Stock Note

Fortis Healthcare Ltd.

Aug 26,2024

Fortis Healthcare Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare	Rs 551.2	Buy in the band of Rs 549-558 and add more on dips to Rs 491	Rs 607	Rs 646	2-3 quarters

HDFC Scrip Code	FORHEAEQNR
BSE Code	532843
NSE Code	FORTIS
Bloomberg	FORH: IN
CMP Aug 23, 2024	551.2
Equity Capital (Rs Cr)	755
Face Value (Rs)	10
Equity Share O/S (Cr)	75.5
Market Cap (Rs Cr)	41636
Book Value (Rs)	101.5
Avg. 52 Wk Volumes	2538310
52 Week High	562.7
52 Week Low	313.8

Share holding Pattern % (Jun, 2024)	
Promoters	31.17
Institutions	54.39
Non Institutions	14.44
Total	100

* Refer at the end for explanation on Risk Ratings

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Our Take:

Fortis Healthcare Limited (FHL) – 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 and 4600+ operational beds (including O&M model) as of June, 2024. Fortis offers a full spectrum of integrated healthcare services ranging from clinics to quaternary care facilities and a wide range of ancillary services to patients in Cardiac Care, Orthopedics, Neurosciences, Oncology, Renal Care, Metabolic diseases care and mother and childcare. Agilus Diagnostics Ltd (formerly SRL Ltd), a subsidiary of Fortis Healthcare, is among the leading diagnostic laboratory chains with an established strength of over 420 laboratories, and a footprint spanning 3900+ customer touch points. With its corporate governance issues behind, Fortis Healthcare 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' Hospital business is well positioned and has demonstrated healthy operational efficiency with high ARPOB and decent occupancy levels. Improving payor mix & specialities mix coupled with price hikes would help in improving ARPOB. Rationalizing portfolio by divesting loss-making assets would improve overall occupancy & margins. Brownfield expansion and focus on optimising the cost structure would further support margin expansion. It is pursuing brownfield expansion and plans to add 1400+ beds over the next 2-3 years in existing facilities to leverage economies of scale – majority of bed additions are planned in Noida, BG Road, Anandapur (Kolkata), Mulund, Shalimar Bagh, FMRI, and Mohali. Deepening presence in existing locations would help leverage higher economies of scale in terms of both cost & revenue drivers and benefiting from cross-leveraging clinical and non-clinical resources. There are ongoing efforts towards portfolio rationalisation; reviewing under-performing facilities which will enhance overall operating performance and margins. The divestment of the Arcot Road unit is in-line with the stated intent of optimizing hospital assets; underpinning its focus on improving overall profitability and margins.

Indian diagnostics industry has been facing high competition intensity from online players, especially post-covid. New entrants have adopted discounted price strategies mainly for routine and wellness test segments. However, the pricing environment has been stable, particularly for chronic and acute diseases. The diagnostic industry is likely to grow at 8-10% in the medium term; management expects that Agilus diagnostics business will outgrow the market by growing at ~10-12%. Focus on channel expansion in the past couple of years, ramping up its test offering especially on specialities segment and healthy share of B2B has helped to strengthen Agilus's position.

Valuation & Recommendation:

Capacity expansion, growth in the hospital business, strengthening medical infrastructure, and increased medical tourism should boost the company's long-term revenue potential. We expect strong growth in hospital business to continue with capacity debottlenecking, improvement in case mix, better occupancy and increase in ARPOB. The company is also focusing on cost optimization and is rationalizing its hospital portfolio by divesting the loss-making units; which would improve margin going forward. The diagnostics business is showing signs of stabilization in the aftermath of the covid surge and the challenging industry environment. We expect revenue/EBITDA/PAT to grow at CAGR of 15%/19.8%/27.5% over FY24-26E. We feel investors can buy in the band of Rs 549-558 and add more on dips to Rs 491 (38x FY26E EPS, 21x FY26E EV/EBITDA) for base case fair value of Rs 607 (47x FY26E EPS, 25.75x FY26E EV/EBITDA) and bull case fair value of Rs 646 (50x FY26E EPS, 27.35x FY26E EV/EBITDA) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Total Operating Income	1859	1657	12.2	1786	4.1	5,718	6,298	6,893	7,966	9,137
EBITDA	343	273	25.7	381	-10.1	1,069	1,101	1,268	1,539	1,818
PAT	166	112	48.5	179	-7.1	451	442	620	813	1,022
APAT	168	110	52.7	188	-10.6	555	493	585	775	976
EPS (Rs)						7.4	7.8	7.8	10.3	12.9
RoE (%)						9.0	7.4	8.0	9.7	11.1
P/E (x)						75.0	70.7	69.4	53.7	42.6
EV/EBITDA (x)						39.7	38.1	33.2	27.1	22.4

(Source: Company, HDFC sec)

Q1FY25 Result Update

Revenue for the quarter grew 12.2% YoY at Rs 1859cr. Operating profit was up 25.7% YoY at Rs 343cr. Net profit increased 48.5% YoY at Rs 166cr on strong operational performance from Hospitals segment and lower tax expenses.

Hospitals business registered 14.4% YoY growth at Rs 1549cr. It was led by ARPOB improvement and better specialty mix. Operating EBITDA grew 39% YoY at Rs 287cr. Occupancy improved to 67% as compared to 64%, a year ago. Fortis has 4600+ operational beds as on Jun-2024.

Diagnostic revenue grew 2% YoY at Rs 309cr. Operating EBITDA declined 16.6% YoY at Rs 55cr.

Most of its key hospitals reported healthy growth. Revenue growth was supported by its specialty services, out of which, oncology, robotic surgery and gastro sciences specialities grew at strong pace. Management expects ARPOB to increase 4-5% YoY. International Patient revenue contribution stood at 8% of sales in FY24.

Revenue from medical travel for the quarter grew 11% and stood at Rs 127 crore as against Rs 115 crore in Q1FY24.

The company further strengthened its medical talent with the onboarding of specialists in the areas of Neurology, Urology, Pulmonology, and Obstetrics & Gynecology. Fortis plans to add 1,400-1,500 beds over the next 2-3 years via brownfield expansion, which should support revenue growth with minimal capex.

For Diagnostic business, the operating EBITDA margin stood at 16.1% vs. 19.4% in Q1FY24. Ex-one offs related primarily to the rebranding expenses and provisioning related to certain government business, operating EBITDA margin stood at 18.7% vs. 20.8% in Q1FY24. It conducted 9.92 mn tests vs 9.95 mn in Q1FY24. Average realization per test was at Rs 341 (-1%/-3.5% YoY/QoQ). Number of patients declined 3% YoY at 4mn. B2C: B2B revenue mix stood at 54: 46 in Q1FY25 vs 53:47 in Q1FY24.

Conference Call Highlights

- Cost Optimization: Fortis has been actively optimizing manpower costs and enhancing productivity, leading to a positive impact on the P&L in FY24.
- New facility at Ludhiana: Launched a 70-bed facility in Ludhiana, the second in the city and fourth in Punjab, strengthening their presence in the region.
- Faridabad unit will add 50 beds. Shalimar Bagh to add 50 beds.
- Manesar unit expected to start in Q2FY25 with 100 beds.
- Calcutta will add 100 beds, commissioned in Q1 FY25. Additional beds at BG Road, to be ready by Q2FY25.
- ARPOB: Anticipates 5-6% growth, driven by improvements in specialty and payor mix.
- EBITDA Margin: Improvement in margins due to ARPOB and volume growth, divestment of the malar facility, and specialty mix improvement. Expects 100-150bps increase in margin, aiming for 25% EBITDA margin within the next 3 years.
- Capex plan: For the expansion of 2,200 beds, some capex already incurred with an additional Rs 1200-1300 crore planned, including equipment.
- International patients contributed 8% of total revenue.
- Hospital Performance: 8 hospitals currently below 15% margin. In the next 2-3 years, expect improvement in Faridabad, FEHI, Jaipur, and 2-3 other hospitals.
- Government Revenue: CGHS revenue grew by 20% YoY, contributing 4% to total revenue, with efforts to reduce this share.

Diagnostic Business
Performance impacted by rebranding to Agilus and related expenses, as well as provisions related to government business.
Other expenses: Branding expenses for Agilus were Rs. 31 crore last year, expected to remain the same this year.

Average realization per patient grew by 2.7% YoY and per test by 4.2%, driven by a price increase in mid-February and a reduced contribution from the Delhi government project in Q4FY23.

Agilus Diagnostic: It is recovering gradually; Fortis is set to acquire ~31% PE stake in Agilus Diagnostics for Rs 1780cr, implying an EV of ~Rs 5700-5800cr and ~20x FY26E EV/EBITDA. That the acquisition would be debt funded (FPI) (~Rs 1500cr debt; 10-10.5% rate), could put pressure on earnings. Management's assurance to continue its hospital expansion is comforting while Agilus potential recovery could generate value-unlocking opportunity in future. Re-branding and regulatory issues have crippled Agilus growth; we expect it to reach industry-level growth by FY26.

IPO plan/sale - There may be CCI approval required too. IPO process cannot be started immediately. From funding and leverage POV, there is no major challenge being seen. Debt/EBITDA will be ~1.5x post additional debt. Capex will continue as per original plan and hospital business would not be hampered by this. An 88% shareholding will be held in Agilus by Fortis and remaining will be minority stake.

Hospitals

For hospital business, 20% margin guidance for FY25 remains intact. One-off of 0.6% in hospital business margin. These include capital increase for converting debt in one subsidiary, GST liability for corporate guarantee, higher provision for bad debts.

Legal costs are not expected to come down and will remain high in FY25 as the process is still ongoing. These higher costs are accounted for in the guidance given.

About 200bps EBITDA margin drop is due to specialty mix. There was higher share of orthopaedic and oncology this time and change in surgical mix where doctor payment is on the higher side. Hospital EBITDA margin matrix – two facilities where margin fell were FEHI and Bangalore hospital (smaller heart-related hospital, which is unable to pass on costs).

Initiatives are being taken to ensure these bounce back. FEHI, Jaipur, Vashi are < 10% EBITDA margin hospitals. FEHI is being worked on at the cost side and revenue mix (right now majorly a cardiac centre). Trying to add clinical talent and specialties and infra improvement.
Vashi facility's state is not that great and is grappling with competition in the area. New hospital added six months back in Ludhiana has also not performed the way Fortis wanted it to, in these six months.

ARPOB growth was fueled by key specialties such as oncology, cardiac, neuro, ortho, gastro and renal. Around 15.7% YoY growth collectively from these specialties and contributed 63% of hospital revenues. Neuro segment registered 23% YoY growth while 22% YoY growth in oncology. Robotic surgeries increased by 59% YoY. Revenue from medical travel grew 11% YoY.

Mohali and FMRI outlook – Mohali has added 30 beds in FY24 and this has seen growth due to occupancies going up. FMRI is operating at 75% occupancy and new clinical talent has been added in oncology and cardiac. Trying to expedite expansion plan. FMRI brownfield - H1CY26 should see commissioning of beds. Also, 21 beds should be added by Nov-24.

Eight facilities recorded >25% margin. These eight contributed 69% to hospital revenue. Generally, Q1 is a softer quarter but occupancy improved. On-boarded specialists in neuro, cardiac, ophthalmology, etc.

Manesar operating cost is being capitalised as of now till it is operationalised. At the start, 100 beds would be operationalised out of 350 beds. After 60% occupancy is reached, remaining beds will be operationalised. All 350 beds are expected to be operationalised in 18 months. Manesar's ARPOB at start could be 25-30% lower than FMRI ARPOB.

Scheme patients are increasing but Fortis is working on this metric and should correct in the coming quarter. New bed additions would have some impact where scheme patients might increase. But Fortis will try to compensate via other hospitals.

July occupancy is directionally better than last quarter. Revenue from digital channels continue robust growth. About 30% hospital revenue contribution from digital channels vs. 23% in Q1FY24. Clinical governance – Started reporting outcomes of cardiac procedures on website. NABH accreditation, which requires reporting. Infra monitoring is done by central team, which does an audit of every unit every quarter.

Operating margin was at 18.7% in Q1FY25 after one-offs w.r.t. provisions and rebranding expenses (Rs 9cr). The business is still adjusting to rebranding exercise. Provisions related to government business also hurt performance in the quarter. Sustaining brand awareness campaign through digital channels. Rs 50cr rebranding costs planned for FY25. Decline seen due to rebranding and B2C was impacted majorly. Expect to be back on track i.e. industry growth rates by next year. In B2C, 60% business is due to doctors. The issue is due to walk-in patients. The Agilus brand is gaining recognition and is getting well-accepted.

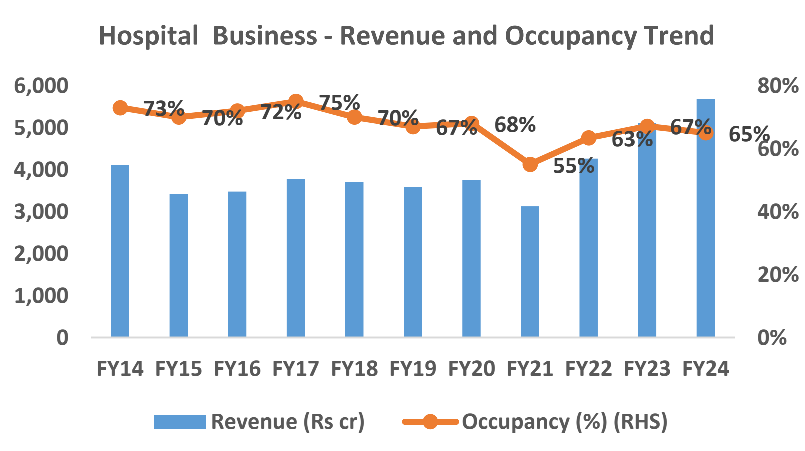
Genomics grew 12% YoY/13% QoQ. Agilus is focusing on growing genomics portfolio. Small price hikes taken at end of Q4 in B2C business in some segments. No significant impact seen as discounting was also done. Currently, wellness is opted for direct promotion and discounts are offered. In specialised tests, genomics is being focused on and as more hospitals are tied-up and doctors are worked with, it will improve. Total 4,055 customer touchpoints as on June, 2024.

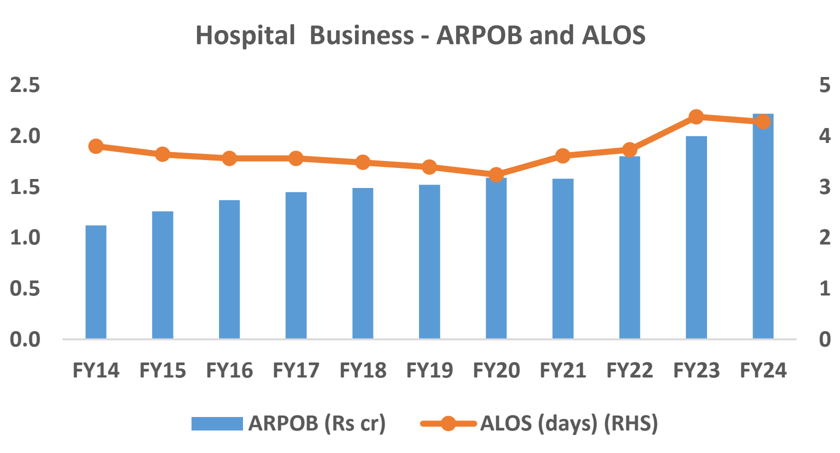
Key Triggers

Hospital business on strong footing

Fortis' Hospital business is well positioned and has demonstrated healthy operational efficiency with high ARPOB and decent occupancy levels. The company undertook a comprehensive strategic review and prioritized key areas to drive revenues and operational performance. The business reported healthy topline growth of 16.3% YoY to Rs 5686cr along with strong EBITDA margin of 18.6% in FY24 (vs 15.4% in FY22 and 16.9% in FY23). Bed additions through brownfield expansion and new facility additions, focus specialties, and a strong rebound in international business were the main growth levers. Average occupancy during FY24 stood at 65% vs 67% in FY23. hospital business ARPOB at Rs 2.22 crore vs Rs 2.01 crore in FY23, up 10.8%; Surgical: nonsurgical mix stood at 59:41 similar to FY23. Key specialties like Oncology, Cardiac Sciences, Neuro Sciences, Renal Sciences, Gastroenterology and Orthopedics, which grew 31% YoY in FY23; contributed 59% vs 53% in FY22. This has helped in improving margins & ARPOB. International business contributed to 8.3% of overall revenue as against 5% in FY22.

Improving payor mix & specialities mix coupled with price hikes would help in improving ARPOB. Rationalizing portfolio by divesting loss making assets would improve overall occupancy & margins. Brownfield expansion and focus on optimising the cost structure would further support margin expansion. It has strategic plans to strengthen its clinical specialties, medical infrastructure, manpower training and onboarding of new talents.





Network Expansion Strategy - Brownfield + Inorganic + Divestment

Fortis accelerated its focus on network growth and expansion. It launched a 200-bedded multi-specialty hospital in Greater Noida (NCR) in O&M association in Oct-2022. Richmond Road, Bengaluru, which used to be a La Femme facility, has been upgraded to a full-fledged multi-speciality unit. A cancer Institute has been launched in Defence Colony, New Delhi. As a part of its inorganic growth strategy, the company announced acquisition of a 350-bedded hospital in Manesar, Gurugram for consideration of Rs 225cr. This hospital is currently not functional; Fortis will invest further ~Rs 100cr to operationalise this facility. It plans to start with 125 beds and would gradually ramp up operation in the next two years. The acquisition fits well with the company's strategic approach of expanding its presence in focused geographic clusters, including Delhi NCR. The management is open to acquisitions at its existing geographic clusters. The company has actively stayed away from Tier 2/3 cities due to operational challenges, price sensitive markets and difficulty in hiring clinical talent. Much of the expansion would happen in Delhi NCR followed by Mumbai, Kolkata and Bangalore.

Fortis Healthcare is pursuing brownfield expansion and plans to add 1400 beds over the next 2-3 years in existing facilities to leverage economies of scale – majority of bed additions are planned in Noida, BG Road, Anandapur, Mulund, Shalimar Bagh, FMRI, and Mohali. In FY25 and FY26, it plans to add 250+ beds each year as part of its brownfield expansion. Deepening presence in existing locations would help leverage higher economies of scale in terms of both cost & revenue drivers and benefiting from cross-leveraging clinical and non-clinical resources. Despite these bed additions, the management is confident of reaching 70% occupancy levels in the medium term.

There are ongoing efforts towards portfolio rationalisation; reviewing under-performing facilities which will enhance overall operating performance and margins. In Jun-2023, FHL had signed a definitive agreement for sale of its hospital operations at Vadapalani, Chennai to Sri Kauvery Medical Care for sale consideration of Rs 152cr. Company has not been able to ramp-up its occupancy due to infrastructure related bottleneck (construction related works) and difficulty in building clinical talent. The divestment of the Arcot Road unit is in-line with the stated intent of optimizing hospital assets; underpinning its focus on improving overall profitability and margins.

Clinical Focus to drive revenue growth and improve share of International patients

The company's strategic focus on core specialties (Oncology, Neurosciences, Cardiac Sciences, Renal Sciences, Orthopaedics and Gastroenterology), contributing over 61% to overall revenue. New clinical teams in these specialties were on boarded across key facilities It has invested in developing clinical talent across specialties, inducting ~160 senior clinicians across the country. State-of-the-art medical equipment including LINAC, PET CT, Da Vinci Surgical Robot, Cath Labs, Neuro-Navigation Systems and Ortho Robot were commissioned (capex of Rs 200cr in medical equipment in FY23) in select facilities thereby strengthening medical infrastructure. All its facilities, whether owned or operated follow globally accepted medical protocols and procedures and are focused on delivering the best possible clinical outcomes. These initiatives would result in delivering healthy revenue growth and drive medical travel from foreign countries. Revenue from international patients have gone up significantly in FY23; contributing 8.3% in FY23 revenue (8.5% in Q1FY24); aims to reach earlier levels of 10-11%.

Other initiatives to fuel further growth

The company is focused on implementing a comprehensive cost optimisation programme that aims to rationalise drugs and consumables cost, bring in capex procurement efficiencies and optimize indirect spends. Efforts are undertaken to drive revenues via more focused sales and marketing efforts towards improving payer mix segments (cash payer & TPA) and increasing focus on medical tourism (from 4.8% in FY22 to 8.3% in FY23). The company continues to work on cluster synergies and focused its efforts towards developing synergies in Sales and Marketing, Supply Chain and Human resources. ARPOB is influenced by essential larger mix of procedural and complex cases which would yield higher margins. Hiring of quality clinical talent to hospital network and improving medical infrastructure would support the company's ability to improve specialty mix going forward.

The company is working on an Electronic Medical Record (EMR) system, which would enable to streamline information flow, increase accessibility to healthcare records and provide superior patient experience. It has revamped company's website and MyFortis app to enable a seamless interface between hospitals and its diagnostics arm, enabling a onetouch point for patients for appointments, billing, medical history, follow-up, etc. Key functionalities that were added in FY23 include availability of diagnostics reports, customised notifications, and health tips, major UI/UX changes such as biometric login/OTP read capability. Revenues from digital channels including website, mobile application and digital campaigns witnessed robust growth of 35% YoY in FY23; contributing 23% to overall hospital revenues. The appointment bookings through the mobile app grew by ~65% YoY in FY23 to reach 2.29L. Through continuous and significant investments in digital initiatives, Fortis aims to build a comprehensive technology platform that will ensure effective and efficient healthcare delivery.

Diagnostic Business

For FY24, the segment gross revenue grew 2% YoY at Rs 1372cr while operating EBITDA margin stood at 15.3% vs. 17.7%, a year ago. Adjusted for rebranding expenses of Rs 31cr and provisioning related to Govt. business of Rs 27cr, operating margin stood at 19.5%. Revenue from preventive care tests grew 14% while genomics increased 27% for the year.

Agilus Diagnostics continues to focus on improving its channel mix and adding to its specialized test menu such as those in the area of genomics, in parallel it continues to optimize its network and customer touch points to lab metrics in order to improve utilization. The company has rebranded its diagnostics chain to 'Agilus Diagnostics Ltd' w.e.f. May 31, 2023. The focus areas for Agilus Diagnostics Ltd include growth and geographic penetration with strategic acquisitions.

Indian diagnostics industry has been facing high competition intensity from online players, especially post-covid. Its asset light (franchisee-led expansion) structure, high margin, high return ratios coupled with industry's sustainable growth over medium to long term and low entry barriers led to new entrants backed by large conglomerates. Attractive predatory pricing is adopted by these players to garner higher volume share; which would impact volumes and profitability of established diagnostics chains.

New entrants have adopted discounted price strategy mainly for routine and wellness test segments. The pricing environment is stable particularly for the chronic and acute diseases. Focus on channel expansion in the past couple of years, ramping up its test offering especially on specializes segment and healthy share of B2B has helped to strengthen Agilus's position. The board has granted approval for Agilus to initiate an initial public offer process, by way of an offer for sale of its equity shares, subject to receipt of requisite approvals.

Retail Network Expansion

Agilus has established its presence across 1000+ cities, 30 states, and union territories, with a PAN India network and equal distribution of centers. Over the past year, Agilus has expanded its reach by adding over 1100+ customer touchpoints and including 1700+ direct clients. As of Jun-2024, its network comprises 420+ labs, 3900+ customer touchpoints, and 12000+ direct clients. Its B2C: B2B stood at 53: 47 in FY24. The business continued to have a well-diversified geographical mix with no over-dependence on any region, allowing it to capitalise on pan-India network optimally. Revenue contribution from North/East/West/South/International was at 33%/14%/21%/29%/3%. Asset light franchisee led aggressive expansion in last couple of years will yield results as these centers start maturing delivering better numbers.

Expansion of test menu & Digital initiatives; help improve customer experience

The company has expanded its test menu over the last few years to build an extensive portfolio in specialised laboratory sections like autoimmune disorders, transplant immunology, oncology, infectious diseases etc. Through R&D, it has undertaken clinical research studies, co-marketing projects and co-development of new biomarkers and contract validations. It has focus on genomics and next generation diagnostics. It introduced a new line of preventive healthcare packages that are intended to satisfy customers' needs for wellness and preventive care. It launched 14 new packages with new age tests like cardiac - high sensitive troponin I and Fatty Liver Index, keeping in mind the prevalence of non-communicable diseases in urban and semi-urban India.

The diagnostic industry is one of the fastest expanding service verticals in India and is undergoing a rapid change. The sector is quickly becoming more consumer and digital-focused. The rise in demand for convenient, at-home, and on-demand services is being facilitated by consumerization. The company has made continuous efforts towards seamless booking of services through website and mobile app, and providing reliable test reports. WhatsApp chatbot delivers more than 10,000 reports each day, SMART reports that provide detailed insights including diet and lifestyle interventions, and live tracking of phlebotomist feature that reduces the anxiety of customers awaiting sample collection thereby enriching patient experience. It is constantly upgrading the UI/UX of the Agilus website & mobile App to improve the user experience and customer adaptability of the digital medium.

Annual Report FY24 Update

Bed Capacity Expansion

During FY24, the company remained focused on its strategic expansion plans with the acquisition of Medeor Hospital in Manesar, Gurugram, which would further strengthen its presence in the NCR region. Currently, Fortis operates 1,766 beds in the Delhi NCR region. When fully operational, the Manesar facility will potentially add 450 beds, taking the total to over 2,200 beds in the NCR Region. To meet the increasing demand for quality healthcare services, the company added a total of 246 beds across the network. A new 70-bed hospital was commissioned at Ludhiana. Beds were added to Mulund (57), BG Road (40), Anandapur (37) and Mohali (35) to name some of the key facilities. It plans to add approximately 700 beds in the next 18 months in key clusters at Delhi NCR (including about 300 at Manesar), Bangalore and Kolkata. These expansions align with strategic objective of enhancing patient access and addressing the growing demand for healthcare services across network of hospitals.

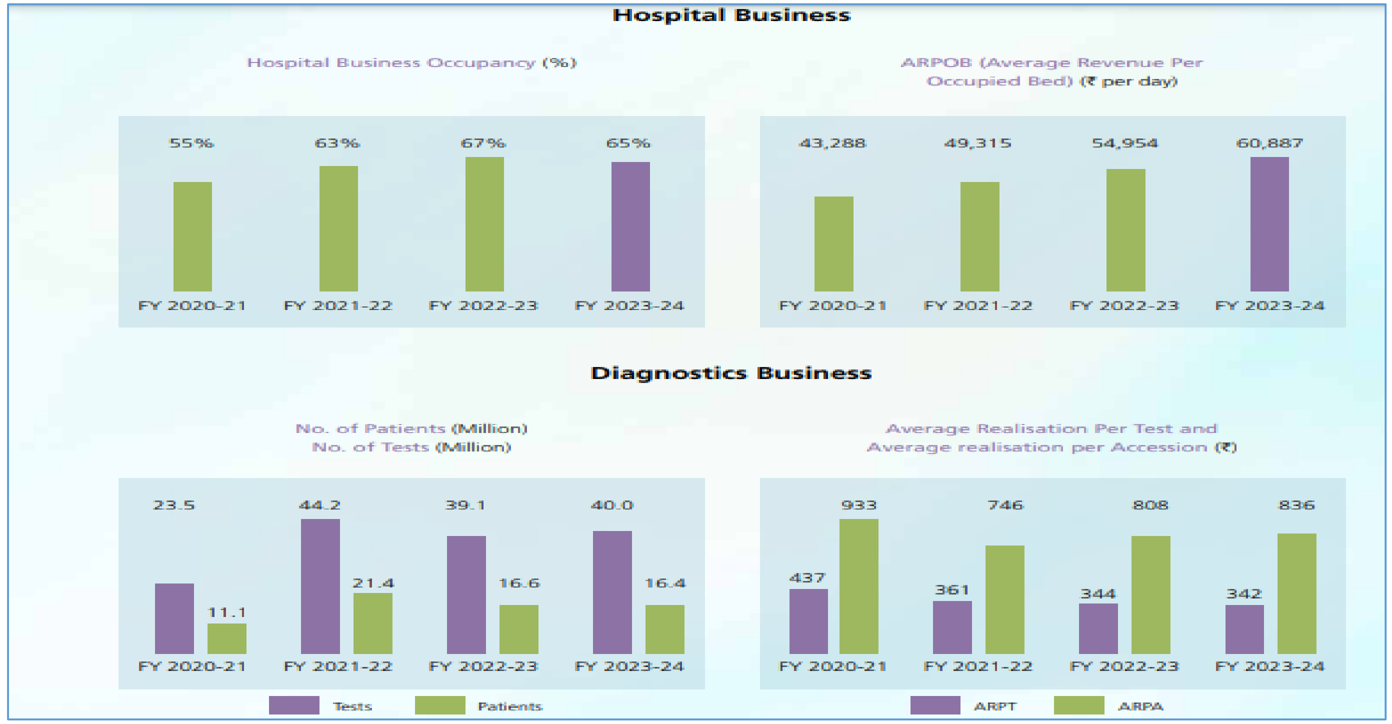
Looking ahead, Fortis plans to expand to approx. 6,000 beds by FY28 from the current capacity of around 4,000 operational beds (excluding O&M beds). As part of portfolio optimisation strategy, it has exited from the Chennai market by selling both Arcot Road and Malar facilities for a cumulative total sale consideration of ~Rs 280 crore. The company's total capital expenditure during the year was at Rs 900 crore. This was spent primarily on bed expansion, growth initiatives, and investments in medical and digital technology. This also includes ~Rs 240 crore for the acquisition of the hospital asset in Manesar, NCR. The investments in capex heavily outweigh the proceeds of Rs 280 crore received from the divestment of two facilities in Chennai.

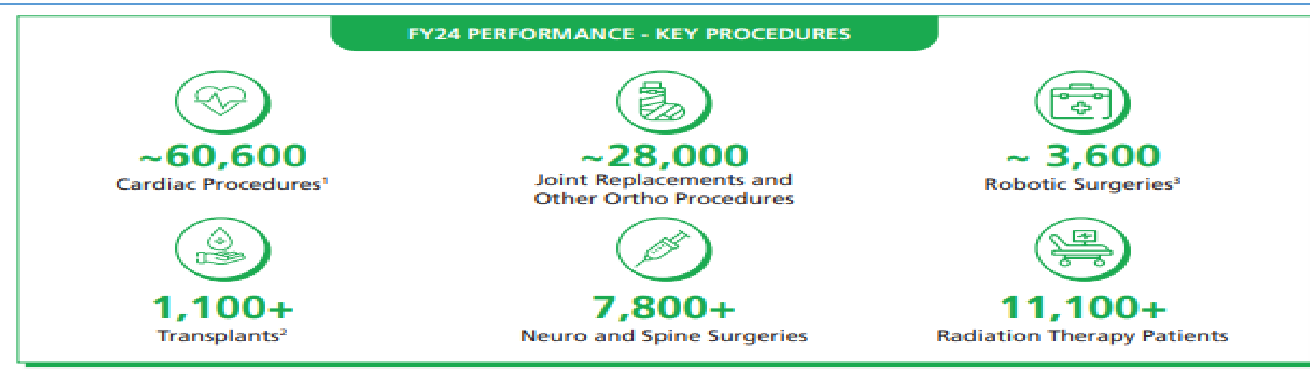
Diagnostic Business Highlights

In May 2023, Agilus Diagnostics Limited (ADL), diagnostic business, underwent a successful brand transformation. Fortis continues to invest in brand campaigns to strengthen this new identity and enhance brand recall. In September 2023, as per the agreement with the 3 existing Private Equity investors in ADL and in order to provide an exit to these investors, Fortis had filed Draft Red Herring Prospectus (DRHP) with SEBI for an intended IPO as an Offer for Sale (OFS). However, in February 2024, due to commercial considerations, the Board of Directors, in consultation and mutual agreement with the investors, decided to withdraw the DRHP. The agreement also provided for a 'put option' right with the investors on Fortis i.e. FHL that is to expire in August 2024.

Regarding performance, Agilus Diagnostics Limited reported gross revenues of Rs 1,372 crore for FY24, a growth of ~2%. It was primarily due to the brand change undertaken in May-2023, decline in COVID-related testing which reduced its contribution to total revenue to a mere 0.3% from 4% in the previous financial year and certain one-off government related business as briefed below. During the year, the company received a notice from the Anti-Corruption Branch regarding alleged discrepancies in diagnostic tests conducted at Aam Aadmi Mohalla Clinics of the Delhi State Government. It has operated in compliance with applicable laws and is fully cooperating with the authorities including providing documents and information as requested. While it has provided services in the public interest and adhered to all requirements and procedures under the agreement; it has also as a matter of financial prudence made provisions in the books for the outstanding dues. Despite the above challenges, the non-COVID business grew 6% YoY at Rs 1366 crore in FY24. It has expanded customer touchpoints by 680 in FY24, reaching a total of approximately 3,976. The preventive portfolio revenue grew 14% in FY24 at Rs 140 crore, contributing 10.3% to total revenue. With the rebranding exercise and related costs largely expected to be completed in the current fiscal; it would put more efforts to accelerate business performance, building efficiencies, and widen test menu and focus on delivering high-quality diagnostic care.

Key Operational Metrics

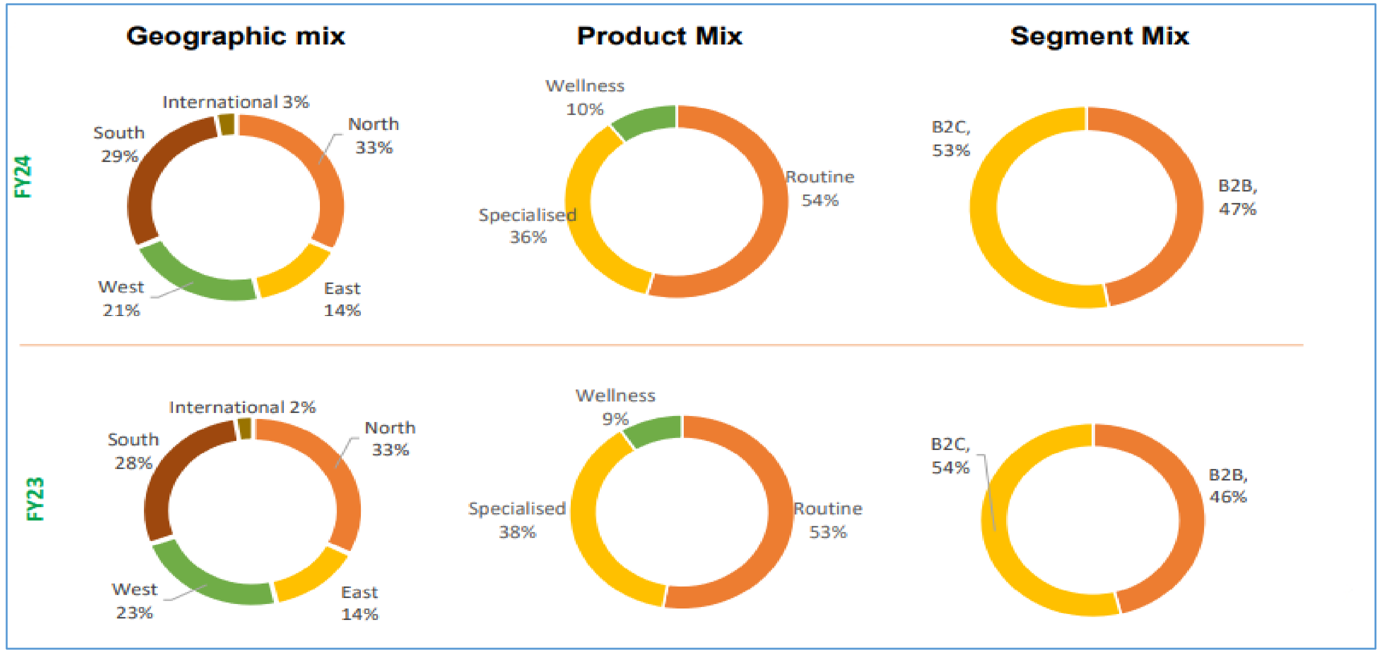




Note: [1] Cardiac Procedures include Cardiac Surgery, Angiography, Angioplasty and other Cardiology procedures.
[2] Transplants include Kidney, Liver and Bone Marrow Transplants
[3] Robotic Surgeries include Cardiac, Urology, Oncology, Gynae, Ortho and General Surgery

(Source: Company, HDFC sec)

Diagnostic Business



(Source: Company, HDFC sec)

Key drivers

Increase in Healthcare Spending

There has been a shift in the mindset, and the population is more amenable to spending on health essentials, especially post COVID, such as regular health check-ups, monitoring, nutrition, and medical insurance. India's healthcare spending is 3.6% of GDP, including out-of-pocket and public expenditure, which is the least among BRICS countries: Brazil spends the most (9.2%), followed by South Africa (8.1%), Russia (5.3%), and China (5%).

Improving Insurance Penetration

With the increasing incidences of health issues and the need for essential healthcare services, healthcare costs have surged in the last few years. The growing health insurance market is playing a crucial role in improving healthcare access and financial protection for individuals and families. As the market continues to expand, driven by rising healthcare costs, supportive government policies, and technological advancements, it presents numerous opportunities for innovation and growth. Addressing challenges such as affordability and complexity will be key to ensuring that health insurance remains accessible and beneficial for all segments of the population.

In a populous country like India, lower insurance penetration is one of the foremost deterrents to the growth of the overall sector, as the affordability of quality healthcare facilities by the majority of the people remains an area of concern. With health insurance coverage in India on an upward trajectory, the healthcare industry is set to grow on a fast pace.

Medical Tourism

India has emerged as a popular destination for medical tourism due to its cost-effectiveness, skilled medical professionals, and world-class facilities. Medical tourism industry in India is around US$ 8-9bn. Availability of affordable, quality treatment makes India a preferred destination for foreign patients. With ballooning healthcare cost in western countries, the estimated costs for foreign patients coming to India is ~1/5th-1/10th of the western countries depending upon the treatment. The increasing medical tourism demand is emerging from parts of the Middle East, Africa and Western Asia. India competes with Singapore, Thailand and Malaysia, which are also emerging as a medical tourism destination.

Revenue from international patient segment account for about 8-10% of the hospital revenue for listed players. Given that the companies have excellent facilities and some of the best and renowned medical professionals, they are able to deliver service of the highest standards and play a major role in attracting patients from all over the world.

Government incentives

The Indian government has focused on providing Universal Health Coverage through schemes such as Ayushman Bharat, National Health Mission, and Digital India, providing opportunities for public-private partnerships and investment in healthcare infrastructure, technology, and services.

Focus on Preventive Healthcare

Changes in lifestyle patterns have augmented incidences of non-communicable diseases, such as Diabetes, Cardiovascular diseases, and Cancer, which will continue to drive demand for specialized services. While communicable disease still poses a significant threat and account for 33% of the disease burden, non-communicable diseases now account for 55% of the disease burden of the country. As per government sources, India will have 90 million diabetics by 2025, one out of every four adults will have hypertension, and the NCD burden will cost India over US$ 4.58 trillion by 2030. Thus, there is a growing emphasis on preventive healthcare initiatives, including awareness campaigns, vaccination drives, and screening programs, to address the burden of non-communicable diseases and improve overall health outcomes.

Challenges

Regulatory Headwinds

Hospitals, being most critical in nature, always need to comply with multiple regulatory guidelines and often make challenging readjustments at the ground level. It is subject to complex regulatory frameworks and policies that sometimes hinder innovation, investment, and quality improvement initiatives.

Shortage of skilled healthcare professionals

India needs more skilled healthcare professionals, including doctors, nurses, and technicians. This shortage is further exacerbated by inevitable factors such as brain drain, uneven distribution of healthcare workers, and gaps in training and education, necessitating a higher focus on manpower retention through training, rewards, and recognition.

Increased Competition

The healthcare industry is witnessing strong demand, leading to increased competition and attracting multiple new entrants, including established business houses and private entrepreneurs. This influx of new players, coupled with other factors, may pose some challenges, including an adverse impact on profitability, concentrated market share, and growth potential of existing players. Consequently, there may be extended pressure on pricing strategies and added efforts to recruit and train competent medical professionals to maintain competitive edge and market share for sustained growth and profitability.

Outlook on Healthcare

The overall economic development and increasing population have propelled the healthcare sector to become one of India's largest sectors, both in revenue generation and job creation. The healthcare industry in India continues to play a crucial role in the nation's economic framework, making substantial contributions to growth and employment across diverse sectors such as hospitals, medical devices, clinical trials, telemedicine, medical tourism, health insurance and medical equipment.

In recent years, the sector has witnessed remarkable expansion, driven by factors such as improved coverage, service quality enhancements and substantial investments from both public and private entities. Government initiatives aimed at increasing healthcare spending and enhancing infrastructure have further propelled the industry’s growth trajectory.

Expansion of Telemedicine Services: Telemedicine continues to witness significant growth with more healthcare providers adopting digital platforms to offer remote consultations and medical advice, especially in the wake of the COVID-19 pandemic. Advancements in Health Tech: The healthcare technology sector sees rapid innovation with developments in artificial intelligence, wearables and health monitoring devices aimed at improving patient care and treatment outcomes.

Rise in Health Insurance Coverage: More individuals opt for health insurance coverage driven by increasing awareness of the financial risks associated with healthcare expenses and the availability of customized insurance products. The construction and expansion of hospitals, clinics and diagnostic centers continue to meet the rising demand for healthcare services, particularly in tier 2 and tier 3 cities.

Healthcare Digitisation Initiatives: The National Digital Health Mission (NDHM) gains momentum, aiming to create a comprehensive digital health ecosystem, including electronic health records, telemedicine and health registries. Innovative Healthcare Delivery Models: New healthcare delivery models emerge, such as home healthcare services, community health centers and mobile health clinics, catering to diverse healthcare needs and improving accessibility.

Medical Education Reforms: Reforms in medical education focus on enhancing the quality of healthcare professionals through curriculum updates, skill development programs and promoting research and innovation in medical institutions.

Public-Private Partnerships (PPPs): Collaboration between the public and private sectors strengthens, facilitating investment in healthcare infrastructure, technology adoption and implementation of healthcare programs to address key healthcare challenges effectively.
Continuing demand supply gap for quality healthcare services and healthcare infrastructure: India currently has 1.3 hospital beds per 1,000 population. There is also a shortage of skilled health workers, with 0.65 physicians per 1,000 people (the World Health Organisation standard is 1 per 1,000 people) and 1.3 nurses per 1,000 people. India would need an additional 3 Million beds to achieve the target of 3 beds per 1,000 people by 2025. Furthermore, another 1.54 million doctors and 2.4 million nurses will be required to meet the growing demand for healthcare in India.

Growing Health Insurance Penetration: Low health insurance penetration is one of the major impediments to the growth of the healthcare delivery industry in India, as affordability of quality healthcare facilities by the lower-income groups remain an issue. Health insurance coverage has increased from 17% in Fiscal 2012 to approximately 38% in FY22. As per the Insurance Regulatory and Development Authority, more than 520 Million people have health insurance coverage in India (as of Fiscal 2022), as against 212 Million (in Fiscal 2012), but despite this robust growth, the penetration in Fiscal 2022 stood at only 38%.

Outlook on Diagnostics Sector
The diagnostics industry is pegged to grow between 8% to 10% from FY23 to FY28P. The diagnostics sector is classified primality into two segments: pathology and radiology. Pathology, constituting a significant 55-58% portion of the market, revolves around the examination of tissues, cells, and bodily fluids. This segment encompasses various tests, with clinical chemistry holding the highest market share. On the other hand, radiology constituting ~40% of the market, leverages a spectrum of imaging modalities to diagnose and treat ailments, spanning from conventional X-rays and ultrasounds to advanced technologies like CT-scans and MRI. Prescriptive diagnostic services dominate the market, comprising 85% of the sector, while preventive diagnostic solutions contribute 15%. Outpatient department diagnostics command a significant share of 57%, with inpatient department diagnostics making up the remaining 43%. The market comprises of 3 types of providers viz. standalone centres, hospital-based centres and diagnostic chains taking 44%, 38% and 18% of the market respectively. Standalone lab centres operate on a small scale and are usually owned and operated by a single entity.

Diagnostics form a very essential part of the healthcare industry. It is the first step towards treating diseases, starting from detection and prognosis to determining the treatment regime and post-treatment monitoring. The Indian diagnostic services market was valued at US$ 14.5 billion in FY22 and US$ 16.2 billion in FY23. It is forecasted to reach US$ 41-43 billion by FY32 (as per a report published by Polaris Market Research in March-2023). This growth can be attributed to an increase in healthcare spending by the aging population, rising income levels, increasing awareness for preventive testing, advanced healthcare diagnostic test offerings, market penetration of healthcare insurance, and conducive policies by the central government.

Additionally, post-pandemic health awareness has fueled the demand for preventive health checkups. This has further prompted diagnostic companies to offer curated wellness packages tailored to various demographics, resulting in higher spending per patient. The share of this segment is expected to increase to 25-27% in FY27 from 18- 20% in FY24.

Major Growth Drivers

Aging Population: India is experiencing a demographic shift, with a significant increase in its elderly population. The proportion of individuals over 60 years, which was just 7% in 2001-02, is projected to rise to 12-14% by FY27. This change is due to improved healthcare infrastructure and advancements in medical care, leading to higher life expectancy. As the population ages, there is an increased risk of chronic diseases and conditions such as cardiovascular issues, diabetes, cancer, and neurodegenerative disorders. The growing prevalence of these health issues is driving the demand for regular health screenings and specialized diagnostic services, further propelling the growth of the diagnostics industry.

Government Policies: The government, through the National Health Mission, has introduced several initiatives and policies, including the Free Diagnostics Service Initiative for individuals below the poverty line, to enhance healthcare access and infrastructure while promoting preventive care through diagnostic services. Furthermore, there have been efforts to develop public-private partnerships (PPPs) in the diagnostics sector, utilizing the combined expertise and resources of both sectors.

Rising Income Levels: The rise in disposable income played a pivotal role in expanding access to healthcare services. With more disposable income, individuals and families are able to afford medical expenses, including consultations, treatments, medications, and preventive methodologies. This encourages people to seek timely healthcare interventions, leading to better health outcomes and improved overall wellbeing.

Increasing Health Awareness: People are becoming more conscious of their health, particularly the importance of preventive care such as timely diagnosis. Early detection and regular health screenings have been instrumental in fueling the demand for diagnostic services.

Increased Penetration of Health Insurance: Health insurance provides financial protection against healthcare expenses, including diagnostic tests. With individuals less reliant on out-of-pocket payments, the affordability of diagnostic services has improved. This has encouraged more people to undergo regular health check-ups, preventive screenings, and specialized diagnostic tests, thereby driving the demand for diagnostic services.

NCDs Boosting Demand for Diagnostic Services: India is witnessing a notable shift in disease patterns, with a rising prevalence of non-communicable diseases (NCDs) such as cardiovascular diseases, diabetes, cancer, and respiratory disorders. This increase is attributed to factors such as an aging population and a more sedentary lifestyle. Consequently, there is a growing need for early detection and effective management of these conditions, which is driving the growth of the diagnostics industry.

Threats to the Indian Diagnostics Industry

Workforce Shortage: The diagnostics industry faces a significant challenge due to a shortage of skilled labor, particularly in recruiting and retaining full-time doctors and staff. This issue underscores the need for effective training and retention strategies for experienced employees. Additionally, accredited labs are required to employ fulltime lab technicians, phlebotomists, and radiologists, which further exacerbates the challenge.

High Equipment Costs: High equipment costs present another challenge for diagnostic centers. Continuous technological upgrades are necessary to maintain competitiveness and ensure accurate results, but these upgrades require substantial capital investment. Additionally, ongoing maintenance costs and the need for trained technicians contribute to increased overall expenses. Advanced radiology and molecular diagnostics, in particular, are highly capital-intensive due to the requirement for sophisticated equipment.

Supply Chain Vulnerabilities: India's heavy reliance on imported diagnostic reagents and equipment creates significant supply chain vulnerabilities. To mitigate these risks, promoting local manufacturing can reduce dependencies on foreign suppliers and enhance the resilience of the healthcare sector. By developing a robust domestic production infrastructure, India can ensure a more stable and reliable supply of essential diagnostic materials, improve self-sufficiency, and support economic growth within the country. Encouraging local innovation and investment in this area will also foster advancements in technology and quality, ultimately leading to better healthcare outcomes.

Pending legal case - no major impact on operations and expansion plan

Northern TK Venture Pte Limited (NTK), an indirect wholly owned subsidiary of IHH Berhad (IHH) acquired ~31% stake in Fortis Group. Post preferential allotment, the Hon'ble Supreme Court of India had on Dec 14, 2018 passed an order directing "status quo" with regard to sale of the controlling stake (open offer). Daiichi Sankyo had contended that the share transactions of IHH Healthcare (infused capital in Fortis in Nov'18) and Fortis (acquisition of the assets of Religare Health Trust in Jan'19) aided in the liquidation of assets owned by Fortis' erstwhile promoters, the Singh brothers, Malvinder and Shivinder Singh. Any asset sale by the brothers will be a contravention of a freezing injunction in respect of asset sales. Daiichi Sankyo won a litigation against the Singh brothers for concealing data and information related to Ranbaxy when Daiichi Sankyo acquired the Singh brothers' stake in Ranbaxy in 2008. Although the court ordered a compensation of Rs 3500cr in favor of Daiichi Sankyo, the Singh brothers are yet to pay the compensation amount. The court restricted the Singh Brothers from any asset sales in Feb'18.

The Hon'ble Supreme Court of India pronounced the final judgment in respect of the Suo Moto contempt petition and the connected proceedings on Sep 22, 2022. The Supreme Court did not pronounce a judgement on the contentions of Daiichi Sankyo. The Court has not found nor indicated, any wrongdoing by FHL in terms of the investment by Northern TK Ventures Pte Ltd (part of IHH) into FHL, in its judgement. Further, the Supreme Court observed that the acquisition of the business portfolio of RHT appeared to primafacie be an acquisition of proprietary interest to subserve FHL's business structure. It referred the case to the Delhi High Court, which may consider issuing appropriate process and appointing forensic auditor(s) to analyse the transactions entered into between Fortis, RHT Health Trust and other related transactions. Fortis is opposing the application filed in the High Court for appointment of forensic auditor. During the past four years through the legal process, Fortis has undertaken due diligence and audit of the transactions through external parties which can potentially be made available to the courts and auditors if required. The timeline for forensic audit and Delhi High Court decision is remain monitorable. Despite the ongoing legal cases, the company's day to day operations and expansion plans remains unaffected. Further, promoters of FHL i.e. IHH Healthcare Berhard (IHH) in multiple forums has reiterated that FHL remains strategically important, as India, along with Malaysia, Singapore and Turkey remain key markets.

Key Concerns

High competition: The healthcare sector is competitive, as increasing healthcare providers (newer and existing hospitals, low-cost nursing homes, etc) try to establish themselves among patients. Increasing subsidies from the government and improvement in services from the government hospitals may cause attrition in patients and disrupt business sustainability. With the advancing technology and newer medical interventions, several hospitals are evolving with their services as well. The diagnostic industry is witnessing heightened competition from new age tech players adopting aggressive pricing and new bundled offerings, which has resulted into lower margins and lower realization per patient for large established chains. This has also delayed the value unlocking of its investment in SRL.

Ongoing Litigations and Investigations: Fortis Group, due to its erstwhile promoters is facing multiple investigations and litigations; any adverse ruling may impact the company's operations and its credit profile. The outcome of these proceedings before the Delhi High Court, including any punitive action, which may have a bearing on the financial risk profile and remain a monitorable.

Operational Risk: As significant capex incurred for new hospitals, or laboratory, delay in ramp-up will impact EBITDA and affect cashflow generation. Any delay in commissioning or expansion (reaching breakeven) of new facilities may impact overall growth, thus impacting overall financials. Hospital business, being a highly capital intensive business, can deliver high EBITDA margin/RoCE only through high utilization level. Lower occupancy level in hospitals could impact its profitability.

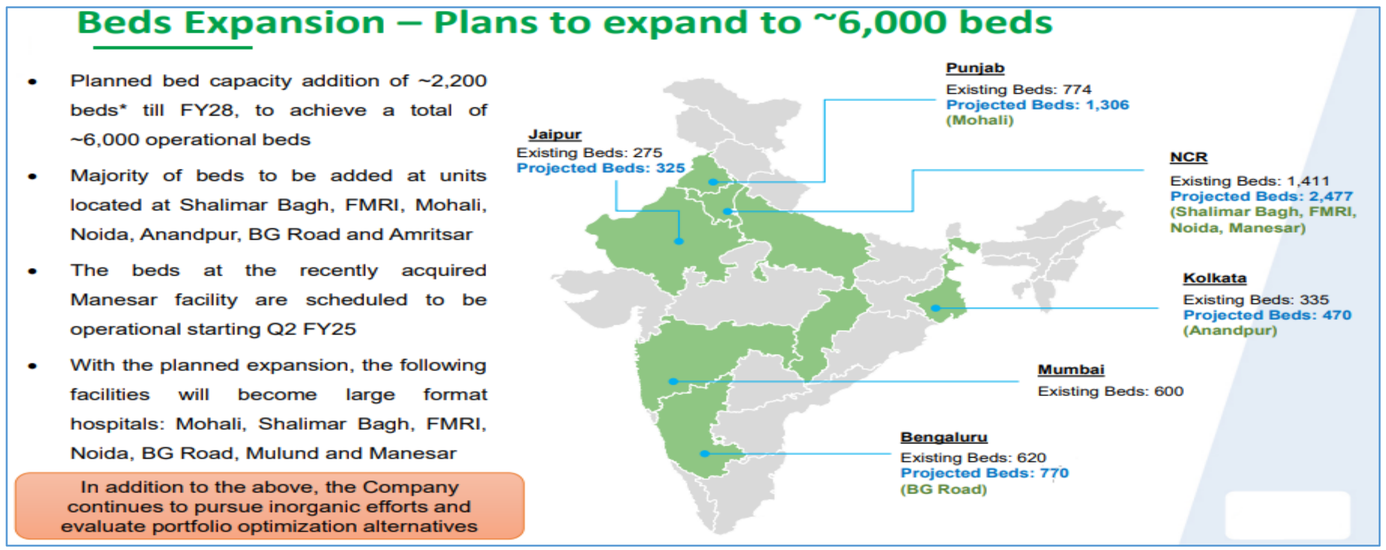
Recruitment and retaining of medical talent: This is one of the key hurdles faced by the industry that limits growth. Given the scarcity of quality resources, recruiting and retaining medical talent is a key challenge, especially with the competition also hunting for similar resources.

Price Regulation: Government regulating prices for critical medical treatment (including that of medical devices) which private hospital charges from patient remains a risk to revenues and margins. Also the requirement to provide a certain percent of beds to low income patients at concessional rates is another dampener.

Company Background

Fortis Healthcare Limited (FHL) – 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 and 4600+ operational beds (including O&M model) as of Mar, 2024. Fortis offers a full spectrum of integrated healthcare services ranging from clinics to quaternary care facilities and a wide range of ancillary services to patients in Cardiac Care, Orthopedics, Neurosciences, Oncology, Renal Care, Metabolic diseases care and mother and childcare. Healthcare verticals of the company primarily comprise day care specialty, diagnostics and tertiary and quaternary care. Agilus Diagnostics Ltd (formerly SRL Ltd), a subsidiary of Fortis Healthcare, is among the leading diagnostic laboratory chains with an established strength of 420+ diagnostics centres, and a footprint spanning 3900+ customer touch points.

The erstwhile promoters, Malvinder Singh and Shivinder Singh, who were involved in diversion of funds and misrepresentation of financials statements, were forced to reduce their stake to less than 1% (Feb-2018) after the Supreme Court allowed lenders to invoke the pledge against shares of FHL held as security. Thereafter, the search for a new promoter began and bids were invited from investors. IHH emerged as the winning bidder and became the new promoter, investing around Rs 4,000cr in the company against fresh issuance for around 31.1% stake. IHH also had plans to bring open offer for acquiring up to 26% stake in FHL. Pursuant to order dated Dec 14, 2018 passed by the Court, the open offer has been put on hold. In order to reinforce complete dissociation with erstwhile promoters, the board has proposed to rename the Fortis brand as ‘Parkway’, which is a strong international brand belonging to IHH. Fortis Healthcare 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.



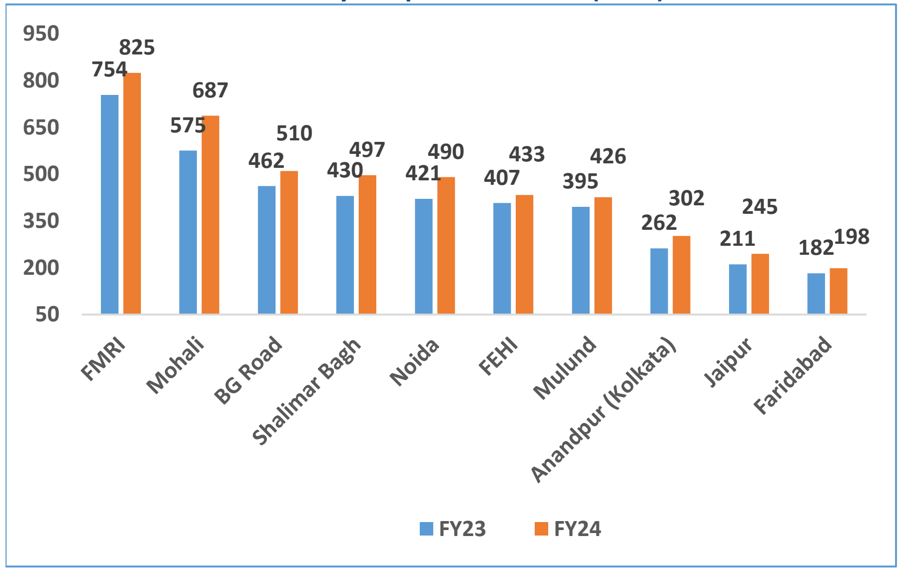
Peer Comparison

	Mcap (Rs cr)	Sales (Rs cr)			EBITDA Margin (%)			APAT (Rs cr)		
		FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Fortis Healthcare	41636	6893	7966	9137	18.4	19.3	19.9	585	775	976
Max Healthcare	82900	6815	8435	10414	26.5	26.9	27.2	1346	1618	2019
Narayana Hrudayalaya	25840	5018	5932	6852	23.4	23.0	23.5	789	809	937
Medanta	28900	3275	3619	4071	24.4	26	26.8	478	549	691

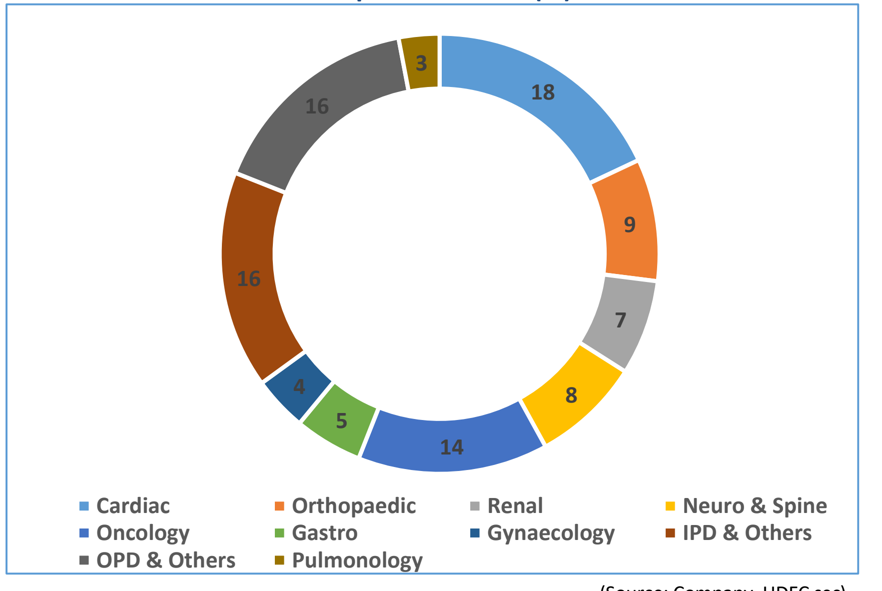
	RoE (%)			P/E (x)			EV/EBITDA (x)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Fortis Healthcare	8.0	9.7	11.1	69.4	53.7	42.6	33.2	27.1	22.4
Max Healthcare	15.5	16.0	16.8	61.6	51.2	41.1	46.3	36.7	29.4
Narayana Hrudayalaya	28.2	24.3	22.4	32.7	31.9	27.6	22.2	20.0	17.8
Medanta	16.2	16.5	17.8	60.5	52.6	41.8	35.8	30.7	26.5

(Source: Company, HDFC sec)

Key Hospitals Revenue (Rs cr)



Hospital Case Mix (%)



(Source: Company, HDFC sec)

Financials (Consolidated)

Income Statement

(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Net Revenue	**5718**	**6298**	**6893**	**7966**	**9137**
Growth (%)	41.9	10.1	9.5	15.6	14.7
Operating Expenses	4649	5196	5625	6427	7319
EBITDA	**1069**	**1101**	**1268**	**1539**	**1818**
Growth (%)	164.3	3.0	15.1	21.4	18.1
EBITDA Margin (%)	**18.7**	**17.5**	**18.4**	**19.3**	**19.9**
Depreciation	301	316	342	369	399
EBIT	**768**	**786**	**925**	**1170**	**1419**
Other Income	27	-34	39	48	59
Interest expenses	147	129	131	122	105
PBT	**649**	**623**	**833**	**1096**	**1374**
Tax	198	181	213	283	352
PAT	**451**	**442**	**620**	**813**	**1022**
APAT	555	493	585	775	976
Growth (%)	-605.8	-11.1	18.6	32.4	26.0
EPS	7.4	7.8	7.8	10.3	12.9

Balance Sheet

As at March	FY22	FY23	FY24	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	755	755	755	755	755
Reserves	5423	6487	6908	7585	8448
Shareholders' Funds	**6178**	**7242**	**7663**	**8340**	**9203**
Minority's Interest	830	858	893	951	1024
Long Term Debt	1033	572	944	890	810
Net Deferred Taxes	12	66	112	112	112
Long Term Provisions & Others	2193	1925	552	2575	2954
Total Source of Funds	**10246**	**10663**	**10165**	**12869**	**14103**
APPLICATION OF FUNDS					
Net Block	5293	5286	5253	5683	5884
Goodwill & Intangible Assets	4123	4141	4606	4606	4606
CWIP	193	228	540	540	540
Other Non-Current Assets	773	1029	1453	1260	1427
Total Non-Current Assets	**10382**	**10683**	**11853**	**12090**	**12458**
Current Investments	0	0	0	0	0
Inventories	123	123	108	175	200
Trade Receivables	512	582	629	764	876
Cash & Equivalents	413	363	598	1024	1877
Other Current Assets	86	339	96	395	453
Total Current Assets	**1133**	**1406**	**1431**	**2357**	**3407**
Short-Term Borrowings	222	171	118	198	228
Trade Payables	661	714	728	829	926
Other Current Liab & Provisions	386	541	2273	551	607
Total Current Liabilities	**1269**	**1426**	**3119**	**1578**	**1761**
Net Current Assets	-136	-20	-1688	779	1645
Total Application of Funds	**10246**	**10663**	**10165**	**12869**	**14103**

(Source: Company, HDFC sec)

Fortis Healthcare Ltd.

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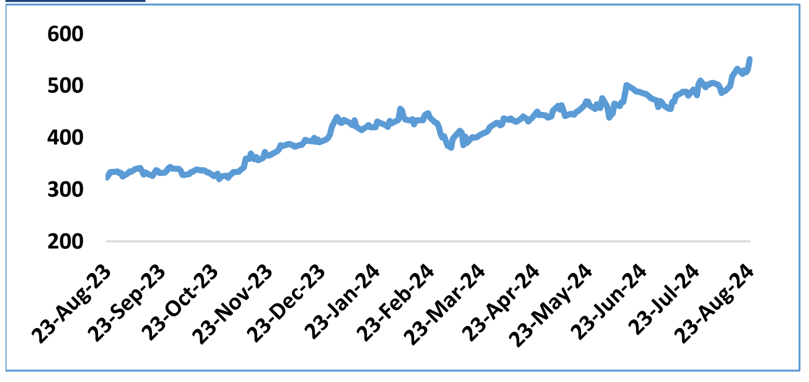
Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	988	718	835	1,096	1,374
Non-operating & EO items	-327	-114	-44	2,248	261
Interest Expenses	125	105	131	122	105
Depreciation	301	316	342	369	399
Working Capital Change	-10	71	50	-2,082	-15
Tax Paid	-211	-274	-213	-283	-352
OPERATING CASH FLOW (a)	**865**	**822**	**1,101**	**1,470**	**1,772**
Capex	-115	-448	-928	-800	-600
Free Cash Flow	750	374	173	670	1,172
Investments	0	-8	42	-50	-50
Non-operating income	-385	82	0	0	0
INVESTING CASH FLOW (b)	**-501**	**-374**	**-886**	**-850**	**-650**
Debt Issuance / (Repaid)	-370	-327	130	26	-50
Interest Expenses	-147	-130	-131	-122	-105
FCFE	233	-83	173	574	1,017
Share Capital Issuance	0	0	0	0	0
Dividend	0	-16	-86	-98	-113
Others	0	0	0	0	0
FINANCING CASH FLOW (c)	**-517**	**-470**	**-90**	**-194**	**-268**
NET CASH FLOW (a+b+c)	**-153**	**-22**	**125**	**425**	**853**

Price chart



Key Ratios

	FY22	FY23	FY24	FY25E	FY26E
PROFITABILITY RATIOS (%)					
EBITDA Margin	18.7	17.5	18.4	19.3	19.9
EBIT Margin	13.9	11.9	14.0	15.3	16.2
APAT Margin	9.7	7.8	8.7	9 .7	10.7
RoE	9.0	7.4	8.0	9.7	11.1
RoCE	10.5	9.8	11.5	13.4	15.0
Solvency Ratio (x)					
Debt/EBITDA	1.2	0.7	0.8	0.7	0.6
D/E	0.2	0.1	0.1	0.1	0.1
PER SHARE DATA (Rs)					
EPS	7.4	7.8	7.9	10.3	12.9
CEPS	11.3	10.7	12.5	15.1	18.2
Dividend	0.0	1.0	1.0	1.3	1.5
BVPS	81.8	95.9	101.5	110.5	121.9
Turnover Ratios					
Debtor days	31	32	32	32	33
Inventory days	6	7	6	6	7
Creditors days	39	40	38	36	35
VALUATION (x)					
P/E	75.0	70.7	69.4	53.7	42.6
P/BV	6.7	5.7	5.4	5.0	4.5
EV/EBITDA	39.7	38.1	33.2	27.1	22.4
EV/Revenue	7.4	6.7	6.1	5.2	4.5
Dividend Payout (%)	0.0	15.3	12.6	12.7	11.6

(Source: Company, HDFC sec)

Kushal Mahendra Rughani
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HDFC Sec Retail Research Rating description

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This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions.
These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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