

Fortis Healthcare Limited

March 27, 2019

Summary of Rated Instruments:

| Instrument | Previously Rated Amount (Rs. Crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------------------|-------------------------------------|----------------------------------|---|
| Fund-based Limits | 105.00 | 79.00 | [ICRA]BBB-&; upgraded from [ICRA]B+&, and continues to be on watch with developing implications |
| Term Loans | 195.00 | 626.00 | [ICRA]BBB-&; upgraded from [ICRA]B+&, and continues to be on watch with developing implications |
| Non-fund-based Limits | 20.00 | 10.00 | [ICRA]A3&; upgraded from [ICRA]A4&, and continues to be on watch with developing implications |
| Non-convertible Debentures | 250.00 | 0.00 | [ICRA]BBB-&; upgraded from [ICRA]B+&, and withdrawn |
| Commercial Paper | 600.00 | 0.00 | [ICRA]A3&; upgraded from [ICRA]A4&, and withdrawn |
| Total | 1170.00 | 715.00 | |

Rationale

The ratings have been upgraded due to substantial improvement in financial metrics of the Fortis Group¹ 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,

¹ 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

and positive outlook for healthcare services in the country due to better affordability, widening medical insurance coverage, and growing healthcare awareness.

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 and SFIO. However, the change in ownership is likely to address many of these challenges and the equity infusion by IHH Healthcare Bhd (through its 100% stepdown subsidiary – Northern TK Ventures Limited) 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 petition 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 4666 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 nine board members of FHL and has parked Rs. 3349 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 potential synergies 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 ~4400 beds spread across 43 healthcare facilities (including projects under development) and over 390 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 - Fortis Group and its erstwhile promoters are currently facing multiple investigations and litigations and any adverse ruling may impact Fortis Group's business 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 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. 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 IHH as promoter, stronger balance sheet and much better cash flow generation prospects, now the company also has significant financial flexibility and is in discussions 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 | Corporate Credit Ratings: A Note on Methodology Impact of Parent or Group Support on an Issuer's Credit Rating Rating Methodology for Hospitals |
| Parent/Group Support | IHH Healthcare Bhd. |
| Consolidation / Standalone | Consolidated |

About the company:

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)

| | FY2017 (Audited) | FY2018 (Audited) | 9MFY2019 (Limited review) |
|------------------------------|-----------------------------|-----------------------------|--------------------------------------|
| 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 | Current Rating (FY2019) | | | Chronology of Rating History for the past 3 years | | | | | | | | | | | |
|-------|----------------------------|-------------------------|----------------------|--------------------|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | | Type | Amt. Rated (Rs. Cr.) | Amt. O/s (Rs. Cr.) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) |
| | | | | | Mar-19 | Sep-18 | Apr-18 | Mar-18 | Feb-18 | Feb-18 | Sep-17 | Mar-17 | Sep-16 | Jun-16 | Mar-16 | Sep-15 |
| 1 | Non-convertible Debentures | Long Term | 0 | 0 | [ICRA]BBB-* | [ICRA]B+ & | [ICRA]C | [ICRA]BBB-@ | [ICRA]A-@ | [ICRA]A+@ | [ICRA]A+& | [ICRA]A+(Stable) | [ICRA]A+(stable) | [ICRA]A+& | [ICRA]A+(Stable) | [ICRA]A+(Positive) |
| 2 | Commercial Paper | Short Term | 0 | 0 | [ICRA]A3* | [ICRA]A4 & | [ICRA]A4 | [ICRA]A3@ | [ICRA]A2+@ | [ICRA]A1+@ | [ICRA]A1+& | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+& | [ICRA]A1+ | [ICRA]A1+ |
| 3 | Fund-based Limits | Long Term | 79 | 79 | [ICRA]BBB- & | [ICRA]B+ & | [ICRA]C | [ICRA]BBB-@ | [ICRA]A-@ | [ICRA]A+@ | [ICRA]A+& | [ICRA]A+(stable) | [ICRA]A+(stable) | [ICRA]A+& | [ICRA]A+(stable) | [ICRA]A+(Positive) |
| 4 | Term Loans | Long Term | 626 | 626 | [ICRA]BBB- & | [ICRA]B+ & | [ICRA]C | [ICRA]BBB-@ | [ICRA]A-@ | [ICRA]A+@ | [ICRA]A+& | [ICRA]A+(Stable) | | | | |
| 5 | Non-fund-based Limits | Short Term | 10 | 10 | [ICRA]A3 & | [ICRA]A4 & | [ICRA]A4 | [ICRA]A3@ | [ICRA]A2+@ | [ICRA]A1+@ | [ICRA]A1+& | [ICRA]A1+ | | | | |

@: rating watch with negative implications; &: rating watch with developing implications; *Rating Withdrawn

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

Annexure-1: Instrument Details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Term Loan | September 2015 | -- | December 2019 | 15 | [ICRA]BBB- & |
| NA | Term Loan | January 2017 | -- | January 2022 | 396 | [ICRA]BBB- & |
| NA | Term Loan | March 2017 | -- | March 2022 | 215 | [ICRA]BBB- & |
| NA | Fund-based Limits | -- | -- | -- | 79 | [ICRA]BBB- & |
| NA | Non-fund-based Limits | -- | -- | -- | 10 | [ICRA]A3 & |

&: on watch with developing implications; @: on watch with negative implications; Source: FHL

[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 |

ANALYST CONTACT

Mr. Shubham Jain
+91-124-4545306
shubhamj@icraindia.com

Mr. Kapil Banga
+91-124-4545391
Kapil.banga@icraindia.com

RELATIONSHIP CONTACT

Mr. L Shiv Kumar
+91-22- 30470005
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents