

September 13, 2019

## Fortis Healthcare Limited: Ratings upgraded to [ICRA]BBB+&/[ICRA]A2&; ratings continue to be on watch with developing implications

### Summary of Rated Instruments:

Instrument	Previously Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	79.00	50.00	[ICRA]BBB+&; upgraded from [ICRA]BBB-& and continues to be on watch with developing implications
Term Loans	626.00	645.00	[ICRA]BBB+&; upgraded from [ICRA]BBB-& and continues to be on watch with developing implications
Non-fund-based Limits	10.00	20.00	[ICRA]A2&; upgraded from [ICRA]A3& and continues to be on watch with developing implications
<b>Total</b>	<b>715.00</b>	<b>715.00</b>	

### Rationale

The rating upgrade takes into account the improvement in operating performance of Fortis<sup>1</sup> in Q1FY20; the occupancy improved from 62% in Q1FY19 to 66% in Q1FY20 and Average revenue per occupied bed (ARPOB) improved from Rs. 1.53 crore to Rs. 1.57 crore during the same period. The improvement in operating metrics coupled with the elimination of net hospital service fees (~Rs. 270 crore annually) being paid earlier to RHT<sup>2</sup>, resulted in operating margins improving to 12.5% in Q1FY20 from 1.4% in Q1FY19. The debt coverage indicators have also shown commensurate improvement - interest coverage ratio increased from 0.97 times from FY19 to 2.75 times in Q1FY20, and Total debt/OPBITDA improved from 6.2 times to 2.8 times over the same period and the Net Debt to OPBITDA improved from 3.1 times to 2.2 times over the same period. Further, on account of equity infusion, the gearing ratio of the company improved from 0.28 times to 0.19 times during this period.

The ratings take comfort from IHH (through its 100% stepdown subsidiary – Northern TK Ventures Limited) becoming the largest shareholder (holding ~31% stake) in Fortis, it being classified as promoter entity and having majority of the members on the board- IHH has nominated five out of nine board members. IHH owns and operates one of the largest hospital networks globally with an established track record of acquiring and successful running large healthcare facilities across multiple countries; the stronger promoter with diversified international presence is expected to enable Fortis Group in faster turnaround of operations as well as provide synergies with key equipment suppliers, vendors and lenders. With the induction of a strong shareholder, Fortis has also been able to raise fresh working capital debt, fresh

<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

<sup>2</sup> Fortis, in Q4FY19, acquired Indian assets of Singapore Stock Exchange listed RHT Health Trust (RHT); the same was primarily funded through ~Rs. 4000 crore equity infusion by IHH Healthcare Bhd (IHH) into Fortis

term loan for capex and also refinance its earlier borrowing with new loans carrying lower rate of interest, which has eased the liquidity position and is expected to improve cash flows going forward.

The ratings continue to derive comfort from Fortis' 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' 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.

The ratings are, however, constrained by the committed buyback of the private equity investments in one of its subsidiaries- SRL Limited (for which Fortis has recognised liability of Rs. 1180 crore on its March 2019 Balance Sheet), 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) and 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. However, Fortis, along with SRL, has appointed Kotak Mahindra Bank Limited to manage the sale process for facilitating a third-party sale of stake of existing PE investors.

The ratings are also constrained by outstanding vendor payments, although the payable position has improved in Q1FY20 on the back of better cash flows and sanction of new working capital facilities. The trade payable days stand at ~70 days. The ratings also factor in the regulatory restrictions imposed by National Pharmaceutical Pricing Authority (NPPA), which has considerably impacted margins of all the players in the sector; ICRA notes that the regulatory environment continues to be the overarching challenge for the hospital sector. The ratings are further constrained by the substantial losses reported in FY2019 (PAT loss of Rs. 587 crore; before share of profits from Associates/JV) and in FY2018 (loss of Rs. 987 crore) mainly due to write-off of advances extended to related parties, write-off of investment in certain associates and goodwill impairment. The ratings are also constrained by the qualified and adverse opinion expressed by the statutory auditors in the FY2019 Annual Report on account of the internal and external investigations, their possible impact on the company and the resultant limitations in identification of deficiencies in internal financial controls.

### **Outlook: Not Applicable; Ratings continue to be on watch with developing implications**

The investigations by SFIO, Registrar of Companies and SEBI are still ongoing and the petition filed by Daiichi Sankyo Company Ltd is still subjudice. IHH has also parked ~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 will increase up to ~57%, subject to the subscription by the minority shareholders to the open offer. This will take the total equity investment of ~Rs. 7349 crore by IHH in Fortis (through combination of primary equity infusion and secondary market purchase). The potential implications, if any, of these ongoing investigations and litigations on the credit risk profile of the company will remain key rating sensitivities. Additionally, the impact of the exit provided to Private Equity investors of SRL Limited on the consolidated financial risk profile and the movement in the operating metrics, debt protection metrics as well as the liquidity profile of the group going forward will be key rating monitorables.

### **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, the

deal with RHT to buyout its Indian healthcare assets for ~Rs 4666 crore and efficiency improvement initiatives taken by IHH have led to better operating metrics as well as stronger financial risk profile- the occupancy improved from 62% in Q1FY19 to 66% in Q1FY20 and Average revenue per occupied bed (ARPOB) improved from Rs. 1.53 crore to Rs. 1.57 crore during the same period. The improvement in operating metrics coupled with the elimination of net hospital service fees (~Rs. 270 crore annually) being paid earlier to RHT<sup>3</sup>, resulted in operating margins improving to 12.5% in Q1FY20 from 1.4% in Q1FY19. The debt coverage indicators have also shown commensurate improvement - interest coverage ratio increased from 0.97 times from FY19 to 2.75 times in Q1FY20, and Total debt/OPBITDA improved from 6.18 times to 2.83 times over the same period and the Net Debt to OPBITDA improved from 3.1 times to 2.2 times over the same period. Further, on account of equity infusion, the gearing ratio of the company improved from 0.28 times to 0.19 times during this period

**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 9000 potential bed capacity spread across 40 healthcare facilities (including projects under development) and over 400 diagnostic laboratories. 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

**Committed exit to the Private Equity investors in SRL:** Fortis has recognised liability of Rs. 1180 crore on its balance sheet for FY2019 for providing the exit to the private equity investors in SRL. Simultaneously, an advisor has been appointed to scout for new investors to buy the stake of existing PE investors in SRL. In case the company is required to buy the stake of the existing PE investors, Fortis' financial risk profile will be adversely impacted, particularly in the near term. ICRA will continue to monitor the developments and take rating action, if and when clarity emerges on the same

**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 operations

**Significant losses booked in FY2018 and FY2019 due to write-off and goodwill impairment-** The company reported consolidated loss of Rs. 987 crore in FY2018 and loss of Rs. 587 crore (before share of profits in Associates/JV) in FY2019 on account of write-off of advances extended to related parties, write-off of investment in certain subsidiaries and on account goodwill impairment

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<sup>3</sup> Fortis, in Q4FY19, acquired Indian assets of Singapore Stock Exchange listed RHT Health Trust (RHT); the same was primarily funded through ~Rs. 4000 crore equity infusion by IHH Healthcare Bhd (IHH) into Fortis

**Working capital position likely to normalise gradually:** Due to the stress in liquidity situation under erstwhile promoters, the vendor payments were significantly stretched and may take time to completely normalise. Nonetheless, with the new promoters coming in, financial metrics getting stronger, and sanction of new working capital facilities, the working capital situation has improved. ICRA expects the working capital situation to further improve on the back of improvement in operational performance along with the monetization of non-core assets.

## Liquidity: Adequate

The current liquidity position of the company is adequate: the company has sanctioned working capital limits of Rs. 398 crore out of which utilised amount is Rs. 279 crore, leaving a buffer of Rs. 119 crore. Additionally, it has cash and equivalents of over Rs. 280 crore as of August 31, 2019. After the new borrowing set up along with the refinancing done in June 2019, the company's operational cash flows are expected to be sufficient in meeting all operational requirements, debt repayments, and normal capex requirements (except the buyback commitment for PE investors of SRL). As the new management has taken over, equity infusion by IHH has been done and EBITDA has improved, the cash flow generation is much better. The working capital position has also eased in Q1FY20 and is likely to completely normalise in FY20. Also, the company is working towards liquidation of its non-core assets and has already sold its stake in one of its overseas investments (The Medical and Surgical Centre, Mauritius) for approximately Rs. 75 crore in July 2019.

## Rating sensitivities

**Positive triggers** – Ratings may be upgraded in case company maintains interest coverage ratio of more than 3.25 times and Total debt/OPBITDA of less than 2.0 times on sustainable basis. Favourable impact of ongoing investigations, litigations and impact of exit to be provided to PE investors in SRL on the credit risk profile of the company will be credit positive.

**Negative triggers** – Ratings may be downgraded in case the interest coverage ratio falls below 2.5 times and Total debt/OPBITDA is more than 2.5 times on consistent basis. Adverse impact of ongoing investigations, litigations and exit to be provided to PE investors in SRL on the credit risk profile of the company will be credit negative.

**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 Rating 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 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 40 healthcare facilities, potential bed capacity of ~9000 beds. Further, through its subsidiary, SRL Limited, the company operates over 400 diagnostic laboratories 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 (a 100% 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 by the minority shareholders 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>FY2018 (Audited)</b>	<b>FY2019 (Audited)</b>	<b>Q1FY2020 (Unaudited)</b>
Operating Income (Rs. crore)	4,561	4469	1138
PAT (Rs. crore)	-987	-587	75
OPBDIT/ OI (%)	8.5%	7.3%	12.5%
RoCE (%)	-9.2%	-1.7%	4.7%
Total Debt/ TNW (times)	0.38	0.29	0.22
Total Debt/ OPBDIT (times)	5.04	6.18	2.78
Interest coverage (times)	1.51	0.97	2.79
NWC/ OI (%)	2%	-21%	

Source: **FHL**, ICRA estimates; OI: Operating Income; PAT: Profit after Tax before Share of Profits from Associates/JV; 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) 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) FY2017	Date(s) & Rating(s) FY2017	Date(s) & Rating(s) FY2017	
					13-Sep-19	27-Mar-19	06-Sep-18	10-Apr-18	07-Mar-18	09-Feb-18	05-Feb-18	08-Sep-17	04-Apr-17	01-Sep-16	21-Jun-16	
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+ &	
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+ &	
3	Fund-based Limits	Long Term	50	50	[ICRA]BBB+ &	[ICRA]BBB- &	[ICRA]B+ &	[ICRA]C	[ICRA]BBB-@	[ICRA]A-@	[ICRA]A+@	[ICRA]A+ &	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ &	
4	Term Loans	Long Term	645	645	[ICRA]BBB+ &	[ICRA]BBB- &	[ICRA]B+ &	[ICRA]C	[ICRA]BBB-@	[ICRA]A-@	[ICRA]A+@	[ICRA]A+ &	[ICRA]A+ (Stable)			
5	Non-fund-based Limits	Short Term	20	20	[ICRA]A2 &	[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](http://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	June 2019	--	June 2026	70	[ICRA]BBB+ &
NA	Term Loan	June 2019	--	June 2024	180	[ICRA]BBB+&
NA	Term Loan	September 2018	--	October 2031	395	[ICRA]BBB+ &
NA	Fund-based Limits	September 2018	--	--	50	[ICRA]BBB+ &
NA	Non-fund-based Limits	September 2018 and June 2019	--	--	20	[ICRA]A2 &

&: 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
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 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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Fortis Cauvery	51%	Joint Venture Accounting
SRL Diagnostics (Nepal) P Ltd	50%	Equity accounting
DDRC SRL Diagnostics Pvt Ltd	50%	Equity accounting
RHT Health Trust	27.82%	Equity accounting
Lanka Hospitals Corporation PLC	28.60%	Equity accounting

*Note1: #-Please note that these entities are 100% subsidiaries w.e.f January 15,2019. Prior to that the holding of FHL was 28% appx*

*Note 2: The Medical Surgical Centre Limited 's stake (28.89%) has been sold off in July 2019. Therefore not included above.*



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