

2 July 2012

## Fortis Healthcare

*Stretched balance sheet remains a concern, maintain a Sell*

Rating: **Sell**

Target Price: ₹102

Share Price: ₹102

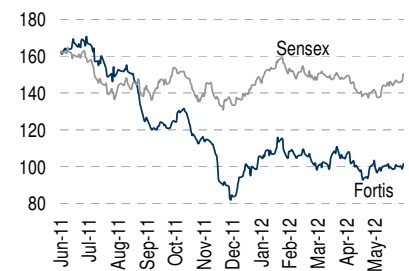
Following a management meet with Fortis Healthcare (FH) we believe that near- to mid-term pain persists due to a stretched balance sheet and lower margins in SRL (Super Religare Laboratories). FH has been affected by uncertainty following its acquisition of Fortis Healthcare International (FHI) and its resulting stretched balance sheet. The India hospitals business should continue strong growth led by huge demand. We maintain a Sell with a target price of ₹102.

- Momentum continues in the domestic hospitals segment.** FH's Indian hospitals segment continues to do well and expects to add more than 600 operational beds in FY13 on a base of ~2,900 beds at the end of FY12. We expect 22.4% CAGR revenue over FY12-15. We have assumed 10% increase in ARPOB (average revenue per operating bed) and gradual increase in occupancy levels.
- SRL suffering from lower profitability.** SRL has been reporting ~7% EBITDA margin from the past two quarters vs. ~15% earlier due to the commencement of three large labs in Kolkata, Bangalore and Delhi and high rental cost at existing labs. The management expects a double-digit margin in FY13. However, we expect recovery to be gradual, with double-digit margin in FY14.
- Stretched balance sheet.** FH has a significantly higher net debt, of US\$1.3bn, translating to an FY12 debt-equity of 2.1x. Further, goodwill on the consolidation/acquisition, at ₹64.8bn, is very high, amounting to half the company's assets. The company is taking various steps to improve the situation, such as equity dilution in SRL and potential listing of its Clinical Establishment division on the Singapore Exchange.
- Valuation.** We maintain a Sell with a price target of ₹102, based on 15x FH EBITDA and 12x FHI EBITDA. **Risk:** Equity raising at premium valuations.

Key data	FORH IN / FOHE.BO
52-week high / low	₹172 / ₹76
Sensex / Nifty	17430 / 5279
3-m average volume	US\$1.0m
Market cap	₹41.7bn / US\$0.75bn
Shares outstanding	405.2m

Shareholding pattern (%)	Mar '12	Dec '11	Sep '11
Promoters	81.48	81.48	81.48
- of which, pledged	71.19	66.16	53.81
Free float	18.52	18.52	18.52
- Foreign institutions	4.96	5.29	8.47
- Domestic institutions	0.83	0.84	0.82
- Public	12.73	12.39	9.23

### Relative price performance



Source: Bloomberg

Key financials (YE: Mar)	FY11	FY12	FY13e	FY14e	FY15e
Sales (₹m)	14,830	29,828	56,593	65,966	75,691
Net profit (₹m)	1,067	357	856	1,905	3,017
EPS (₹)	2.6	0.9	2.1	4.7	7.4
Growth (%)	53.5	-66.6	140.1	122.6	58.3
PE (x)	39.1	117.1	48.8	21.9	13.7
EV/EBITDA (x)	24.7	29.3	14.7	12.2	10.3
P/B (x)	1.3	1.2	1.2	1.1	1.0
RoE (%)	4.1	1.1	2.5	5.4	8.0
RoCE (%)	2.9	2.8	4.7	5.4	6.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net gearing (%)	33.1	209.2	199.6	194.7	172.1

Source: Company, Anand Rathi Research

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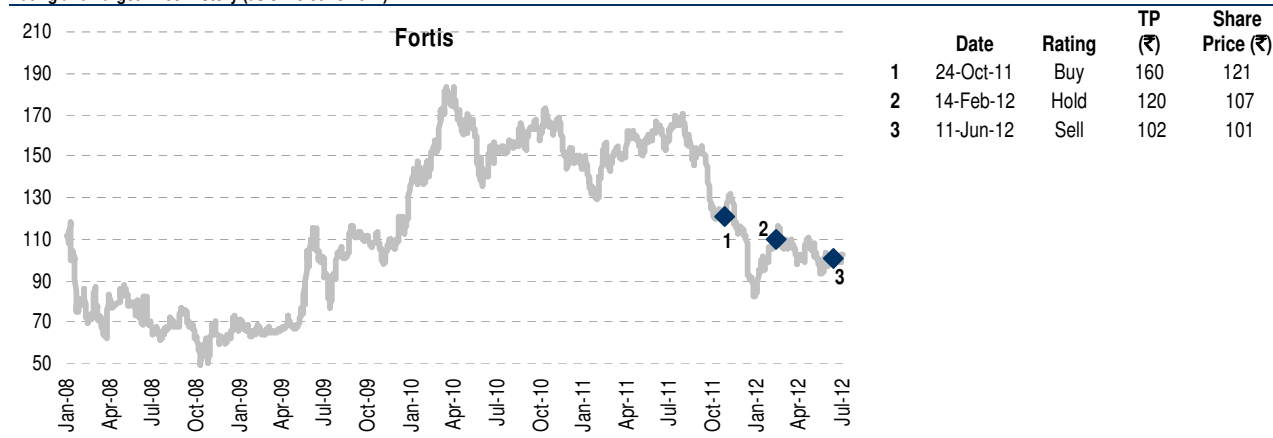
## Appendix 1

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Large Caps (>US\$1bn)	>20%	5-20%	<5%
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	Buy	Hold	Sell
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% who are investment banking clients	6%	6%	0%

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