and Managing Director of Religare Securities Limited.
Mr. Gurcharan Das	Non-Executive Independent Director	Mr. Gurcharan Das is Non-Executive Independent Director of Fortis Healthcare Ltd. He has graduated with a Bachelor of Arts (Honors) degree cum laude in Philosophy and Government from Harvard University, U.S.A. and holds an MBA degree from Harvard Business School, Harvard University, U.S.A. Mr. Das is an author and a management consultant and advises a number of companies on global corporate strategy. He held the position of the Chief Executive Officer, Procter and Gamble India from 1985 until 1992, and Chairman and Managing Director of Richardson Hindustan Limited from 1981 until 1985. He has over 30 years of experience working in six countries. He is an operating advisor and investor in Chrys Capital LLC. He served on juries of the McKinsey award for Harvard Business Review article for 2005 and the \$500,000 Milton Friedman Prize. Mr. Das has served on several Government Boards, including the Foreign Investment Promotion Council in India. He is also the author of the book "India Unbound". He is a regular columnist for the newspapers 'Times of India' and the 'Dainik Bhaskar' and he contributes occasional articles to the Wall Street Journal and other newspapers.
Justice S. S. Sodhi	Non-Executive Independent Director	Justice S. S. Sodhi is Non-Executive Independent Director of Fortis Healthcare Ltd. He graduated with a B.A.(Honors) degree in Economics from Punjab University and is a Barrister at Law from Lincolns Inn, London. Justice Sodhi was the Chairperson of the Telecom Regulatory Authority of India from 1997 until 2000. He has been a practicing advocate in the High Court of Punjab and Haryana for 10 years and was a member of the Punjab Superior Judicial Service. Justice Sodhi has also held the positions of Deputy Registrar (Research) at the Supreme Court of India, Legal Remembrancer to the Government of Punjab and Registrar of the High Court of Punjab and Haryana. Additionally, Justice Sodhi has been a Judge of the High Court of Punjab and Haryana, the Chief Justice of the High Court of Allahabad and the Lok Pal of Punjab. Presently, Justice S.S. Sodhi is on the Board of Directors of Fidelity Trustee Company Private Limited and ABC Paper Ltd. and not holding committee memberships in any other Company.

