

13 February 2013

Fortis Healthcare

Balance sheet improving, valuations reasonable; upgrade to Hold

Rating: **Hold**

Target Price: ₹118

Share Price: ₹102

Key takeaways

Results in line with estimates. Fortis Healthcare's (Fortis) revenue grew 154.5% yoy to ₹15.4bn, better than our expected ₹14.9bn. Its reported EBITDA margin declined 380bps yoy to 9.9% (versus our estimated 10.3%) on payment of service fees to Religare Health Trust (RHT). The company reported exceptional gain of ₹9.7bn, pertaining to gain on dilution of stake in RHT. Adjusting for this gain, the company reported net loss of ₹433m.

Healthy growth across segments. Strong revenue growth was largely driven by 20% increase in revenue from India hospitals business with improved EBITDA margin of 15.8%. Domestic diagnostics business (Super Religare Laboratories) grew 12% yoy with 370bps yoy improvement in EBITDA margin to 10.3% (down ~400bps qoq). International business revenue came at ₹8.2bn, up 6.4% qoq. EBITDA margin in international business sustained at ~13%.

Our take. We believe that inflow of cash from dilution of stake in RHT, divestment of Dental Corp. subsidiary by Mar'13 and issue of equity shares through the IPP route would help the company strengthen its balance sheet substantially by bringing down D/E level to 0.5x by FY14e. Further, the proportion of revenue from India business would move up to 70%+ from ~50% currently post divestment of Dental Corp., which would bring focus back to India. We maintain revenue estimates, but lower PAT marginally to factor in higher service fees to RHT, which could hit EBITDA. Management focus is currently on strengthening balance sheet and no M&A is expected in near future, which is a positive in our view.

The stock is currently trading at EV/EBITDA valuations of 13.5x FY14e and 10.8x FY15e. We upgrade the stock to Hold from Sell on improving balance sheet and reasonable valuations. We also raise our target price to ₹118 (earlier ₹110), based on 14x FY14e EBITDA and ₹21 for stake in RHT. **Risks.** Delay in execution of expansion projects and integration of international operations.

Key data	FORH IN / FOHE.BO
52-week high / low	₹120 / ₹90
Sensex / Nifty	19561 / 5923
3-m average volume	US\$0.8m
Market cap	₹41.6bn / US\$0.78bn
Shares outstanding	405.2m

Shareholding pattern (%)	Dec '12	Sep '12	Jun '12
Promoters	81.48	81.48	81.48
- of which, Pledged	85.48	86.8	77.03
Free Float	18.52	18.52	18.52
- Foreign Institutions	4.79	4.84	5.12
- Domestic Institutions	0.84	0.85	0.84
- Public	12.89	12.83	12.56

Estimates revision (%)	FY13e	FY14e	FY15e
Sales	-	-	-
EBITDA	-	(1.4)	(1.2)
EPS	-	(4.4)	(3.3)
Target multiple (x)	-	-	-

Financials (YE Mar)	FY13e	FY14e
Sales (₹m)	59,572	49,269
Net profit (₹m)	(282)	111
EPS (₹)	(0.7)	0.3
Growth (%)	(141.3)	NA
PE (x)	(147.3)	374.5
PBV (x)	1.1	0.8
RoE (%)	(0.8)	0.2
RoCE (%)	5.7	2.6
Dividend yield (%)	0.0	0.0
Net gearing (%)	116.6	52.1

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY12	% yoy	9MFY13	9MFY12	% yoy
Sales (₹m)	15,386	6,046	154.5	44,413	16,980	161.6
EBITDA (₹m)	1,527	831	83.7	5,370	2,320	131.4
EBITDA margin (%)	9.9	13.8	(380)bps	12.1	13.7	(160)bps
Interest (₹m)	1,581	595	165.5	5,049	1,406	259.2
Depreciation (₹m)	670	424	58.0	2,097	1,154	81.6
Other income(₹m)	466	528	(11.7)	1,385	836	65.6
PBT (₹m)	8,947	340	2,530.0	8,814	506	1,640.1
Tax (₹m)	1,673	84	1,901.3	2,096	257	716.7
Tax rate (%)	18.7	24.6	(590)bps	23.8	50.7	(2,690)bps
PAT (₹m)	(433)	293	(248.1)	(1,322)	397	(433.3)

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Net revenues	14,830	29,840	59,572	49,269	56,675
Revenue growth (%)	58.1	101.2	99.6	(17.3)	15.0
- Op. expenses	12,750	25,807	52,978	44,948	51,375
EBIDTA	2,079	4,033	6,594	4,320	5,299
EBITDA margin (%)	14	14	11	9	9
- Interest expenses	696	2,970	5,964	2,759	2,659
- Depreciation	1,045	1,822	2,767	2,680	2,814
+ Other income	925	1,773	1,847	1,259	1,322
- Tax	152	408	0	28	230
Effective tax rate (%)	10	38	0	20	20
Reported PAT	1,244	722	(282)	111	910
+/- Extraordinary items	252	63	0	0	0
+/- Minority interest	44	(40)	(8)	1	9
Adjusted PAT	1,067	683	(282)	111	910
Adj. FDEPS (₹/share)	2.6	1.7	(0.7)	0.3	2.2
Adj. FDEPS growth (%)	53.5	(36.0)	(141.3)	NA	719.7

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Share capital	4,094	4,095	4,095	4,095	4,095
Reserves & surplus	28,759	28,444	34,562	48,823	49,732
Net worth	32,854	32,539	38,657	52,918	53,828
Minority interest	304	8,308	8,300	4,151	4,160
Total debt	10,883	68,511	45,093	27,593	25,593
Def. tax liab. (net)	(58)	(416)	(416)	(416)	(416)
Capital employed	43,983	108,966	91,634	84,246	83,164
Net fixed assets	83,923	97,488	81,711	68,531	68,216
Investments	902	2,412	2,412	2,412	2,412
- of which, Liquid	625	64	64	64	64
Net working capital	13,474	4,877	6,576	2,509	2,518
Cash and bank balance	1,636	4,149	935	10,795	10,019
Capital deployed	43,983	108,966	91,634	84,246	83,164
Net debt	8,622	64,298	44,094	16,734	15,510
WC days	331.6	59.7	40.3	18.6	16.2
Book value (₹/sh)	80.2	79.5	94.4	129.2	131.4

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

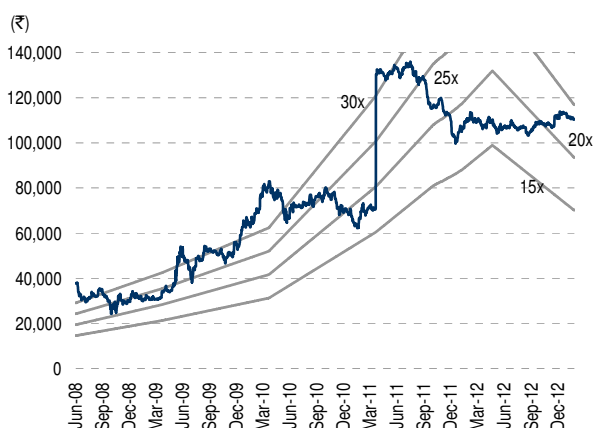
Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
PAT	1,425	644	(290)	112	919
+ Non-cash items	1,045	1,822	2,767	2,680	2,814
Cash profit	2,470	2,466	2,476	2,792	3,733
- Incr./decr. in WC	13,212	(8,682)	1,699	(4,068)	9
Operating cash-flow	(10,742)	11,148	777	6,860	3,724
- Capex	3,583	74,363	1,989	2,500	2,500
Free cash-flow	(14,325)	(63,215)	(1,212)	4,360	1,224
- Dividend	0	0	0	0	0
+ Equity raised	12,949	0	0	0	0
+ Debt raised	(43,823)	57,677	(23,418)	(17,500)	(2,000)
- Investments	(33,583)	1,429	0	0	0
- Misc. items	(138)	(9,484)	(21,416)	(22,999)	0
Net cash-flow	(11,477)	2,516	(3,214)	9,859	(776)
+ Op. cash & bank bal.	13,113	1,633	4,149	935	10,795
Cl. cash & bank bal.	1,636	4,149	935	10,794	10,019

Source: Company, Anand Rathi Research

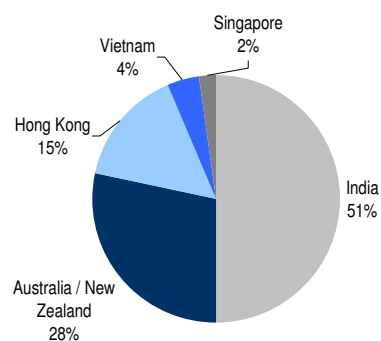
Fig 4 – Ratio analysis @ ₹102

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
P/E (x)	38.9	60.9	(147.3)	374.5	45.7
P/B (x)	1.3	1.3	1.1	0.8	0.8
EV/EBITDA (x)	24.6	26.3	13.0	13.5	10.8
RoE (%)	4.1	2.1	(0.8)	0.2	1.7
RoCE (%)	2.9	3.4	5.7	2.6	3.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Asset turnover (x)	0.8	0.5	0.6	0.5	0.5
Net Debt/Equity (x)	0.3	2.1	1.2	0.5	0.5
Net debt/EBITDA (x)	4.1	15.9	6.7	3.9	2.9
Net debt/Op. CF (x)	(0.8)	5.8	56.7	2.4	4.2
Interest coverage (x)	1.5	0.7	0.6	0.6	0.9
P/CEPS (x)	19.7	16.6	16.7	14.9	11.2
EV/ sales (x)	3.4	3.5	1.4	1.2	1.0
M-cap/sales (x)	2.8	1.4	0.7	0.8	0.7

Source: Company, Anand Rathi Research

Fig 5 – EV /EBITDA band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Revenue break-up (FY13e)


Source: Anand Rathi Research

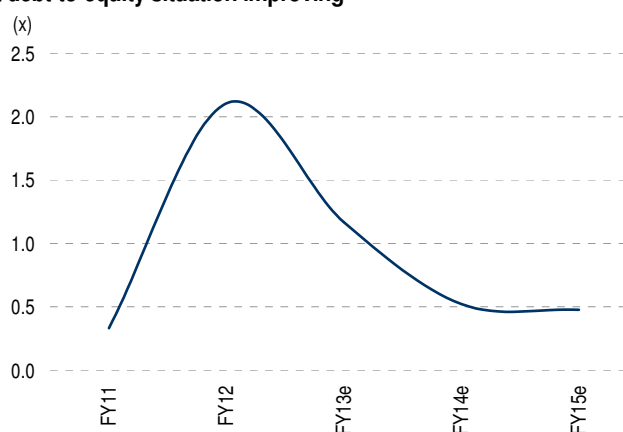
Result highlights

Fig 7 – Segment-wise performance

₹ m	1QFY13	2QFY13	3QFY13	9MFY13
Revenue Break-up				
India	6,680	7,240	7,200	21,120
Hospitals	5,320	5,730	5,830	16,880
Diagnostics	1,370	1,500	1,370	4,240
International	7,410	7,700	8,190	22,941
Australia / New Zealand	4,160	4,260	4,616	13,036
Hong Kong	2,300	2,340	2,462	7,102
Vietnam	600	670	615	1,885
Singapore	310	300	308	918
Total	14,090	14,940	15,390	44,061
Segmental EBITDA				
India	887	1,000	1,061	2,948
Hospitals	697	760	920	2,377
Diagnostics	190	240	141	572
International	926	1,047	1,057	3,030
EBITDA Margin (%)				
India	13.3	13.8	14.7	14.0
Hospitals	13.1	13.3	15.8	14.1
Diagnostics	13.9	16.0	10.3	13.5
International	12.5	13.6	12.9	13.2

Source: Company

Fig 8 – Net debt-to-equity situation improving



Source: Company, Anand Rathi Research

Valuations

At the ruling price, the stock trades at EV/EBITDA valuations of 13.5x FY14e and 10.8x FY15e. Considering substantial improvement in balance sheet by reduction in D/E level to 0.5x by FY14e, led by – (1) Cash inflow from RHT listing; (2) divestment of Dental Corp. and possible cash inflow from issue of equity shares through IPP route; (3) increased focus on the domestic business and; (4) reasonable valuations, we upgrade the stock to Hold from Sell.

We also raise our target price to ₹118 (earlier ₹110) based on 14x FY14e consolidated EBITDA and ₹21 for stake in RHT.

Risks

- Delay in execution of expansion projects and integration of international operations

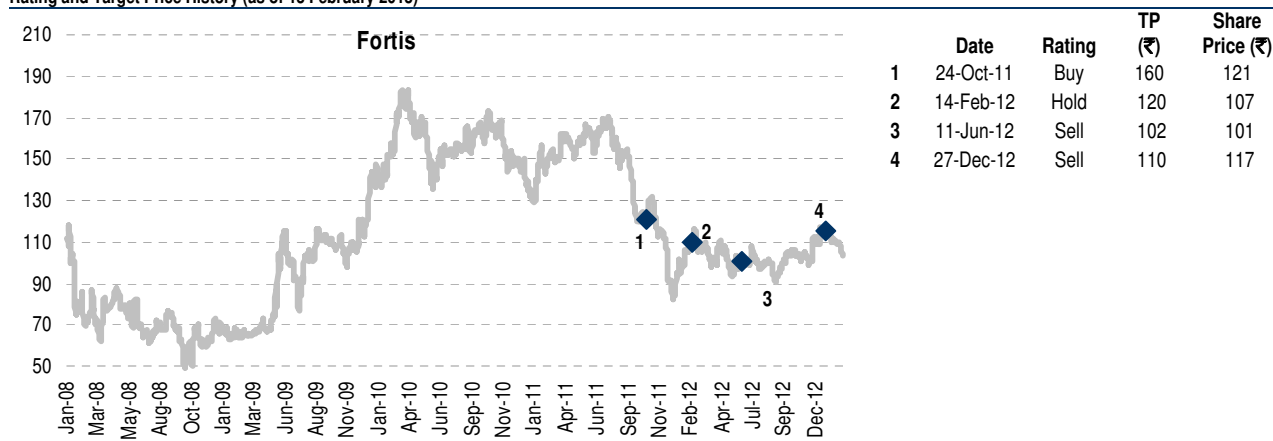
Appendix

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