

Fortis Healthcare Ltd. (FHL) is one of the leading integrated healthcare delivery service providers in India. The healthcare vertical of FHL primarily comprises of hospitals, diagnostics and day care specialty facilities.

Key Developments

Prominent player in domestic healthcare space:

FHL is one of India's leading healthcare operators with a network of ~4,000 operational beds across 42 healthcare facilities. In FY16, FHL derived ~81% of its turnover from healthcare services segment. Importantly, FHL has positioned itself as a high-quality service provider with a focus on higher-margin/high-growth super-specialty areas including cardiac care (amongst the leaders in India), neuro-sciences, renal care & oncology. Its ARPOB (Average revenue per occupied bed) is one of the best in the industry with Rs1.37cr.

Momentum continues in the Hospital segment:

The hospital segment of the company has posted revenue CAGR of ~16% over FY12-16, driven largely by ~10% CAGR in ARPOB. Besides, the decline in ALOS (Average length of stay) from 4.0 to 3.56 days during the same period has further fueled the growth. However, the occupancy rates remained stable at 72%.

Diagnostic business shaping up well:

Super Religare Laboratories (SRL) is one of India's leading company in the diagnostics space. Across India, SRL Diagnostics had 314 network laboratories with over 7,200 collection points as of March 31, 2016.

Healthy balance sheet:

FHL pursues an asset light business model as it has entered into individual "Hospital and Medical Services Agreement" (HMSA) with Religare Health Trust Group of companies (RHT). Over the past few years, FHL has strengthened its balance sheet significantly by divesting international assets. Thus, FHL's debt/equity ratio has reduced from 1.7x (FY12) as against 0.5x (FY16).

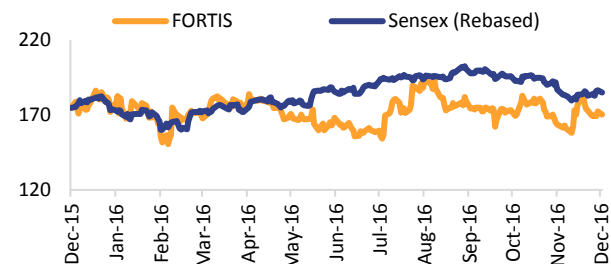
Market Data

CMP (Rs.)	201
Face Value	10.0
52 week H/L (Rs.)	205/141
Adj. all time High (Rs.)	205
Decline from 52WH (%)	2.0
Rise from 52WL (%)	42.3
Beta	1.0
Mkt. Cap (Rs.Cr)	9,661
Enterprise Value(Rs. Cr)	11,685

Fiscal Year Ended

	FY14	FY15	FY16
Total revenue (Rs.cr)	3,492	3,966	4,265
Adj. PAT (Rs.cr)	(223)	(118)	7
Share Capital (Rs.Cr)	463	463	463
EPS (Rs.)	(4.3)	(2.3)	0.1
P/E (x)	-	-	-
P/BV (x)	2.4	2.6	2.6
ROE (%)	(5.6)	(2.8)	0.2

One year Price Chart

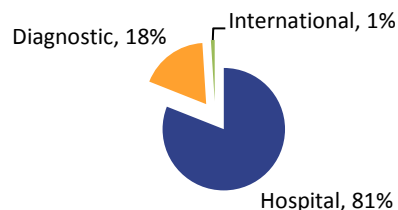


Shareholding	Sep-16	Jun-16	Diff.
Promoters (%)	70.3	71.3	(1.0)
Public (%)	29.7	28.7	1.0
Others (%)	-	-	-

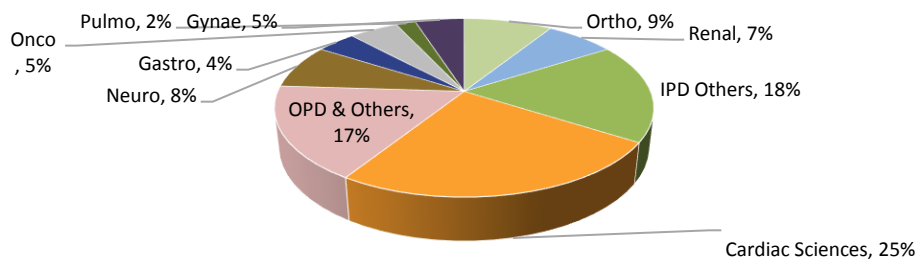
Fortis Healthcare Ltd: Business Overview

Fortis Healthcare Ltd (FHL) is one of India's leading healthcare operators with a network of ~4,000 operational beds across 42 healthcare facilities. Besides, it owns 314 diagnostic laboratories under the SRL business. FHL holds 56.4% stake in SRL Diagnostics. In the last few years, FHL has divested most of its international assets and is now focusing on the domestic market. While hospital segment contributes 81% to revenues, FHL derives the remaining from diagnostic business.

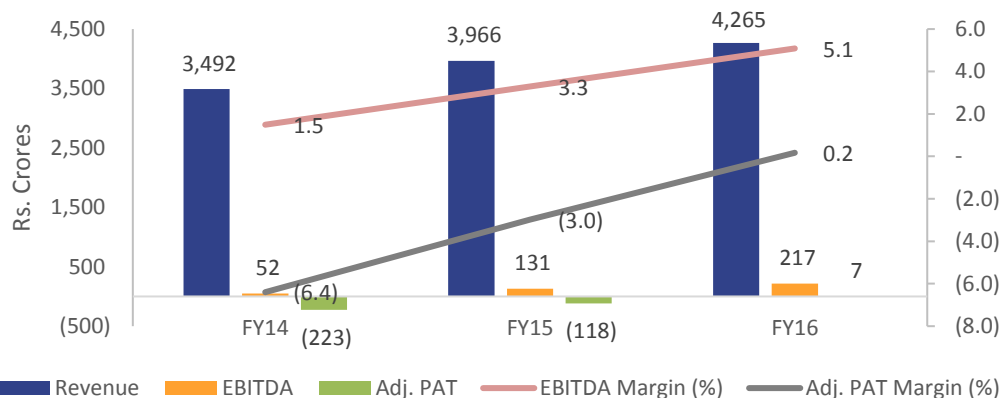
Business wise revenue mix (FY16)



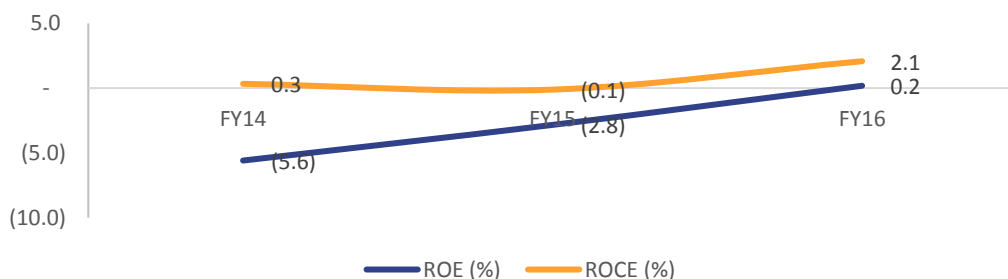
Specialty Revenue Split –India Hospital Business



Financial snapshot of Fortis



Return ratios trend

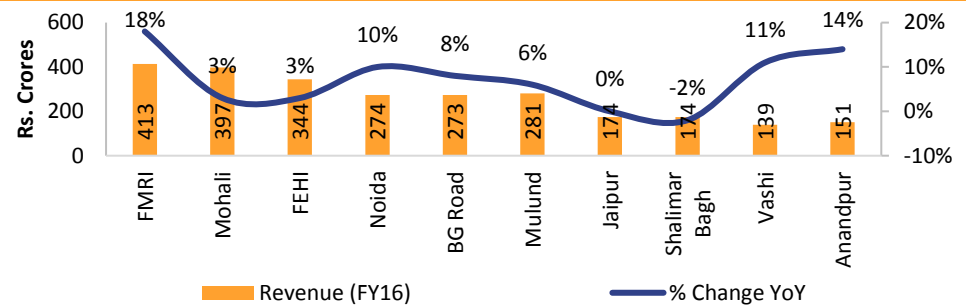


Source: Company, In-house research

Contribution of the healthcare business

FHL operates one of the largest private hospital networks in India. Fortis commenced its operations in 2001 with Fortis Mohali and currently has ~4,000 operational beds across 42 healthcare facilities. While hospital segment contributes 81% to revenues, FHL derives the remaining from diagnostic business. Notably, ARPOB (Rs1.37cr) is among the best in the industry as FHL benefits from its strong anchor hospitals (FMRI, FEHI). FMRI, Gurgaon (launched in May, 2013) in a short span of time has become one of the highest ARPOB generating facility in the overall network. While the overall blended ARPOB for the network stood at Rs1.37cr, FMRI reported an ARPOB of Rs2.5cr in FY16.

Hospital-wise Revenue –Top 10 Hospitals



Source: Company, In-house research

Focus on Super-specialties leading to higher ARPOB

In order to enhance the revenue mix, FHL has been focusing on super specialties such as cardiology, oncology, orthopedics, neurology and renal care. Fortis has one of the largest cardiac care programs in India. Importantly, all of these specialties are high-margin high-growth areas in the Indian healthcare space. Consequently, ARPOB has witnessed a CAGR of ~10% over FY12-16.

Classification of Top 6 Hospitals with annual revenue over Rs2bn

Facility	Location	Speciality	Key areas
FMRI	Gurgaon	Multi-super-speciality, quaternary care hospital	Oncology, Neuro, Renal, Cardiac, Robotic Surgery
Fortis Hospital	Mohali	Multi-speciality hospital	Cardiac, Ortho, Neuro, Gastro, Multi spec
FEHI	New Delhi	Multi-speciality hospital	Cardiac
Fortis Hospital	Noida	Multi-speciality hospital	Cardiac, Ortho, Neuro, Multi spec
Fortis Hospital	Mulund	Multi-speciality hospital	Cardiac, Urology, Nephro, Neuro
Fortis Hospital	BG Road	Multi-speciality hospital	Cardiac, Neuro

Source: Company, In-house research

Brownfield expansion by the company

FHL has a proven execution track record at existing facilities and has gained strong traction in healthcare hubs such as NCR. Currently, FHL has ~4,000 operational beds. Besides, FHL is adding ~175 beds at BG road hospital in Bengaluru.

Strong expertise in fast turnaround of new greenfield facilities

Location	Year of launch	EBITDAC (EBITDA before net business trust costs) breakeven (in months)	ARPOB in FY16 (Rscr)
Jaipur, Rajasthan	2007	16	0.99
Shalimar Bagh, Delhi	2010	10	1.28
FMRI, Gurgaon	2013	5	2.51

Source: Company, In-house research

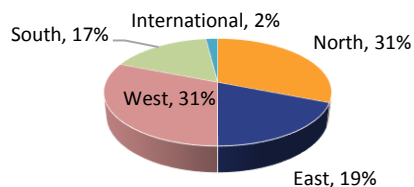
Performance of the hospital segment

In FY16, the hospital segment contributed 81% to the total revenues. This segment has posted strong revenue CAGR of ~16% over FY12-16, driven largely by ~10% CAGR in ARPOB. Besides, the decline in ALOS from 4.0 to 3.56 days has further fueled the growth. However, the occupancy rates remained stable at 72%. FHL's flagship hospital, FMRI (Gurgaon) which started operations in May 2013 is already generating the highest ARPOB across the network. Likewise, FEHI, in Delhi witnessed a decline in occupancy levels to 67% in FY16 from 82% in FY14, primarily due to the company's voluntary exit from the Central Government Health Scheme (CGHS) and other related government businesses.

Diagnostic business – 18% of sales

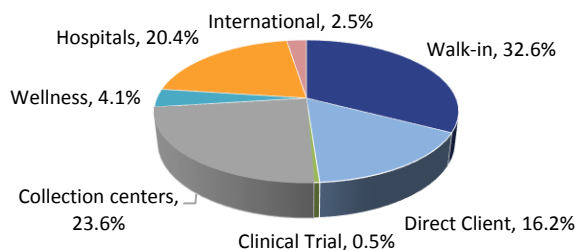
Super Religare Laboratories (SRL) is one of India's leading company in the diagnostics space. Across India, SRL Diagnostics had 314 network laboratories with over 7,200 collection points as of March 31, 2016. In terms of geographical revenue mix, Northern region contributes the maximum 31% to the diagnostic business followed by Western (31%), Eastern (19%) & Southern regions (17%).

Geographical Revenue Mix



Source: Company, In-house research

Customer Revenue Mix



Source: Company, In-house research

EBITDA margin on a rising trend

The company has consistently improved margins every year by about 200-300 bps. Although SRL's EBITDA margin has improved from 12.4% in FY13 to 20% in FY16 yet it is lower when compared to other industry players.

Demerger of diagnostic business- an opportunity to unlock value

In August 2016, the board of FHL approved the demerger of its diagnostic business. The composite scheme of arrangement and amalgamation states that SRL will be merged into another majority owned listed subsidiary, Fortis Malar. Fortis Malar is listed on BSE & operates a hospital facility in Chennai. Further, the hospital business of Fortis Malar is being transferred to FHL by way of slump sale at a consideration of Rs43cr. Consequently, the composite scheme will eventually result in two listed entities (a) SRL Ltd (renamed Fortis Malar) housing the entire diagnostic business and (b) Fortis Healthcare which will continue to house hospital assets. Through this restructuring, the management has also achieved its target to create two listed entities, one focused on the hospitals business and the other on diagnostics.

Maintaining balance sheet health

FHL pursues an asset light business model as it has entered into individual "Hospital and Medical Services Agreement" (HMSA) with Religare Health Trust Group of companies (RHT). Under HMSA, RHT provides and maintains the clinical establishments, while FHL is required to pay a composite service fee namely the base (fixed & increases 3% annually) & variable fee (7.5% of the operating income). Hence, this arrangement with RHT takes care of greenfield expansion & allows FHL to utilise its capital efficiently. Over the past few years, FHL has strengthened its balance sheet significantly by divesting international assets. Thus, FHL's debt/equity ratio has reduced from 1.7x (FY12) as against 0.5x (FY16). Importantly, a significant portion of the debt on books is related to foreign currency convertible bonds (FCCBs) aggregating Rs564cr, which are currently deep in the money (conversion price: Rs99/share).

Balance Sheet (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Share Capital	463	463	463
Reserve and surplus	3,820	3,585	3,534
Net Worth	4,282	4,048	3,997
Minority Interest	139	153	143
Total Debt	2,550	2,454	2,166
Other non-current liabilities	94	118	104
Total Equity & Liabilities	7,066	6,773	6,411
Net Fixed Assets	2,343	2,332	2,074
Capital WIP	142	224	197
Goodwill	1,808	1,889	1,706
Investments	1,817	1,463	1,644
Net current assets	297	286	46
Deferred tax assets (net)	(35)	7	51
Other non-current assets	692	570	693
Total Assets	7,066	6,773	6,411

Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY14	FY15	FY16
Net profit/loss before tax & extraordinary items	149	(137)	55
Net cashflow from operating activities	479	24	167
Net cash used in investing activities	2,669	213	221
Net cash used from financing activities	(3,217)	(304)	(444)
Net inc/dec in cash and cash equivalents	(69)	(67)	(55)

Financial performance snapshot

Net sales of the company stood at Rs. 4,265 Crores in FY16, a growth of 7.5% as compared to Rs. 3,966 Crores in FY15. The operating expenses of the company increased by 5.6% YoY to Rs. 4,048 Crores from Rs. 3,835 Crores during the year. The company's EBITDA grew by 66.1% YoY to Rs. 217 Crores in FY16 from Rs. 131 Crores in FY15. EBITDA margin expanded by 179 bps to 5.1% in FY16 from 3.3% in FY15. Adjusted profit/(loss) stood at Rs. 7 Crores in FY16 from Rs. (118) Crores in FY15. Adj. PAT Margin reached 0.2% from (3.0)% during the period under review.

Profit & Loss Account (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Net revenue	3,492	3,966	4,265
Expenses	3,440	3,835	4,048
EBITDA	52	131	217
Depreciation	183	235	229
EBIT	(131)	(104)	(13)
Interest cost	250	152	125
Other Income	162	96	147
Profit Before Tax	(219)	(160)	10
Tax	11	5	47
Profit After Tax	(229)	(164)	(37)
Minority Interest	5	14	21
P/L from Associates	11	60	66
Adjusted PAT	(223)	(118)	7
E/o expense / (income)	346	(25)	(32)
Reported Profit	123	(144)	(25)

Key Ratios (Consolidated)

	FY14	FY15	FY16
EBITDA Margin (%)	1.5	3.3	5.1
EBIT Margin (%)	(3.7)	(2.6)	(0.3)
NPM (%)	(6.4)	(3.0)	0.2
ROCE (%)	0.3	(0.1)	2.1
ROE (%)	(5.6)	(2.8)	0.2
EPS (Rs.)	(4.3)	(2.3)	0.1
P/E (x)	-	-	-
BVPS(Rs.)	82.8	78.3	77.3
P/BVPS (x)	2.4	2.6	2.6
EV/EBITDA (x)	245.9	98.0	57.7



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