

# Fortis Healthcare (India) Ltd

Healthy performance in hospital business; SRL a drag

Fundamental Grade 3/5 (Good fundamentals)

Valuation Grade 3/5 (CMP is aligned)

Industry Healthcare Provider and Services

Fortis Healthcare (India) Ltd's (Fortis') Q3FY12 revenues and margins were below CRISIL Research's expectations but earnings were above expectations. Revenues from the hospital business registered healthy y-o-y growth and were in line with our expectations but SRL's revenues were below expectations. EBITDA margin declined due to low margins in the diagnostic business. Earnings registered strong growth due to higher other income. We continue to remain positive on Fortis given its leading position in the Indian healthcare industry and maintain the fundamental grade of **3/5**. Factoring in delays in SRL ramp-up, we lower our revenue and margin estimates but raise earnings estimates due to estimated higher other income on loans to group companies.

## Q3FY12 result analysis

- Revenues grew by 62.8% y-o-y to Rs 6,046 mn aided by consolidation of Fortis' subsidiary – SRL – in May 2011. However, revenues declined 1% q-o-q due to muted growth in the diagnostic business; it reported revenues of Rs 1,226 mn (down 3.5% q-o-q). The hospital business' revenues grew 30% y-o-y (flat q-o-q) to Rs 4,820 mn supported by growth in the existing hospitals.
- EBITDA margin declined by ~75 bps y-o-y to 13.8% as margin expansion in the existing hospitals was offset by a decline in the diagnostic business' margins. The hospital business reported margin of 15.4% (up ~80 bps y-o-y and 40 bps q-o-q). The diagnostic business reported margin of 7.7%, down ~400 bps due to one-time start-up expense of Rs 36.6 mn.
- PAT declined 15.2% y-o-y due to lower EBITDA margins and higher interest costs. On a q-o-q basis, Fortis reported profit of Rs 293 mn vs. net loss of Rs 36 mn in Q2FY12 on account of high other income. Fortis has advanced Rs 6 bn loan in Q2FY12, which was returned along with Rs 400 mn interest in Q3FY12. The company has further invested this amount in an inter-corporate deposit of group companies.

## Earnings estimates – revised upwards

Factoring in delays in SRL ramp-up, we lower our revenue and margin estimates for FY12 and FY13 respectively. However, considering higher interest income on the inter-corporate deposit, we raise our earnings estimates by 48% and 18% for FY12 and FY13 respectively. Post further clarity on the international business' financials, we will incorporate it in our consolidated estimates.

## Valuations: Current market price is aligned

We continue to use the discounted cash flow method to value Fortis and retain our fair value of Rs 112 per share. Given the current market price, this translates to a valuation grade of **3/5**.

## KEY FORECAST (CONSOLIDATED)

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	6,354	9,487	15,037	24,066	29,329
EBITDA	825	1,352	2,199	3,336	4,209
Adj PAT	87	564	833	640	1,153
Adj EPS-Rs	0.8	1.4	2.2	1.6	2.8
EPS growth (%)	NM	364.9	15.7	(23.7)	79.9
Dividend yield (%)	-	9.8	0.7	-	-
RoCE (%)	2.2	1.7	2.0	3.4	4.2
RoE (%)	0.9	4.1	3.2	1.8	2.9
PE (x)	138.7	77.7	55.1	72.3	40.2
P/BV (x)	1.3	2.4	1.4	1.2	1.1
EV/EBITDA (x)	22.1	62.7	25.0	19.8	15.6

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

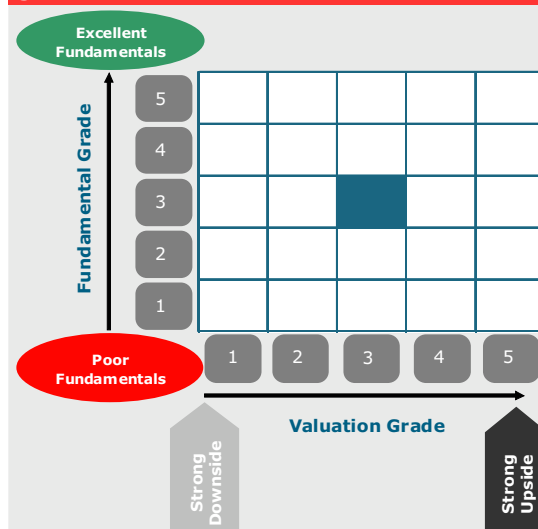


February 20, 2012

Fair Value Rs 112

CMP Rs 113

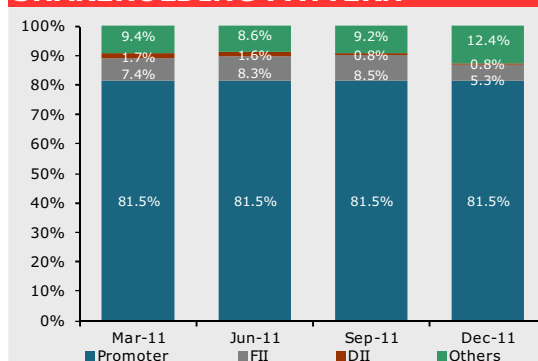
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY / SENSEX	5564/18289
NSE / BSE ticker	FORTIS
Face value (Rs per share)	10
Shares outstanding (mn)	405
Market cap (Rs mn)/(US\$ mn)	45,918/933
Enterprise value (Rs mn)/(US\$ mn)	54,676/1111
52-week range (Rs) (H/L)	176/76
Beta	0.8
Free float (%)	18.5%
Avg daily volumes (30-days)	994,923
Avg daily value (30-days) (Rs mn)	107.2

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Fortis	14%	-3%	-26%	-26%
NIFTY	12%	13%	10%	0%

## ANALYTICAL CONTACT

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