BONANZA WEALTH MANAGEMENT RESEARCH

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16th July 2024

Fortis Healthcare – BUY

CMP : Rs.488
Target Price : Rs.584
Upside : 19%+
Stop Loss : Rs.428 (Closing basis)

Investment Thesis

- Fortis Healthcare Ltd (Fortis) reported high surgical volumes due to rising share of non-communicable diseases due to sedentary lifestyles and these volumes included high margin treatments like 60,000+ cardiac procedures, 1,100 transplants and displayed strength in key specialties by conducting 28,000 procedures in neurology and orthopaedics. Fortis strategically expanded expertise with top specialists in nephrology, neurology and oncology.
- 'My Fortis' app witnessed a 27% growth in digital channel revenue and contributed 25.2% of total hospital revenue, up from 22% in FY'23. The application has contributed significantly in improving overall footfalls in recent years. To enhance patient experience, Fortis launched a new feedback system ("my feedback") using WhatsApp and QR codes to gather and address concerns.
- Fortis's FY'24 hospital business saw a slight dip in occupancy (65% vs 67% in FY'23) due to addition of 246 beds to existing capacity and experienced lower occupancies in Mumbai &Jaipur. However, ARPOB(Average Revenue Per Occupied Bed)grew 10.8% to Rs. 2.22 crore, driven by a 13% YoY increase in revenue from key specialties, which now contribute 62% of total hospital revenue (up from 61% in Fy23). This growth is likely due to higher volumes of complex surgeries in these specialties, with transplants growing 11% and robotic/radiation therapy exceeding 50% volume growth.
- Forits' brownfield expansion plans are progressing well (added beds to existing facilities in Mohali, Anandpur, Mulund, BG Road) and includes a new 70-bed facility in Ludhiana, strengthening their presence in Punjab. Fortis' is targeting a bed capacity of 6,000 beds in the next 3 years. This cluster-focused approach could see key facilities like Shalimar Bagh, FMRI, Mohali, and BG Road exceeding 450 beds each. Fortis has recently divested two underperforming hospitals in Chennai to curtail cost.
- Fortis' diagnostic business, operating under the Agilus brand, is undergoing a strategic transformation. While overall growth in FY'24 was modest, their core business remained strong with non-COVID revenue rising 5% and 6% for the quarter and year, respectively. While rebranding expenses associated with the Agilus launch impacted short-term financials, this investment positions them for future growth. Additionally, they've proactively expanded their test menu by 70 new offerings.

Financials

- Forits'FY'24 consolidated revenue grew 9.5%, driven by a focus on higher-margin cases and specialties within the hospital business (up 11.3%). Diagnostics saw modest growth (2%).

Consol. (Rs.Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenue	5,718	6,298	6,893	7,927	8,957
EBITDA	1,069	1,101	1,268	1,625	1,881
EBITDA Margin %	18.7%	17.5%	18.4%	20.5%	21.0%
PAT	555	589	599	866	1,006
EPS	7.4	7.8	7.9	11.5	13.3
PE	66.4	62.9	62.2	42.7	36.7
RoE	9.0%	8.1%	7.8%	10.2%	10.6%

Stock Data

Market Cap (Rs. Crs)	36,804
Market Cap ($ Mn)	4,440
Shares O/S (in Mn)	755
Avg. Volume (1 month)	2,286,306
52-Week Range (Rs.)	510 / 308

Shareholding Pattern

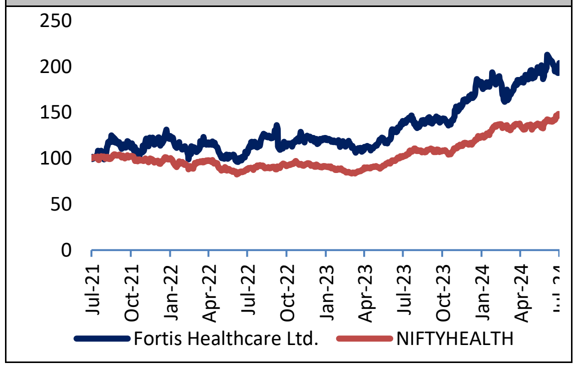
Promoters	31.17%
FIIs	23.24%
Institutions	31.14%
Others (incl. body corporate)	14.45%

Key Ratios

Div Yield	0.21%
TTM PE	62.90x
ROE	7.85%
TTM EPS (Rs.)	7.93/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	2.6%	11.1%	45.0%
NIFTY PHARMA	4.7%	18.6%	43.5%



- Consolidated operating EBITDA margin increased to 18.4% (FY'24) from 17.5% (FY'23). Hospital EBITDA margin also improved to 18.6% (FY'24) from 16.9% (FY'23), contributing a larger share (83%) to overall EBITDA. Adjusting for one-time rebranding costs, diagnostics' margin improved to 19.5% (FY'24) from 17.7% (FY'23).
- Consolidated Profit After Tax (PAT) remained relatively flat at Rs. 645 crore (FY'24) vs. Rs. 633 crore (FY'23) due to increased costs of the branding exercise incurred for Agilus Diagnostics and several one-off expanses that affected profit margins.

Key Business Highlights

- Fortis Healthcare Ltd. – an IHH Healthcare Berhad Company – is a leading integrated healthcare services provider in India. It is one of the largest healthcare organizations in the country with 28 healthcare facilities, 4,500+ operational beds (including O&M facilities), and over 415 diagnostics centers (including JVs). Out of the 29 healthcare facilities, 4 facilities are JCI accredited and 21 NABH Accredited. Fortis is present in India, The United Arab Emirates (UAE), Nepal & Sri Lanka.
- Fortis draws strength from its partnership with global major and parent company - IHH, to build upon its culture of world-class patient care and superlative clinical excellence. Fortis employs ~23,000 people (including Agilus Diagnostics Limited) who share its vision of becoming the world's most trusted healthcare network. Fortis offers a full spectrum of integrated healthcare services ranging from clinics to quaternary care facilities and a wide range of ancillary services.
- Fortis positions itself as a leading Indian healthcare provider with a focus on transparency and quality. Fortis' is the first hospital chain to monitor and publish clinical outcomes, boast the highest accreditation standards, and employ the largest pool of clinical talent in India. This commitment to quality extends to their international presence, with over 200,000 patients treated from more than 175 countries and partnerships with over 20 international governments. Fortis emphasizes accessibility by offering a wide network across major metro and non-metro cities, along with competitive rates for their world-class services.

Valuation

Currently, Fortis Healthcare is trading at **Rs. 488**, implying a TTM PE / EV/EBITDA multiple of 63x / 28x vs the industrial PE / EV/EBITDA of 58x / 33x. This suggests that Fortis is fairly valued. Given the management plans to solidify its presence in existing and new geographies through its formidable expansion plans and rebranding of its diagnostic business.Which support a long-term opportunity for top-line and bottom-line expansion. Furthermore, increasing adoption of innovative medical procedures and technologies coupled with ambitious expansion plans in its verticals improves the outlook substantially.As per that, we assign a **BUY** rating for **Fortis Healthcare** with a **target price** of **Rs. 584** at a PE of **43.9x**, translating to an **upside** of **19%+.**

Risk & Concern

- **Hospital Margin Sustainability**: Recent margin improvement might be temporary due to seasonality and one-time factors (divestment, price hikes). Adding significant bed capacity (1800 beds by FY28) might not significantly improve margins. Management's forecast of 20-21% margin in FY25 and 25% in the next few years is uncertain.
- **Diagnostic Division Growth**: Efforts to improve diagnostics revenue (price hikes, industry volume revival) need to be successful for better performance in FY25.
- **Regulatory Risk**: The healthcare industry is subject to evolving regulations that could impact pricing, reimbursement, and operational procedures.

Graphs & Charts

Figure 1: Net Sales Trend

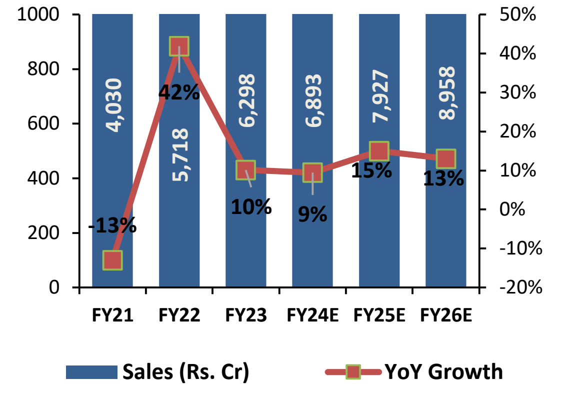


Figure 2: EBITDA & EBITDA Margin Trend

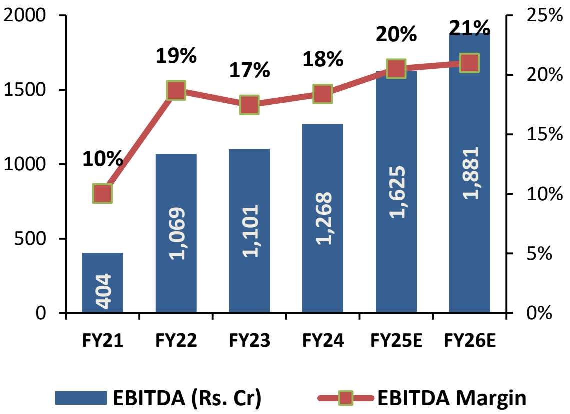


Figure 3: PAT& PAT Margin Trend

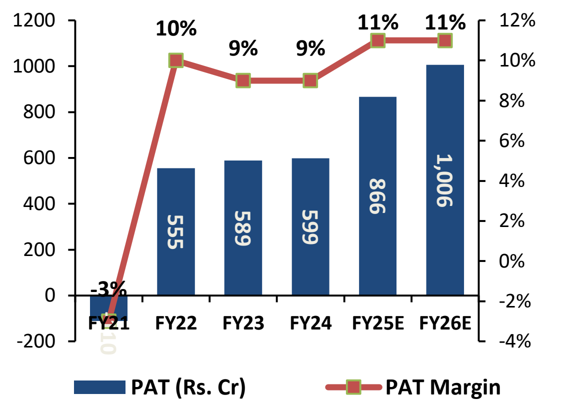
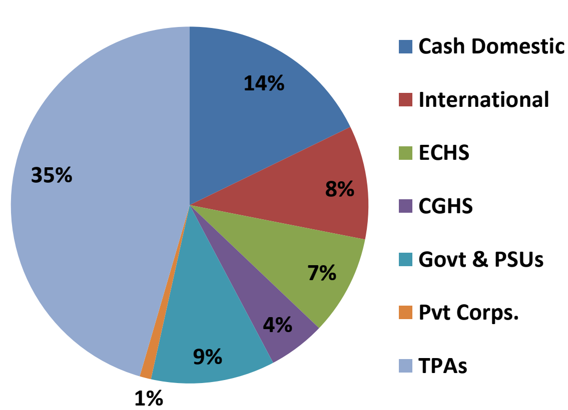


Figure 4: Payor-wise Revenue (FY24)



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