SMIFS LIMITED
LEGACY | TRUST | GROWTH

Initiating Coverage Report

17th Jul 2020

Fortis HEALTHCARE

Research Analyst
Shantanu Basu
Smifs.institutional@smifs.com

Table of Contents

Fortis Healthcare Ltd.

Sector: Healthcare facilities

Brief Overview

CMP (INR) (As on 16th Jul 2020)	130
Target (INR)	150
Upside(%)	16
Recommendation	**Buy**

BSE Code	532843
NSE Code	FORTIS
Reuters Ticker	FOHE.BO
Bloomberg Ticker	FORH IN

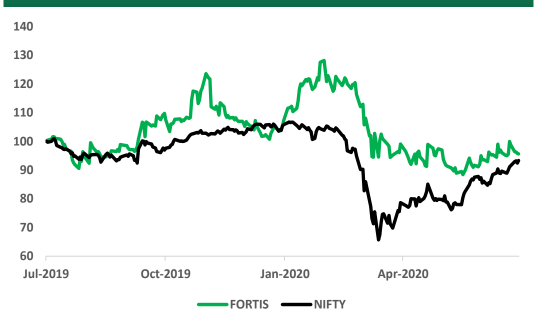
Stock Scan

Market cap (INR Cr.)	9,792
Outstanding Shares (Cr.)	75.23
Face Value (INR)	10
Dividend Yield(%)	-
P/E (x) (Adjusted)	285.2
P/B (x)	1.5
Debt/Equity (x)	0.2
Beta vs. Sensex	0.52
52 Week High/ Low (INR)	169/112
Avg. Daily Volume (NSE)/1yr	1,734,605

Shareholding Pattern (%)

	Mar 2020	Dec 2019	Sep 2019
Promoters	31.17	31.17	31.17
Institutions	51.58	49.55	50.48
Non-Institution	17.25	19.28	18.35

Stock vs. Nifty (Relative Returns)



Source: NSE

Fortis Healthcare Ltd.: A turnaround story

We initiate coverage on Fortis Healthcare Ltd. (Fortis) with a Buy rating. Fortis is a chain of hospitals and diagnostic centres, headquartered in Gurgaon. Fortis started its health care operations from Mohali where the first Fortis hospital was started. Later on, Fortis acquired the healthcare vertical of Escorts group and increased its strength in various parts of the country. The key aspects which draw attention to Fortis' business are:

- **On boarding of IHH, Malaysia as the new promoter:** Fortis is now an indirect subsidiary of the Malaysian healthcare giant, IHH. The fund infusion by IHH has recapitalised Fortis' weak Balance Sheet leading to improvement in credit rating and lower borrowing costs. Further, collaboration of IHH and Fortis is driving synergies in medical operations, procurement and IT and helping in transformational initiatives including a comprehensive portfolio review and a robust clinical excellence programme.
- **Restructuring of diagnostics business (SRL) with focus on double digit growth:** SRL aims to achieve double digit revenue growth by the end of FY21 by focusing on network expansion in both B2B and B2C segments and by tailoring the product portfolio towards value accretive tests.
- **Focus on profitability of hospitals:** Fortis would consolidate its geographical presence by investing in, transforming and scaling up high potential units and evaluating the divestments of low potential units. There is significant potential to move 30% of hospital revenues to greater than 15% EBITDA margin. Currently, 19% and 14% of hospital revenues register below 10% and 10-15% EBITDA margin respectively.
- **Acquisition of Indian assets from RHT Health Trust, Singapore (RHT) and saving of Hospital Service Fee:** Through this transaction, Fortis has saved the entire amount of Net Hospital Service Fee (roughly Rs 2,700 mln per year) that was being paid to RHT.

We have valued the stock at 14x FY23E EV/EBITDA to arrive at a **Target Price of Rs 150** which provides an upside of 16% based on current market price. We thus recommend a **"Buy"** rating on the stock.

Financial Performance at a glance (Consolidated)

Particulars (INR mln)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales from ops.	44694	46323	35810	53186	58685
Growth %	-2%	4%	-23%	49%	10%
EBITDA	2252	6095	2386	7670	8990
EBITDA Margin (%)	5.0%	13.2%	6.7%	14.4%	15.3%
Net Profit (Adjusted)	1529	343	-1201	2010	2888
Net Profit Margin (%)	3.4%	0.7%	-3.4%	3.8%	4.9%
EPS (Adjusted)	2.03	0.46	-1.60	2.67	3.84
BVPS	87.74	88.54	86.94	89.61	93.45
EV/EBITDA (x)	51.8	19.1	48.9	15.2	13.0
P /E (x)	64.0	285.2	NA	48.7	33.9
ROE (%)	2.3%	0.5%	-1.8%	3.0%	4.1%
ROCE(%)	-0.1%	3.6%	-0.3%	5.9%	7.4%

Source: Company Data, SMIFS Research

Investment Rationales

The Board of Directors of Fortis had approved an equity infusion of Rs 40,000 mln into it by Northern TK Venture Pte Ltd, Singapore. This constituted 31.1% of the share capital of Fortis.

Key Dates Connected with IHH Investment

Approval by shareholders	13-08-2018
Approval from CCI	30-10-2018
Date of preferential allotment	13-11-2018

Source: Company Data

Pursuant to the preferential allotment, IHH was under an obligation to make an open offer. However, the IHH-Fortis deal was opposed by Daiichi Sankyo in the Supreme Court and the open offer is in abeyance.

Change in Management and associated benefits

In July 2018, the Board of Directors of Fortis Healthcare had approved an equity infusion of Rs 40,000 mln at a price of Rs 170 per equity share (constituting 31.1% of the share capital of the Company) into the Company by Northern TK Venture Pte Ltd, Singapore ('Acquirer'), a wholly owned subsidiary of IHH Healthcare Berhad, Malaysia through a preferential allotment, subject to the approval of the shareholders and other regulatory approvals. The shareholders of the Company approved the preferential allotment on August 13, 2018. Approval from the Competition Commission of India (CCI) was received on October 30, 2018 and the preferential allotment was made on November 13, 2018. ***Post the preferential allotment the Acquirer appointed 2/3rd of the directors on the Board of Directors of the Company, thereby acquiring control over the Company. Consequently the Company has become a subsidiary of the Acquirer.***

Pursuant to the preferential allotment, the Acquirer was under an obligation to make an open offer (for acquiring up to 26% of expanded capital of Fortis at Rs 170 per share and 26% of the share capital of Fortis Malar at Rs 58 per share) to the public shareholders of the Company and Fortis Malar Hospitals Ltd. in accordance with the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations 2011. Meanwhile, Daiichi Sankyo opposed the IHH – Fortis deal in the Supreme Court of India alleging that the change in control of the hospital chain was orchestrated by the ex-promoters of Fortis, Malvinder and Shivender Singh to avoid paying the arbitration award in connection with the Ranbaxy case in which the Singh brothers and Daiichi were parties. ***The Honourable Supreme Court passed an order dated December 14, 2018 wherein it was specified that status – quo with regard to the sale of controlling stake in Fortis Healthcare to Malaysian IHH Healthcare be maintained. The mandatory open offer thus continues to be in abeyance.***

Investment Rationales

Fortis is of the opinion that the open offer should be allowed by the Supreme Court as Fortis and IHH have followed all regulatory provisions. SEBI has also prayed to the Supreme Court for allowing the mandatory open offer.

Post infusion of funds by IHH into Fortis, Fortis bought back all the Indian assets of RHT Health Trust by paying Rs 46,660 mln. ***The Supreme Court issued another judgement dated November 15, 2019, wherein it issued a contempt notice to the Company and sought an enquiry into (i) whether the subscription by the Acquirer to the shares of the Company was undertaken after the status quo order was issued by the Court on December 14, 2018 and accordingly, if such subscription was in violation of the status quo order, and (ii) the consummation of the acquisition of healthcare assets from RHT Health Trust by the Company.*** The Company has filed a detailed reply to the show cause notice issued in the suo-moto contempt, praying inter alia that the suo-moto contempt proceedings be dropped and ex-parte status quo order dated December 14, 2018 be modified/vacated such that the Open Offer may proceed.

Fortis is of the opinion that the open offer should be allowed by the Supreme Court as Fortis and IHH have followed all regulatory provisions and guidelines including shareholder approvals. While the matter is sub-judice, ***we are also of the opinion that the open offer should be allowed in the interest of all parties including the minority shareholders.*** In fact, SEBI has also prayed to the Supreme Court for allowing the mandatory open offer. Once the open offer is allowed by the Supreme Court, the overhang on the stock would become non-existent. ***The fund infusion by IHH has recapitalised Fortis' weak Balance Sheet leading to improvement in credit rating and lower borrowing costs for Fortis. Further, collaboration of IHH and Fortis is driving synergies in medical operations, procurement and IT and helping in transformational initiatives including a comprehensive portfolio review and a robust clinical excellence programme. Besides, the association with IHH has also helped investors, lenders and employees to regain confidence in Fortis. Business continuity has been ensured with turnaround in profitability and re-initiation of capex.***

Investment Rationales

By acquiring the Indian assets from RHT, Fortis has saved the entire amount of Hospital Service Fee (roughly Rs 2,700 mln per year)

Acquisition of Indian assets from RHT Health Trust, Singapore (RHT) and saving of Hospital Service Fee

Fortis bought out all Indian assets of RHT Health Trust, Singapore (RHT) on January 15, 2019 by paying Rs 46,660 mln funded through a combination of equity and debt. The portfolio includes 12 clinical establishments, 2 operating hospitals, 1 clinical establishment under construction and 4 greenfield clinical establishments. Through this transaction, Fortis has saved the entire amount of Hospital Service Fee (roughly Rs 2,700 mln per year) that was being paid to RHT. This saving has boosted the profitability of Fortis.

With a proven track record as a successful clinician and an able administrator, Dr. Raghuvanshi ensured that Fortis made a turnaround in business performance for the financial year FY20.

Appointment of new CEO and turnaround in performance

Dr. Ashutosh Raghuvanshi was appointed as the new CEO of Fortis Healthcare in March 2019. Prior to joining Fortis, Dr. Raghuvanshi was associated with the Narayana Hrudayalaya group for over 18 years. He was the Group Chief Executive Officer since November 19, 2010, Managing Director since November 3, 2011 and also served as its Executive Vice Chairman. He was responsible for creating structures and processes to build a successful healthcare organisation. With a proven track record as a successful clinician and an able administrator, Dr. Raghuvanshi ensured that Fortis made a turnaround in business performance for the financial year FY20. ***Through adoption of various cost cutting measures and by focusing on clinical excellence, outcomes, patient centricity and business results Fortis reported a net profit before minority interest of Rs 914.9 mln in FY20 compared to a loss of Rs 2,237.1 mln in the previous financial year. Consolidated revenue from operations increased to Rs 46,323.2 mln in FY20 from Rs 44,693.6 mln in FY19.***

Investment Rationales

Fortis announced a slew of cost cutting measures including salary reductions for medical and non-medical staff, postponing the launch of Arcot Road hospital, selective recruitment and capex reductions.

Cost containment measures during Covid-19

Fortis announced a slew of cost cutting measures to contain the impact of Covid-19 from Q1FY21. These include voluntary salary reductions for both medical and non-medical staff, postponing the launch of Arcot Road hospital, selective recruitment and capex reductions. ***On the back of these measures, Fortis has been able to reduce fixed costs of hospitals by around 25%. However, it must be noted that most of these cost reductions are temporary in nature and will come back once occupancies recover to pre-Covid levels. Similarly, fixed cost reductions to the tune of 15% have been attempted for the diagnostics business.*** The Management further highlighted that post the reduction of Rs 850 -900 mln cost in FY20, the Company has developed an eagle eye over costs and strategic reduction of costs would continue although the Company shied away from disclosing any specific number. ***After the fixed cost reduction exercise for Hospitals in light of Covid-19, the break-even level for hospitals has dropped to 50% occupancy from the earlier level of 55% occupancy.***

After several quarters of muted growth, SRL recorded Jan-Feb 2020 revenue growth of 5.2% YoY. This growth was supported by the B2C business which grew by 9% YoY during this period.

Restructuring of diagnostics business (SRL) with focus on double digit growth

It was encouraging to note that after several quarters of muted growth, the diagnostic business recorded Jan-Feb 2020 revenue growth of 5.2% YoY. This was strongly supported by the B2C business, which grew by 9% YoY during this period. It must be noted that prior to the last quarter, B2C business, which roughly contributes to 43% of the diagnostic revenues was suffering from de-growth. ***The growth was aided by strong addition of collection centres during the financial year (420 collection centres were added in FY20).*** However, the B2B segment suffered with tepid growth of 2% YoY in Jan-Feb 2020. Diagnostics revenues as a whole declined by 29% YoY in March with test volumes falling by 8.5% in Q4FY20. ***Revenues fell to 25% of pre-Covid-19 levels (Feb 2020 revenues) in April and 40% of pre-Covid-19 levels in May. During the second week of June, SRL tracked around 80% of pre-Covid-19 revenues and expects the revenue run rate to improve to 90% of pre-Covid-19 revenues in July. The Management expects SRL to register an EBITDA loss in April, breakeven in May and a positive EBITDA in June.***

Investment Rationales

SRL aims to achieve double digit revenue growth by the end of FY21 by focusing on network expansion in both B2B and B2C segments and by tailoring the product portfolio towards value accretive tests in the specialised and lifestyle diseases segments. Besides these, there would also be increasing focus on manpower training and increasing use of technology and digital platforms to attract more patients.

Focus on profitability of hospitals

Fortis would consolidate its geographical presence by investing in, transforming and scaling up high potential units and divesting the low potential units.

Fortis has indicated that profitability of hospitals would be of utmost importance rather than expansions. With that in mind, Fortis would consolidate its geographical presence by investing in, transforming and scaling up high potential units and evaluating the divestments of low potential units. ***The focus markets for Fortis would include Delhi/NCR, Mumbai, Bangalore and Kolkata.*** The Company divested the Mauritius hospital in FY20 and plan to divest other non-core assets in the near to medium term. ***Fortis also indicated that there is significant potential to move 30% of hospital revenues to greater than 15% EBITDA margin.*** Proof of the pudding lies in the fact that units such as Faridabad, Noida, BG Road and FMRI have already moved up to the greater than 15% EBITDA margin category. ***In totality, Revenue contribution of ~10% yielding <15% EBITDA margin in FY19 moved up to >15% EBITDA margin in FY20 signifying healthy operational improvement. Fortis is also on the path to add about 1,200 to 1,300 beds over the next four to five years.***

The occupancy in April 2020 was 29%. This improved to 35% in May and 45% in June. Lower occupancies would lead to EBITDA losses in April & May with EBITDA break even expected in June.

With the onset of Covid-19, occupancy of hospitals took a hit and excepting emergency surgeries, all other elective surgeries got postponed. The occupancy in April 2020 was 29%. This improved to 35% in May and 45% in mid June. The inflow of Covid patients did help with the occupancy as the occupancy of Covid beds was roughly 60% and occupancy of non Covid beds was roughly 40%. Lower occupancies would lead to EBITDA losses in April and May with EBITDA break even expected in June. ***The hospitals have started to operate on a lower fixed cost base – 25% reduction has been made on hospital fixed costs and the expectation of EBITDA break even in June by the Management is based on the lower fixed cost assumption.*** Fortis has also indicated that it will endeavour to recoup the loss of revenue from international patients by focusing on cash patients within India.

Investment Rationales

Fortis is of the opinion that there will be a significant shift in the way healthcare services are provided from physical to digital for the outpatients category. A new digital platform has thus been launched.

Digital healthcare services

Post Covid-19, Fortis is of the opinion that there will be a significant shift in the way healthcare services are provided from physical to digital for the outpatients category. A new digital platform has thus been launched which provides doctor consultations to outpatients. Management is of the view that almost 10% of pre-Covid outpatients has availed of this facility. ***While convenience is ensured through this digital offering and consultancy charges are also pretty much the same the Management is aware of the fact that cross-selling opportunities in the nature of diagnostics and pharmacy are greatly reduced when a patient avails the digital facility. Nonetheless, Fortis believes that the digital offering is the new age mantra particularly in light of the Covid-19 situation.*** It remains to be seen how popular digital consultation becomes when the situation becomes normal, i.e., in a world without Covid-19.

Snapshot of IHH's Association with Fortis and the Benefits Connected with the Association

- ✓ IHH chosen as final investor in July 2018.
- ✓ Infuses INR 4,000 Crs in Nov 2018 for 31.1% stake, becomes largest shareholder with majority Board control

- ✓ Fund infusion re-capitalises FHL's weak Balance Sheet, lowers borrowing costs and improves credit rating
- ✓ Funds used for acquisition of RHT's asset portfolio, enables annualised savings of INR 270 Crs of service fees and consolidates assets of INR 4666 Crs into Balance Sheet.

- ✓ IHH & FHL collaborate in driving synergies in medical operations, procurement and IT. New MD & CEO and CFO appointed in H1 2019
- ✓ Company undertakes transformational iniatives including a comprehensive portfolio review and a robust clinical excellence program.

- **Re-constituted Board with strong governance and IHH's global repute**
- **Regained confidence with investors, employees and lenders**
- **Stabilized operations and strengthened liquidity**
- **Ensured Business continuity, turnaround in profitability & re-initiation of capex**
- **Capitalizing on key value levers for long term value accretion**

Source: Company Data

Fortis Today

*28 Facilities**

400+ Labs

~3,700 Beds

~4,000 Clinicians

9,500+ CCs & DCs

Aspires to be the most trusted healthcare organization in India

Committed to deliver quality healthcare services to patients using advanced technologies

Accelerating growth momentum through enhanced clinical offerings, cost efficiency and portfolio optimization

Institutionalised framework of strong systems , Governance and Control Mechanism

*Operational facilities; CCs & DCs stands for Collection Centers and Direct Clients

11

Key Value Levers— Hospital Business

PORTFOLIO ASSESSMENT

- Invest in high performing units
- Turnaround high potential units
- Exit non-performing/ low potential units
- Calibrated expansion of 1,300 beds in next 4-5 years

DIGITIZATION

- New integrated HIS platform across the network
- Apps such as MyFortis and MarTech solutions.
- Tele and Video consults; Home Healthcare
- IT infrastructure solutions - AI (bots), Robotics, etc

- Clinical Outcomes
- Patient Trust & Experience
- Sustainable Returns

CLINICAL PROGRAMS

- Invest in clinical talent and high end technologies / medical equipment
- Deepen presence in Cardiology and Orthopaedics
- Expand presence in oncology and neurology

PATIENT CENTRIC APPROACH

- Building patient trust through bundling of services and transparent pricing
- Benchmarking Quality and Patient safety parameters
- Fortis Operating System (FOS) ensuring assessment and review of patient facing processes

Source: Company Data

Key Value Levers—Diagnostic Business

IMPROVE B2C SALIENCE

- Focus market strategy
- Significant increase in customer touchpoint via Franchisee patient service centres (CCs*)
- Retail activities/digital marketing to drive awareness & generate repeat business
- Home collection push

INTEGRATED PRODUCT PORTFOLIO

- Differentiated plan for Specialised, Lifestyle disease and Preventive Health Check segments
- Introduction of new tests and technologies
- Leverage Genomics, AI and consumer health data analytics

- Customer Centricity
- Innovation
- Trust and Transparency

STRENGTHEN DOCTOR CONNECT

- Enhance Direct Clients network capacity
- Expand presence in the HLM* segment
- Improve molecular testing capability across all regions
- Stronger doctor connects via digital MR and e-Maitri meets

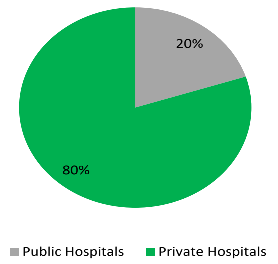
COST OPTIMISATION

- Consumption costs efficiencies
- Fixed cost optimisation
- Fortis and other lab consolidation to drive higher synergies

Source: Company Data

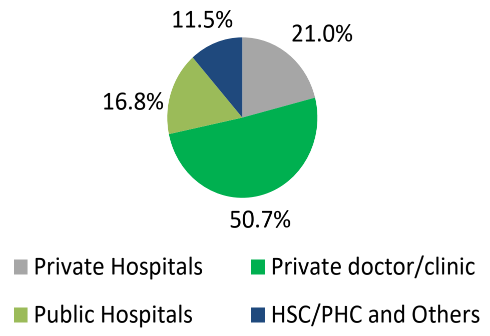
Industry Overview

Share in the Total Health Market



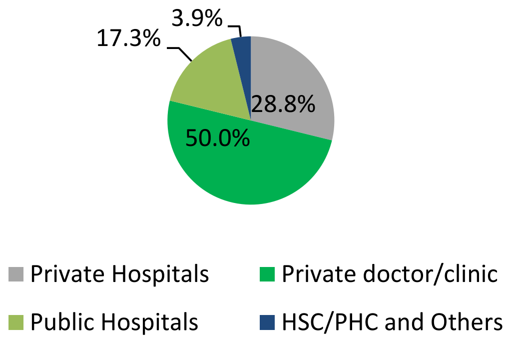
Source: Industry Data

Ailments treated by different care types (Rural Areas)



Source: Industry Data

Ailments treated by different care types (Urban Areas)



Source: Industry Data

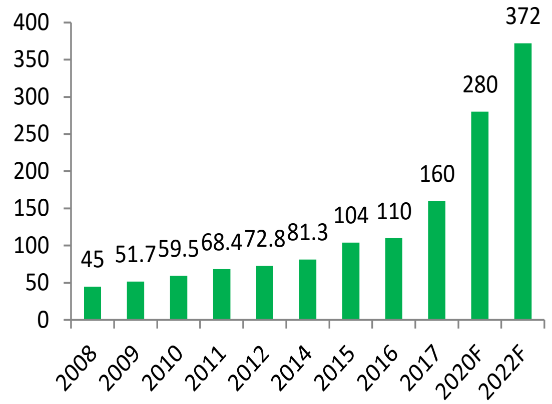
Private sector's contribution to healthcare in India

India's basic/public healthcare infrastructure is very inadequate for meeting the demands of its large population. The unmet opportunity combined with strong fundamentals in the market has led to the emergence of private healthcare service providers. Private healthcare institutions provide world class facilities, employ highly skilled and globally recognized professionals, leverage advanced technology in treatments, and maintain high standards of quality. Admittedly, this is a phenomenon in the Tier I urban areas of the country, but nevertheless, the private sector has done a commendable job in creating these pockets of excellence while simultaneously generating significant value. ***The enduring success of the early movers has encouraged the emergence of multiple players in this space and spawned industry diversification and in-depth specialization***. The Indian healthcare industry has today become a preferred sector for strategic and financial investments.

Private sector players enjoy a market share of nearly 80% of India's healthcare market. They also account for almost 74% of the country's total healthcare expenditure. Their share in number of hospitals is estimated at 74% while the share of hospital beds is estimated at 40%. Based on the success and breadth of services offered by the private sector hospitals, rural populations are increasingly seeking care from this sector. Of all the levels of care mentioned in the charts beside, treatment by a private doctor/clinic is the single most important point of contact for treatment of ailments for rural areas (50.7%) and urban areas (49.3%). This is followed by treatments at private hospitals, public hospitals and health sub centres (HSC), primary health centres (PHC) & others.

Industry Overview

Healthcare sector growth trend (USD bln)



Source: Industry Data

Chronic ailments such as arthritis, hypertension, diabetes, asthma and heart diseases are commonplace among the elderly.

Growing market size

The Indian healthcare sector, which stood at USD 110 billion in 2016 is expected to reach a size of over USD 372 billion by 2022, registering a CAGR of 22%. ***The hospital industry in India stood at USD 62 billion in 2017 and is expected to increase at a 16-17% CAGR to reach a size of USD 133 billion by 2023***. These statistics indicate that there is tremendous scope for enhancing healthcare services penetration in India and ample opportunity for the development of the healthcare industry as a whole. Conducive policies for encouraging FDI, tax benefits, and favourable Government policies coupled with promising growth prospects are helping the industry attract private equity, venture capital and foreign players. Today, Indian companies are entering into alliances with domestic and foreign companies to drive growth and gain new markets.

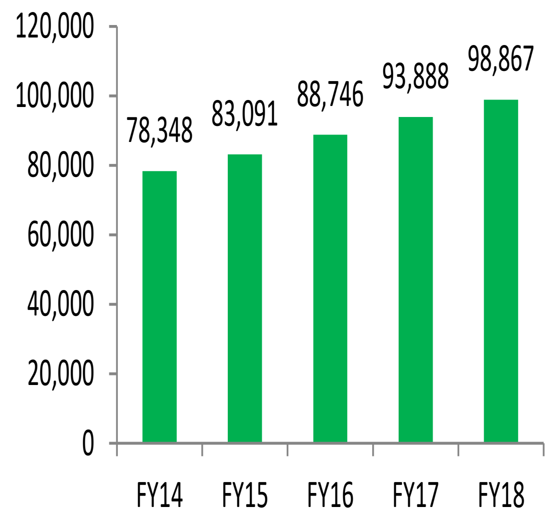
Increase in population and demographic trends

As of 2011, nearly 8% of the Indian population was aged 60 years or more, and this is expected to surge to 12.5% by 2026. According to Report on Status of Elderly in Select States of India 2011, published by the United Nations Population Fund (UNFPA) in November 2012, chronic ailments such as arthritis, hypertension, diabetes, asthma and heart diseases were commonplace among the elderly with 66% of the respective population reporting at least one of these. In terms of gender-based tendencies, while men were more likely to suffer from heart, renal and skin diseases, women showed higher tendencies of contracting arthritis, hypertension and osteoporosis.

With the Indian population expected to grow to ~1.44 billion by 2023 and considering the above mentioned factors, the need to ensure access to healthcare services for this vast populace is an imperative. This provides an attractive opportunity to expand into a sector with huge potential for growth.

Industry Overview

India's per capita income at constant prices



Source: Industry Data

Rising per capita income and widening of income inequalities

The last decade has witnessed remarkable economic development with rise in per capita income which has paved the way for increasing demand of healthcare services and access to better healthcare facilities. However, even as India continues to develop, the difference in earnings is giving rise to wide levels of inequality. The people in the various income slab categories fall into unique baskets typified by varying healthcare needs. Each of these presents a market in terms of the addressable value proposition. The growth in the affordable segment of population, on account of rising income levels, supports the need for quality medical care that comes at a relatively higher price. Growth in household incomes, and consequently, disposable incomes, is, therefore, critical to the overall growth in demand for healthcare delivery services in India. ***The share of households falling in the income bracket above Rs 0.2 mln is expected to go up to 35% in FY22 from 23% in FY17, providing a potential target segment with more paying capacity for hospitals.***

Under consumption of healthcare services

The healthcare service delivery landscape demonstrates a lag with regard to accessibility and geographical reach in meeting the requirements of the nation's 1.3 billion people, almost 70 percent of who live in rural areas. Public health care institutions—ranging from primary health centers that form the backbone of the system in rural areas to larger district-level hospitals are hampered by a lack of manpower and inadequate resources such as diagnostics, pathology services and stock-outs.

With bed availability of 1 per 1,050 persons versus a global average of 2.9 beds per 1,000 persons, the current hospital infrastructure in India is very inadequate.

With bed availability of 1 per 1,050 persons versus a global average of 2.9 beds per 1,000 persons, the current hospital infrastructure in India is very inadequate. ***Approximately 1.7 million beds have to be added by 2025 to meet the rising demand and address the current shortage***. A combination of unaffordability and minimum access to healthcare facilities, especially for the under privileged people belonging to the lower strata of society has led to a massive under consumption of healthcare services in the country.

Industry Overview

The contribution of NCDs to the total disease profile has risen from 30% in 1990 to 55% in 2016. NCDs accounted for nearly 62% of all deaths in India in 2016.

Transition in disease profile

Lifestyle related illnesses or non-communicable diseases (NCDs) have been increasing rapidly in India over the last few years in contrast with communicable diseases. The contribution of NCDs to the total disease profile has risen from 30% in 1990 to 55% in 2016. NCDs accounted for nearly 62% of all deaths in India in 2016. ***According to The World Economic Forum, the world will lose nearly 30 trillion USD by 2030 for NCD treatments and India's share of this burden will be 5.4 trillion USD***. CRISIL Research believes that NCDs exhibit a tendency to increase in tandem with rising income levels. WHO projects an increasing trend in NCDs by 2030, following which CRISIL has forecast rising demand for healthcare services associated with lifestyle related diseases such as cardiac ailments, cancer and diabetes. Another emerging market in the country is orthopaedics, which currently comprises a very small proportion as compared with NCDs. The orthopaedics market can be classified into four different segments, viz., knee, hip, trauma and spine, of which the knee replacement market holds the biggest share, followed by trauma and spine. As opposed to other countries, hip replacement in India is still a very small segment as compared to knee replacements.

The current healthcare facilities in Tier II and Tier III cities still remain far behind in comparison to urban areas with many rural areas lacking even basic amenities.

Health infrastructure is skewed towards urban areas

Healthcare infrastructure is very asymmetric between rural and urban India. The current healthcare facilities in Tier II and Tier III cities still remain far behind in comparison to urban areas with many rural areas lacking even basic amenities. Rural infrastructure has largely been supported by public health facilities which are ill equipped to deal with the massive need for healthcare access. The concentrated healthcare facilities in urban areas are not so easily accessible for most of the people living in rural and remote areas of the country. ***Low per capita income, low expenditure on healthcare, and low number of doctors coupled with poor insurance penetration in rural areas are reasons for the vast disparity in offerings when compared with urban and semi-urban areas***. Apart from these issues, drinking water facilities, nutritional intake, sanitation facilities, awareness about diseases, etc. are also important factors that influence the health of a person. Urban areas are believed to have a better score on these parameters. Today, there exists a substantial unmet demand for high-quality and specialist healthcare services in Tier-II & Tier-III cities.

Industry Overview

Country wise cost of ailments

Treatment	USA	Korea	Singapore	Thailand	India
	US $				
Hip Replacement	50,000	14,120	12,000	7,879	7,000
Knee Replacement	50,000	19,800	13,000	12,297	6,200
Heart Bypass	1,44,000	28,900	18,500	15,121	5,200
Angioplasty	57,000	15,200	13,000	3,788	3,300
Heart Valve Replacement	1,70,000	43,500	12,500	21,212	5,500
Dental Implant	2,800	4,200	1,500	3,636	1,000

Source: Industry Data

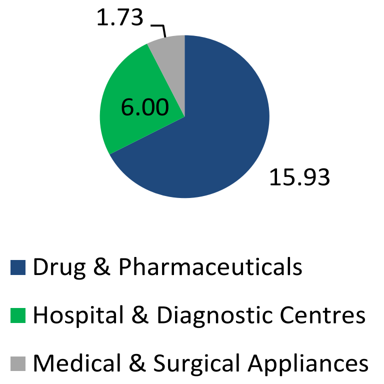
Medical Value Travel (MVT)

MVT is a burgeoning multi-billion dollar industry and likely to grow further due to the many benefits offered to patients. India has emerged as a preeminent destination for medical tourism and is one of the major hubs in the world (along with Thailand, Singapore, Malaysia and South Korea). A rare combination of world-class hospitals, equipped with best-in-class technology, skilled medical professionals, low treatment costs, and process improvements like e -medical visa, have made India a preferred destination for medical tourism. ***Treatments that are most in demand include heart surgeries, knee implants, cosmetic surgeries and dental care—all of which are largely driven by the private sector. India had 38 JCI accredited hospitals in 2018, and witnessed close to 5,00,000 medical value travellers in 2017***. Nearly 95% of the medical tourists are from countries in Africa, West Asia and South Asia. However, numbers from countries like the UK and Canada are also steadily increasing because of high costs and long waiting periods for treatment in these countries. ***The Government estimates that the size of the medical tourism market would be around 9 billion USD by 2020 amounting to 20% of the global share; up from a size of 3 billion USD in 2015***.

The Government of India has undertaken several initiatives to support medical tourism which in turn is enhancing India's image as a preferred destination for medical tourists. For e.g. the e Visa facility now covers practically all the countries of the world (166 countries). E-Medical visa facility for the attendant has also been introduced. Further process simplifications will strengthen India's position as an attractive destination for medical travellers.

Industry Overview

Cumulative FDI (Apr2000-Dec2018) USD bln



Source: Industry Data

The unorganized sector constitutes around 48% of the market while the organized national branded and regional chains constitute around 15%. The remaining is occupied by hospital-based diagnostic centres.

Increasing investments in the Indian Healthcare space

Over the past few years, Indian healthcare funding has witnessed a dynamic growth by venture capitalists and private equity funds. Foreign investors have been playing a significant role in the development of the healthcare sectors. These multinational players have been trying to deepen their presence through partnerships and investments. These trends indicate rising investor confidence in the Indian healthcare space and deepen the perception of India as an attractive healthcare investment destination. FDI in the health care sector has gathered momentum in recent years. ***During April 2000-December 2018, FDI inflows into the drugs and pharmaceuticals sector stood at a figure of USD 15.93 billion***. Demand growth, cost advantages and policy support have played a very important role in attracting FDI in the healthcare sector.

Structure of the Indian diagnostic market

The Indian diagnostic market (including radiology) is estimated to be at approximately Rs 800,000 mln and private players are estimated to constitute around Rs 450,000 mln of this market. The diagnostic industry in India is fragmented, and while unorganized players make up for the majority of the pie, the organized sector is continuously increasing its share of the market. ***Especially after the COVID-19 breakout and the resulting lockdown, the shift in the industry from unorganized to organized players is expected to happen at a higher rate.*** The unorganized sector constitutes around 48% of the market, while the organized national branded and regional chains constitute around 15%. The remaining is occupied by hospital-based diagnostic centres. The unorganized and smaller labs offer a chance to the bigger players to expand their reach and presence through mergers and acquisitions.

With increasing geographical penetration, the next few years offer the Indian diagnostic lab chains the potential to grow faster within overall healthcare sector. While diagnostic tests cannot treat patients or cure illnesses, it is an integral part of the healthcare value chain. Diagnostic tests improve patient care and help to limit healthcare spending by finding potential problems sooner.

Industry Overview

Changing population demographic, increase in per capita income, increasing health coverage and greater awareness regarding preventive testing are the key trends expected to drive sector growth in the ensuing years.

Key trends that are expected to drive sector growth in the diagnostics industry in India

Following key trends are expected to drive sector growth in the ensuing years:

Changing population demographic: As per a report from the World Bank, India's population stood at 1352.6 mln in 2018. Further, the population of senior citizens i.e. 65 years and more is growing at 4%-4.5% p.a. providing ample opportunity for the healthcare industry, especially the diagnostic industry.

Increase in per capita income: It is projected that approximately 3% - 3.5% of private healthcare revenue growth would come from the rural population, whose income level is expected to rise to US$ 1,500-$2,000 annually.

Increasing health coverage: As population and life expectancy grows, the demand for health insurance will rise, thereby leading to an increasing requirement for diagnostic services.

Greater awareness regarding preventive testing: Increasing awareness and the measures taken by the Government to promote preventive testing via tax cuts will become a tailwind for volume growth.

The target market for the diagnostic industry is expected to rise at a robust 10% CAGR by FY23.

Industry Overview

The future outlook for the diagnostics industry in India is favourable with the rapid technological advancements in the healthcare industry and doctors increasingly relying on evidence-based treatment.

Future outlook for the diagnostics industry in India

The future outlook for the diagnostics industry in India is favourable with the rapid technological advancements in the healthcare industry and doctors increasingly relying on evidence-based treatment. Instances and situations like the COVID-19 outbreak also further boost the importance of diagnostics as an integral part of healthcare and the awareness among people regarding preventive testing for lifestyle and chronic diseases. ***Therefore, sustainable growth in the industry is likely.***

With emphasis on providing quality services and compliance, the organized players will benefit from such developments. Hence, the switch in the industry from small, standalone players to larger more organized setup is also positive and welcome. At the rural end of the spectrum, there is an acute need to provide reliable diagnostics at competitive prices. Metro cities, cities and urban regions, which typically see several brands at play, also have pockets that will be better served.

Key Risks

- **Assumptions on occupancy, average length of stay (ALOS), average revenue per operating bed (ARPOB), number of diagnostic tests, and average realization per test not converging in actual terms**

Our model has assumed occupancy level increasing from 68% in FY20 to 72% in FY23E, ALOS decreasing from 3.24 days in FY20 to 3.11 days in FY23E, ARPOB increasing from Rs 15.9 mln in FY20 to Rs 17.2 mln in FY23E. Number of diagnostic tests are assumed to increase from 30.38 mln in FY20 to 37.07 mln in FY23E. Average realization per test is assumed to increase from Rs 334.43 in FY20 to Rs 341.15 in FY23E. If these assumptions, made in our model do not fructify then there is a risk to our earnings estimates.

- **Price regulation**

The intrinsic value of a service is more than just the cost of inputs. Any attempt to regulate the prices of healthcare inputs without addressing and providing for the comprehensive costs of providing quality services, will cripple the sector's finances, and compromise quality of care. While traditionally, regulations have focused on licensing and approvals, recently, the Government has also begun regulating prices of drugs and consumables. While the intent to make healthcare more affordable is laudable, it is important to ensure that healthcare providers are able to remain financially sustainable in the long-term.

- **Increase in competitive intensity**

Competitive intensity and presence of speciality hospitals have increased, especially in key markets in the country. Over capacity has also been observed in some pockets. Every player from the organised and unorganised sectors, particularly in metros and Tier 1 cities, is striving for market leadership. This could lead to cut-throat competition and unfair practices for survival.

- **Shortage of skilled manpower**

There is an acute shortage of skilled healthcare resources across the board. At 8 physicians and 12 nursing personnel per 10,000 people, India alarmingly trails the global median of 14 physicians and 29 nursing personnel. Unless immediate steps are taken to increase the number of doctors, nurses and paramedics, the shortage of manpower will lead to prohibitive costs and derail the delivery of healthcare services.

Key Risks

- **Incidents of vandalism**

Increasing incidents of vandalism against hospitals are being reported every now and then. While the core reason for such vandalism is negligence by doctors, other reasons include supposedly excessive billing. Proper attention is necessary to ensure that doctor negligence is reduced to 0% and billings are as per norms. Till such time these issues are redressed, vandalism by patients' relatives and mob in general would continue to be a key risk.

- **Termination of lease deeds and allotment letters relating to land parcels on which a hospital of a subsidiary, Escorts Heart Institute and Research Centre Ltd. (EHIRCL) exists, by Delhi Development Authority (DDA)**

Matter is pending before the High Court. Based on external legal counsel advice, the Company is of the understanding that EHIRCL will be able to suitably defend the termination of lease deeds and allotment letters. However, the final outcome may be contrary to the Company's understanding.

- **Directorate of Health Services (DoHS), Government of NCT of Delhi has raised a demand on account of "unwarranted profits" arising to Escorts Heart Institute and Research Centre Ltd. (EHIRCL) because of not providing free treatment to the weaker sections of the society**

DoHS demanded a sum of Rs 5,030 mln based on an order dated May 28, 2018. This order was challenged before the High Court of Delhi and the Court vide its order dated June 1, 2018 asked EHIRCL to deposit Rs 50 mln to DoHS. Matter is sub judice before Delhi High Court. Based on internal assessments and advice from its counsels, Fortis believes that EHIRCL is in compliance of conditions of free treatments and free beds to the economically weaker sections of the society and thus no claim of unwarranted profits should be made. However, the final outcome may be contrary to the Company's belief.

Key Risks

- **Termination of lease agreement between Navi Mumbai Municipal Corporation (NMMC) and a subsidiary, Hiranandani Healthcare Private Ltd. (HHPL)**

  Matter is pending before the Supreme Court. Based on external legal counsel opinion, management is confident that HHPL is in compliance of conditions of Hospital Lease Agreement. However, the final outcome may be contrary to the Company's understanding.

- **Decision by the Supreme Court stating a null and void relationship between IHH and Fortis**

  While we are of the opinion that all regulatory provisions were followed during the purchase of initial stake in Fortis by IHH and the subsequent open offer by IHH, there is a possibility that the Supreme Court may rule in favour of Daiichi Sankyo, stating that the initial stake purchase by IHH was orchestrated by the ex-promoters of Fortis, Malvinder and Shivender Singh to avoid paying the arbitration award in connection with the Ranbaxy case in which the Singh brothers and Daiichi were parties. In light of this, the relationship between IHH and Fortis would become null and void and there would be no question of proceeding with the open offer. The stock would obviously take a hit, posing a risk to our target price.

- **Double digit growth of SRL not fructifying in reality**

  The Management of SRL aims to achieve double digit growth of SRL by the end of FY21 (We have been conservative with our estimates and have assumed 9% and 10% volume growth of SRL in FY22E and FY23E respectively). This may not turn out to be true and FY22E and FY23E may see low to mid single digit growth, posing a risk to our earnings estimates.

SWOT Analysis

Strengths

- Strong brand position.
- Resilient business model with increase in capacity utilization and reduction in ALOS.
- Top clinical talent and professional management team.

Weaknesses

- Regulatory burden.
- Shortage of experienced doctors and skilled professionals.
- Pending Court cases

Opportunities

- Preventive health and wellness.
- High number of under served and poorly served markets.
- Medical Value Travel.
- SRL restructuring with focus on double digit growth

Threats

- Heightened competitive intensity.
- Incidents of vandalism.

Company Overview

Fortis Healthcare is a chain of hospitals and diagnostic chains, headquartered in Gurgaon. It is a subsidiary of Northern TK Venture Pte Ltd, which in turn is a subsidiary of IHH Healthcare Berhad,

Fortis Healthcare Limited (FHL) is a chain of hospitals and diagnostic chains, headquartered in Gurgaon. Fortis started its health care operations from Mohali where the first Fortis hospital was started. Later on, the hospital chain purchased the healthcare branch of Escorts group and increased its strength in various parts of the country.

Fortis Healthcare was initially founded by Shivinder Mohan Singh and Malvinder Mohan Singh before the transfer of controlling share to Malaysia's IHH - The Board of Directors of Fortis Healthcare had approved an equity infusion of Rs 40,000 mln at a price of Rs 170 per equity share (constituting 31.1% of the share capital of the Company) into the Company by Northern TK Venture Pte Ltd, Singapore ('Acquirer'), a wholly owned subsidiary of IHH Healthcare Berhad, Malaysia through a preferential allotment, subject to the approval of the shareholders and other regulatory approvals in July 2018.

The shareholders of the Company approved the preferential allotment on August 13, 2018. Approval from the Competition Commission of India (CCI) was received on October 30, 2018 and the preferential allotment was made on November 13, 2018. ***Post the preferential allotment, the Acquirer appointed 2/3rd of the directors on the Board of Directors of the Company, thereby acquiring control over the Company. Consequently the Company has become a subsidiary of the Acquirer.***

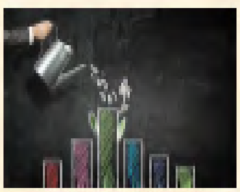
Currently, Fortis operates through 28 facilities with around 3,700 beds. It also has 400 plus labs and 9,500 plus collection centres and direct clients within the umbrella of SRL Diagnostics (57% held by Fortis Healthcare), the diagnostic arm of Fortis Healthcare.

The hospital segment reported revenues of Rs 35,269 mln and Rs 37,521 mln in FY19 and FY20 respectively. The diagnostics segment reported gross revenues of Rs 10,102 mln and Rs 10,163 mln in FY19 and FY20 respectively. EBITDAs for hospital segment were Rs 987 mln and Rs 4,756 mln in FY19 and FY20 respectively. EBITDAs for diagnostics segment were Rs 1,858 mln and Rs 1,973 mln in FY19 and FY20 respectively.

Significant Accomplishments of Fortis Healthcare in FY20

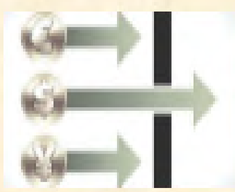
- ✓ Turnaround in the hospital business

- ✓ Diagnostics business strategy being implemented



- ✓ Investments for growth and expansion in medical specialties, technologies and infrastructure

- ✓ Cost optimization and productivity



- ✓ Robust Balance sheet with low debt

Source: Company Data

Hospitals Margin Matrix

FY20

EBITDA	No of Facilities	Revenue contribution	Operational beds	ARPOB (INR Cr)	Occupancy
>25%	3	14%	456	1.60	73%
20% - 25%	4	30%	816	2.07	69%
15% - 20%	4	23%	770	1.64	71%
10% - 15%	5	14%	662	1.09	75%
<10%	8	19%	948	1.46	56%

FY19

EBITDA	No of Facilities	Revenue contribution	Operational beds	ARPOB (INR Cr)	Occupancy
>25%	2	13%	408	1.72	68%
20% - 25%	3	13%	478	1.22	78%
15% - 20%	6	32%	996	1.91	63%
10% - 15%	4	15%	509	1.43	76%
<10%	9	27%	1,300	1.27	62%

- *Revenue contribution of ~10% yielding <15% EBITDA margin in FY19 moved up to >15% EBITDA margin in FY20 signifying healthy operational improvement*
- *Significant potential to further move over 30% revenue to >15% EBITDA margin range*

- EBITDA margins are prior to corporate cost allocation and RHT's net service fee (in FY2019)

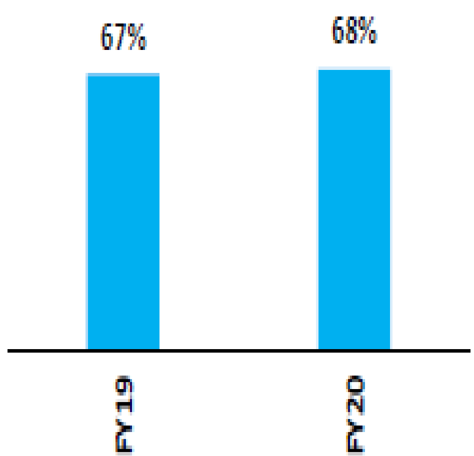
32

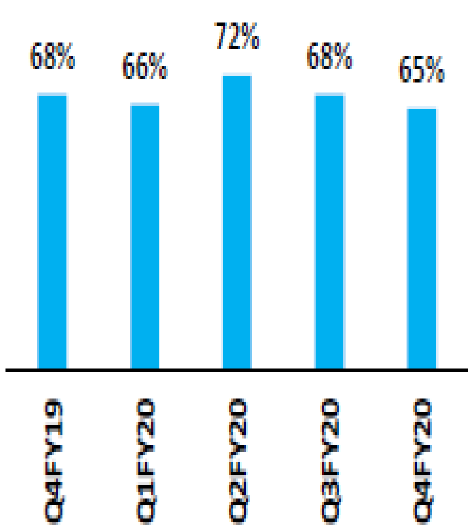
Fortis

Source: Company Data

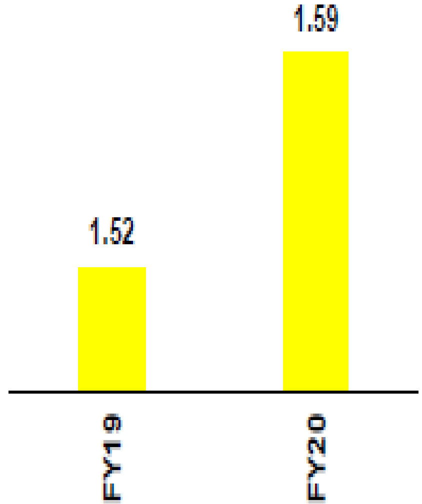
Key Performance Metrics—Hospitals Business

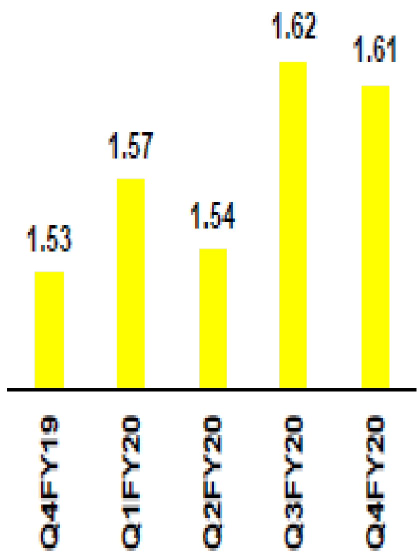
Occupancy (%)



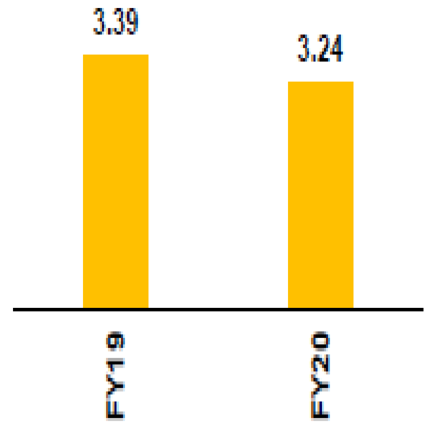


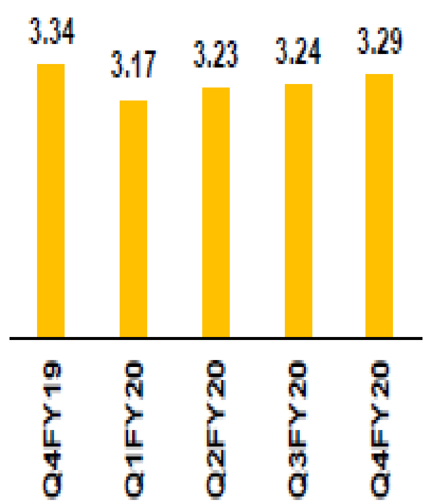
ARPOB (INR Cr per annum)





ALOS (Days)





Source: Company Data

Key Management Team

- **Dr. Ashutosh Raghuvanshi, MD and CEO.**

  Dr. Ashutosh Raghuvanshi is a cardiac surgeon turned management leader. After completing his MS in general surgery from MGIMS, Dr. Raghuvanshi went on to do an MCH in Cardiac surgery from The University of Bombay. Over the last 26 years, he has been associated with the Bombay Hospital, Apollo Hospitals, Vijaya Heart Foundation and Manipal Heart Foundation. He is credited with the establishment of Rabindranath Tagore International Institute of Cardiac Sciences, Kolkata, where he joined as a Director in 2000.

  Before joining Fortis, he was last working with Narayana Health as the Vice Chairman, Managing Director & Group CEO and was responsible for the operations of all the group hospitals across India and abroad.

- **Mr. Vivek Kumar Goyal, Chief Financial Officer.**

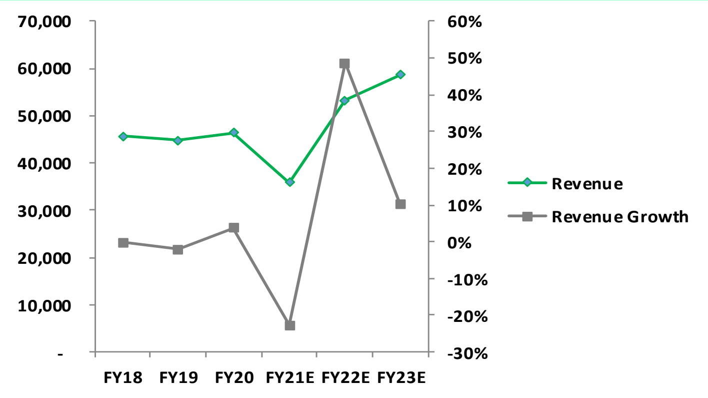
  Mr. Vivek Kumar Goyal is a seasoned professional with over 25 years of experience in Finance. He is a Chartered Accountant from The Institute of Chartered Accountants of India and a Company Secretary from The Institute of Company Secretaries of India. He also holds an LLB Degree from University of Delhi. Prior to joining Fortis, Mr. Goyal was the Chief Finance Officer with the Tata Housing and Development Company since April 2015. He has previously worked with Ballarpur Industries Limited, Saw Pipes Limited and Indo Asian Fusegear Limited.

- **Mr. Sumit Goel, Company Secretary.**

  Mr. Sumit Goel is a Company Secretary from The Institute of Company Secretaries of India and an LLB from Delhi University. He brings to the organization an experience of over 16 years in Secretarial Affairs and has been associated with organizations like Unitech Ltd, Omaxe Limited and Vipul Limited. He joined Fortis in August 2014 as the Company Secretary of Fortis Malar Hospitals Limited (Fortis Malar) and was responsible for managing the Secretarial Affairs. In April 2017, Mr. Goel took on the role as Company Secretary & Head Internal Audit for SRL Limited.

Key Performance Indicators

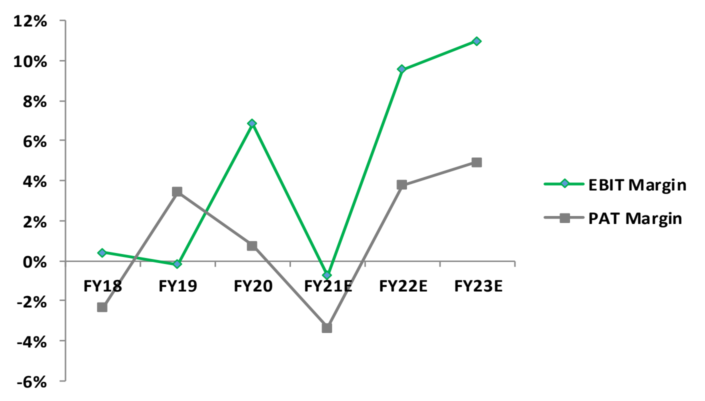
Revenue & Revenue Growth



Source: Company Data, SMIFS Research

Revenue from operations is expected to grow at a CAGR of 8% between FY20 and FY23E.

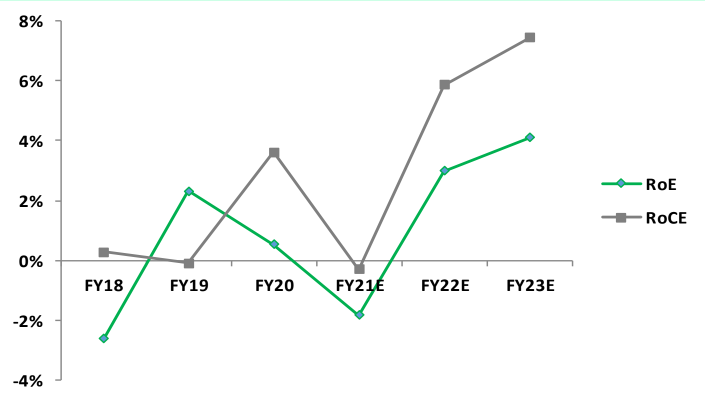
Profit Margins



Source: Company Data, SMIFS Research

EBIT Margin is expected to improve from 6.9% in FY20 to 11.0% in FY23E. PAT Margin is expected to improve from 0.7% in FY20 to 4.9% in FY23E.

RoE and RoCE

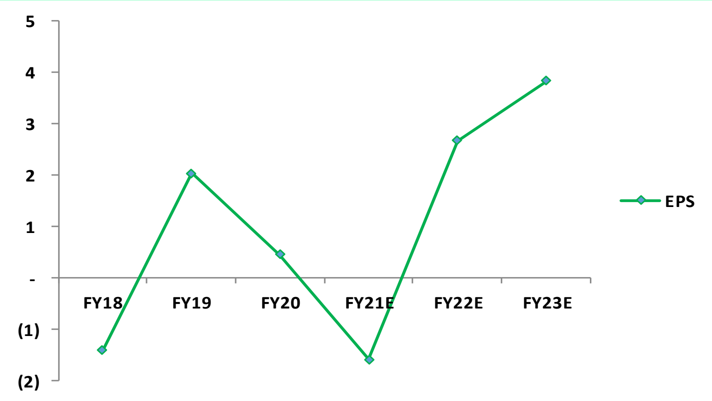


Source: Company Data, SMIFS Research

RoE and RoCE are expected to improve from 0.5% and 3.6% respectively in FY20 to 4.1% and 7.4% respectively in FY23E.

Key Performance Indicators

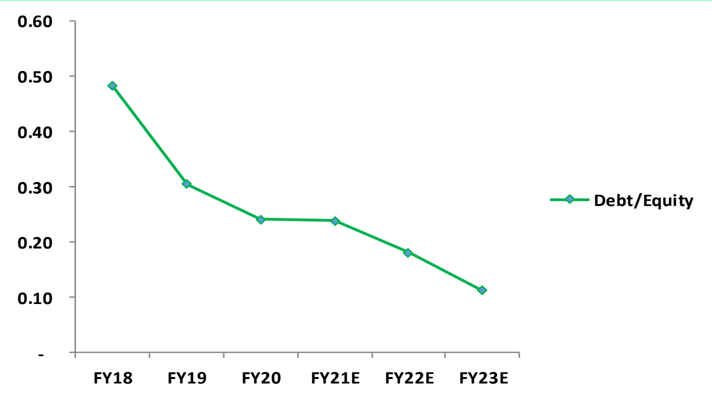
EPS Growth



Source: Company Data, SMIFS Research

EPS is expected to grow at a CAGR of 103% between FY20 and FY23E.

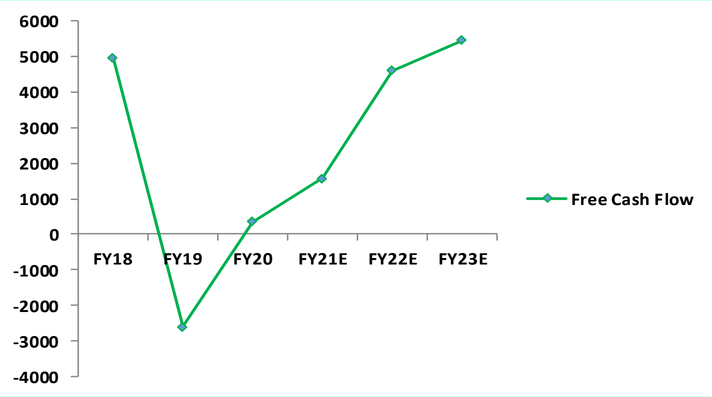
Debt/Equity Ratio



Source: Company Data, SMIFS Research

Our assumptions indicate a steady decrease in Debt/Equity ratio from 0.24 in FY20 to 0.11 in FY23E.

Free Cash Flow Generation



Source: Company Data, SMIFS Research

Due to strong generation of Cash Flow from Operations in FY22E and FY23E, Free Cash Flow should improve significantly to Rs 4,617 mln and Rs 5,456 mln in FY22E and FY23E respectively from Rs 349.4 mln in FY20.

Outlook and Valuation

The association of IHH, Malaysia as the holding company of Fortis Healthcare has helped investors, lenders and employees to regain confidence in Fortis. Business continuity has been ensured with turnaround in profitability and re-initiation of capex. ***The fund infusion by IHH has recapitalised Fortis' weak Balance Sheet leading to improvement in credit rating and lower borrowing costs for Fortis. The fund infusion has also helped Fortis to purchase the Indian hospital assets from RHT Health Trust, thereby saving an annual amount of approximately Rs 2,700 mln as Hospital Service Fee that was paid to RHT.*** Further, collaboration of IHH and Fortis is driving synergies in medical operations, procurement and IT and helping in transformational initiatives including a comprehensive portfolio review and a robust clinical excellence programme.

Fortis has been able to reduce fixed costs of hospitals by around 25% to counter the lower occupancies due to Covid-19. However, it must be noted that most of the cost reductions are temporary in nature and will come back once occupancies recover to pre-Covid levels. ***Similarly, fixed cost reductions to the tune of 15% have been attempted for the diagnostics business.***

The diagnostic arm, SRL aims to achieve double digit revenue growth by the end of FY21 by focusing on network expansion in both B2B and B2C segments and by tailoring the product portfolio towards value accretive tests in the specialised and lifestyle diseases segments.

Fortis would consolidate its geographical presence by investing in, transforming and scaling up high potential hospital units and evaluating the divestments of low potential hospital units. ***The focus markets for Fortis would include Delhi/NCR, Mumbai, Bangalore and Kolkata. Fortis also indicated that there is significant potential to move 30% of hospital revenues to greater than 15% EBITDA margin. Fortis is also on the path to add about 1,200 to 1,300 beds over the next four to five years.***

Strong cash flow from operations would lead to significant free cash flow generation of Rs 4,617 mln and Rs 5,456 mln in FY22E and FY23E respectively, which would help in reducing the debt substantially and enhancing the RoCE ratio to 5.9% and 7.4% in FY22E and FY23E respectively from 3.6% in FY20.

We have valued the stock at 14x FY23E EV/EBITDA to arrive at a **Target Price of Rs 150**, which provides an upside of 16% based on current market price. We thus recommend a **"Buy"** rating on the stock.

Peer Comparison

Peers	EV/EBITDA		P/E		P/B		RoE(%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Fortis Healthcare	**48.9**	**15.2**	**NA**	**48.7**	**1.5**	**1.5**	**-1.8%**	**3.0%**
Apollo Hospitals	13.2	10.3	46.2	22.8	4.9	4.1	10.6%	18.0%
Narayana Hrudayalaya	21.0	11.0	88.7	19.3	4.9	3.9	5.5%	20.1%
Shalby	13.4	7.5	51.9	17.1	1.0	0.9	1.0%	5.2%
Healthcare Global	9.6	7.3	NA	NA	2.2	2.2	-9.8%	-3.3%

Source: SMIFS Research, Bloomberg

Financial Details

Income Statement (Consolidated)					
Particulars (INR mln.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Revenue from operations	**44694**	**46323**	**35810**	**53186**	**58685**
Revenue Growth	-2%	4%	-23%	49%	10%
Cost of goods sold	9282	9639	7534	11037	12185
Employee benefits expenses	9129	9160	7697	10358	11380
Other expenses	24030	21429	18194	24121	26131
EBITDA	**2252**	**6095**	**2386**	**7670**	**8990**
EBITDA Margin	**5.0%**	**13.2%**	**6.7%**	**14.4%**	**15.3%**
EBITDA Growth	-12%	171%	-61%	222%	17%
Depreciation & Amortisation	2329	2917	2652	2587	2530
EBIT	**-77**	**3178**	**-266**	**5083**	**6460**
Interest Cost	3368	2051	1987	1559	1003
Other Income	924	526	560	600	520
PBT (Adjusted)	**1123**	**1775**	**-1568**	**4254**	**6113**
PAT (Adjusted)	**1529**	**343**	**-1201**	**2010**	**2888**
PAT Margin	**3.4%**	**0.7%**	**-3.4%**	**3.8%**	**4.9%**
PAT Growth (Adjusted)	-244%	-78%	-450%	-267%	44%

Balance Sheet (Consolidated)					
Particulars (INR mln.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Share Capital	7550	7550	7550	7550	7550
Reserves & Surplus	63575	64506	62601	65791	70376
Networth	**71125**	**72056**	**70150**	**73341**	**77926**
Long term Borrowings	**6746**	**11666**	**11589**	**9235**	**4881**
Other Non-Current Liabilities	5732	3968	3895	3911	3925
Short term Borrowings	**12324**	**3904**	**3626**	**2626**	**2626**
Other Current Liabilities	23586	21886	20404	22586	23293
Total Equity & Liabilities	**119513**	**113478**	**109664**	**111699**	**112650**
Net Tangibile Asset	**51150**	**52094**	**50028**	**49526**	**49082**
Other Non Current Assets	51697	51980	51799	52140	52348
Inventories	**565**	**782**	**611**	**696**	**769**
Trade Receivables	**5424**	**4588**	**3728**	**5537**	**6110**
Cash and Cash Equivalents	7941	1819	1454	1550	1959
Other Current assets	2736	2217	2044	2249	2382
Total Assets	**119513**	**113478**	**109664**	**111699**	**112650**

Source: Company Data, SMIFS Research

Financial Details

Cash Flow Statement Extract (Consolidated)

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
PBT	**(1101)**	**2394**	**(1568)**	**4254**	**6113**
Depreciation & Amortisation	2329	2917	2652	2587	2530
Interest expense	3368	2051	1987	1559	1003
(Increase)/Decrease in CA	(2094)	(432)	1448	(2354)	(813)
Increase/(Decrease) in CL	(380)	(1032)	(1908)	1844	367
Taxes Paid	(2478)	(3395)	(337)	(1064)	(1528)
Cash Flow from Operating Activities	**(1785)**	**1716**	**2148**	**6697**	**7536**
Capital Expenditure	(826)	(1366)	(580)	(2080)	(2080)
Cash Flow Investing Activities	**(33,227)**	**604**	**(526)**	**(2,042)**	**(2,124)**
Increase/(Decrease) in Borrowings	6,481	(6,568)	-	(3,000)	(4,000)
Dividend payments including tax	-	-	-	-	-
Cash Flow from Financing Activities	**42566**	**(8616)**	**(1987)**	**(4559)**	**(5003)**
Net Cash Flow	**7078**	**(6266)**	**(364)**	**96**	**409**
Closing Balance	**7941**	**1819**	**1454**	**1550**	**1959**

Key Ratios (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Margins					
Gross Margin	79.2%	79.2%	79.0%	79.2%	79.2%
EBITDA Margin	5.0%	13.2%	6.7%	14.4%	15.3%
PBT Margin (Adjusted)	2.5%	3.8%	-4.4%	8.0%	10.4%
PAT Margin (Adjusted)	3.4%	0.7%	-3.4%	3.8%	4.9%
DPS (INR)	-	-	-	-	-
Solvency Ratios					
Current Ratio	0.5	0.4	0.3	0.4	0.4
Debt/Equity	0.3	0.2	0.2	0.2	0.1
Net Debt/Equity	0.2	0.2	0.2	0.1	0.1
Interest Coverage	0.0	1.5	-0.1	3.3	6.4
Profitability Ratios					
RoE	2.3%	0.5%	-1.8%	3.0%	4.1%
RoCE	-0.1%	3.6%	-0.3%	5.9%	7.4%
Valuation Ratios(x)					
EV/EBITDA	51.8	19.1	48.9	15.2	13.0
EV/Sales	2.6	2.5	3.3	2.2	2.0
P/E	64.0	285.2	NA	48.7	33.9
P/B	1.5	1.5	1.5	1.5	1.4

Source: Company Data, SMIFS Research

Analyst Certification:

We /I, Shantanu Basu, CA, MBA, Research Analyst(s) of SMIFS Limited (in short "SMIFS / the Company"), authors and the names subscribed to this Research Report, hereby certify that all of the views expressed in this Research Report accurately reflect our views about the subject issuer (s) or securities and distributed as per SEBI (Research Analysts) Regulations 2014. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this Research Report. It is also confirmed that We/I, the above mentioned Research Analyst(s) of this Research Report have not received any compensation from the subject companies mentioned in the Research Report in the preceding twelve months and do not serve as an officer, director or employee of the subject companies mentioned in the Research Report.

Terms & Conditions and Other Disclosures:

SMIFS Limited is engaged in the business of Stock Broking, Depository Services, Portfolio Management and Distribution of Financial Products. SMIFS Limited is registered as Research Analyst Entity with Securities & Exchange Board of India (SEBI) with Registration Number – INH300001474.

SMIFS and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Research Analysts. SMIFS generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this Research Report have been prepared by SMIFS and are subject to change without any notice. The Research Report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of SMIFS Limited. While we would endeavor to update the information herein on a reasonable basis, SMIFS is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent SMIFS from doing so. Non -rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or policies of SMIFS, in circumstances where SMIFS might be acting in an advisory capacity to this company, or in certain other circumstances.

This Research Report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This Research Report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Securities as defined in clause (h) of section 2 of the Securities Contract Act, 1956, includes Financial Instruments, Currency and Commodity Derivatives. Though disseminated to all the customers simultaneously, not all customers may receive this Research Report at the same time. SMIFS will not treat recipients as customers by virtue of their receiving this Research Report. Nothing in this Research Report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this Research Report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. SMIFS accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this Research Report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. The information given in this report is as of date of this report and there can be no assurance that future results or events will be consistent with this information. The information provided in this report remains, unless otherwise stated, the copyright of SMIFS. All layout, design, original artwork, concepts and intellectual Properties remains the property and copyright of SMIFS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the SMIFS.

SMIFS shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, breakdown of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of SMIFS to present the data. In no event shall SMIFS be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the SMIFS through this report.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (a) Exchange Rates can be volatile and are subject to large fluctuations; (b) the value of currencies may be affected by numerous market factors, including world and notional economic, political and regulatory events, events in Equity & Debt Markets and changes in interest rates; and (c) Currencies may be subject to devaluation or government imposed Exchange Controls which could affect the value of the Currency. Investors in securities such as Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Since associates of SMIFS are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this Research Report.

SMIFS and its Associates, Officers, Directors, Employees, Research Analysts including their relatives worldwide may: (i) from time to may have long or short positions in, and buy or sell the Securities, mentioned herein or (ii) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the Financial Instruments of the Subject Company/ companies mentioned herein or act as an Advisor or Lender/Borrower to such Companies or have other potential/material Conflict of Interest with respect to any recommendation and related information and opinions at the time of the publication of the Research Report. Or at the time of Public Appearance. SMIFS does not have proprietary trades but mat at a future date, may opt for the same with prior intimation to Clients/ Investors and extant Authorities where it may have proprietary long/short position in the above Scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider Risk Appetite or Investment Objective of any particular Investor; Clients/ Readers/ Subscribers of this Research Report are requested to take independent professional advice before investing. The information provided herein should not be construed as invitation or solicitation to do business with SMIFS.

SMIFS or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the Research Report as of the last day of the month preceding the publication of the Research Report.

SMIFS encourages independence in Research Report preparation and strives to minimize conflict in preparation of Research Report. Accordingly, neither SMIFS and their Associates nor the Research Analysts and their relatives have any material conflict of interest at the time of publication of this Research Report or at the time of the Public Appearance, if any.

SMIFS or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

SMIFS or its associates might have received any compensation from the companies mentioned in the Research Report during the period preceding twelve months from the date of this Research Report for services in respect of managing or co-managing public offerings, corporate finance, investment banking, brokerage services or other advisory service in a merger or specific transaction from the subject company.

SMIFS or its associates might have received any compensation for products or services other than investment banking or brokerage services from the subject companies mentioned in the Research Report in the past twelve months.

SMIFS or its associates or its Research Analysts did not receive any compensation or other benefits whatsoever from the subject companies mentioned in the Research Report or third party in connection with preparation of the Research Report.

Compensation of Research Analysts is not based on any specific Investment Banking or Brokerage Service Transactions.

The Research Analysts might have served as an officer, director or employee of the subject company.

Neither the Research Analysts nor SMIFS have been engaged in market making activity for the companies mentioned in the Resear ch Report.

SMIFS may have issued other Research Reports that are inconsistent with and reach different conclusion from the information p resented in this Research Report.

A graph of daily closing prices of the securities/commodities is also available at www.nseindia.com and/or www.bseindia.com, www.mcxindia.com and/or www.icex.com.

SMIFS submit' s that no material disciplinary action has been taken on the Company by any Regulatory Authority impacting Equi ty Research Analysis activities in last 3 years.

This Research Report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or res ident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contra ry to law, regulation or which would subject SMIFS and affiliates to any registration or licensing requirement within such jurisdiction. The securi ties described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possess ion this document may come are required to inform themselves of and to observe such restriction.

For queries related to compliance of the report, please contact: -

Sudipto Datta, **Compliance Officer**

SMIFS Limited.

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5414 /91 33 6634 5414

Email Id.: **compliance@smifs.com |**Website: **www.smifs.com**