

# Fortis Healthcare Ltd.

## Supreme Court orders forensic audit on Fortis-IHH share sale

**Ordered a forensic audit:** India's Supreme Court ordered a forensic audit of the share sale in Fortis Healthcare Ltd. in 2018 and refused to allow the open offer from Malaysia's IHH Healthcare Bhd to proceed. A ruling by three judge-panel, headed by Chief Justice U.U. Lalit on 22<sup>nd</sup> Sept 2022 also sentenced former owners of Fortis Healthcare, Malvinder Singh and Shivinder Singh, to six months in jail. The court sought a probe into sale of shares in Fortis by lenders and transfer of money to RHT Health Trust on a petition filed by Japanese drug maker, Daiichi Sankyo Co., which had acquired Ranbaxy from the Singh brothers in 2008.

**Decision will be taken by the lower court:** A lower court will decide on whether the open offer for Fortis can be allowed based on the evidence it gets. Daiichi is seeking execution of \$500 million award against hospital chain's former owners, the Singh brothers, in Delhi High Court.

**The verdict delays the takeover:** The majority stake takeover of fortis by the Malaysia's IHH has been pending for over three years, and the verdict by the Supreme court delays the takeover. IHH acquired about a 31% of Fortis in 2018 to become its largest shareholder. The open offer for 26% more shares could have helped IHH fortify position in the company. **After the first leg of the deal in August 2018, Fortis has embarked on a revamp with a cost cutting campaign implemented by CEO Ashutosh Raghuvanshi.**

### Background of the case:

Malvinder and Shivinder Singh are son of Parvinder Singh who died in 1999, and both the sons inherited a 33.5 per cent stake in Ranbaxy (a pharma company), which was scaling new heights. Later in 2008, the sons sold their controlling stake of Ranbaxy to the Japanese pharma giant Daiichi Sankyo. The Ranbaxy sale earned the brothers a windfall amount of Rs 9,576 crore.

However, a few years after the sale, the Singh brothers ran into trouble when Daiichi accused them of concealing information and dragged them to an international court. Malvinder and Shivinder Singh were accused of hiding information of regulatory problems Ranbaxy was facing in the US.

**The brothers ultimately lost the case and were ordered by a Singapore tribunal to pay \$500 million (around Rs 3,500 crore at current rates).** The case reached Indian courts, with the Supreme Court threatening to jail the brothers if they don't pay the tribunal award.

IHH had acquired 31% stake in Fortis in Nov'18 at INR170 per share and infused INR40bn. The money was then used to acquire RHT assets for INR46bn in order to avoid paying hefty clinical establishment fees to RHT. **However, SC issued suo moto notice of contempt to Fortis in Daiichi and Singh brothers' case for violating status quo order of the court.**

IHH was required to make a mandatory open offer of upto 26% stake in Fortis at INR170 per share. However the open offer was stalled due to suo moto notice by SC.

### Outlook and Valuation:

Except the litigation overhang which is there for quite some time, we are positive about the prospects connected with Fortis. Both the Hospitals business and SRL should perform robustly in the future.

**We have valued the Hospitals business at 15x FY24e EV/EBITDA and the Diagnostics business (SRL) at 18x FY24e EV/EBITDA (20x earlier) to arrive at a Target Price of Rs 310. This provides an upside of 19% with respect to the current market price. Accordingly, we recommend a "BUY" rating on the stock.**

Y/E Mar (Rs Mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	46,323	-2%	6,095	13.2%	343	NA	0.5	0.5%	3.6%	515.5	31.8
FY21	40,299	-13%	4,042	10.0%	-1,084	-78%	-1.4	-1.8%	1.1%	NA	47.9
FY22	57,176	42%	10,689	18.7%	3,032	NA	4.0	4.9%	7.2%	58.3	18.1
FY23e	69,279	21%	12,640	18.2%	5,697	88%	7.6	8.8%	9.2%	35.1	17.2
FY24e	81,162	17%	15,241	18.8%	7,627	34%	10.1	10.5%	10.8%	26.2	14.2

Source: AceEquity, SMIFS research



**Rating: BUY** **Upside: 19%**  
**Current Price: 260** **Target Price: 310**

### Earlier recommendation

Previous Rating:	BUY
Previous Target Price:	315
Source: SMIFS Research	

### Market data

Bloomberg:	FORH IN
52-week H/L (Rs):	325/220
Mcap (Rs bn/USD mn):	195/2,540
Shares outstanding (mn):	754.9
Free float:	69.0%
Avg. daily vol. 3mth:	0.5 mn
Face Value (Rs):	10
Group:	S&P BSE 500
Source: Bloomberg, SMIFS Research	

### Shareholding pattern (%)

	Jun-22	Mar-22	Dec-21	Sept-21
Promoter	31.2	31.2	31.2	31.2
Institutions	47.3	46.7	45.8	45.1
Non Insti	21.5	22.1	23.0	23.7
Total	100.0	100.0	100.0	100.0
Source: BSE				

### Price performance (%)\*

	1M	3M	12M	36M
BSE 500	-2.4	10.9	-2.5	57.2
FORH	-10.3	10.0	-4.4	89.4
*As on 8th Aug 2022; Source: AceEquity, SMIFS research				

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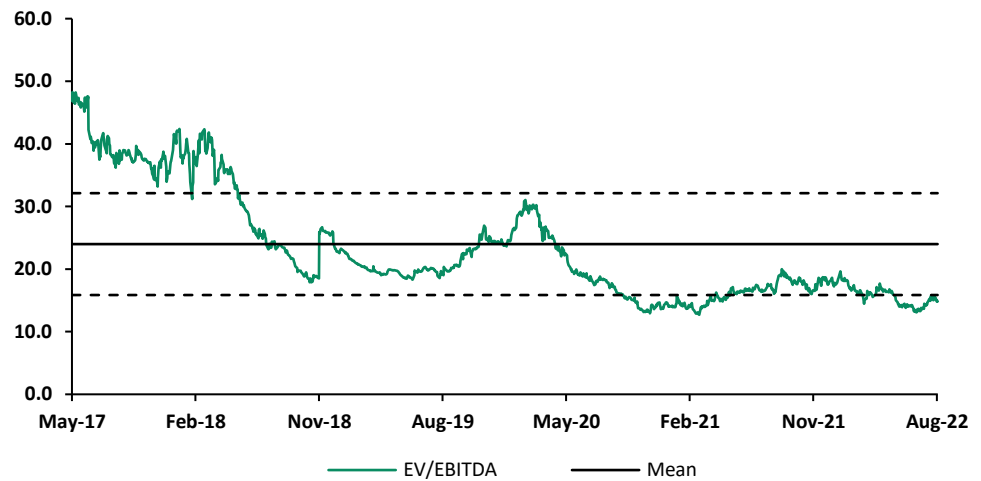
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## Outlook and Valuation

We are positive about the prospects connected with Fortis. Both the Hospitals business and SRL should perform robustly in the future. **We have valued the Hospitals business at 15x FY24e EV/EBITDA and the Diagnostics business (SRL) at 18x FY24e EV/EBITDA to arrive at a Target Price of Rs 310. This provides an upside of 19% with respect to the current market price. Accordingly, we recommend a “BUY” rating on the stock.**

**Fig 1: 1-year forward EV/EBITDA**



Source: AceEquity, SMIFS Research

## SOTP Valuation

Rs mn	Hospitals	Diagnostics	Fundamental Implied value (1) + (2)
EBITDA	12,249	2,991	15,241
Applied EV / EBITDA	15x	18x	15.59
Sales	66,214	14,949	81,162
Applied EV / Sales	2.8x	3.7x	2.9
Computed EV	183,742	53,842	237,584
Less: Minorities interest (benefit)			8,300
Less: Net debt / (cash)			(4,770)
Computed Equity Value (Rs. mn)			234,054
# shares (mn)			752
<b>Implied value per share</b>			<b>310</b>

## Quarterly financials

**Fig 2: Quarterly Financials**

Y/E March (Rs Mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Sales</b>	<b>9,949</b>	<b>11,769</b>	<b>12,523</b>	<b>14,101</b>	<b>14,625</b>	<b>14,667</b>	<b>13,781</b>	<b>14,879</b>
COGS	2,463	2,854	2,963	3,496	3,508	3,336	3,232	3,492
Employee Costs	3,826	4,460	4,598	4,931	5,132	5,485	5,195	5,650
Other Expenditure	2,458	2,552	2,990	2,924	3,141	2,976	3,143	3,226
<b>EBITDA</b>	<b>1,202</b>	<b>1,903</b>	<b>1,972</b>	<b>2,750</b>	<b>2,844</b>	<b>2,870</b>	<b>2,212</b>	<b>2,511</b>
Depreciation	743	731	715	729	745	761	773	743
Interest	421	421	406	384	403	381	300	312
Other Income	256	102	63	78	80	67	60	207
Profit/(loss) of asso.	83	177	187	85	42	51	63	100
Exceptional gain/(loss)	6	-	2	3,061	3	84	2	-
<b>Reported PBT</b>	<b>382</b>	<b>1,030</b>	<b>1,102</b>	<b>4,862</b>	<b>1,820</b>	<b>1,930</b>	<b>1,265</b>	<b>1,763</b>
Tax	226	493	480	558	514	512	394	420
Tax rate (%)	59.1%	47.8%	43.6%	11.5%	28.2%	26.5%	31.2%	23.8%
<b>Reported PAT</b>	<b>156</b>	<b>538</b>	<b>622</b>	<b>4,304</b>	<b>1,306</b>	<b>1,418</b>	<b>870</b>	<b>1,223</b>
Minority Interest	194	240	192	1,671	237	250	191	121
<b>Consolidated PAT</b>	<b>(37)</b>	<b>298</b>	<b>430</b>	<b>2,633</b>	<b>1,069</b>	<b>1,168</b>	<b>680</b>	<b>1,223</b>
<b>YoY Growth (%)</b>								
Revenue	-17.9%	0.7%	12.5%	132.8%	47.0%	24.6%	10.0%	5.5%
EBITDA	-34.9%	21.3%	56.7%	NA	136.6%	50.8%	12.2%	-8.7%
PAT	-85.9%	NA	NA	NA	NA	163.7%	39.9%	-68.8%
<b>QoQ Growth (%)</b>								
Revenue	64.2%	18.3%	6.4%	12.6%	3.7%	0.3%	-6.0%	8.0%
EBITDA	NA	58.4%	3.6%	39.5%	3.4%	0.9%	-22.9%	13.5%
PAT	NA	NA	15.8%	591.6%	-69.7%	8.6%	-38.6%	54.3%
<b>Margin (%)</b>								
RMC/revenue (%)	24.8%	24.3%	23.7%	24.8%	24.0%	22.7%	23.4%	23.5%
Gross margin (%)	75.2%	75.7%	76.3%	75.2%	76.0%	77.3%	76.6%	76.5%
Employee cost/revenue (%)	38.5%	37.9%	36.7%	35.0%	35.1%	37.4%	37.7%	38.0%
Other expenses/revenue (%)	24.7%	21.7%	23.9%	20.7%	21.5%	20.3%	22.8%	21.7%

Source: AceEquity, SMIFS Research

## Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>46,323</b>	<b>40,299</b>	<b>57,176</b>	<b>69,279</b>	<b>81,162</b>
COGS	9,639	9,759	13,572	15,255	17,482
% of sales	20.8%	24.2%	23.7%	22.0%	21.5%
Personnel	9160	8490	9729	12018	14044
% of sales	19.8%	21.1%	17.0%	17.3%	17.3%
Other Exp.	21429	18008	23185	29366	34396
% of sales	46.3%	44.7%	40.6%	42.4%	42.4%
<b>EBITDA</b>	<b>6,095</b>	<b>4,042</b>	<b>10,689</b>	<b>12,640</b>	<b>15,241</b>
EBITDA Margin (%)	13.2%	10.0%	18.7%	18.2%	18.8%
Depreciation & Amortisation	2917	2906	3008	2972	3076
<b>EBIT</b>	<b>3,178</b>	<b>1,136</b>	<b>7,681</b>	<b>9,669</b>	<b>12,165</b>
Interest Expenses	2051	1659	1469	1248	467
<b>EBT</b>	<b>1,127</b>	<b>-523</b>	<b>6,212</b>	<b>8,421</b>	<b>11,698</b>
Other Income	526	466	273	597	900
<b>PBT</b>	<b>2,394</b>	<b>430</b>	<b>9,877</b>	<b>9,220</b>	<b>12,758</b>
Tax-Total	1,479	995	1,978	2,305	3,189
Effective tax rate (%)	61.8%	231.1%	20.0%	25.0%	25.0%
Extraord. items - Adj.	618	12	3,150	-	-
<b>PAT before MI</b>	<b>915</b>	<b>-564</b>	<b>7,899</b>	<b>6,915</b>	<b>9,568</b>
Minority Interest	336	536	2,348	1,218	1,914
<b>Consolidated PAT</b>	<b>579</b>	<b>-1,100</b>	<b>5,551</b>	<b>5,697</b>	<b>7,655</b>
Consolidated PAT Margin (%)	1.3%	-2.7%	9.7%	8.2%	9.4%

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23E	FY24E
<b>Growth ratios (%)</b>					
Net sales	3.6%	-13.0%	41.9%	21.2%	17.2%
EBITDA	170.6%	-33.7%	164.5%	18.3%	20.6%
Adjusted PAT	-77.6%	-416.1%	NA	87.9%	33.9%
<b>Margin Ratio (%)</b>					
EBITDA Margin	13.2%	10.0%	18.7%	18.2%	18.8%
EBIT Margin	6.9%	2.8%	13.4%	14.0%	15.0%
PBT (Adjusted) Margin	3.8%	1.0%	11.8%	13.3%	15.7%
PAT (Adjusted) Margin	0.7%	-2.7%	5.3%	8.2%	9.4%
<b>Return Ratio (%)</b>					
ROE	0.5%	-1.8%	4.9%	8.8%	10.5%
ROCE	3.6%	1.1%	7.2%	9.2%	10.8%
<b>Turnover Ratio days (days)</b>					
Inventory Period	30	29	23	23	23
Debtors Period	36	35	38	38	38
Creditors	226	205	205	205	205
Cash Conversion Cycle	-161	-141	-144	-144	-144
<b>Solvency Ratio (%)</b>					
Debt-equity (x) (Ex IND AS 116)	0.2	0.2	0.2	0.1	0.1
Net Debt-equity (x) (Ex IND AS 116)	0.2	0.2	0.1	0.1	-0.1
Liquidity ratio (x)	0.4	0.8	0.9	0.9	1.3
Interest coverage ratio (x)	1.5	0.7	5.2	7.7	23.7
<b>Per share (Rs)</b>					
Adjusted EPS	0.5	-1.4	4.0	7.57	10.14
CEPS	4.3	2.4	8.0	11.52	14.23
Book value	88.5	81.3	82.1	86.44	96.58
Dividend per share	-	-	-	-	-
Dividend Payout (%)	0%	0%	0%	0%	0%
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Valuation</b>					
P/E	515.5	NA	58.3	35.1	26.2
P/BV	2.7	2.9	2.9	3.1	2.8
P/S	3.8	4.4	3.1	2.9	2.5
EV/EBITDA	31.8	47.9	18.1	17.2	14.2

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Sources of funds</b>					
Capital	7,550	7,550	7,550	7,550	7,550
Reserves & Surplus	59,061	53,649	54,233	57,484	65,112
<b>Shareholders' Funds</b>	<b>66,611</b>	<b>61,198</b>	<b>61,782</b>	<b>65,034</b>	<b>72,661</b>
Minority Interest	5,445	5,980	8,300	9,518	11,425
Total Debt	13,166	11,474	9,657	7,268	4,068
Deferred Tax Liabilities	3,116	2,887	3,812	3,812	3,812
Other Non Current Liabilities	2,976	19,474	24,467	21,710	21,767
<b>Total Liabilities</b>	<b>91,314</b>	<b>1,01,013</b>	<b>1,08,019</b>	<b>107,342</b>	<b>113,733</b>
<b>Application of funds</b>					
Net Block	50,965	50,792	52,926	52,282	52,537
Capital WIP	1,888	1,631	1,934	1,934	1,934
Non-current Asset	12,267	9,679	10,387	10,713	10,788
<b>Net Non Current Assets</b>	<b>65,120</b>	<b>62,101</b>	<b>65,247</b>	<b>64,930</b>	<b>65,259</b>
Investments	1,745	1,860	1,036	1,238	1,398
Goodwill	37,208	37,217	41,232	41,232	41,232
Inventories	782	768	1,229	963	1,103
Sundry Debtors	4,588	3,899	5,122	7,213	8,450
Other Current Assets	1,376	1,536	855	1,590	1,591
Cash & Bank Balances	2,660	4,166	4,127	3,434	9,238
<b>Total Current Assets</b>	<b>9,405</b>	<b>10,368</b>	<b>11,333</b>	<b>13,200</b>	<b>20,382</b>
Creditors	5,976	5,482	6,609	8,569	9,820
Other Current Liabilities	15,397	4,121	3,536	3,881	3,972
Current Provisions	791	931	684	808	746
<b>Total Current Liabilities</b>	<b>22,164</b>	<b>10,534</b>	<b>10,829</b>	<b>13,257</b>	<b>14,538</b>
<b>Net Current Assets</b>	<b>-12,759</b>	<b>-166</b>	<b>504</b>	<b>-58</b>	<b>5,844</b>
<b>Total Assets</b>	<b>91,314</b>	<b>1,01,013</b>	<b>1,08,019</b>	<b>107,342</b>	<b>113,733</b>

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Operating profit before WC changes</b>					
Operating profit before WC changes	6,574	4,507	10,870	13,237	16,141
Net change in working capital	-1,464	-127	-102	-1,480	-516
<b>Cash flow from operating activities (a)</b>	<b>1,716</b>	<b>4,855</b>	<b>8,654</b>	<b>9,452</b>	<b>12,447</b>
Capital expenditure (organic)	-1,366	-2,115	-1,153	-3,330	-3,330
FCF	349	2,740	7,501	6,122	9,117
<b>Cash flow from investing activities (b)</b>	<b>604</b>	<b>-1,351</b>	<b>-5,144</b>	<b>-2,332</b>	<b>-3,615</b>
<b>Cash flow from financing activities (c)</b>	<b>-8,616</b>	<b>-1,429</b>	<b>-5,173</b>	<b>-6,048</b>	<b>-3,313</b>
Net change in cash (a+b+c)	-6,296	2,075	-1,663	1,072	5,518
Opening cash balance	7,941	1,819	2,612	1,432	1,738
Adjustments	174	-1,281	766	-	-
<b>Ending cash balance</b>	<b>1,819</b>	<b>2,612</b>	<b>1,432</b>	<b>1,738</b>	<b>7,256</b>
Other bank balances	841	1,554	2,695	1,696	1,982
<b>Cash and Bank on balance sheet</b>	<b>2,660</b>	<b>4,166</b>	<b>4,127</b>	<b>3,434</b>	<b>9,238</b>

Source: Company, SMIFS Research Estimates

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Analyst holding in stock: **NO**

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