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Company update

Pharmaceuticals

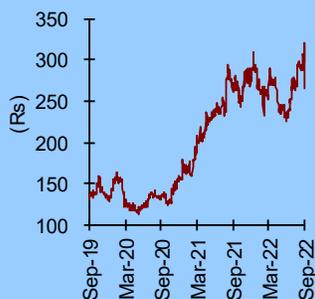
Target price: Rs299

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	31.2	31.2	31.2
Institutional investors	45.8	46.7	47.3
MFs and others	14.3	15.5	16.3
Banks, FI's	1.2	1.2	1.2
FII's	30.3	30.0	29.8
Others	23.0	22.1	21.5

Source: BSE India

Price chart



Research Analysts:

Vinay Bafna

vinay.bafna@icicisecurities.com
+91 22 6807 7339

Rohan John

rohan.john@icicisecurities.com
+91 22 6807 7453

INDIA

Fortis Healthcare

ADD

Maintained

Legal setback, but no fundamental change

Rs266

The Supreme Court of India (SC) has announced its judgement in the Daiichi Sankyo-Fortis-IHH case. Excerpts from the judgement: (i) stay order on the open offer of 26% post Fortis-IHH deal in FY19 continues; (ii) pronounces jail term of six months for the Singh brothers; (iii) remands the issue to Delhi High Court (HC); and (iv) directs Delhi HC to consider a forensic audit for the Fortis-IHH deal. Fortis will seek legal advice on the matter.

As legal battle ensues, IHH remains the majority stakeholder (~31%) of Fortis and shall continue to operate the business as usual. Hence, we believe the stock holds fundamental value with recovery in growth, cost optimization and potential for operating leverage in both its verticals (hospitals and diagnostics).

Following are the key events that have transpired in the legal battle over the last few years:

Year	Key events
Apr'16	Singapore tribunal passes an arbitration against the Singh brothers for concealing information related to Ranbaxy sale.
May'16	Daiichi Sankyo approaches Delhi HC to enforce the verdict by Singapore tribunal. Singh brothers appealed against it in Delhi HC.
Jun'17	Delhi HC clears the way for stake sale in Fortis Healthcare Limited.
Aug'17	Daiichi Sankyo moves SC to block the sale of Fortis shares by promoters and other entities.
Sep'17	Supreme Court refuses permission to sell shares in Fortis Healthcare.
Jan'18	Delhi High Court upholds the enforceability of the award placed by Singapore court.
Feb'18	SC allows financial institutions – Yes Bank, Axis Bank, RBL, ECL Finance, Indiabulls Housing Finance, etc. – to sell the shares that were pledged by the Singh brothers with them.
Jul'18-Aug'18	IHH wins bidding war with Rs40bn (~US\$570mn) offer and acquires 31% stake.
Dec'18	Daiichi Sankyo moves SC to halt the sale of Fortis to IHH. Subsequently SC puts the open offer for 26% on hold. IHH's Rs34bn (~US\$485mn) gets stuck in escrow account until the litigation ends.
Jan'19	IHH concludes its deal and purchases assets from RHT for Rs46.5bn (~US\$665mn).
Nov'19	Singh brothers convicted for selling their stakes despite restraining order.
Feb'21	SC directs 17 lenders, banks and banking institutions (including Yes Bank, Axis Bank and Indiabulls) to explain stake sale.
Feb'21	Fortis directed to submit details pertaining to the IHH deal.
Sep'22	SC stays IHH open offer. Singh brothers awarded 6 months jail term.

Source: Company data, I-Sec research

- **Outlook:** We expect revenue and EBITDA CAGRs of 12.6% and 10.5% over FY22-FY24E for Fortis. However, EBITDA margins would likely remain stable at ~17-18% with declining contribution of covid-led revenues, largely offset by continuous growth in the hospital business, recovery in SRL (non-covid business), operating leverage and cost rationalisation.
- **Valuations and risks:** Maintain **ADD** with a target price of Rs299/share based on FY24E SoTP valuation. **Key downside risks:** Ongoing regulatory concerns with any adverse ruling in the case and delay in margin recovery.

Market Cap	Rs201bn/US\$2.5bn	Year to Mar	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	FOHE.BO/FORH IN	Revenue (Rs mn)	40,301	57,180	63,281	72,555
Shares Outstanding (mn)	755.0	Net Income (Rs mn)	(1,098)	5,555	5,323	6,875
52-week Range (Rs)	325/220	EPS (Rs)	(1.4)	4.0	7.1	9.1
Free Float (%)	68.8	% Chg YoY	(227.7)	(380.2)	75.6	29.2
FII (%)	29.8	P/E (x)	(184.9)	66.0	37.6	29.1
Daily Volume (USD/'000)	4,194	CEPS (Rs)	2.4	8.0	11.4	13.7
Absolute Return 3m (%)	15.9	EV/E (x)	52.5	19.5	18.1	15.0
Absolute Return 12m (%)	0.1	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	14.4	RoCE (%)	(3.3)	4.0	5.7	6.7
Sensex Return 12m (%)	1.6	RoE (%)	(1.7)	4.9	8.3	9.7

Please refer to important disclosures at the end of this report

Valuations

We expect EBITDA to register a CAGR of 10.5% over FY22-FY24E driven by revenue CAGR of 12.6%. Margin is expected to contract to ~18% by FY24E from 18.7% in FY22 with declining contribution of covid-led revenues, which will be largely offset by continuous growth in the hospital business, recovery in SRL (non-covid business), operating leverage and cost rationalisation.

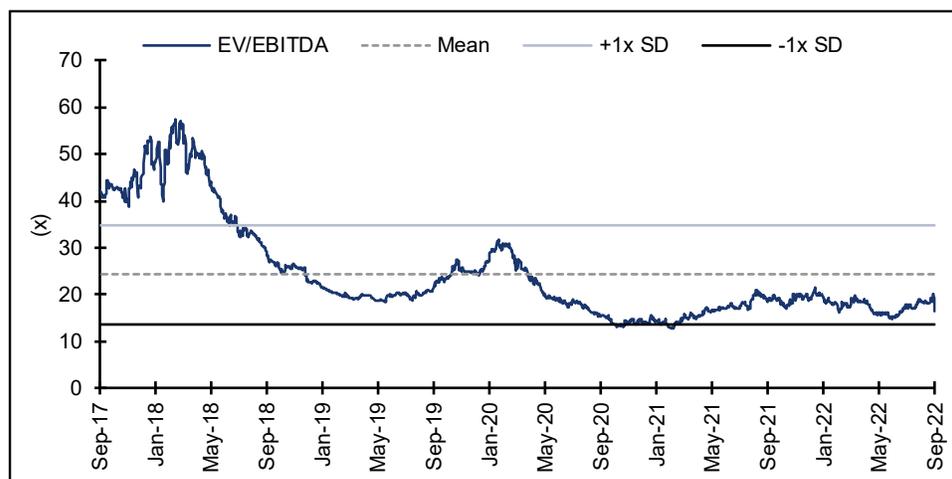
The stock currently trades at EV/EBITDA of 18.1x FY23E and 15.0x FY24E. We remain optimistic on the outlook considering strong growth in hospitals with increasing occupancy and ARPOB, inherent traction in the diagnostic industry for SRL, and cost-control initiatives employed by the current management. Maintain **ADD** on the stock with a target price of Rs299/share based on SoTP valuation of FY24E.

Table 1: Sum of the parts (SoTP) valuation

	FY24E EBITDA (mn)	(x)	Values (Rs mn)
Hospitals	10,050	18	180,906
SRL	3,010	24	41,101
EV			222,007
Less: Net debt			(4,005)
Implied Mkt Cap			226,012
Total value per share			299

Source: Company data, I-Sec research

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Hospitals	31,239	42,640	50,855	59,469
SRL	9,062	14,540	12,426	13,086
Total Revenue	40,301	57,180	63,281	72,555
YoY Growth%	(13.0)	41.9	10.7	14.7
Total Op. Exp.	36,257	46,487	52,080	59,495
EBITDA	4,044	10,694	11,201	13,060
Margins %	10.0	18.7	17.7	18.0
YoY Growth%	(23.7)	86.4	(5.4)	1.7
Depreciation	2,906	3,008	3,256	3,439
EBIT	1,138	7,685	7,945	9,621
Other Income	941	515	529	543
Interest	1,659	1,469	1,147	897
Exceptional Items (net)	12	3150	0	0
PBT	433	9,882	7,327	9,267
Tax	995	1,978	1,467	1,856
Tax Rate (%)	229.8	20.0	20.0	20.0
Profit from associates	-	-	-	-
Minority Interest	536	2,348	536	536
Reported PAT	(1,098)	5,555	5,323	6,875
Adj PAT	(1,082)	3,036	5,323	6,875
Net Margins (%)	(2.7)	9.7	8.4	9.5

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Paid-up Capital	7,550	7,550	7,550	7,550
Reserves & Surplus	53,649	54,233	59,556	66,432
Total Equity	61,198	61,782	67,106	73,981
Minority Interest	5,980	8,300	8,836	9,372
Total Debt	16,540	12,718	10,218	7,718
Deferred Liabilities	(815)	121	121	121
Capital Employed	82,903	82,922	86,281	91,193
Current Liabilities	24,942	32,234	33,256	34,519
Total Liabilities	107,845	115,156	119,537	125,712
Net Fixed Assets	89,640	96,092	96,836	97,398
Investments	1,860	1,036	759	759
Inventory	768	1,229	1,360	1,560
Debtors	4,578	5,122	5,669	6,499
Other Current Assets	6,833	7,551	7,639	7,773
Cash and Equivalents	4,166	4,127	7,274	11,723
Total Cur. Assets	18,205	19,065	22,701	28,314
Total Assets	107,845	115,156	119,537	125,712

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
PBT (Adj. for Extraordinary)	433	9,878	7,327	9,267
Depreciation	2,906	3,008	3,256	3,439
Net Chg in WC	16	154	108	(123)
Taxes	475	(2,114)	(1,467)	(1,856)
Others	(633)	(3,742)	146	223
CFO	3,196	7,185	9,370	10,950
Capex	(2,126)	(4,403)	(4,000)	(4,000)
Net Investments made	80	(1,122)	277	-
Others	694	381	-	-
CFI	(1,351)	(5,144)	(3,723)	(4,000)
Change in Share capital	-	-	-	-
Change in Debts	257	(3,703)	(2,500)	(2,500)
Div. & Div Tax	-	-	-	-
Others	(596)	1,622	-	-
CFF	(339)	(2,080)	(2,500)	(2,500)
Total Cash Generated	1,506	(39)	3,147	4,450
Cash Opening Balance	2,660	4,166	4,127	7,274
Cash Closing Balance	4,166	4,127	7,274	11,723

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Adj EPS	(1.4)	4.0	7.1	9.1
YoY Growth%	(227.7)	(380.2)	75.6	29.2
Cash EPS	2.4	8.0	11.4	13.7
EBITDA - Core (%)	10.0	18.7	17.7	18.0
NPM (%)	(2.7)	9.7	8.4	9.5
Net Debt to Equity (x)	0.2	0.1	0.0	(0.1)
P/E (x)	(184.9)	66.0	37.6	29.1
EV/EBITDA Core (x)	52.5	19.5	18.1	15.0
P/BV (x)	3.3	3.2	3.0	2.7
EV/Sales (x)	5.3	3.6	3.2	2.7
RoCE (%)	(3.3)	4.0	5.7	6.7
RoE (%)	(1.7)	4.9	8.3	9.7
RoIC (%)	(2.8)	3.9	5.7	6.9
Book Value (Rs)	81.1	81.8	88.9	98.0
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
Asset Turnover Ratio	0.4	0.5	0.5	0.6
Avg Collection days	7	6	7	7
Avg Inventory days	52	39	40	39

Source: Company data, I-Sec research

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