March 30, 2020

Fortis Healthcare Limited: Ratings upgraded to [ICRA]A-&/[ICRA]A1& and short-term rating of [ICRA]A1& withdrawn

Summary of Rated Instruments:

Instrument	Previously Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	50.00	50.00	[ICRA]A-&; upgraded from [ICRA]BBB+& and continues to be on watch with developing implications
Term Loans	645.00	319.83	[ICRA]A-&; upgraded from [ICRA]BBB+& and continues to be on watch with developing implications
Non-fund-based Limits	20.00	0.00	[ICRA]A1&; upgraded from [ICRA]A2& and withdrawn
Total	**715.00**	**369.83**	

&: on watch with developing implications

Rationale

The rating upgrade takes into account the continuing improvement in operating metrics of Fortis Healthcare Limited[1] ("Fortis")- the occupancy improved from 66% in 9MFY19 to 69% in 9MFY20 and Average revenue per occupied bed (ARPOB) improved from Rs. 1.52 crore to Rs. 1.58 crore during the same period. The improvement in operating metrics coupled with the elimination of net hospital service fees (~Rs. 270 crores annually) being paid earlier to RHT[2], resulted in operating margins increasing to 13.7% in 9MFY20 from 3.4% in 9MFY19. The performance of the diagnostic business also improved, with the revenues growing by 3% and EBITDA by 18% in 9MFY20 on the back of growth in volumes as well as average realisation. Consequently, the consolidated debt coverage indicators have shown significant improvement - interest coverage ratio increased from 0.41 times from 9MFY19 to 3.27 times in 9MFY20 and Total debt/OPBITDA improved from 10.66 times to 2.46 times over the same period.

The ratings also 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 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 has enabled faster turnaround of operations as well as availing 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 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.

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[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

[2] 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

Further, IHH has also parked ~Rs. 3349 crores in an escrow account for the mandatory open offer. Pursuant to order dated December 14, 2018 passed by Hon'ble Supreme Court of India ("Court"), the open offer process has been currently put on hold; 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.

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 erstwhile promoters and Fortis 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 Court. Court, vide its order dated November 15, 2019, initiated suo moto contempt proceedings inter alia against FHL with regards to the IHH equity infusion and purchase of RHT assets. FHL has filed reply denying allegations of violation of orders passed by the Court and has also prayed for the Open Offer to proceed. Additionally, Northern TK Venture Pte Ltd. (NTK) (promoter of the Company). has filed applications before Court for intervention in the matter. ICRA has also noted that application under the insolvency Act has been filed against SRL but the same is subjudice before Hon'ble NCLT, Chandigarh. Any adverse outcome of these appeals, investigations or litigations may impair company's ability to maintain its operational and financial risk profile. ICRA has noted, that Kotak Mahindra Bank Limited had been appointed by the existing PE investors to manage the sale process for facilitating a third-party sale of stake and the process is in advances stages.

The ratings are also constrained by large outstanding income tax receivables, which have impacted the cash flows of the company; given the current organisational structure, the blockage of funds in income tax receivable is likely to remain elevated. The ratings also factor in the regulatory restrictions imposed by various authorities, which has considerably impacted margins of all the players in the sector- this includes the cap on prices of stents and knee implants, and impact of penalties and restrictions imposed by various state Governments. ICRA notes that the regulatory environment continues to be the overarching challenge for the hospital sector. The ratings are also constrained by the qualified opinion expressed by the statutory auditors in the FY2019 Annual Report and 9MFY20 limited review report on account of the internal and external investigations, limitations in identification of deficiencies in internal financial controls and due to the put option liability on the company for providing exit to PE investors.

Key rating drivers

Credit Strength

Operational and financial risk profile has strengthened substantially - 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 66% in 9MFY19 to 69% in 9MFY20 and Average revenue per occupied bed (ARPOB) improved from Rs. 1.52 crore to Rs. 1.58 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[3], resulted in operating margins improving to 13.7% in 9MFY20 from 3.4% in 9MFY19. Consequently, the debt coverage indicators have also shown significant improvement - interest coverage ratio increased from 0.41 times from 9MFY19 to 3.27 times in 9MFY20 and Total debt/OPBITDA improved from 10.66 times to 2.46 times over the same period.

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[3] 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

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 crores 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 has enabled turnaround of Fortis Group's operations
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 26 healthcare facilities 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. An advisor was appointed to scout for new investors to buy the stake of existing PE investors in SRL and the process is in advanced stages. 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

Regulatory risks: The regulatory restrictions imposed by various authorities considerably impacted margins of all the players in the sector- this includes the cap on prices of stents and knee implants, increase in tax burden due to GST and impact of penalties and restrictions imposed by various state Governments. The regulatory environment continues to be the overarching challenge for the hospital sector

Liquidity: Adequate

The current liquidity position of the company is adequate: the company has sanctioned working capital limits of Rs. 398 crore, which had average utilisation of Rs. 279 crore, leaving a buffer of Rs. 119 crore. Additionally, it has cash and equivalents of over Rs. 350 crore as of December 31, 2019. As the new management has taken over, equity infusion by IHH has been done and EBITDA has increased, the cash flows have improved significantly. Thus, the company's internal accruals are expected to be sufficient in meeting all operational requirements, debt repayments, and capex requirements (except the buyback commitment for PE investors of SRL). Though, considerable amount will remain blocked in income tax receivables due to current operating structure within the group.

Rating sensitivities

Positive triggers – Rating may be upgraded in case the company maintains DSCR of more than 2 times on sustainable basis. Favourable outcome of ongoing litigations & investigations, and conclusion of sale of stake of PE investors in SRL without adverse impact on Fortis' financial risk profile will be credit positive.

Negative triggers – Ratings may be downgraded in case the DSCR falls below 1.25 times on prolonged basis. Any adverse impact of ongoing investigations, litigations and debt funded exit to be provided to PE investors in SRL 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	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 26 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 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. Pursuant to order dated December 14, 2018 passed by the Court, the open offer has been put on hold.

Key Financial Indicators (Consolidated)

	FY2018 (Audited)	FY2019 (Audited)	9MFY2020 (Limited Review)
Operating Income (Rs. crore)	4,561	4469	3519
PAT (Rs. crore)	-988	-587	123
OPBDIT/ OI (%)	8.5%	7.3%	13.8%
RoCE (%)	-9.2%	-1.7%	5.7%
Total Debt/ TNW (times)	0.37	0.28	0.22
Total Debt/ OPBDIT (times)	5.04	6.15	2.46
Interest coverage (times)	1.51	0.97	3.27
NWC/ OI (%)	2%	-20%	-14%

*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. Financials of 9MFY2020 include impact of IndAS 116*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

S. No		Current Rating (FY2020)					Chronology of Rating History for the past 3 years										
	Instrument	**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) 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**	
					30-Mar-20	**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]A- &	[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	319.83	319.83	[ICRA]A- &	[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	0.0	0.0	[ICRA]A1 & (withdrawn)	[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

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	February 2020	--	October 2030	294.80	[ICRA]A- &
NA	Term Loan	February 2020	--	March 2026	25.03	[ICRA]A-&
NA	Fund based limits	February 2020	--	-	50.00	[ICRA]A- &
NA	Non-fund-based Limits	--	--	--	20.00	[ICRA]A1& (upgraded and withdrawn)

&: on watch with developing 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
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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