

## Fortis Hospitals Limited

March 27, 2019

### Summary of Rated Instruments:

Instrument	Previously Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	417.8	455	[ICRA]BBB-&; upgraded from [ICRA]B+&, and continues to be on watch with developing implications
Fund-based Limits	235	245	[ICRA]BBB-&; upgraded from [ICRA]B+&, and continues to be on watch with developing implications
Non-fund-based Limits	97.2	50	[ICRA]A3&; upgraded from [ICRA]A4&, and continues to be on watch with developing implications
<b>Total</b>	<b>750</b>	<b>750</b>	

### Rationale

The ratings have been upgraded due to substantial improvement in financial metrics of the Fortis Group<sup>1</sup> on account of completion of ~Rs. 4000 crore equity infusion by IHH Healthcare Bhd (IHH) into Fortis Group and subsequent buyout of the Indian assets of Singapore Stock Exchange listed RHT Health Trust (RHT) for Rs. ~4666 crore. The ratings' upgrade also take into account IHH (through its 100% stepdown subsidiary – Northern TK Ventures Limited) (“IHH”) becoming the largest shareholder (holding ~31% stake) in Fortis Group and it being classified as promoter entity. IHH owns and operates one of the largest hospital network globally and has infused equity into Fortis Group in Q3FY2019 through preferential allotment of equity shares and this equity has been utilised to primarily to buy out Indian healthcare assets of RHT in Q4FY2019 and to repay some of high-cost short-term debt. The series of transactions have led to significantly stronger balance sheet as well as expected improvement in its profitability metrics on account of elimination of net annual hospital service fees (~Rs. 270 crore) being paid to RHT from Jan 2019 onwards. The same will result in significant improvement in its EBITDA, cash flows and debt protection indicators.

IHH has also placed ~Rs. 3349 crore in an escrow account for the mandatory open offer. The open offer process has been currently put on hold due to status quo ordered by Supreme Court of India; if and when it is allowed to go ahead, IHH's stake in Fortis Group will increase up to ~57%, subject to the subscription to the open offer. This will take the total equity investment of ~Rs. 7349 crore by IHH in Fortis Group (through combination of primary equity infusion and secondary market). IHH has an established track record of acquiring and successful running large healthcare facilities across multiple countries and the new and stronger promoter with diversified international presence will enable Fortis Group in faster turnaround of operations as well as synergies with key equipment suppliers, vendors and lenders. IHH has nominated five out of nine board members. The ratings continue to derive comfort from Fortis Group's long and established track record in healthcare sector in India, favourable maturity profile of majority of its hospitals, and its large and established network of healthcare facilities which is difficult to replicate by the competition. The rating also draws comfort from Fortis Group's presence across various healthcare verticals, including secondary, tertiary and diagnostics, and positive outlook for healthcare services in the country due to better affordability, widening medical insurance coverage, and growing healthcare awareness.

<sup>1</sup> ICRA has taken consolidated view of Fortis Healthcare Limited (FHL) and all its subsidiaries, that are involved in healthcare business. Please refer to pages 4 and 7 for analytical approach and list of entities consolidated

The ratings are, however, constrained by drop in Fortis Group's performance in 9MFY2019 – on YoY basis, revenues dropped by 5% and EBITDA declined by 50%. The performance was adversely impacted due to fall in occupancy, strained liquidity position, corporate governance issues and other internal challenges related to erstwhile promoters. The company has also booked substantial losses in FY2018 (loss of Rs. 934 crore) mainly due to write-off of advances extended to related parties, write-off of investment in certain associates and goodwill impairment and 9MFY2019 (loss of Rs. 375 crore) mainly due to write-off of investment in certain associates and goodwill impairment. Ratings are further constrained by currently stretched vendor payments as well as the adverse impact on the profitability of the company from the regulatory restrictions imposed by National Pharmaceutical Pricing Authority (NPPA) on the pricing of Oncology drugs, coming post the restrictions already placed on Cardiac stents and certain ortho implants, which had impacted profitability considerably. Ratings are also constrained by the qualified and adverse opinion expressed by the statutory auditors as well as the systematic lapses and override of internal controls pointed out by the auditors.

ICRA notes, the series of ongoing investigations against the company and erstwhile promoters by Securities and Exchange Board of India (SEBI) and Serious Fraud Investigations Office (SFIO). Further, there are significant outstanding litigations, especially the petition filed by Daiichi Sankyo Company Limited in Supreme Court of India and the High Court of Delhi. Any adverse outcome of these investigations or litigations may impair company's ability to maintain its operational and financial risk profile. ICRA will continue to monitor the developments closely and take rating action, as and when more clarity emerges.

### Outlook: Ratings continue to be on watch with developing implications

In the recent past, the company's risk profile has been constrained by stretched cash flow position owing to large advances extended to related parties, large fee payable to Business Trust (BT) listed in Singapore, poor operational performance, corporate governance issues, and investigations by SEBI, SFIO and RoC. However, the change in ownership is likely to address many of these challenges and the equity infusion by IHH Healthcare Bhd along with subsequent acquisition of assets of RHT are likely to lead to much-better financial risk profile. Nonetheless, the investigations by regulatory authorities are still underway and appeal filed by Daiichi Sankyo Company Ltd is subjudice. The potential implications, if any, of these ongoing investigations and litigations on the credit risk profile of the company will remain key rating sensitivity over the near term. ICRA will continue to monitor the developments closely and take rating action, as more clarity emerges.

### Key rating drivers

#### Credit Strength

**Financial risk profile has strengthened substantially on the back of the equity infusion by IHH and buyout of Indian Healthcare assets of RHT-** The conclusion of the deal with IHH to infuse Rs. 4000 crore equity into Fortis Group and the deal with RHT to buyout its Indian healthcare assets for Rs. ~4650 crore have led to stronger P&L, balance sheet, cash flows and debt protection indicators

**Established track record of the new promoter- IHH:** IHH has acquired 31% stake in Fortis Group, has been classified as the promoter of Fortis Group, has nominated five of the eight board members of FHL and has parked Rs. 3200 crore in an escrow account for acquiring additional up to 26% stake in Fortis Group through open offer, subject to the directions from Supreme Court of India. IHH owns and operates one of the largest hospital networks globally and has an established track record of acquiring and successful running large healthcare facilities across multiple countries and the new and stronger promoter with diversified international presence is likely to enable turnaround of Fortis Group's operations and also enable it in renegotiating agreements with key equipment suppliers, vendors and lenders.

**Fortis Group's established track record in healthcare sector in India-** Fortis Group is one of the largest, pan-India, healthcare services provider, with ~4600 beds spread across 45 healthcare facilities (including projects under development) and over 346 diagnostic centres. The Company also has diversified presence across multiple healthcare

verticals, such as secondary care, tertiary care, quaternary care, and diagnostics. Further, almost all of the hospitals in Fortis Group's network are mature facilities and are favourable located in Metros and Tier-I cities

**Positive outlook for the sector in long run-** Positive demand outlook for healthcare services in the country, due to growing awareness of healthcare issues, under-served nature of the sector, better affordability through increasing per capita income, and widening medical insurance coverage

## Credit weaknesses

**Ongoing Litigations and Investigations by SEBI, SFIO & RoC-** Fortis Group and its promoters are currently facing multiple investigations and litigations and any adverse ruling may impact Fortis Group's management and operations. Thus, the potential implications, if any, of these ongoing investigations and litigations on the company will remain key rating sensitivity over the near term

**Significant losses booked in FY2018 and 9MFY2019 due to write-off and goodwill impairment-** The company reported consolidated loss of Rs. 934 crore in FY2018 and loss of Rs. 375 crore in 9MFY2019 primarily due to exceptional loss of Rs. 881 crore booked in FY2018 and Rs. 223 crore in 9MFY2019. The exceptional losses have been on account of write-off of advances extended to related parties, write-off of investment in certain subsidiaries and on account goodwill impairment

**Deterioration in operational performance in 9MFY2019-** On YoY basis, revenues dropped by 5% and EBITDA declined by steep 50%. The performance was adversely impacted due to fall in occupancy, strained liquidity position, corporate governance issues and other internal challenges related to former promoters. NPPA has recently imposed cap on trade margin of Oncology drugs, which will also impact margins. Notwithstanding these, with the new and stronger promoter in place, infusion of substantial equity and buyout of assets of RHT, ICRA expects the performance to improve considerably

**Working capital position likely to normalise gradually:** Due to the stress in liquidity situation under erstwhile promoters, the vendor payments were significantly stretched. Some of the large creditor payments continue remain overdue and may take time to completely normalise. Nonetheless, with the new promoters coming in and financial metrics getting stronger we expect the working capital situation to gradually normalise

## Liquidity Position:

As the new management has taken over, equity infusion by IHH has been done and acquisition of Indian assets of RHT is completed, EBITDA has improved and the cash flow generation is much stronger. ICRA expects that the working capital position is also likely to normalise gradually. As of March 2019, the company has cash and equivalents of Rs. 660 crore, however majority of the same has flown in as dividend from RHT and is earmarked against the bridge loan taken for acquisition of Indian assets of RHT. Nonetheless, with stronger promoter, balance sheet and much better cash flow generation, the company also has significant financial flexibility now and is in advanced stages of tying up fresh funding lines at competitive rates.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Ratings: A Note on Methodology</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a> <a href="#">Rating Methodology for Hospitals</a>
Parent/Group Support	IHH Healthcare Bhd
Consolidation / Standalone	Consolidated

## About the company:

Fortis Hospitals Limited (FHsL) was incorporated on June 18, 2009, as a 100 per cent subsidiary of Fortis Healthcare Limited (FHL). FHsL acquired 10 Wockhardt in FY2010, for Rs. 909 crore. In FY2014, Fortis Health Management (North) Limited (FHMNL) was amalgamated with FHsL. FHsL currently manages the operations of majority of the hospitals in FHL's network.

Fortis Healthcare Limited (FHL) is a leading healthcare services company in India. The company commenced its operations with opening of its first hospital at Mohali in 2001. Since, then the Company has expanded its operations via expansions and acquisitions. It, along with its subsidiaries, now has 43 healthcare facilities, operational bed capacity of ~4400 beds. Further, through its subsidiary, SRL Limited, the company operates over 390 diagnostic centres in the country. The erstwhile promoters and largest shareholders of the company were Mr. Malvinder Singh, Mr. Shivinder Singh and their families and associates; however, their shareholding came down over a period of time, presently less than 0.2%, due to gradual sale of their stake and invocation of pledge by their lenders. In November 2018, Northern TK Ventures Pte Ltd (subsidiary of IHH Healthcare Bhd) became the largest shareholder and was classified as promoter shareholder on account of acquisition of ~31% stake through preferential allotment in FHL for Rs. ~4000 crore. IHH also plans to bring open offer for acquiring up to 26% stake in FHL, subject to the subscription to the open offer. However, the open offer has been put on hold due to status quo ordered by Supreme Court of India.

## Key Financial Indicators (Consolidated)

	<b>FY2017 (Audited)</b>	<b>FY2018 (Audited)</b>	<b>9MFY2019 (Limited review)</b>
Operating Income (Rs. crore)	4,574	4,561	3,285
PAT (Rs. crore)	479	-934	-375
OPBDIT/ OI (%)	7.7%	6.0%	3.4%
RoCE (%)	11.3%	-9.2%	-2.0%
Total Debt/ TNW (times)	0.47	0.38	0.18
Total Debt/ OPBDIT (times)	6.28	7.18	14.21
Interest coverage (times)	4.38	1.81	0.82
NWC/ OI (%)	-4%	-19%	109%

Source: **FHL**, ICRA estimates; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** None

### Rating history for last three years:

S. No	Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years												
			Amount Rated (Rs. Cr.)	Outstanding Amount (Rs. Cr.)	Date(s) & Rating(s)	Date(s) & Rating(s)	Date(s) & Rating(s) FY2019	Date(s) & Rating(s) FY2018	Date(s) & Rating(s) FY2018	Date(s) & Rating(s) FY2018	Date(s) & Rating(s) FY2018	Date(s) & Rating(s) FY2018	Date(s) & Rating(s) FY2018	Date(s) & Rating(s) FY2017	Date(s) & Rating(s) FY2017	Date(s) & Rating(s) FY2017	Date(s) & Rating(s) FY2017	Date(s) & Rating(s) FY2016
					Mar-19	Sep-18	Apr-18	Mar-18	Feb-18	Sep-17	Jul-17	Apr-17	Dec-16	Sep-16	Jun-16	Apr-16	Aug-15	
1	Term Loan	Long Term	455.0	455.0	[ICRA]BBB- &	[ICRA]B+ &	[ICRA]B+ (Negative)	[ICRA]BBB- (SO) @	[ICRA]A- (SO) @	[ICRA]A+ (SO) &	[ICRA]A+ (SO) &	[ICRA]A+ (SO) (Stable)	[ICRA]A+ (SO) (Stable)	[ICRA]A+ (SO) (Stable)	[ICRA]A+ (SO) &	[ICRA]A+ (SO) (Stable)	[ICRA]A+ (SO) (Stable)	
2	Overdraft/ Working Capital Demand Loans	Long Term	245.0	245.0	[ICRA]BBB- &	[ICRA]B+ &	[ICRA]B+ (Negative)	[ICRA]BBB- (SO) @	[ICRA]A- (SO) @	[ICRA]A+ (SO) &	[ICRA]A+ (SO) &	[ICRA]A+ (SO) (Stable)	[ICRA]A+ (SO) (Stable)	[ICRA]A+ (SO) (Stable)	[ICRA]A+ (SO) &	[ICRA]A+ (SO) (Stable)	[ICRA]A+ (SO) (Stable)	
3	Non-Fund-based Limits	Short Term	50.0	50.0	[ICRA]A3 &	[ICRA]A4 &	[ICRA]A4	[ICRA]A3 (SO) @	[ICRA]A2+ (SO) @	[ICRA]A1+ (SO) &	[ICRA]A1+ (SO) &	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	[ICRA]A1+ (SO) &	[ICRA]A1+ (SO) &	[ICRA]A1+ (SO)	

@: rating watch with negative implications; &: rating watch with developing implications

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISI N	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	March 2013	10.50%	October 2023	455.0	[ICRA]BBB- &
NA	Overdraft/ Working Capital Demand Loans	--	--		245.0	[ICRA]BBB- &
NA	Non-fund-based Limits	--	--		55.0	[ICRA]A3 &

&: rating watch with developing implications; Source: FHsL

[ICRA has taken a consolidated view of Fortis Healthcare Limited. Following are the subsidiaries taken into consolidated analysis:](#)

## Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Escorts Heart Institute and Research Centre Limited	100.00%	Full Consolidation
Fortis Healthstaff Limited	100.00%	Full Consolidation
Fortis Asia Healthcare Pte. Ltd	100.00%	Full Consolidation
Fortis Healthcare International Pte. Limited	100.00%	Full Consolidation
Mena Healthcare Investment Company Limited	82.54%	Full Consolidation
Medical Management Company Limited	82.54%	Full Consolidation
SRL Diagnostics FZ-LLC	100.00%	Full Consolidation
SRL Diagnostics Middle East LLC	49.00%	Full Consolidation
Hiranandani Healthcare Private Ltd	100.00%	Full Consolidation
Fortis La Femme Limited	100.00%	Full Consolidation
Fortis CSR Foundation	100.00%	Full Consolidation
SRL Limited	57.68%	Full Consolidation
SRL Diagnostics Private Limited	100.00%	Full Consolidation
SRL Reach Limited	100.00%	Full Consolidation
Fortis Healthcare International Limited	100.00%	Full Consolidation
Fortis Global Healthcare (Mauritius) Limited	100.00%	Full Consolidation
Fortis Hospitals Limited	100.00%	Full Consolidation
Fortis Cancer Care Limited	100.00%	Full Consolidation
Fortis Malar Hospitals Limited	62.71%	Full Consolidation
Malar Star Medicare Limited	100.00%	Full Consolidation
Fortis Health Management (East) Limited	100.00%	Full Consolidation
Birdie and Birdie Realtors Private Limited	100.00%	Full Consolidation
Stellant Capital Advisory Services Private Limited	100.00%	Full Consolidation
Fortis Hospotel Limited	100.00%	Full Consolidation
RHT Health Trust Trustee Manager Pte Ltd	100.00%	Full Consolidation
Fortis Emergency Services Limited	100.00%	Full Consolidation
Fortis C-Doc Healthcare Limited	60.00%	Equity accounting
International Hospital Limited	100%	Full Consolidation
Escorts Heart and Super Speciality Hospital Limited	100%	Full Consolidation
Fortis Health Management Limited	100%	Full Consolidation
Hospitalia Eastern Private Limited	100%	Full Consolidation

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