

## Fortis Healthcare Limited

April 04, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Bank facilities - Long Term - Term Loan	55.00	CARE BBB- [Triple B Minus] (Under credit watch with developing implications)	Revised from CARE C (Single C) and placed on credit watch with developing implications
Bank facilities – Fund based – Overdraft	50.00	CARE A3 [A Three] (Under credit watch with developing implications)	Revised from CARE A4 (A Four) and placed on credit watch with developing implications
<b>Total</b>	<b>105.00</b> (Rs. One hundred and five crore only)		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in ratings of the credit facilities of FHL factor in the improvement in financial risk profile of the group following IHH Healthcare Berhad's (IHH) equity infusion (through its step down subsidiary Northern TK Ventures Pte Ltd) of ~Rs. 4,000 crore and subsequent acquisition of RHT Health Trust's (RHT) assets. The revision also factors in the introduction of new promoter (i.e IHH) having global experience in healthcare industry with track record of successful integration of acquisitions and IHH's strategic, operational and financial support to FHL.

The ratings also factor in the brand strength of FHL with pan-India presence, its superior infrastructure facility and favourable healthcare market dynamics in India.

The ratings are however constrained by pending investigation/ litigations against the group, below-average operational performance in the past, significant losses booked on account of allowances on group advances/ investments as well as goodwill impairment. The ratings also take into cognizance the refinancing needs of the group in medium term.

The rating of FHL is placed under "credit watch with developing implications" in view of the developments regarding the ongoing investigations and litigations against the group and the possible impact of the same on the credit profile of FHL. CARE will continue to monitor the developments in this regards and take rating action once greater clarity emerges.

Going forward, consummation of the open offer by IHH thus gaining majority in FHL and improvement in operational performance of FHL shall remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### **Improvement in financial risk profile through IHH's equity infusion**

IHH had become the single largest shareholder in FHL (holding ~ 31.1% share) through infusion of ~Rs. 4,000 crore via preferential allotment on November 13, 2018. Subsequently, FHL acquired a portfolio of clinical establishments (CE) for ~Rs. 4,666 crore, owned by the subsidiaries of RHT in January 2019. The said acquisition by FHL is expected to save significant business trust fee and interest cost being previously being paid to RHT for utilization its assets. Reduction of these expenses is expected to improve cash flow and coverage metrics.

#### **Introduction of new promoter having global experience in healthcare industry**

IHH (currently classified as promoter shareholder of FHL) is one of the largest private hospital operators in South-Asia. IHH has a long track record of acquisition and turning around large healthcare assets globally. FHL is expected to derive significant operational support from IHH through global industry best practices access, exchange of world class resources, better governance and internal control and other synergies through centralized procurement. FHL is expected to leverage IHH's strong credit risk profile to save interest cost. IHH's further equity commitment in FHL is demonstrated through placement of ~Rs. 3,349 crore in escrow account to acquire additional 26% stake via open offer (subject to Hon'able Supreme Court's order). Also, IHH's strong representation in board (five out of the nine directors) is expected to lead to better strategic decision and quicker turnaround in FHL.

#### **Long track record of operation and established brand with pan-India presence**

FHL has established its presence across India under 'Fortis' brand in the healthcare segment and 'SRL' brand in the diagnostics segment. From its first hospital at Mohali, Punjab, in 2001, FHL had expanded its network of hospitals via organic and inorganic routes to become a leading healthcare player with presence in multiple verticals spanning diagnostics, primary care, day care specialty and hospitals. FHL also operates one of the largest private diagnostic centres in India through its subsidiary SRL Ltd.

#### **Superior asset quality**

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Several hospitals of FHL have NABH or JCI accreditation and have tertiary/ quaternary care facilities. The presence of such specialized consultative resource drives high ARPOB for FHL.

***Favourable industry scenario***

The growth in population, increase in lifestyle-related diseases, increase in insurance cover, rising purchasing power of the middle class and higher awareness of chronic illnesses will be the key growth drivers for the sector. The healthcare need in India is expected to increase once the population stabilizes and the median age increases rapidly in the next decade. Although there is increasing competition in the sector; however, comfort is drawn from the sizeable presence and established position of FHL.

***Liquidity profile***

GCA and operating cash flows is expected to improve post acquisition of RHT's assets leading to reduction in working capital utilization and creditor level (which are presently high). The moderate cash flows, bulky repayment in medium term with focus on retirement of high cost debt will make FHL rely on refinancing. However, financial flexibility is expected to improve given IHH's parentage.

***Key Rating Weaknesses***

***Pending investigation/ litigations against the group***

The Group is facing various investigations pertaining to the ICDs advanced by Fortis Hospitals Limited initiated by regulators such as SEBI, Serious Fraud Investigation Office (SFIO) etc. Its self-conducted independent investigation on the said matter revealed systemic lapses/ control overrides. FHL is making efforts to recover dues from its erstwhile promoters and their related companies.

Also, in various forums, the hospitals operated by the Group are under litigations against by government authorities including DDA, NMMC, etc. The group also has various statutory liabilities under dispute which are pending resolution in various forums. Outcome of these investigations/ litigations will be a key monitor able given the magnitude and potential implication.

***Below-average operational performance in the past***

FHL witnessed continuous decline in occupancy level over the quarters – Q1FY19 occupancy level being lower than that in Q1FY18, which was lower than that in Q1FY17. Similar trend has also been observed for Q2 and Q3 in the current year. ARPOB and ALOS have remained almost stagnant during the last 11 quarters.

***Impact on profitability in FY18 and in 9MFY19***

Revenue and profitability were impacted in the past due to external headwinds (eg. curb on pricing of cardiac stents, ortho implants, oncology drugs etc) and internal challenges given the management bandwidth constraints due to corporate governance issues, prolonged transaction and due diligence process, funding constraints, less than optimal capex spend resulting in delay of key business initiatives and adverse publicity of patient related incidents in a few hospitals.

FHL booked net loss in FY18 and 9MFY19 on account of exceptional loss of Rs. 881.0 crore and Rs. 222.6 crore respectively. This was on account of allowances on related party investments/ advances as well as goodwill impairment.

**Analytical Approach:** Consolidated approach factoring in the operational and financial support from its promoter i.e IHH Healthcare Bhd. Entities considered for consolidation are listed below:-

Subsidiaries	Associates	Joint Ventures
<ul style="list-style-type: none"> <li>• Hiranandani Healthcare Private Limited (HHPL)</li> <li>• Fortis Hospotel Limited (FHTL)</li> <li>• Fortis Lafemme Limited (FLFL)</li> <li>• Fortis Health Management (East) Limited (FHM(E)L)</li> <li>• Fortis Cancer Care Limited (FCCL)</li> <li>• Fortis Healthcare International Limited (FHIL)</li> <li>• Escorts Heart Institute &amp; Research Centre Ltd (EHIRCL)</li> <li>• Lalitha Healthcare Private Limited (LHPL)</li> <li>• Fortis Malar Hospitals Limited (FMHL)</li> <li>• Fortis Hospitals Limited (FHSL)</li> <li>• Fortis Global Healthcare (Mauritius) Limited (FGHL)</li> <li>• Malar Stars Medicare Limited (MSML)</li> <li>• Fortis Asia Healthcare Pte. Limited (FAHPL)</li> <li>• Birdie &amp; Birdie Realtors Private Limited</li> <li>• Fortis Emergency Services Limited (FESL)</li> <li>• Stellant Capital Advisory Services Private Limited</li> <li>• RHT Health Trust Manager Pte Limited</li> <li>• Fortis Health Staff Limited</li> <li>• SRL Limited</li> <li>• SRL Diagnostics Private Limited</li> <li>• SRL Reach Limited</li> <li>• SRL Diagnostics FZ-LLC</li> <li>• Fortis Healthcare International Pte Limited (FHIPL)</li> <li>• Mena Healthcare Investment Company Limited</li> <li>• Medical Management Company Limited</li> <li>• SRL Middle East LLC</li> </ul>	<ul style="list-style-type: none"> <li>• Sunrise Medicare Private Limited</li> <li>• Medical and Surgical Centre Limited</li> <li>• Fortis Medicare International Limited</li> <li>• Lanka Hospitals Corporation Plc</li> <li>• International Hospital Limited (IHL)*</li> <li>• Escorts Heart and Super Speciality Hospital Limited (EHSSHL)*</li> <li>• Fortis Global Healthcare Infrastructure Pte. Limited (FGHIPL)</li> <li>• Hospitalia Eastern Private Limited (HEPL)*</li> <li>• RHT Health Trust (RHT)</li> <li>• Fortis Health Management Limited (FHML)*</li> </ul>	<ul style="list-style-type: none"> <li>• Fortis Cauvery</li> <li>• Fortis C-Doc Healthcare Limited (C-Doc)</li> <li>• DDRC SRL Diagnostics Services Private Limited (DDRC)</li> <li>• Super Religare Reference Laboratories (Nepal) Private Limited (SRRLPL)</li> </ul>

\* became subsidiaries post acquisition of RHT's asset by FHL

#### Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short-term Instruments](#)

[CARE's methodology for service companies](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[CARE's methodology for Factoring Linkages in Ratings](#)

#### About FHL:

FHL, incorporated in 1996, is a leading healthcare player with presence in multiple verticals spanning diagnostics, primary care, day care specialty and hospitals. The group operates 43 healthcare facilities with approximately 4,400 operational beds. FHL also operates one of the largest private diagnostic centres in India through its subsidiary SRL Ltd. Its network comprised of 368 laboratories, more than 1,000 collection centres with over 5,000 direct clients. In November 2018, IHH, through its subsidiary - Northern TK Ventures Pte Ltd had infused equity in FHL leading to holding of ~31.1%.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Revenue from operation	4,574	4,561
Total operating income (incl. share of profit of JV/ associates)	5,212	4,727
PBILDT	992	441
PAT	479	-934
Overall gearing (times)	0.57	0.62
Interest coverage (times)	4.33	1.71

A - Audited

**About IHH:**

IHH has vast experience in healthcare sector in Malaysia, Singapore, Brunei, China, Turkey and UAE. The majority shareholder of IHH is Khazanah Nasional Berhad, the sovereign wealth fund of Malaysia. Through its operating subsidiaries, the group has more than 10,000 licensed beds in 50 hospitals across 9 countries. The group offers the full spectrum of integrated healthcare services like primary care, secondary and tertiary care, quaternary care and medical education.

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	FY24	55.00	CARE BBB- (Under Credit watch with Developing Implications)
Fund-based - ST-Bank Overdraft	-	-	-	50.00	CARE A3 (Under Credit watch with Developing Implications)

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	55.00	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE C (11-Apr-18)	1)CARE BBB+ (Under Credit watch with Negative Implications) (06-Mar-18) 2)CARE A- (Under Credit watch with Negative Implications) (13-Feb-18) 3)CARE A+ (Under Credit watch with Developing Implications) (24-Nov-17) 4)CARE A+ (Under Credit watch with Developing Implications) (09-Nov-17) 5)CARE A+ (Under Credit watch with Developing Implications) (27-Jul-17) 6)CARE A+; Stable (20-Apr-17)	1)CARE A+ (04-May-16)	1)CARE A+ (23-Apr-15)
2.	Fund-based - ST-Bank Overdraft	ST	50.00	CARE A3 (Under Credit watch with Developing Implications)	1)CARE A4 (11-Apr-18)	1)CARE A2 (Under Credit watch with Negative Implications) (06-Mar-18) 2)CARE A2+ (Under Credit watch with Negative Implications) (13-Feb-18) 3)CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (04-May-16)	1)CARE A1+ (23-Apr-15)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
						(24-Nov-17) 4)CARE A1+ (Under Credit watch with Developing Implications) (09-Nov-17) 5)CARE A1+ (Under Credit watch with Developing Implications) (27-Jul-17) 6)CARE A1+ (20-Apr-17)		
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (23-Apr-15)
4.	Commercial Paper	ST	-	-	1)CARE A4 (11-Apr-18)	1)CARE A2 (Under Credit watch with Negative Implications) (06-Mar-18) 2)CARE A2+ (Under Credit watch with Negative Implications) (13-Feb-18) 3)CARE A1+ (Under Credit watch with Developing Implications) (24-Nov-17) 4)CARE A1+ (Under Credit watch with Developing Implications) (09-Nov-17)	-	-

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