

FHL/SEC/2022-23

February 2, 2023

The National Stock Exchange of India Ltd.
 Scrip Symbol: FORTIS

BSE Limited
 Scrip Code:532843

**Sub: Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015-
 Update on Credit Ratings of the Company and its Subsidiaries**

Dear Madam / Sir,

In compliance of Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please note that CRISIL Ratings Limited has revised rating of the Company and its subsidiaries, as under:

	Company	Rating
Long Term Rating	Fortis Healthcare Limited (Company) and its subsidiaries viz. Escorts Heart Institute and Research Centre Limited, Fortis Hospotel Limited, Fortis Hospitals Limited, International Hospital Limited and SRL Limited.	CRISIL AA- / Positive (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Short Term rating	Fortis Healthcare Limited (Company) and its subsidiaries viz. Escorts Heart Institute and Research Centre Limited, Fortis Hospotel Limited, Fortis Hospitals Limited and International Hospital Limited.	CRISIL A1+ (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)

The detailed letters as issued by CRISIL Ratings Limited to the Company and aforesaid subsidiaries are enclosed for your reference and records.

Thanking you,
 Yours sincerely,
 For Fortis Healthcare Limited


Murlee Manohar Jain
 Company Secretary
 ICSI Membership: F9598

Encl: a/a

FORTIS HEALTHCARE LIMITED

Regd. Office : Fortis Hospital, Sector 62, Phase – VIII, Mohali – 160062
 Tel : 0172-5096001. Fax : 0172-5096221. CIN : L85110PB1996PLC045933

Rating Rationale

February 01, 2023 | Mumbai

Fortis Healthcare Limited

Ratings removed from 'Watch Developing'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.313.78 Crore
Long Term Rating	CRISIL AA-/Positive (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Short Term Rating	CRISIL A1+ (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities of Fortis Healthcare Limited (FHL) from 'Rating Watch with Developing Implications' and has reaffirmed the long-term rating on the bank facilities at 'CRISIL AA-', while assigning a 'Positive' outlook to its long-term rating. The short term rating has also been reaffirmed at 'CRISIL A1+'.

The ratings action follows CRISIL Ratings' detailed discussion with the management subsequent to the Supreme Court of India's judgement disposing off the suo-moto contempt suits against FHL. Management of FHL doesn't anticipate any major implication on the day-to-day operations and future growth plans of the company on account of the remaining litigations. Further, promoters of FHL i.e. IHH Healthcare Berhard ("IHH") in multiple forums has reiterated that FHL remains strategically important, as India, along with Malaysia, Singapore and Turkey remain key markets. Besides, the prospects for the healthcare sector in India remain strong over the medium term, and FHL is expected to be a key driver of growth for IHH.

The positive outlook factors FHL's improving business risk profile driven by steady occupancies, high average revenue per occupied bed (ARPOB) metrics, and increasing international patient revenues, which are also leading to healthy operating profitability. Besides, FHL's financial risk profile also remains comfortable, supported by good cash generation, and healthy debt metrics, even as it is expected to pursue with its organic and inorganic growth plans. The company, on consolidated basis, is expected to sustain its debt to earnings before interest, tax, depreciation and amortization (EBITDA) at adequate levels over the medium term; It stood ~1.1 as of 30th September, 2022

The ratings had earlier been placed on watch due to pending legal issues. The Supreme Court of India had initiated suo moto contempt proceedings against FHL, with regard to funds infusion by IHH in the form of preferential allotment of fresh shares and purchase of assets of RHT Health Trust (RHT).

FHL, in its stock exchange announcement dated September 23, 2022, intimated that the Supreme Court of India pronounced the final judgment in respect of the Suo Moto contempt petition and the connected proceedings, (i.e., Special Leave Petition (Civil) No. 20417 of 2017 and the contempt petition No.2120 of 2018 in SLP (C) No.20417 of 2019) on September 22, 2022 ("Judgment"). The Supreme Court of India has, by way of the Judgment, held inter alia that the Suo Motu contempt petition and the connected proceedings have been disposed of. The Court has not found nor indicated, any wrongdoing by FHL in terms of the investment by Northern TK Ventures Pte Ltd (part of IHH) into FHL, in its judgement. Further, the Supreme Court observed that the acquisition of the business portfolio of RHT by FHL appeared to prima facie be an acquisition of proprietary interest to subserve the business structure of FHL. However, the Supreme Court has stated that the facts on record are not adequate to definitively evaluate these issues concerning the acquisition of such proprietary interests accordingly has issued a direction to the Delhi High Court, which may also consider issuing appropriate processes and appointing forensic auditor(s) to analyze the transactions entered into between FHL and RHT and other related transactions. The judgment further provides that it will be open to the Delhi High Court to pass such directions as the facts and circumstances presented before it may justify.

Securities and Exchange Board of India (SEBI) had vide orders dated April 19, 2022, and May 5, 2022 imposed a penalty of Rs 1 crore each on Escorts Heart Institute and Research Centre Limited (EHIRCL: rated 'CRISIL AA-/Positive/CRISIL A1+') and FHL and Rs 50 Lakhs on FHsL (Fortis Hospitals Ltd) due to reasons inter-alia irregularities committed by erstwhile promoters. FHL and FHsL have filed an appeal against the order of April 19, 2022, before the Securities Appellate Tribunal, Mumbai (SAT) which has directed SEBI to file its response and ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. Against the order dated May 18, 2022, EHIRCL has filed an appeal before SAT which has ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. The said two Appeals are sub-judice. Serious Fraud Investigation Office (SFIO) investigation is underway.

The outcome of these proceedings before the Delhi High Court, including any punitive action, which may have a bearing on the financial risk profile of FHL will remain a monitorable.

FHL's consolidated revenue grew by ~8% to Rs.3095 crore in the first half of fiscal 2023 compared with Rs. 2873 crore in the first half of fiscal 2022. Revenue growth in the first half of fiscal 2023 was driven by ~18.3% growth in the hospital segment, even as diagnostic segment de-grew by 19% owing to lower covid and covid allied tests. The company reported consolidated EBITDA (including other income) of Rs 590 crores (EBITDA Margin - 19.1%) in the first half of fiscal 2023, compared with ~Rs 575 crores (~20.0%) in the corresponding period of the previous fiscal. Reported EBITDA margins for hospitals improved to ~19% from ~16%, but dipped for diagnostics segment ~20.0% from ~28% in the corresponding period of previous fiscal due to lower operating leverage with covid volumes declining.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments, will ensure continued improvement in debt metrics.

Earlier, FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business.

The rating continues to reflect Fortis group's established market position with a pan India presence through its network of twenty seven hospitals, its sound operational efficiencies as reflected in improvement in occupancies and ARPOB, also leading to good profitability. The ratings are also supported by the company's healthy financial risk profile, and adequate liquidity. These strengths are partially offset by pending litigations, impact of which is not expected to be material, and regulatory risks associated with the hospital sector.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of FHL and its subsidiaries, joint ventures and associates, because all the entities are under a common management and have strong business and financial linkages. Debt includes lease liabilities, following adoption of Ind AS 116. CRISIL Ratings has further amortized the goodwill arising out of acquisition of balance 50% stake in DDRC by SRL Ltd during fiscal 2022 over a period of 10 years.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong market position in the domestic healthcare space**

FHL (on a consolidated basis) operates 27 hospitals (including JVs and O&M facilities), which provide pan-India coverage, with 3979s operational beds. Fortis is a well-known brand in the Indian healthcare space. The hospitals (on a consolidated basis) include those in Haryana, Punjab, Delhi-NCR, Karnataka, Rajasthan, Maharashtra, Chennai and West Bengal. These hospitals offer world-class services and attract international patients. SRL has established a strong brand in both retail and business-to-business (B2B) diagnostics segments, managing over 426 labs (including joint ventures), with over 2,500 customer touch points across India. The strong market position should sustain over the medium term, given the wide geographical footprint and diverse specialty mix.

There is a proposal to change the Fortis and SRL brand names, subject to various deliberation and requisite regulatory and corporate approvals. Transitioning to a new brand, while maintaining the market position, will be a key monitorable.

- **Healthy and improving financial risk profile, aided by good operating performance**

FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business. Revenue growth is expected to continue in high single digits over the medium term, while EBITDA margins are expected to sustain at 17-18%, ensuring good annual cash generation of over Rs.800 crore.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments on term loans, will ensure debt metrics remain at comfortable levels. Any large, debt-funded capex or acquisition or any adverse ruling in existing litigations under dispute, necessitating significant payout, may impact FHL's financial risk profile and will remain a key monitorable.

Weaknesses:

- **Exposure to regulatory risk**

The government policy on capping prices for medical procedures such as treatment of Covid-19 and prices of medical devices such as coronary and knee implants, has impacted players in the healthcare sector in the past. Such price control mechanisms have a direct bearing on operating margin of players through reduction in revenue. Any policy change that may negatively impact the credit risk profile will be closely monitored.

- **Continuing litigations**

While the Supreme Court's recent directions have not had any adverse impact on operations of Fortis group, the Supreme Court has directed the Delhi High Court to look into matters involving purchase of RHT assets by FHL, including undertaking a possible forensic audit, should that be required. While the management of FHL does not envisage any significant financial liability which may arise on this account, the timeframe by which the said legal issues may be resolved is uncertain. Both these aspects will remain a monitorable.

Liquidity: Strong

FHL, on a consolidated basis, had liquidity (cash equivalents of ~Rs 390 crores and undrawn working capital limits of Rs.280 crores) of ~Rs 670 crore as on November 30, 2022, against debt repayment obligation of around ~Rs 17 crore for fiscal 2023, towards loans currently drawn. Repayment obligations remain modest at Rs.200-210 crore each in fiscal 2024 and fiscal 2025, and can be comfortably serviced from accruals. Capex requirements are also expected to be primarily funded from accruals.

Outlook: Positive

CRISIL Ratings believes FHL's credit profile will benefit by improvement in business profile, supported by steady occupancies, high ARPOBs as well as return of international patient revenues, which will benefit revenues and also ensure healthy operating profitability. The company is also expected to sustain its debt metrics at comfortable levels, while pursuing organic and inorganic growth.

Rating Sensitivity factors

Upward factors

- Better than expected revenue growth and operating profitability sustaining at 15-18%, benefitting cash generation
- Maintenance of strong financial risk profile, and comfortable debt metrics; sustenance of gross debt (including lease liabilities) to EBITDA at 1.5- 1.8 times, while pursuing organic and inorganic growth opportunities

Downward factors

- Sluggish operating performance, impacting operating profitability; same remaining below 12-13% on a sustained basis, also impacting cash generation
- Significant, debt-funded capex or investments, or adverse financial impact owing to unfavourable judgement in ongoing litigations, impacting debt metrics; gross debt (including lease liabilities) to EBITDA ratio sustaining above 2.5-2.7 times

About the Company

Incorporated in February 1996, FHL's first healthcare facility became operational at Mohali in Punjab in 2001. The company operates in two segments i.e Hospitals & Diagnostics. The company is an integrated healthcare services provider, with presence in hospitals, diagnostics, day care, and specialty facilities. It has both owned and managed hospitals. The diagnostics brand, SRL, is among the leading chains in the country. FHL has entered women and child health and well-being segments through its brand, La Femme. It has a facility each in Jaipur; Greater Kailash and Shalimar Bagh (both in

New Delhi); and Bengaluru. The company has four hospitals accredited to the Joint Commission International (JCI), 20 accredited to the National Accreditation Board for Hospitals (NABH), 18 with NABH-accredited nursing programmes under its umbrella, and 9 NABH-accredited blood banks.

On February 15, 2018, the shareholding of the erstwhile promoters, Mr Malvinder Mohan Singh and Mr Shivinder Mohan Singh, reduced to less than 1% after the Supreme Court allowed lenders to invoke the pledge against shares of FHL held as security. Thereafter, the search for a new promoter began and bids were invited from investors. IHH was the winning bidder and became the new promoter, investing around Rs 4,000 crore in the company against fresh issuance of around 31.1% stake.

The board has provided in-principle approval for change of the company's name, brands and logo from Fortis and SRL, whose license agreements expired in April and May 2021, respectively. The proposal of change in company name, brand and logo for Fortis and SRL are subject to various deliberations and requisite corporate and regulatory approvals.

For fiscal 2022, FHL had a net profit of Rs 790 crore (including exceptional gain of Rs 315 crore pertaining to remeasurement of the previously held equity interest of SRL in the SRI-DDRC JV at its fair value post acquisition of the balance 50% stake in the said JV in April 2021) and operating revenue of ~Rs 5718 crore, against operating revenue of ~Rs 4030 crore for the corresponding period of the previous fiscal with a net loss of Rs 56 crores. In the first half of fiscal 2023, FHL registered net profit of ~Rs. 353 crores, which includes an exceptional gain of Rs. 51.6 crore pertaining to reversal of impairment in an associate company.

Key Financial Indicators

As on / for the period ended March 31	Unit	2022	2021
Reported revenue	Rs crore	5718	4030
Reported profit after tax (PAT)	Rs crore	790	-56
Reported PAT margin	%	13.8	-1.38
Reported debt/adjusted net worth*	Times	0.37	0.42
Adjusted interest coverage	Times	7.59	3.01

*CRISIL Ratings-adjusted numbers. Net worth has been adjusted for intangible assets such as goodwill

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue Size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Working Capital Facility#	NA	NA	NA	50	NA	CRISIL A1+
NA	Term Loan	NA	NA	01-Sep-25	43.78	NA	CRISIL AA-/Positive
NA	Term Loan	NA	NA	21-Mar-29	200	NA	CRISIL AA-/Positive
NA	Working Capital Facility#	NA	NA	NA	20	NA	CRISIL A1+

#Interchangeable with working capital demand loan, short-term loan and non-fund based limit

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Hiranandani Healthcare Pvt Ltd	Full	Consolidated being subsidiary
Fortis Hospotel Ltd	Full	Consolidated being subsidiary
Fortis Health Management Ltd	Full	Consolidated being subsidiary
Hospitalia Eastern Pvt Ltd	Full	Consolidated being subsidiary
International Hospital Ltd	Full	Consolidated being subsidiary
Escorts Heart and Super Speciality Hospital Ltd	Full	Consolidated being subsidiary
Fortis La Femme Ltd	Full	Consolidated being subsidiary
Fortis Health Management (East) Ltd	Full	Consolidated being subsidiary
Fortis Cancer Care Ltd	Full	Consolidated being subsidiary
Fortis Healthcare International Ltd	Full	Consolidated being subsidiary

Escorts Heart Institute and Research Centre Ltd	Full	Consolidated being subsidiary
Fortis Malar Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Global Healthcare (Mauritius) Ltd	Full	Consolidated being subsidiary
Malar Stars Medicare Ltd	Full	Consolidated being subsidiary
Fortis Asia Healthcare Pte. Ltd	Full	Consolidated being subsidiary
Birdie & Birdie Realtors Pvt Ltd	Full	Consolidated being subsidiary
Fortis Emergency Services Ltd	Full	Consolidated being subsidiary
Stellant Capital Advisory Services Pvt Ltd	Full	Consolidated being subsidiary
RHT Health Trust Manager Pte Ltd	Full	Consolidated being subsidiary
Fortis Health Staff Ltd	Full	Consolidated being subsidiary
SRL Ltd	Full	Consolidated being subsidiary
SRL Diagnostics Pvt Ltd	Full	Consolidated being subsidiary
SRL Reach Ltd	Full	Consolidated being subsidiary
SRL Diagnostics FZ-LLC	Full	Consolidated being subsidiary
Fortis Healthcare International Pte Ltd	Full	Consolidated being subsidiary
Mena Healthcare Investment Company Ltd	Full	Consolidated being subsidiary
Medical Management Company Ltd	Full	Consolidated being subsidiary
Fortis CSR Foundation	Full	Consolidated being subsidiary
Sunrise Medicare Pvt Ltd	Equity method	Equity method of consolidation
Lanka Hospital Corporation Plc	Equity method	Equity method of consolidation
RHT Health Trust	Equity method	Equity method of consolidation
Fortis Cauvery	Equity method	Equity method of consolidation
Fortis C-Doc Healthcare Ltd	Equity method	Equity method of consolidation
DDRC SRL Diagnostics Pvt Ltd	Equity method (till April 4, 2021) Full (from April 5, 2021)	Equity method of consolidation (till April 4, 2021) Consolidated being subsidiary (from April 5, 2021)
SRL Diagnostics Nepal Pvt Ltd	Equity method	Equity method of consolidation

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	313.78	CRISIL AA-/Positive / CRISIL A1+		--	29-12-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	29-11-21	CRISIL A1/Watch Developing / CRISIL A+/Watch Developing	10-12-20	CRISIL A/Watch Developing	--
			--	--	03-10-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	01-09-21	CRISIL A1/Watch Developing / CRISIL A+/Watch Developing	11-09-20	CRISIL A/Watch Developing	--	
			--	--	04-08-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-07-21	CRISIL A+/Watch Developing	15-06-20	CRISIL A/Watch Developing	--	
			--	--	26-05-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-03-21	CRISIL A/Watch Developing	17-03-20	CRISIL A/Watch Developing	--	
			--	--	25-02-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	07-01-21	CRISIL A/Watch Developing	11-03-20	CRISIL A1/Watch Developing	--	
Non-Fund Based Facilities	ST		--	--	--	01-09-21	Withdrawn	10-12-20	CRISIL A1/Watch Developing	--		

			--		--			26-07-21	CRISIL A1/Watch Developing	11-09-20	CRISIL A1/Watch Developing	--
			--		--			26-03-21	CRISIL A1/Watch Developing	15-06-20	CRISIL A1/Watch Developing	--
			--		--			07-01-21	CRISIL A1/Watch Developing	17-03-20	CRISIL A1/Watch Developing	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Term Loan	43.78	DBS Bank India Limited	CRISIL AA-/Positive
Term Loan	17.02	Axis Bank Limited	CRISIL AA-/Positive
Term Loan	182.98	Axis Bank Limited	CRISIL AA-/Positive
Working Capital Facility [#]	20	Axis Bank Limited	CRISIL A1+
Working Capital Facility [#]	50	DBS Bank India Limited	CRISIL A1+

This Annexure has been updated on 01-Feb-23 in line with the lender-wise facility details as on 14-Dec-21 received from the rated entity.

[#]Interchangeable with working capital demand loan, short-term loan and non-fund based limit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings
Rating criteria for manufacturing and service sector companies
CRISILs Criteria for Consolidation

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Rating Rationale

February 01, 2023 | Mumbai

Escorts Heart Institute and Research Centre Limited

Ratings removed from 'Watch Developing'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.12.8 Crore
Long Term Rating	CRISIL AA-/Positive (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Short Term Rating	CRISIL A1+ (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities of Escorts Heart Institute And Research Centre Limited (EHIRC), from 'Rating Watch with Developing Implications' and has reaffirmed the long-term rating on the bank facilities at 'CRISIL AA-', while assigning a '**Positive**' outlook to its long-term rating. The short term rating has also been reaffirmed at 'CRISIL A1+'.

The rating action follows CRISIL Ratings' detailed discussion with the management subsequent to the Supreme Court of India's judgement disposing off the suo-moto contempt suits against parent Fortis Healthcare Limited (FHL). Management of FHL doesn't anticipate any major implication on the day-to-day operations and future growth plans of the company on account of the remaining litigations. Further, promoters of FHL i.e. IHH Healthcare Berhard ("IHH") in multiple forums has reiterated that FHL remains strategically important, as India, along with Malaysia, Singapore and Turkey remain key markets. Besides, the prospects for the healthcare sector in India remain strong over the medium term, and FHL is expected to be a key driver of growth for IHH.

The positive outlook factors FHL's improving business risk profile driven by steady occupancies, high average revenue per occupied bed (ARPOB) metrics, and increasing international patient revenues, which are also leading to healthy operating profitability. Besides, FHL's financial risk profile also remains comfortable, supported by good cash generation, and healthy debt metrics, even as it is expected to pursue with its organic and inorganic growth plans. The company, on consolidated basis, is expected to sustain its debt to earnings before interest, tax, depreciation and amortization (EBITDA) at adequate levels over the medium term; It stood ~1.1 as of 30th September, 2022.

The ratings had earlier been placed on watch due to pending legal issues. The Supreme Court of India had initiated suo moto contempt proceedings against FHL, with regard to funds infusion by IHH in the form of preferential allotment of fresh shares and purchase of assets of RHT Health Trust (RHT).

FHL, in its stock exchange announcement dated September 23, 2022, intimated that the Supreme Court of India pronounced the final judgment in respect of the Suo Moto contempt petition and the connected proceedings, (i.e., Special Leave Petition (Civil) No. 20417 of 2017 and the contempt petition No.2120 of 2018 in SLP (C) No.20417 of 2019) on September 22, 2022 ("Judgment"). The Supreme Court of India has, by way of the Judgment, held inter alia that the Suo Motu contempt petition and the connected proceedings have been disposed of. The Court has not found nor indicated, any wrongdoing by FHL in terms of the investment by Northern TK Ventures Pte Ltd (part of IHH) into FHL, in its judgement. Further, the Supreme Court observed that the acquisition of the business portfolio of RHT by FHL appeared to prima facie be an acquisition of proprietary interest to subserve the business structure of FHL. However, the Supreme Court has stated that the facts on record are not adequate to definitively evaluate these issues concerning the acquisition of such proprietary interests accordingly has issued a direction to the Delhi High Court, which may also consider issuing appropriate processes and appointing forensic auditor(s) to analyze the transactions entered into between FHL and RHT and other related transactions. The judgment further provides that it will be open to the Delhi High Court to pass such directions as the facts and circumstances presented before it may justify.

Securities and Exchange Board of India (SEBI) had vide orders dated April 19, 2022, and May 5, 2022 imposed a penalty of Rs 1 crore each on EHIRC and FHL and Rs 50 Lakhs on FHsL (Fortis Hospitals Ltd) due to reasons inter-alia irregularities committed by erstwhile promoters. FHL and FHsL have filed an appeal against the order of April 19, 2022, before the Securities Appellate Tribunal, Mumbai (SAT) which has directed SEBI to file its response and ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. Against the order dated May 18, 2022, EHIRCL has filed an appeal before SAT which has ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. The said two Appeals are sub-judice. Serious Fraud Investigation Office (SFIO) investigation is underway.

The outcome of these proceedings before the Delhi High Court, including any punitive action, which may have a bearing on the financial risk profile of FHL will remain a monitorable.

The ratings factor in strong support received from the parent, Fortis Healthcare Ltd (FHL; rated 'CRISIL AA-/Positive/CRISIL A1+') and the parent's strong market position and financial risk profile. These strengths are partially offset by exposure to inherent regulatory risks faced by the healthcare industry.

FHL's consolidated revenue grew by ~8% to Rs.3095 crore in the first half of fiscal 2023 compared with Rs. 2873 crore in the first half of fiscal 2022. Revenue growth in the first half of fiscal 2023 was driven by ~18.3% growth in the hospital segment, even as diagnostic segment de-grew by 19% owing to lower covid and covid allied tests. The company reported consolidated EBITDA (including other income) of Rs 590 crores (EBITDA Margin - 19.1%) in the first half of fiscal 2023, compared with ~Rs 575 crores (~20.0%) in the corresponding period of the previous fiscal. Reported EBITDA margins for hospitals improved to ~19% from ~16%, but dipped for diagnostics segment ~20.0% from ~28% in the corresponding period of previous fiscal due to lower operating leverage with covid volumes declining.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments, will ensure continued improvement in debt metrics.

Earlier, FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business.

The rating continues to reflect Fortis group's established market position with a pan India presence through its network of twenty seven hospitals, its sound operational efficiencies as reflected in improvement in occupancies and ARPOB, also leading to good profitability. The ratings are also supported by the company's healthy financial risk profile, and adequate liquidity. These strengths are partially offset by pending litigations, impact of which is not expected to be material, and regulatory risks associated with the hospital sector.

Analytical Approach

CRISIL Ratings has applied its parent notch-up framework to factor in the strong operational, financial and managerial linkages between EHIRC and FHL. CRISIL Ratings has combined the business and financial risk profiles of FHL and its subsidiaries, joint ventures and associates because all these entities are under a common management with strong business and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong support from the parent**

EHIRC is a wholly owned subsidiary of FHL. It receives strong operational, financial and managerial support from the parent. EHIRC owns the Fortis Escorts Heart Institute at Okhla Road in New Delhi, a well-established hospital that provides cardiac care to patients; it remains strategically important to the parent. FHL has complete management control over its subsidiary and has supported EHIRC through loans and provided corporate guarantee for its loans. EHIRC will continue to receive strong support from the parent.

- **Strong market position of FHL in the domestic healthcare space**

FHL (on a consolidated basis) operates 27 hospitals (including JVs and O&M facilities), which provide pan-India coverage, with 3979s operational beds. Fortis is a well-known brand in the Indian healthcare space. The hospitals (on a

consolidated basis) include those in Haryana, Punjab, Delhi-NCR, Karnataka, Rajasthan, Maharashtra, Chennai and West Bengal. These hospitals offer world-class services and attract international patients. SRL has established a strong brand in both retail and business-to-business (B2B) diagnostics segments, managing over 426 labs (including joint ventures), with over 2,500 customer touch points across India. The strong market position should sustain over the medium term, given the wide geographical footprint and diverse specialty mix.

There is a proposal to change the Fortis and SRL brand names, subject to various deliberation and requisite regulatory and corporate approvals. Transitioning to a new brand, while maintaining the market position, will be a key monitorable.

- **Healthy and improving financial risk profile of FHL, aided by good operating performance**

FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business. Revenue growth is expected to continue in high single digits over the medium term, while EBITDA margins are expected to sustain at 17-18%, ensuring good annual cash generation of over Rs.800 crore.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments on term loans, will ensure debt metrics remain at comfortable levels. Any large, debt-funded capex or acquisition or any adverse ruling in existing litigations under dispute, necessitating significant payout, may impact FHL's financial risk profile and will remain a key monitorable.

Weaknesses:

- **Exposure to regulatory risk**

The government policy on capping prices for medical procedures such as treatment of Covid-19 and prices of medical devices such as coronary and knee implants, has impacted players in the healthcare sector in the past. Such price control mechanisms have a direct bearing on operating margin of players through reduction in revenue. Any policy change that may negatively impact the credit risk profile will be closely monitored.

- **Continuing litigations**

While the Supreme Court's recent directions have not had any adverse impact on operations of Fortis group, the Supreme Court has directed the Delhi High Court to look into matters involving purchase of RHT assets by FHL, including undertaking a possible forensic audit, should that be required. While the management of FHL does not envisage any significant financial liability which may arise on this account, the timeframe by which the said legal issues may be resolved is uncertain. Both these aspects will remain a monitorable.

Liquidity: Strong

FHL, on a consolidated basis, had liquidity (cash equivalents of ~Rs 390 crores and undrawn working capital limits of Rs.280 crores) of ~Rs 670 crore as on November 30, 2022, against debt repayment obligation of around ~Rs 17 crore for fiscal 2023, towards loans currently drawn. Repayment obligations remain modest at Rs.200-210 crore each in fiscal 2024 and fiscal 2025, and can be comfortably serviced from accruals. Capex requirements are also expected to be primarily funded from accruals.

Outlook: Positive

CRISIL Ratings believes FHL's credit profile will benefit by improvement in business profile, supported by steady occupancies, high ARPOBs as well as return of international patient revenues, which will benefit revenues and also ensure healthy operating profitability. The company is also expected to sustain its debt metrics at comfortable levels, while pursuing organic and inorganic growth.

Rating Sensitivity factors

Upward factors

- Better than expected revenue growth and operating profitability sustaining at 15-18% of FHL, benefitting cash generation
- Maintenance of strong financial risk profile, and comfortable debt metrics; sustenance of gross debt (including lease liabilities) to EBITDA at 1.5- 1.8 times of FHL, while pursuing organic and inorganic growth opportunities
- Revision in rating of the parent FHL, resulting in similar action on EHRC

Downward factors

- Sluggish operating performance of FHL, impacting operating profitability; same remaining below 12-13% on a sustained basis, also impacting cash generation
- Significant, debt-funded capex or investments, or adverse financial impact owing to unfavourable judgement in ongoing litigations of FHL, impacting debt metrics; gross debt (including lease liabilities) to EBITDA ratio sustaining above 2.5-2.7 times
- Revision in rating or outlook of the parent FHL, resulting in similar action on EHIRC

About the Company

EHIRC was incorporated in 2000 and is a wholly owned subsidiary of FHL. It provides healthcare and related services, particularly cardiac care. The company owns the premier hospital Fortis Escorts Heart Institute at Okhla Road in New Delhi.

About the Group

Incorporated in February 1996, FHL's first healthcare facility became operational at Mohali in Punjab in 2001. The company operates in two segments i.e Hospitals & Diagnostics. The company is an integrated healthcare services provider, with presence in hospitals, diagnostics, day care, and specialty facilities. It has both owned and managed hospitals. The diagnostics brand, SRL, is among the leading chains in the country. FHL has entered women and child health and well-being segments through its brand, La Femme. It has a facility each in Jaipur; Greater Kailash and Shalimar Bagh (both in New Delhi); and Bengaluru. The company has four hospitals accredited to the Joint Commission International (JCI), 20 accredited to the National Accreditation Board for Hospitals (NABH), 18 with NABH-accredited nursing programmes under its umbrella, and 9 NABH-accredited blood banks.

On February 15, 2018, the shareholding of the erstwhile promoters, Mr Malvinder Mohan Singh and Mr Shivinder Mohan Singh, reduced to less than 1% after the Supreme Court allowed lenders to invoke the pledge against shares of FHL held as security. Thereafter, the search for a new promoter began and bids were invited from investors. IHH was the winning bidder and became the new promoter, investing around Rs 4,000 crore in the company against fresh issuance of around 31.1% stake.

The board has provided in-principle approval for change of the company's name, brands and logo from Fortis and SRL, whose license agreements expired in April and May 2021, respectively. The proposal of change in company name, brand and logo for Fortis and SRL are subject to various deliberations and requisite corporate and regulatory approvals.

For fiscal 2022, FHL had a net profit of Rs 790 crore (including exceptional gain of Rs 315 crore pertaining to remeasurement of the previously held equity interest of SRL in the SRI-DDRC JV at its fair value post acquisition of the balance 50% stake in the said JV in April 2021) and operating revenue of ~Rs 5718 crore, against operating revenue of ~Rs 4030 crore for the corresponding period of the previous fiscal with a net loss of Rs 56 crores. In the first half of fiscal 2023, FHL registered net profit of ~Rs. 353 crores, which includes an exceptional gain of Rs. 51.6 crore pertaining to reversal of impairment in an associate company.

Key Financial Indicators

As on / for the period ended March 31	Unit	2022	2021
Reported revenue	Rs crore	5718	4030
Reported profit after tax (PAT)	Rs crore	790	-56
Reported PAT margin	%	13.8	-1.38
Reported debt/adjusted net worth*	Times	0.37	0.42
Adjusted interest coverage	Times	7.59	3.01

*CRISIL Ratings-adjusted numbers. Net worth has been adjusted for intangible assets such as goodwill

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Working Capital Facility**	NA	NA	NA	2	NA	CRISIL A1+
NA	Term Loan	NA	NA	Sep-25	10.80	NA	CRISIL AA-/Positive

****Interchangeable with working capital facility and non-fund-based facilities**

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Hiranandani Healthcare Pvt Ltd	Full	Consolidated being subsidiary
Fortis Hospotel Ltd	Full	Consolidated being subsidiary
Fortis Health Management Ltd	Full	Consolidated being subsidiary
Hospitalia Eastern Pvt Ltd	Full	Consolidated being subsidiary
International Hospital Ltd	Full	Consolidated being subsidiary
Escorts Heart and Super Speciality Hospital Ltd	Full	Consolidated being subsidiary
Fortis La Femme Ltd	Full	Consolidated being subsidiary
Fortis Health Management (East) Ltd	Full	Consolidated being subsidiary
Fortis Cancer Care Ltd	Full	Consolidated being subsidiary
Fortis Healthcare International Ltd	Full	Consolidated being subsidiary
Escorts Heart Institute and Research Centre Ltd	Full	Consolidated being subsidiary
Fortis Malar Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Global Healthcare (Mauritius) Ltd	Full	Consolidated being subsidiary
Malar Stars Medicare Ltd	Full	Consolidated being subsidiary
Fortis Asia Healthcare Pte. Ltd	Full	Consolidated being subsidiary
Birdie & Birdie Realtors Pvt Ltd	Full	Consolidated being subsidiary
Fortis Emergency Services Ltd	Full	Consolidated being subsidiary
Stellant Capital Advisory Services Pvt Ltd	Full	Consolidated being subsidiary
RHT Health Trust Manager Pte Ltd	Full	Consolidated being subsidiary
Fortis Health Staff Ltd	Full	Consolidated being subsidiary
SRL Ltd	Full	Consolidated being subsidiary
SRL Diagnostics Pvt Ltd	Full	Consolidated being subsidiary
SRL Reach Ltd	Full	Consolidated being subsidiary
SRL Diagnostics FZ-LLC	Full	Consolidated being subsidiary
Fortis Healthcare International Pte Ltd	Full	Consolidated being subsidiary
Mena Healthcare Investment Company Ltd	Full	Consolidated being subsidiary
Medical Management Company Ltd	Full	Consolidated being subsidiary
Fortis CSR Foundation	Full	Consolidated being subsidiary
Sunrise Medicare Pvt Ltd	Equity method	Equity method of consolidation
Lanka Hospital Corporation Plc	Equity method	Equity method of consolidation
RHT Health Trust	Equity method	Equity method of consolidation
Fortis Cauvery	Equity method	Equity method of consolidation
Fortis C-Doc Healthcare Ltd	Equity method	Equity method of consolidation
DDRC SRL Diagnostics Pvt Ltd	Equity method (till April 4, 2021) Full (from April 5, 2021)	Equity method of consolidation (till April 4, 2021) Consolidated being subsidiary (from April 5, 2021)
SRL Diagnostics Nepal Pvt Ltd	Equity method	Equity method of consolidation

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	12.8	CRISIL AA-/Positive / CRISIL A1+		--	29-12-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	29-11-21	CRISIL A1/Watch Developing / CRISIL A+/Watch Developing	21-12-20	CRISIL A1/Watch Developing / CRISIL A/Watch Developing	--
			--		--	03-10-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	01-09-21	CRISIL A1/Watch Developing / CRISIL A+/Watch Developing		--	--
			--		--	04-08-22	CRISIL A1+/Watch Developing	26-07-21	CRISIL A1/Watch Developing		--	--

							/ CRISIL AA-/Watch Developing		/ CRISIL A+/Watch Developing				
			--	--	26-05-22		CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-03-21	CRISIL A1/Watch Developing / CRISIL A/Watch Developing		--	--	
			--	--	25-02-22		CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	06-01-21	CRISIL A1/Watch Developing / CRISIL A/Watch Developing		--	--	
Non-Fund Based Facilities	ST		--	--			--	01-09-21	Withdrawn	21-12-20	CRISIL A1/Watch Developing	--	
			--	--			--	26-07-21	CRISIL A1/Watch Developing		--	--	
			--	--			--	26-03-21	CRISIL A1/Watch Developing		--	--	
			--	--			--	06-01-21	CRISIL A1/Watch Developing		--	--	

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Term Loan	10.8	DBS Bank India Limited	CRISIL AA-/Positive
Working Capital Facility**	2	DBS Bank India Limited	CRISIL A1+

This Annexure has been updated on 01-Feb-23 in line with the lender-wise facility details as on 14-Dec-21 received from the rated entity.

**Interchangeable with working capital facility and non-fund-based facilities

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for Consolidation

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Rating Rationale

February 01, 2023 | Mumbai

Fortis Hospitals Limited

Ratings removed from 'Watch Developing'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.333.3 Crore
Long Term Rating	CRISIL AA-/Positive (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Short Term Rating	CRISIL A1+ (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities of Fortis Hospitals Limited (FHL) from 'Rating Watch with Developing Implications' and has reaffirmed the long-term rating on the bank facilities at 'CRISIL AA-', while assigning a '**Positive**' outlook to its long-term rating. The short term rating has also been reaffirmed at 'CRISIL A1+'

The rating action follows CRISIL Ratings' detailed discussion with the management subsequent to the Supreme Court of India's judgement disposing off the suo-moto contempt suits against parent Fortis Healthcare Limited (FHL). Management of FHL doesn't anticipate any major implication on the day-to-day operations and future growth plans of the company on account of the remaining litigations. Further, promoters of FHL i.e. IHH Healthcare Berhard ("IHH") in multiple forums has reiterated that FHL remains strategically important, as India, along with Malaysia, Singapore and Turkey remain key markets. Besides, the prospects for the healthcare sector in India remain strong over the medium term, and FHL is expected to be a key driver of growth for IHH.

The positive outlook factors FHL's improving business risk profile driven by steady occupancies, high average revenue per occupied bed (ARPOB) metrics, and increasing international patient revenues, which are also leading to healthy operating profitability. Besides, FHL's financial risk profile also remains comfortable, supported by good cash generation, and healthy debt metrics, even as it is expected to pursue with its organic and inorganic growth plans. The company, on consolidated basis, is expected to sustain its debt to earnings before interest, tax, depreciation and amortization (EBITDA) at adequate levels over the medium term; It stood ~1.1 as of 30th September, 2022.

The ratings had earlier been placed on watch due to pending legal issues. The Supreme Court of India had initiated suo moto contempt proceedings against FHL, with regard to funds infusion by IHH in the form of preferential allotment of fresh shares and purchase of assets of RHT Health Trust (RHT).

FHL, in its stock exchange announcement dated September 23, 2022, intimated that the Supreme Court of India pronounced the final judgment in respect of the Suo Moto contempt petition and the connected proceedings, (i.e., Special Leave Petition (Civil) No. 20417 of 2017 and the contempt petition No.2120 of 2018 in SLP (C) No.20417 of 2019) on September 22, 2022 ("Judgment"). The Supreme Court of India has, by way of the Judgment, held inter alia that the Suo Motu contempt petition and the connected proceedings have been disposed of. The Court has not found nor indicated, any wrongdoing by FHL in terms of the investment by Northern TK Ventures Pte Ltd (part of IHH) into FHL, in its judgement. Further, the Supreme Court observed that the acquisition of the business portfolio of RHT by FHL appeared to prima facie be an acquisition of proprietary interest to subserve the business structure of FHL. However, the Supreme Court has stated that the facts on record are not adequate to definitively evaluate these issues concerning the acquisition of such proprietary interests accordingly has issued a direction to the Delhi High Court, which may also consider issuing appropriate processes and appointing forensic auditor(s) to analyze the transactions entered into between FHL and RHT and other related transactions. The judgment further provides that it will be open to the Delhi High Court to pass such directions as the facts and circumstances presented before it may justify.

Securities and Exchange Board of India (SEBI) had vide orders dated April 19, 2022, and May 5, 2022 imposed a penalty of Rs 1 crore each on Escorts Heart Institute and Research Centre Limited (EHIRCL: rated 'CRISIL AA-/Positive/CRISIL A1+') and FHL and Rs 50 Lakhs on FHsL due to reasons inter-alia irregularities committed by erstwhile promoters. FHL and FHsL have filed an appeal against the order of April 19, 2022, before the Securities Appellate Tribunal, Mumbai (SAT) which has directed SEBI to file its response and ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. Against the order dated May 18, 2022, EHIRCL has filed an appeal before SAT which has ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. The said two Appeals are sub-judice. Serious Fraud Investigation Office (SFIO) investigation is underway.

The outcome of these proceedings before the Delhi High Court, including any punitive action, which may have a bearing on the financial risk profile of FHL will remain a monitorable.

The ratings factor in strong support received from the parent, Fortis Healthcare Ltd (FHL; rated 'CRISIL AA-/Positive/CRISIL A1+') and the parent's strong market position and financial risk profile. These strengths are partially offset by exposure to inherent regulatory risks faced by the healthcare industry.

FHL's consolidated revenue grew by ~8% to Rs.3095 crore in the first half of fiscal 2023 compared with Rs. 2873 crore in the first half of fiscal 2022. Revenue growth in the first half of fiscal 2023 was driven by ~18.3% growth in the hospital segment, even as diagnostic segment de-grew by 19% owing to lower covid and covid allied tests. The company reported consolidated EBITDA (including other income) of Rs 590 crores (EBITDA Margin - 19.1%) in the first half of fiscal 2023, compared with ~Rs 575 crores (~20.0%) in the corresponding period of the previous fiscal. Reported EBITDA margins for hospitals improved to ~19% from ~16%, but dipped for diagnostics segment ~20.0% from ~28% in the corresponding period of previous fiscal due to lower operating leverage with covid volumes declining.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments, will ensure continued improvement in debt metrics.

Earlier, FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business.

The rating continues to reflect Fortis group's established market position with a pan India presence through its network of twenty seven hospitals, its sound operational efficiencies as reflected in improvement in occupancies and ARPOB, also leading to good profitability. The ratings are also supported by the company's healthy financial risk profile, and adequate liquidity. These strengths are partially offset by pending litigations, impact of which is not expected to be material, and regulatory risks associated with the hospital sector.

Analytical Approach

CRISIL Ratings has applied its parent notch-up framework to factor in the strong operational, financial and managerial linkages that FHsL shares with FHL. For arriving at FHL's ratings, CRISIL Ratings has combined the business and financial risk profiles of FHL and its subsidiaries, joint ventures and associates because all these entities are under a common management with strong business and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong support from the parent**

As a wholly-owned subsidiary of FHL, FHsL receives strong operational, financial and managerial support from the parent. FHsL operates 15 of the 27 hospitals under FHL and is, therefore, strategically important to it. FHL has complete management control over its subsidiary, which it has supported through inter-corporate deposits and by providing corporate guarantee for its loans. The support should continue.

- **Strong market position of FHL in the domestic healthcare space**

FHL (on a consolidated basis) operates 27 hospitals (including JVs and O&M facilities), which provide pan-India coverage, with 3979s operational beds. Fortis is a well-known brand in the Indian healthcare space. The hospitals (on a

consolidated basis) include those in Haryana, Punjab, Delhi-NCR, Karnataka, Rajasthan, Maharashtra, Chennai and West Bengal. These hospitals offer world-class services and attract international patients. SRL has established a strong brand in both retail and business-to-business (B2B) diagnostics segments, managing over 426 labs (including joint ventures), with over 2,500 customer touch points across India. The strong market position should sustain over the medium term, given the wide geographical footprint and diverse specialty mix.

There is a proposal to change the Fortis and SRL brand names, subject to various deliberation and requisite regulatory and corporate approvals. Transitioning to a new brand, while maintaining the market position, will be a key monitorable.

Healthy and improving financial risk profile of FHL, aided by good operating performance FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~ 19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~ 8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business. Revenue growth is expected to continue in high single digits over the medium term, while EBITDA margins are expected to sustain at 17-18%, ensuring good annual cash generation of over Rs.800 crore.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments on term loans, will ensure debt metrics remain at comfortable levels. Any large, debt-funded capex or acquisition or any adverse ruling in existing litigations under dispute, necessitating significant payout, may impact FHL's financial risk profile and will remain a key monitorable.

Weaknesses:

- **Exposure to regulatory risk**

The government policy on capping prices for medical procedures such as treatment of Covid-19 and prices of medical devices such as coronary and knee implants, has impacted players in the healthcare sector in the past. Such price control mechanisms have a direct bearing on operating margin of players through reduction in revenue. Any policy change that may negatively impact the credit risk profile will be closely monitored.

- **Continuing litigations**

While the Supreme Court's recent directions have not had any adverse impact on operations of Fortis group, the Supreme Court has directed the Delhi High Court to look into matters involving purchase of RHT assets by FHL, including undertaking a possible forensic audit, should that be required. While the management of FHL does not envisage any significant financial liability which may arise on this account, the timeframe by which the said legal issues may be resolved is uncertain. Both these aspects will remain a monitorable.

Liquidity: Strong

FHL, on a consolidated basis, had liquidity (cash equivalents of ~Rs 390 crores and undrawn working capital limits of Rs.280 crores) of ~Rs 670 crore as on November 30, 2022, against debt repayment obligation of around ~Rs 17 crore for fiscal 2023, towards loans currently drawn. Repayment obligations remain modest at Rs.200-210 crore each in fiscal 2024 and fiscal 2025, and can be comfortably serviced from accruals. Capex requirements are also expected to be primarily funded from accruals.

Outlook: Positive

CRISIL Ratings believes FHL's credit profile will benefit by improvement in business profile, supported by steady occupancies, high ARPOBs as well as return of international patient revenues, which will benefit revenues and also ensure healthy operating profitability. The company is also expected to sustain its debt metrics at comfortable levels, while pursuing organic and inorganic growth.

Rating Sensitivity factors

Upward factors

- Better than expected revenue growth and operating profitability sustaining at 15-18% of FHL, benefitting cash generation
- Maintenance of strong financial risk profile, and comfortable debt metrics; sustenance of gross debt (including lease liabilities) to EBITDA at 1.5- 1.8 times of FHL, while pursuing organic and inorganic growth opportunities
- Revision in rating of the parent FHL, resulting in similar action on FHsL

Downward factors

- Sluggish operating performance of FHL, impacting operating profitability; same remaining below 12-13% on a sustained basis, also impacting cash generation
- Significant, debt-funded capex or investments, or adverse financial impact owing to unfavourable judgement in ongoing litigations of FHL, impacting debt metrics; gross debt (including lease liabilities) to EBITDA ratio sustaining above 2.5-2.7 times
- Revision in rating or outlook of the parent FHL, resulting in similar action on FHsL

About the Company

FHsL was incorporated on June 18, 2009, as a wholly-owned subsidiary of FHL. It promotes, maintains, manages, operates, and undertakes healthcare and related services. It also provides consultancy for the establishment of healthcare services. The company operates around 15 major facilities in various locations such as Gurugram, Haryana; Mulund in Mumbai; BG Road in Bengaluru; Noida and Faridabad, Uttar Pradesh; Anandpur in, Kolkata; and Jaipur.

About the Group

Incorporated in February 1996, FHL's first healthcare facility became operational at Mohali in Punjab in 2001. The company operates in two segments i.e Hospitals & Diagnostics. The company is an integrated healthcare services provider, with presence in hospitals, diagnostics, day care, and specialty facilities. It has both owned and managed hospitals. The diagnostics brand, SRL, is among the leading chains in the country. FHL has entered women and child health and well-being segments through its brand, La Femme. It has a facility each in Jaipur; Greater Kailash and Shalimar Bagh (both in New Delhi); and Bengaluru. The company has four hospitals accredited to the Joint Commission International (JCI), 20 accredited to the National Accreditation Board for Hospitals (NABH), 18 with NABH-accredited nursing programmes under its umbrella, and 9 NABH-accredited blood banks.

On February 15, 2018, the shareholding of the erstwhile promoters, Mr Malvinder Mohan Singh and Mr Shivinder Mohan Singh, reduced to less than 1% after the Supreme Court allowed lenders to invoke the pledge against shares of FHL held as security. Thereafter, the search for a new promoter began and bids were invited from investors. IHH was the winning bidder and became the new promoter, investing around Rs 4,000 crore in the company against fresh issuance of around 31.1% stake.

The board has provided in-principle approval for change of the company's name, brands and logo from Fortis and SRL, whose license agreements expired in April and May 2021, respectively. The proposal of change in company name, brand and logo for Fortis and SRL are subject to various deliberations and requisite corporate and regulatory approvals.

For fiscal 2022, FHL had a net profit of Rs 790 crore (including exceptional gain of Rs 315 crore pertaining to remeasurement of the previously held equity interest of SRL in the SRI-DDRC JV at its fair value post acquisition of the balance 50% stake in the said JV in April 2021) and operating revenue of ~Rs 5718 crore, against operating revenue of ~Rs 4030 crore for the corresponding period of the previous fiscal with a net loss of Rs 56 crores. In the first half of fiscal 2023, FHL registered net profit of ~Rs. 353 crores, which includes an exceptional gain of Rs. 51.6 crore pertaining to reversal of impairment in an associate company.

Key Financial Indicators

As on / for the period ended March 31	Unit	2022	2021
Reported revenue	Rs crore	5718	4030
Reported profit after tax (PAT)	Rs crore	790	-56
Reported PAT margin	%	13.8	-1.38
Reported debt/adjusted net worth*	Times	0.37	0.42
Adjusted interest coverage	Times	7.59	3.01

*CRISIL Ratings-adjusted numbers. Net worth has been adjusted for intangible assets such as goodwill

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Term Loan	NA	NA	01-Dec-25	34.3	NA	CRISIL AA-/Positive

NA	Term Loan	NA	NA	13-Apr-23	129.0	NA	CRISIL AA-/Positive
NA	Proposed Term Loan	NA	NA	NA	15	NA	CRISIL AA-/Positive
NA	Working Capital Facility#	NA	NA	NA	55.0	NA	CRISIL A1+
NA	Working Capital Facility#	NA	NA	NA	100.0	NA	CRISIL A1+

#Interchangeable with working capital facility and non-fund based limits

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Hiranandani Healthcare Pvt Ltd	Full	Consolidated being subsidiary
Fortis Hospotel Ltd	Full	Consolidated being subsidiary
Fortis Health Management Ltd	Full	Consolidated being subsidiary
Hospitalia Eastern Pvt Ltd	Full	Consolidated being subsidiary
International Hospital Ltd	Full	Consolidated being subsidiary
Escorts Heart and Super Speciality Hospital Ltd	Full	Consolidated being subsidiary
Fortis La Femme Ltd	Full	Consolidated being subsidiary
Fortis Health Management (East) Ltd	Full	Consolidated being subsidiary
Fortis Cancer Care Ltd	Full	Consolidated being subsidiary
Fortis Healthcare International Ltd	Full	Consolidated being subsidiary
Escorts Heart Institute and Research Centre Ltd	Full	Consolidated being subsidiary
Fortis Malar Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Global Healthcare (Mauritius) Ltd	Full	Consolidated being subsidiary
Malar Stars Medicare Ltd	Full	Consolidated being subsidiary
Fortis Asia Healthcare Pte. Ltd	Full	Consolidated being subsidiary
Birdie & Birdie Realtors Pvt Ltd	Full	Consolidated being subsidiary
Fortis Emergency Services Ltd	Full	Consolidated being subsidiary
Stellant Capital Advisory Services Pvt Ltd	Full	Consolidated being subsidiary
RHT Health Trust Manager Pte Ltd	Full	Consolidated being subsidiary
Fortis Health Staff Ltd	Full	Consolidated being subsidiary
SRL Ltd	Full	Consolidated being subsidiary
SRL Diagnostics Pvt Ltd	Full	Consolidated being subsidiary
SRL Reach Ltd	Full	Consolidated being subsidiary
SRL Diagnostics FZ-LLC	Full	Consolidated being subsidiary
Fortis Healthcare International Pte Ltd	Full	Consolidated being subsidiary
Mena Healthcare Investment Company Ltd	Full	Consolidated being subsidiary
Medical Management Company Ltd	Full	Consolidated being subsidiary
Fortis CSR Foundation	Full	Consolidated being subsidiary
Sunrise Medicare Pvt Ltd	Equity method	Equity method of consolidation
Lanka Hospital Corporation Plc	Equity method	Equity method of consolidation
RHT Health Trust	Equity method	Equity method of consolidation
Fortis Cauvery	Equity method	Equity method of consolidation
Fortis C-Doc Healthcare Ltd	Equity method	Equity method of consolidation
DDRC SRL Diagnostics Pvt Ltd	Equity method (till April 4, 2021) Full (from April 5, 2021)	Equity method of consolidation (till April 4, 2021) Consolidated being subsidiary (from April 5, 2021)
SRL Diagnostics Nepal Pvt Ltd	Equity method	Equity method of consolidation

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	333.3	CRISIL AA-/Positive / CRISIL A1+		--	29-12-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	29-11-21	CRISIL A1/Watch Developing / CRISIL A+/Watch Developing	10-12-20	CRISIL A/Watch Developing	Withdrawn
			--		--	16-11-22	CRISIL A1+/Watch	01-09-21	CRISIL A1/Watch	11-09-20	CRISIL A/Watch	Withdrawn

							Developing / CRISIL AA-/Watch Developing		Developing / CRISIL A+/Watch Developing		Developing	
			--		--	03-10-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-07-21	CRISIL A+/Watch Developing	15-06-20	CRISIL A/Watch Developing	--
			--		--	04-08-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-03-21	CRISIL A/Watch Developing	17-03-20	CRISIL A/Watch Developing	--
			--		--	26-05-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	07-01-21	CRISIL A/Watch Developing	11-03-20	CRISIL A1/Watch Developing	--
			--		--	25-02-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing		--		--	--
Non-Fund Based Facilities	ST		--		--		--	01-09-21	Withdrawn	10-12-20	CRISIL A1/Watch Developing	--
			--		--		--	26-07-21	CRISIL A1/Watch Developing	11-09-20	CRISIL A1/Watch Developing	--
			--		--		--	26-03-21	CRISIL A1/Watch Developing	15-06-20	CRISIL A1/Watch Developing	--
			--		--		--	07-01-21	CRISIL A1/Watch Developing	17-03-20	CRISIL A1/Watch Developing	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Term Loan	15	Not Applicable	CRISIL AA-/Positive
Term Loan	34.3	DBS Bank India Limited	CRISIL AA-/Positive
Term Loan	129	Axis Bank Limited	CRISIL AA-/Positive
Working Capital Facility [#]	100	DBS Bank India Limited	CRISIL A1+
Working Capital Facility [#]	55	Axis Bank Limited	CRISIL A1+

This Annexure has been updated on 01-Feb-23 in line with the lender-wise facility details as on 14-Dec-21 received from the rated entity.

[#]Interchangeable with working capital facility and non-fund based limits

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for Consolidation

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Rating Rationale

February 01, 2023 | Mumbai

Fortis Hospotel Limited

Ratings removed from 'Watch Developing'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.30 Crore
Long Term Rating	CRISIL AA-/Positive (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Short Term Rating	CRISIL A1+ (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities of Fortis Hospotel Limited (FHTL) from 'Rating Watch with Developing Implications' and has reaffirmed the long-term rating on the bank facilities at 'CRISIL AA-', while assigning a '**Positive**' outlook to its long-term rating. The short term rating has also been reaffirmed at 'CRISIL A1+'.

The rating action follows CRISIL Ratings' detailed discussion with the management subsequent to the Supreme Court of India's judgement disposing off the suo-moto contempt suits against parent Fortis Healthcare Limited (FHL). Management of FHL doesn't anticipate any major implication on the day-to-day operations and future growth plans of the company on account of the remaining litigations. Further, promoters of FHL i.e. IHH Healthcare Berhard ("IHH") in multiple forums has reiterated that FHL remains strategically important, as India, along with Malaysia, Singapore and Turkey remain key markets. Besides, the prospects for the healthcare sector in India remain strong over the medium term, and FHL is expected to be a key driver of growth for IHH.

The positive outlook factors FHL's improving business risk profile driven by steady occupancies, high average revenue per occupied bed (ARPOB) metrics, and increasing international patient revenues, which are also leading to healthy operating profitability. Besides, FHL's financial risk profile also remains comfortable, supported by good cash generation, and healthy debt metrics, even as it is expected to pursue with its organic and inorganic growth plans. The company, on consolidated basis, is expected to sustain its debt to earnings before interest, tax, depreciation and amortization (EBITDA) at adequate levels over the medium term; It stood ~1.1 as of 30th September, 2022.

The ratings had earlier been placed on watch due to pending legal issues. The Supreme Court of India had initiated suo moto contempt proceedings against FHL, with regard to funds infusion by IHH in the form of preferential allotment of fresh shares and purchase of assets of RHT Health Trust (RHT).

FHL, in its stock exchange announcement dated September 23, 2022, intimated that the Supreme Court of India pronounced the final judgment in respect of the Suo Moto contempt petition and the connected proceedings, (i.e., Special Leave Petition (Civil) No. 20417 of 2017 and the contempt petition No.2120 of 2018 in SLP (C) No.20417 of 2019) on September 22, 2022 ("Judgment"). The Supreme Court of India has, by way of the Judgment, held inter alia that the Suo Motu contempt petition and the connected proceedings have been disposed of. The Court has not found nor indicated, any wrongdoing by FHL in terms of the investment by Northern TK Ventures Pte Ltd (part of IHH) into FHL, in its judgement. Further, the Supreme Court observed that the acquisition of the business portfolio of RHT by FHL appeared to prima facie be an acquisition of proprietary interest to subserve the business structure of FHL. However, the Supreme Court has stated that the facts on record are not adequate to definitively evaluate these issues concerning the acquisition of such proprietary interests accordingly has issued a direction to the Delhi High Court, which may also consider issuing appropriate processes and appointing forensic auditor(s) to analyze the transactions entered into between FHL and RHT and other related transactions. The judgment further provides that it will be open to the Delhi High Court to pass such directions as the facts and circumstances presented before it may justify.

Securities and Exchange Board of India (SEBI) had vide orders dated April 19, 2022, and May 5, 2022 imposed a penalty of Rs 1 crore each on Escorts Heart Institute and Research Centre Limited (EHIRCL: rated 'CRISIL AA-/Positive/CRISIL A1+') and FHL and Rs 50 Lakhs on FHsL (Fortis Hospitals Ltd) due to reasons inter-alia irregularities committed by erstwhile promoters. FHL and FHsL have filed an appeal against the order of April 19, 2022, before the Securities Appellate Tribunal, Mumbai (SAT) which has directed SEBI to file its response and ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. Against the order dated May 18, 2022, EHIRCL has filed an appeal before SAT which has ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. The said two Appeals are sub-judice. Serious Fraud Investigation Office (SFIO) investigation is underway.

The outcome of these proceedings before the Delhi High Court, including any punitive action, which may have a bearing on the financial risk profile of FHL will remain a monitorable.

The ratings factor in strong support received from the parent, Fortis Healthcare Ltd (FHL; rated 'CRISIL AA-/Positive/CRISIL A1+') and the parent's strong market position and financial risk profile. These strengths are partially offset by exposure to inherent regulatory risks faced by the healthcare industry.

FHL's consolidated revenue grew by ~8% to Rs.3095 crore in the first half of fiscal 2023 compared with Rs. 2873 crore in the first half of fiscal 2022. Revenue growth in the first half of fiscal 2023 was driven by ~18.3% growth in the hospital segment, even as diagnostic segment de-grew by 19% owing to lower covid and covid allied tests. The company reported consolidated EBITDA (including other income) of Rs 590 crores (EBITDA Margin - 19.1%) in the first half of fiscal 2023, compared with ~Rs 575 crores (~20.0%) in the corresponding period of the previous fiscal. Reported EBITDA margins for hospitals improved to ~19% from ~16%, but dipped for diagnostics segment ~20.0% from ~28% in the corresponding period of previous fiscal due to lower operating leverage with covid volumes declining.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments, will ensure continued improvement in debt metrics.

Earlier, FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business.

The rating continues to reflect Fortis group's established market position with a pan India presence through its network of twenty seven hospitals, its sound operational efficiencies as reflected in improvement in occupancies and ARPOB, also leading to good profitability. The ratings are also supported by the company's healthy financial risk profile, and adequate liquidity. These strengths are partially offset by pending litigations, impact of which is not expected to be material, and regulatory risks associated with the hospital sector.

Analytical Approach

CRISIL Ratings has applied its parent notch-up framework to factor in the strong operational, financial and managerial linkages that FHTL shares with FHL. For arriving at FHL's ratings, CRISIL Ratings has combined the business and financial risk profiles of FHL and its subsidiaries, joint ventures and associates because all these entities are under a common management with strong business and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong support from the parent**

As a wholly owned subsidiary of FHL, FHTL receives operational, financial and managerial support from the parent. FHTL owns the real estate assets of the Gurgaon and Shalimar Bagh hospitals and is, therefore, strategically important to the parent. FHL has complete management control over FHTL and has extended corporate guarantee for the latter's loans.

- **Strong market position of FHL in the domestic healthcare space**

FHL (on a consolidated basis) operates 27 hospitals (including JVs and O&M facilities), which provide pan-India coverage, with 3979s operational beds. Fortis is a well-known brand in the Indian healthcare space. The hospitals (on a

consolidated basis) include those in Haryana, Punjab, Delhi-NCR, Karnataka, Rajasthan, Maharashtra, Chennai and West Bengal. These hospitals offer world-class services and attract international patients. SRL has established a strong brand in both retail and business-to-business (B2B) diagnostics segments, managing over 426 labs (including joint ventures), with over 2,500 customer touch points across India. The strong market position should sustain over the medium term, given the wide geographical footprint and diverse specialty mix.

There is a proposal to change the Fortis and SRL brand names, subject to various deliberation and requisite regulatory and corporate approvals. Transitioning to a new brand, while maintaining the market position, will be a key monitorable.

- **Healthy and improving financial risk profile of FHL, aided by good operating performance**

FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business. Revenue growth is expected to continue in high single digits over the medium term, while EBITDA margins are expected to sustain at 17-18%, ensuring good annual cash generation of over Rs.800 crore.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments on term loans, will ensure debt metrics remain at comfortable levels. Any large, debt-funded capex or acquisition or any adverse ruling in existing litigations under dispute, necessitating significant payout, may impact FHL's financial risk profile and will remain a key monitorable.

Weaknesses:

- **Exposure to regulatory risk**

The government policy on capping prices for medical procedures such as treatment of Covid-19 and prices of medical devices such as coronary and knee implants, has impacted players in the healthcare sector in the past. Such price control mechanisms have a direct bearing on operating margin of players through reduction in revenue. Any policy change that may negatively impact the credit risk profile will be closely monitored.

- **Continuing litigations**

While the Supreme Court's recent directions have not had any adverse impact on operations of Fortis group, the Supreme Court has directed the Delhi High Court to look into matters involving purchase of RHT assets by FHL, including undertaking a possible forensic audit, should that be required. While the management of FHL does not envisage any significant financial liability which may arise on this account, the timeframe by which the said legal issues may be resolved is uncertain. Both these aspects will remain a monitorable.

Liquidity: Strong

FHL, on a consolidated basis, had liquidity (cash equivalents of ~Rs 390 crores and undrawn working capital limits of Rs.280 crores) of ~Rs 670 crore as on November 30, 2022, against debt repayment obligation of around ~Rs 17 crore for fiscal 2023, towards loans currently drawn. Repayment obligations remain modest at Rs.200-210 crore each in fiscal 2024 and fiscal 2025, and can be comfortably serviced from accruals. Capex requirements are also expected to be primarily funded from accruals.

Outlook: Positive

CRISIL Ratings believes FHL's credit profile will benefit by improvement in business profile, supported by steady occupancies, high ARPOBs as well as return of international patient revenues, which will benefit revenues and also ensure healthy operating profitability. The company is also expected to sustain its debt metrics at comfortable levels, while pursuing organic and inorganic growth.

Rating Sensitivity factors

Upward factors

- Better than expected revenue growth and operating profitability sustaining at 15-18% of FHL, benefitting cash generation
- Maintenance of strong financial risk profile, and comfortable debt metrics; sustenance of gross debt (including lease liabilities) to EBITDA at 1.5- 1.8 times of FHL, while pursuing organic and inorganic growth opportunities
- Revision in rating of the parent FHL, resulting in similar action on FHTL

Downward factors

- Sluggish operating performance of FHL, impacting operating profitability; same remaining below 12-13% on a sustained basis, also impacting cash generation
- Significant, debt-funded capex or investments, or adverse financial impact owing to unfavourable judgement in ongoing litigations of FHL, impacting debt metrics; gross debt (including lease liabilities) to EBITDA ratio sustaining above 2.5-2.7 times
- Revision in rating or outlook of the parent FHL, resulting in similar action on FHTL

About the Company

FHTL was incorporated on January 23, 1990, as a wholly owned subsidiary of FHL. The company provides healthcare and related services and owns the real estate assets of the major facilities in Gurgaon, Haryana and Shalimar Bagh, New Delhi.

About the Group

Incorporated in February 1996, FHL's first healthcare facility became operational at Mohali in Punjab in 2001. The company operates in two segments i.e Hospitals & Diagnostics. The company is an integrated healthcare services provider, with presence in hospitals, diagnostics, day care, and specialty facilities. It has both owned and managed hospitals. The diagnostics brand, SRL, is among the leading chains in the country. FHL has entered women and child health and well-being segments through its brand, La Femme. It has a facility each in Jaipur; Greater Kailash and Shalimar Bagh (both in New Delhi); and Bengaluru. The company has four hospitals accredited to the Joint Commission International (JCI), 20 accredited to the National Accreditation Board for Hospitals (NABH), 18 with NABH-accredited nursing programmes under its umbrella, and 9 NABH-accredited blood banks.

On February 15, 2018, the shareholding of the erstwhile promoters, Mr Malvinder Mohan Singh and Mr Shivinder Mohan Singh, reduced to less than 1% after the Supreme Court allowed lenders to invoke the pledge against shares of FHL held as security. Thereafter, the search for a new promoter began and bids were invited from investors. IHH was the winning bidder and became the new promoter, investing around Rs 4,000 crore in the company against fresh issuance of around 31.1% stake.

The board has provided in-principle approval for change of the company's name, brands and logo from Fortis and SRL, whose license agreements expired in April and May 2021, respectively. The proposal of change in company name, brand and logo for Fortis and SRL are subject to various deliberations and requisite corporate and regulatory approvals.

For fiscal 2022, FHL had a net profit of Rs 790 crore (including exceptional gain of Rs 315 crore pertaining to remeasurement of the previously held equity interest of SRL in the SRI-DDRC JV at its fair value post acquisition of the balance 50% stake in the said JV in April 2021) and operating revenue of ~Rs 5718 crore, against operating revenue of ~Rs 4030 crore for the corresponding period of the previous fiscal with a net loss of Rs 56 crores. In the first half of fiscal 2023, FHL registered net profit of ~Rs. 353 crores, which includes an exceptional gain of Rs. 51.6 crore pertaining to reversal of impairment in an associate company.

Key Financial Indicators

As on / for the period ended March 31	Unit	2022	2021
Reported revenue	Rs crore	5718	4030
Reported profit after tax (PAT)	Rs crore	790	-56
Reported PAT margin	%	13.8	-1.38
Reported debt/adjusted net worth*	Times	0.37	0.42
Adjusted interest coverage	Times	7.59	3.01

*CRISIL Ratings-adjusted numbers. Net worth has been adjusted for intangible assets such as goodwill

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Term Loan	NA	NA	01-Sep-25	25	NA	CRISIL AA-/Positive

NA	Working Capital Facility*	NA	NA	NA	5	NA	CRISIL A1+
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*Interchangeable with Working capital facility & Non-fund-based limit

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Hiranandani Healthcare Pvt Ltd	Full	Consolidated being subsidiary
Fortis Hospotel Ltd	Full	Consolidated being subsidiary
Fortis Health Management Ltd	Full	Consolidated being subsidiary
Hospitalia Eastern Pvt Ltd	Full	Consolidated being subsidiary
International Hospital Ltd	Full	Consolidated being subsidiary
Escorts Heart and Super Speciality Hospital Ltd	Full	Consolidated being subsidiary
Fortis La Femme Ltd	Full	Consolidated being subsidiary
Fortis Health Management (East) Ltd	Full	Consolidated being subsidiary
Fortis Cancer Care Ltd	Full	Consolidated being subsidiary
Fortis Healthcare International Ltd	Full	Consolidated being subsidiary
Escorts Heart Institute and Research Centre Ltd	Full	Consolidated being subsidiary
Fortis Malar Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Global Healthcare (Mauritius) Ltd	Full	Consolidated being subsidiary
Malar Stars Medicare Ltd	Full	Consolidated being subsidiary
Fortis Asia Healthcare Pte. Ltd	Full	Consolidated being subsidiary
Birdie & Birdie Realtors Pvt Ltd	Full	Consolidated being subsidiary
Fortis Emergency Services Ltd	Full	Consolidated being subsidiary
Stellant Capital Advisory Services Pvt Ltd	Full	Consolidated being subsidiary
RHT Health Trust Manager Pte Ltd	Full	Consolidated being subsidiary
Fortis Health Staff Ltd	Full	Consolidated being subsidiary
SRL Ltd	Full	Consolidated being subsidiary
SRL Diagnostics Pvt Ltd	Full	Consolidated being subsidiary
SRL Reach Ltd	Full	Consolidated being subsidiary
SRL Diagnostics FZ-LLC	Full	Consolidated being subsidiary
Fortis Healthcare International Pte Ltd	Full	Consolidated being subsidiary
Mena Healthcare Investment Company Ltd	Full	Consolidated being subsidiary
Medical Management Company Ltd	Full	Consolidated being subsidiary
Fortis CSR Foundation	Full	Consolidated being subsidiary
Sunrise Medicare Pvt Ltd	Equity method	Equity method of consolidation
Lanka Hospital Corporation Plc	Equity method	Equity method of consolidation
RHT Health Trust	Equity method	Equity method of consolidation
Fortis Cauvery	Equity method	Equity method of consolidation
Fortis C-Doc Healthcare Ltd	Equity method	Equity method of consolidation
DDRC SRL Diagnostics Pvt Ltd	Equity method (till April 4, 2021) Full (from April 5, 2021)	Equity method of consolidation (till April 4, 2021) Consolidated being subsidiary (from April 5, 2021)
SRL Diagnostics Nepal Pvt Ltd	Equity method	Equity method of consolidation

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	30.0	CRISIL AA-/Positive / CRISIL A1+		--	29-12-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	29-11-21	CRISIL A1/Watch Developing / CRISIL A+/Watch Developing	21-12-20	CRISIL A/Watch Developing	--
			--		--	03-10-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	01-09-21	CRISIL A1/Watch Developing / CRISIL A+/Watch Developing		--	--

			--	--	04-08-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-07-21	CRISIL A+/Watch Developing		--	--
			--	--	26-05-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-03-21	CRISIL A/Watch Developing		--	--
			--	--	25-02-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	06-01-21	CRISIL A/Watch Developing		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Term Loan	25	DBS Bank India Limited	CRISIL AA-/Positive
Working Capital Facility*	5	DBS Bank India Limited	CRISIL A1+

This Annexure has been updated on 01-Feb-23 in line with the lender-wise facility details as on 14-Dec-21 received from the rated entity.

*Interchangeable with Working capital facility & Non-fund-based limit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
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Rating Rationale

February 01, 2023 | Mumbai

International Hospital Limited

Ratings removed from 'Watch Developing'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.35 Crore
Long Term Rating	CRISIL AA-/Positive (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
Short Term Rating	CRISIL A1+ (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities of International Hospital Limited (IHL) from 'Rating Watch with Developing Implications' and has reaffirmed the long-term rating on the bank facilities at 'CRISIL AA-', while assigning a 'Positive' outlook to its long-term rating. The short term rating has also been reaffirmed at 'CRISIL A1+'.

The rating action follows CRISIL Ratings' detailed discussion with the management subsequent to the Supreme Court of India's judgement disposing off the suo-moto contempt suits against parent Fortis Healthcare Limited (FHL). Management of FHL doesn't anticipate any major implication on the day-to-day operations and future growth plans of the company on account of the remaining litigations. Further, promoters of FHL i.e. IHH Healthcare Berhard ("IHH") in multiple forums has reiterated that FHL remains strategically important, as India, along with Malaysia, Singapore and Turkey remain key markets. Besides, the prospects for the healthcare sector in India remain strong over the medium term, and FHL is expected to be a key driver of growth for IHH.

The positive outlook factors FHL's improving business risk profile driven by steady occupancies, high average revenue per occupied bed (ARPOB) metrics, and increasing international patient revenues, which are also leading to healthy operating profitability. Besides, FHL's financial risk profile also remains comfortable, supported by good cash generation, and healthy debt metrics, even as it is expected to pursue with its organic and inorganic growth plans. The company, on consolidated basis, is expected to sustain its debt to earnings before interest, tax, depreciation and amortization (EBITDA) at adequate levels over the medium term; It stood ~1.1 as of 30th September, 2022.

The ratings had earlier been placed on watch due to pending legal issues. The Supreme Court of India had initiated suo moto contempt proceedings against FHL, with regard to funds infusion by IHH in the form of preferential allotment of fresh shares and purchase of assets of RHT Health Trust (RHT).

FHL, in its stock exchange announcement dated September 23, 2022, intimated that the Supreme Court of India pronounced the final judgment in respect of the Suo Moto contempt petition and the connected proceedings, (i.e., Special Leave Petition (Civil) No. 20417 of 2017 and the contempt petition No.2120 of 2018 in SLP (C) No.20417 of 2019) on September 22, 2022 ("Judgment"). The Supreme Court of India has, by way of the Judgment, held inter alia that the Suo Motu contempt petition and the connected proceedings have been disposed of. The Court has not found nor indicated, any wrongdoing by FHL in terms of the investment by Northern TK Ventures Pte Ltd (part of IHH) into FHL, in its judgement. Further, the Supreme Court observed that the acquisition of the business portfolio of RHT by FHL appeared to prima facie be an acquisition of proprietary interest to subserve the business structure of FHL. However, the Supreme Court has stated that the facts on record are not adequate to definitively evaluate these issues concerning the acquisition of such proprietary interests accordingly has issued a direction to the Delhi High Court, which may also consider issuing appropriate processes and appointing forensic auditor(s) to analyze the transactions entered into between FHL and RHT and other related transactions. The judgment further provides that it will be open to the Delhi High Court to pass such directions as the facts and circumstances presented before it may justify.

Securities and Exchange Board of India (SEBI) had vide orders dated April 19, 2022, and May 5, 2022 imposed a penalty of Rs 1 crore each on Escorts Heart Institute and Research Centre Limited (EHIRCL: rated 'CRISIL AA-/Positive/CRISIL A1+') and FHL and Rs 50 Lakhs on FHsL (Fortis Hospitals Ltd) due to reasons inter-alia irregularities committed by erstwhile promoters. FHL and FHsL have filed an appeal against the order of April 19, 2022, before the Securities Appellate Tribunal, Mumbai (SAT) which has directed SEBI to file its response and ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. Against the order dated May 18, 2022, EHIRCL has filed an appeal before SAT which has ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. The said two Appeals are sub-judice. Serious Fraud Investigation Office (SFIO) investigation is underway.

The outcome of these proceedings before the Delhi High Court, including any punitive action, which may have a bearing on the financial risk profile of FHL will remain a monitorable.

The ratings factor in strong support received from the parent, Fortis Healthcare Ltd (FHL; rated 'CRISIL AA-/Positive/CRISIL A1+') and the parent's strong market position and financial risk profile. These strengths are partially offset by exposure to inherent regulatory risks faced by the healthcare industry.

FHL's consolidated revenue grew by ~8% to Rs.3095 crore in the first half of fiscal 2023 compared with Rs. 2873 crore in the first half of fiscal 2022. Revenue growth in the first half of fiscal 2023 was driven by ~18.3% growth in the hospital segment, even as diagnostic segment de-grew by 19% owing to lower covid and covid allied tests. The company reported consolidated EBITDA (including other income) of Rs 590 crores (EBITDA Margin - 19.1%) in the first half of fiscal 2023, compared with ~Rs 575 crores (~20.0%) in the corresponding period of the previous fiscal. Reported EBITDA margins for hospitals improved to ~19% from ~16%, but dipped for diagnostics segment ~20.0% from ~28% in the corresponding period of previous fiscal due to lower operating leverage with covid volumes declining.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments, will ensure continued improvement in debt metrics.

Earlier, FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business.

The rating continues to reflect Fortis group's established market position with a pan India presence through its network of twenty seven hospitals, its sound operational efficiencies as reflected in improvement in occupancies and ARPOB, also leading to good profitability. The ratings are also supported by the company's healthy financial risk profile, and adequate liquidity. These strengths are partially offset by pending litigations, impact of which is not expected to be material, and regulatory risks associated with the hospital sector.

Analytical Approach

CRISIL Ratings has applied its parent notch-up framework to factor in the strong operational, financial and managerial linkages that IHL shares with FHL. For arriving at FHL's ratings, CRISIL Ratings has combined the business and financial risk profiles of FHL and its subsidiaries, joint ventures and associates because all these entities are under a common management with strong business and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong support from the parent**

As a wholly owned subsidiary of FHL, IHL receives strong operational, financial and managerial support from the parent. IHL owns real estate assets for some of the critical hospitals of the parent and is therefore strategically important to it. The parent has complete management control over its subsidiary, which it has supported through non-convertible debentures. This support is expected to continue.

- **Strong market position of FHL in the domestic healthcare space**

FHL (on a consolidated basis) operates 27 hospitals (including JVs and O&M facilities), which provide pan-India coverage, with 3979s operational beds. Fortis is a well-known brand in the Indian healthcare space. The hospitals (on a

consolidated basis) include those in Haryana, Punjab, Delhi-NCR, Karnataka, Rajasthan, Maharashtra, Chennai and West Bengal. These hospitals offer world-class services and attract international patients. SRL has established a strong brand in both retail and business-to-business (B2B) diagnostics segments, managing over 426 labs (including joint ventures), with over 2,500 customer touch points across India. The strong market position should sustain over the medium term, given the wide geographical footprint and diverse specialty mix.

There is a proposal to change the Fortis and SRL brand names, subject to various deliberation and requisite regulatory and corporate approvals. Transitioning to a new brand, while maintaining the market position, will be a key monitorable.

- **Healthy and improving financial risk profile of FHL, aided by good operating performance**

FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business. Revenue growth is expected to continue in high single digits over the medium term, while EBITDA margins are expected to sustain at 17-18%, ensuring good annual cash generation of over Rs.800 crore.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments on term loans, will ensure debt metrics remain at comfortable levels. Any large, debt-funded capex or acquisition or any adverse ruling in existing litigations under dispute, necessitating significant payout, may impact FHL's financial risk profile and will remain a key monitorable.

Weaknesses:

- **Exposure to regulatory risk**

The government policy on capping prices for medical procedures such as treatment of Covid-19 and prices of medical devices such as coronary and knee implants, has impacted players in the healthcare sector in the past. Such price control mechanisms have a direct bearing on operating margin of players through reduction in revenue. Any policy change that may negatively impact the credit risk profile will be closely monitored.

- **Continuing litigations**

While the Supreme Court's recent directions have not had any adverse impact on operations of Fortis group, the Supreme Court has directed the Delhi High Court to look into matters involving purchase of RHT assets by FHL, including undertaking a possible forensic audit, should that be required. While the management of FHL does not envisage any significant financial liability which may arise on this account, the timeframe by which the said legal issues may be resolved is uncertain. Both these aspects will remain a monitorable.

Liquidity: Strong

FHL, on a consolidated basis, had liquidity (cash equivalents of ~Rs 390 crores and undrawn working capital limits of Rs.280 crores) of ~Rs 670 crore as on November 30, 2022, against debt repayment obligation of around ~Rs 17 crore for fiscal 2023, towards loans currently drawn. Repayment obligations remain modest at Rs.200-210 crore each in fiscal 2024 and fiscal 2025, and can be comfortably serviced from accruals. Capex requirements are also expected to be primarily funded from accruals.

Outlook: Positive

CRISIL Ratings believes FHL's credit profile will benefit by improvement in business profile, supported by steady occupancies, high ARPOBs as well as return of international patient revenues, which will benefit revenues and also ensure healthy operating profitability. The company is also expected to sustain its debt metrics at comfortable levels, while pursuing organic and inorganic growth.

Rating Sensitivity factors

Upward factors

- Better than expected revenue growth and operating profitability sustaining at 15-18% of FHL, benefitting cash generation
- Maintenance of strong financial risk profile, and comfortable debt metrics; sustenance of gross debt (including lease liabilities) to EBITDA at 1.5- 1.8 times of FHL, while pursuing organic and inorganic growth opportunities
- Revision in rating of the parent FHL, resulting in similar action on IHL

Downward factors

- Sluggish operating performance of FHL, impacting operating profitability; same remaining below 12-13% on a sustained basis, also impacting cash generation
- Significant, debt-funded capex or investments, or adverse financial impact owing to unfavourable judgement in ongoing litigations of FHL, impacting debt metrics; gross debt (including lease liabilities) to EBITDA ratio sustaining above 2.5-2.7 times
- Revision in rating or outlook of the parent FHL, resulting in similar action on IHL

About the Company

IHL owns around eight properties and land for facilities in Amritsar and Anandpur in Punjab; Bannerghatta road in Bengaluru; Faridabad, Haryana; Noida, Uttar Pradesh; Mulund, Mumbai; and Kalyan, Maharashtra. It has only one operational facility at Rajaji Nagar, Bengaluru under it. On January 15, 2019, FHL became the holding company of IHL.

About the Group

Incorporated in February 1996, FHL's first healthcare facility became operational at Mohali in Punjab in 2001. The company operates in two segments i.e Hospitals & Diagnostics. The company is an integrated healthcare services provider, with presence in hospitals, diagnostics, day care, and specialty facilities. It has both owned and managed hospitals. The diagnostics brand, SRL, is among the leading chains in the country. FHL has entered women and child health and well-being segments through its brand, La Femme. It has a facility each in Jaipur; Greater Kailash and Shalimar Bagh (both in New Delhi); and Bengaluru. The company has four hospitals accredited to the Joint Commission International (JCI), 20 accredited to the National Accreditation Board for Hospitals (NABH), 18 with NABH-accredited nursing programmes under its umbrella, and 9 NABH-accredited blood banks.

On February 15, 2018, the shareholding of the erstwhile promoters, Mr Malvinder Mohan Singh and Mr Shivinder Mohan Singh, reduced to less than 1% after the Supreme Court allowed lenders to invoke the pledge against shares of FHL held as security. Thereafter, the search for a new promoter began and bids were invited from investors. IHH was the winning bidder and became the new promoter, investing around Rs 4,000 crore in the company against fresh issuance of around 31.1% stake.

The board has provided in-principle approval for change of the company's name, brands and logo from Fortis and SRL, whose license agreements expired in April and May 2021, respectively. The proposal of change in company name, brand and logo for Fortis and SRL are subject to various deliberations and requisite corporate and regulatory approvals.

For fiscal 2022, FHL had a net profit of Rs 790 crore (including exceptional gain of Rs 315 crore pertaining to remeasurement of the previously held equity interest of SRL in the SRI-DDRC JV at its fair value post acquisition of the balance 50% stake in the said JV in April 2021) and operating revenue of ~Rs 5718 crore, against operating revenue of ~Rs 4030 crore for the corresponding period of the previous fiscal with a net loss of Rs 56 crores. In the first half of fiscal 2023, FHL registered net profit of ~Rs. 353 crores, which includes an exceptional gain of Rs. 51.6 crore pertaining to reversal of impairment in an associate company.

Key Financial Indicators

As on / for the period ended March 31	Unit	2022	2021
Reported revenue	Rs crore	5718	4030
Reported profit after tax (PAT)	Rs crore	790	-56
Reported PAT margin	%	13.8	-1.38
Reported debt/adjusted net worth*	Times	0.37	0.42
Adjusted interest coverage	Times	7.59	3.01

*CRISIL Ratings-adjusted numbers. Net worth has been adjusted for intangible assets such as goodwill

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Term Loan	NA	NA	01-Sep-25	30	NA	CRISIL AA-/Positive

NA	Working Capital Facility*	NA	NA	NA	5	NA	CRISIL A1+
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*Interchangeable with Working capital facility & Non-fund-based limit

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Hiranandani Healthcare Pvt Ltd	Full	Consolidated being subsidiary
Fortis Hospotel Ltd	Full	Consolidated being subsidiary
Fortis Health Management Ltd	Full	Consolidated being subsidiary
Hospitalia Eastern Pvt Ltd	Full	Consolidated being subsidiary
International Hospital Ltd	Full	Consolidated being subsidiary
Escorts Heart and Super Speciality Hospital Ltd	Full	Consolidated being subsidiary
Fortis La Femme Ltd	Full	Consolidated being subsidiary
Fortis Health Management (East) Ltd	Full	Consolidated being subsidiary
Fortis Cancer Care Ltd	Full	Consolidated being subsidiary
Fortis Healthcare International Ltd	Full	Consolidated being subsidiary
Escorts Heart Institute and Research Centre Ltd	Full	Consolidated being subsidiary
Fortis Malar Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Hospitals Ltd	Full	Consolidated being subsidiary
Fortis Global Healthcare (Mauritius) Ltd	Full	Consolidated being subsidiary
Malar Stars Medicare Ltd	Full	Consolidated being subsidiary
Fortis Asia Healthcare Pte. Ltd	Full	Consolidated being subsidiary
Birdie & Birdie Realtors Pvt Ltd	Full	Consolidated being subsidiary
Fortis Emergency Services Ltd	Full	Consolidated being subsidiary
Stellant Capital Advisory Services Pvt Ltd	Full	Consolidated being subsidiary
RHT Health Trust Manager Pte Ltd	Full	Consolidated being subsidiary
Fortis Health Staff Ltd	Full	Consolidated being subsidiary
SRL Ltd	Full	Consolidated being subsidiary
SRL Diagnostics Pvt Ltd	Full	Consolidated being subsidiary
SRL Reach Ltd	Full	Consolidated being subsidiary
SRL Diagnostics FZ-LLC	Full	Consolidated being subsidiary
Fortis Healthcare International Pte Ltd	Full	Consolidated being subsidiary
Mena Healthcare Investment Company Ltd	Full	Consolidated being subsidiary
Medical Management Company Ltd	Full	Consolidated being subsidiary
Fortis CSR Foundation	Full	Consolidated being subsidiary
Sunrise Medicare Pvt Ltd	Equity method	Equity method of consolidation
Lanka Hospital Corporation Plc	Equity method	Equity method of consolidation
RHT Health Trust	Equity method	Equity method of consolidation
Fortis Cauvery	Equity method	Equity method of consolidation
Fortis C-Doc Healthcare Ltd	Equity method	Equity method of consolidation
DDRC SRL Diagnostics Pvt Ltd	Equity method (till April 4, 2021) Full (from April 5, 2021)	Equity method of consolidation (till April 4, 2021) Consolidated being subsidiary (from April 5, 2021)
SRL Diagnostics Nepal Pvt Ltd	Equity method	Equity method of consolidation

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	35.0	CRISIL AA-/Positive / CRISIL A1+		--	29-12-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	29-11-21	CRISIL A1/Watch Developing / CRISIL A+/Watch Developing	10-12-20	CRISIL A/Watch Developing	--
			--		--	03-10-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	01-09-21	CRISIL A1/Watch Developing / CRISIL A+/Watch Developing	11-09-20	CRISIL A/Watch Developing	--

			--	--	04-08-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-07-21	CRISIL A+/Watch Developing	15-06-20	CRISIL A/Watch Developing	--
			--	--	26-05-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-03-21	CRISIL A/Watch Developing	17-03-20	CRISIL A/Watch Developing	--
			--	--	25-02-22	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	07-01-21	CRISIL A/Watch Developing	11-03-20	CRISIL A1/Watch Developing	--
Non-Fund Based Facilities	ST		--	--		--	01-09-21	Withdrawn	10-12-20	CRISIL A1/Watch Developing	--
			--	--		--	26-07-21	CRISIL A1/Watch Developing	11-09-20	CRISIL A1/Watch Developing	--
			--	--		--	26-03-21	CRISIL A1/Watch Developing	15-06-20	CRISIL A1/Watch Developing	--
			--	--		--	07-01-21	CRISIL A1/Watch Developing	17-03-20	CRISIL A1/Watch Developing	--
			--	--		--		--	11-03-20	CRISIL A1/Watch Developing	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Term Loan	30	DBS Bank India Limited	CRISIL AA-/Positive
Working Capital Facility*	5	DBS Bank India Limited	CRISIL A1+

This Annexure has been updated on 01-Feb-23 in line with the lender-wise facility details as on 06-Dec-21 received from the rated entity.

*Interchangeable with Working capital facility & Non-fund-based limit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for Consolidation

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Rating Rationale

February 01, 2023 | Mumbai

SRL Limited

Rating removed from 'Watch Developing'; Rating Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.54 Crore
Long Term Rating	CRISIL AA-/Positive (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the bank facilities of SRL Limited (SRL) from 'Rating Watch with Developing Implications' and has reaffirmed the long-term rating on the bank facilities at 'CRISIL AA-', while assigning a '**Positive**' outlook to its long-term rating.

The rating action follows CRISIL Ratings' detailed discussion with the management subsequent to the Supreme Court' of India's judgement disposing off the suo-moto contempt suits against parent Fortis Healthcare Limited (FHL). Management of FHL doesn't anticipate any major implication on the day-to-day operations and future growth plans of the company on account of the remaining litigations. Further, promoters of FHL i.e. IHH Healthcare Berhard ("IHH") in multiple forums has reiterated that FHL remains strategically important, as India, along with Malaysia, Singapore and Turkey remain key markets. Besides, the prospects for the healthcare sector in India remain strong over the medium term, and FHL is expected to be a key driver of growth for IHH.

The positive outlook factors FHL's improving business risk profile driven by steady occupancies, high average revenue per occupied bed (ARPOB) metrics, and increasing international patient revenues, which are also leading to healthy operating profitability. Besides, FHL's financial risk profile also remains comfortable, supported by good cash generation, and healthy debt metrics, even as it is expected to pursue with its organic and inorganic growth plans. The company, on consolidated basis, is expected to sustain its debt to earnings before interest, tax, depreciation and amortization (EBITDA) at adequate levels over the medium term; It stood ~1.1 as of 30th September, 2022.

The ratings had earlier been placed on watch due to pending legal issues. The Supreme Court of India had initiated suo moto contempt proceedings against FHL, with regard to funds infusion by IHH in the form of preferential allotment of fresh shares and purchase of assets of RHT Health Trust (RHT).

FHL, in its stock exchange announcement dated September 23, 2022, intimated that the Supreme Court of India pronounced the final judgment in respect of the Suo Moto contempt petition and the connected proceedings, (i.e., Special Leave Petition (Civil) No. 20417 of 2017 and the contempt petition No.2120 of 2018 in SLP (C) No.20417 of 2019) on September 22, 2022 ("Judgment"). The Supreme Court of India has, by way of the Judgment, held inter alia that the Suo Motu contempt petition and the connected proceedings have been disposed of. The Court has not found nor indicated, any wrongdoing by FHL in terms of the investment by Northern TK Ventures Pte Ltd (part of IHH) into FHL, in its judgement. Further, the Supreme Court observed that the acquisition of the business portfolio of RHT by FHL appeared to prima facie be an acquisition of proprietary interest to subserve the business structure of FHL. However, the Supreme Court has stated that the facts on record are not adequate to definitively evaluate these issues concerning the acquisition of such proprietary interests accordingly has issued a direction to the Delhi High Court, which may also consider issuing appropriate processes and appointing forensic auditor(s) to analyze the transactions entered into between FHL and RHT and other related transactions. The judgment further provides that it will be open to the Delhi High Court to pass such directions as the facts and circumstances presented before it may justify.

Securities and Exchange Board of India (SEBI) had vide orders dated April 19, 2022, and May 5, 2022 imposed a penalty of Rs 1 crore each on Escorts Heart Institute and Research Centre Limited (EHIRCL: rated 'CRISIL AA-/Positive/CRISIL A1+') and FHL and Rs 50 Lakhs on FHsL (Fortis Hospitals Ltd) due to reasons inter-alia irregularities committed by erstwhile promoters. FHL and FHsL have filed an appeal against the order of April 19, 2022, before the Securities Appellate Tribunal,

Mumbai (SAT) which has directed SEBI to file its response and ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. Against the order dated May 18, 2022, EHIRCL has filed an appeal before SAT which has ordered that on deposit of 50% of penalty amount, SEBI will not initiate recovery of further amounts. The said two Appeals are sub-judice. Serious Fraud Investigation Office (SFIO) investigation is underway.

The outcome of these proceedings before the Delhi High Court, including any punitive action, which may have a bearing on the financial risk profile of parent FHL will remain a monitorable.

The rating continues to reflect the established market position of SRL, its improving operating performance and a strong financial risk profile. These strengths are partially offset by exposure to intense competition and inherent regulatory risks.

FHL's consolidated revenue grew by ~8% to Rs.3095 crore in the first half of fiscal 2023 compared with Rs. 2873 crore in the first half of fiscal 2022. Revenue growth in the first half of fiscal 2023 was driven by ~18.3% growth in the hospital segment, even as diagnostic segment de-grew by 19% owing to lower covid and covid allied tests. The company reported consolidated EBITDA (including other income) of Rs 590 crores (EBITDA Margin - 19.1%) in the first half of fiscal 2023, compared with ~Rs 575 crores (~20.0%) in the corresponding period of the previous fiscal. Reported EBITDA margins for hospitals improved to ~19% from ~16%, but dipped for diagnostics segment ~20.0% from ~28% in the corresponding period of previous fiscal due to lower operating leverage with covid volumes declining.

Total debt (including lease liabilities) reduced to Rs. 1,231 crores at September 30, 2022 from 1,531 crore at March 31, 2021. Net Debt / EBITDA stood at ~0.73 time (annualized) at September 30, 2022 (3.80 times at March 31, 2021), while gearing levels were comfortable at under 0.6 times since March 31, 2022. FHL has annual capex plans of ~Rs. 500-800 crore, which are likely to be funded from healthy accruals. This along with steady repayments, will ensure continued improvement in debt metrics.

Earlier, FHL's consolidated operating revenue rose by ~42% to ~Rs 5,718 crore on-year in fiscal 2022. This was driven by ~37% growth in hospital business to ~Rs 4,264 crores & ~55% growth in diagnostics business to ~Rs 1,605 crores. Revenue growth in hospital business was owing to higher occupancy level at ~63% (55% in fiscal 2021) and higher ARPOB at Rs 1.80 crores (Rs 1.58 Crores in fiscal 2021). Growth in diagnostics business was owing to higher collection centres leading to higher volumes and the acquisition of DDRC by SRL acquisition. The consolidated EBITDA margin improved to ~19.2% in fiscal 2022, from ~11.2% in fiscal 2021, driven by higher margin in hospital segment at ~15.8% (~8.4% in fiscal 2021) and in diagnostic division at ~26.5% (~19.3% in fiscal 2021). Profitability across hospitals and diagnostic segment has improved through various cost optimization measures. Higher Covid-19 related testing, higher business to customer service and efforts to boost per lab utilization led to improvement in the diagnostics business. On the other hand, recovery in international patient segment and higher ARPOB have led to the better profitability in hospital business.

The rating continues to reflect Fortis group's established market position with a pan India presence through its network of twenty seven hospitals, its sound operational efficiencies as reflected in improvement in occupancies and ARPOB, also leading to good profitability. The ratings are also supported by the company's healthy financial risk profile, and adequate liquidity. These strengths are partially offset by pending litigations, impact of which is not expected to be material, and regulatory risks associated with the hospital sector.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of SRL and its subsidiaries as they have same business, strong operational and financial linkages and common management. Also, CRISIL Ratings has amortized goodwill arising from mergers or on consolidation over a period of 10 years, given the strong brand of the acquired entities and expectation of returns over the long term.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong support from the parent**

As a subsidiary of FHL, SRL receives strong operational and managerial support from the parent. SRL represents the diagnostics arm of the Fortis group and is therefore strategically important to it. The parent has complete management control over its subsidiary. Need based support is expected to continue.

- **Established position in the diagnostic services industry in India**

SRL is the second-largest player in the domestic diagnostic services industry in terms of revenue. It has established a strong brand in both retail (B2C) and business-to-business (B2B) segments and manages over 426 labs (including joint ventures) with over 2,500 customer touch points in India. It also has international presence through subsidiaries in the Middle East, contributing around 3% of overall revenue. The company's strong market position will be sustained over the medium term supported by its wide geographical footprint and diverse specialty mix. A proposal to change the brand SRL is subject to various requisite approvals, which will be a key monitorable.

- **Improving operating performance**

Operating revenue increased to Rs 1,596 crore with operating EBITDA of Rs 405 crore in FY2022 vs Rs 1,032 crore and Rs 171 crore, respectively, in fiscal 2021. This improvement was driven by the consolidation of DDRC in April 2021. Besides, the company has a healthy B2B:B2C revenue mix of 45:55 in fiscal 2022.

- **Strong financial risk profile**

Adjusted networth was healthy at Rs 1,297 crores against negligible gearing as on March 31, 2022. Debt protection metrics were comfortable, reflected in adjusted interest coverage ratio of over 25 times in fiscal 2022. Liquid surplus stood at ~Rs 370 crore in March 2022, supported by healthy cash accrual. The financial risk profile should remain strong over the medium term aided by healthy cash accrual and the absence of term debt.

Weakness:

- **Exposure to regulatory risks, market fragmentation and modest entry barriers**

The cap on prices for diagnostic tests (for instance, testing of Covid-19), introduced by the government, has impacted players adversely. Limited capital requirement for starting a diagnostics laboratory has led to emergence of several diagnostic centres. Further, intense competition restricts the market share and pricing power of players such as SRL.

Liquidity: Strong

FHL, on a consolidated basis, had liquidity (cash equivalents of ~Rs 390 crores and undrawn working capital limits of Rs.280 crores) of ~Rs 670 crore as on November 30, 2022, against debt repayment obligation of around ~Rs 17 crore for fiscal 2023, towards loans currently drawn. Repayment obligations remain modest at Rs.200-210 crore each in fiscal 2024 and fiscal 2025, and can be comfortably serviced from accruals. Capex requirements are also expected to be primarily funded from accruals.

Outlook: Positive

CRISIL Ratings believes FHL's credit profile will benefit by improvement in business profile, supported by steady occupancies, high ARPOBs as well as return of international patient revenues, which will benefit revenues and also ensure healthy operating profitability. The company is also expected to sustain its debt metrics at comfortable levels, while pursuing organic and inorganic growth.

Rating Sensitivity factors

Upward factors

- Healthy revenue growth and sustenance of operating margin at healthy levels
- Revision in rating of the parent FHL, resulting in similar action on SRL

Downward factors

- Significant, debt-funded capex or investments, or adverse financial impact owing to unfavourable judgement in ongoing litigations at the group level, weakening the financial risk profile
- Lower utilisation of labs, leading to fall in revenue and sustained deterioration in operating margins
- Revision in rating or outlook of the parent FHL, resulting in similar action on SRL

About the Company

Incorporated in 1995, SRL is a leading diagnostic services company in India. The company offers pathology and imaging services, which are used by doctors in routine testing, patient diagnosis and monitoring and treatment of diseases. With the acquisition of SRL Diagnostics Pvt Ltd (SRLD; erstwhile Piramal Diagnostics Services Pvt Ltd) in August 2010, SRL expanded its presence in west and east India. The company was acquired by FHL in May 2011. Currently, FHL owns 57% stake in SRL. In addition, the company has developed specialty testing for oncology and HIV, diagnostic genetics and clinical trials.

About the Group

Incorporated in February 1996, FHL's first healthcare facility became operational at Mohali in Punjab in 2001. The company operates in two segments i.e Hospitals & Diagnostics. The company is an integrated healthcare services provider, with presence in hospitals, diagnostics, day care, and specialty facilities. It has both owned and managed hospitals. The diagnostics brand, SRL, is among the leading chains in the country. FHL has entered women and child health and well-being segments through its brand, La Femme. It has a facility each in Jaipur; Greater Kailash and Shalimar Bagh (both in New Delhi); and Bengaluru. The company has four hospitals accredited to the Joint Commission International (JCI), 20 accredited to the National Accreditation Board for Hospitals (NABH), 18 with NABH-accredited nursing programmes under its umbrella, and 9 NABH-accredited blood banks.

On February 15, 2018, the shareholding of the erstwhile promoters, Mr Malvinder Mohan Singh and Mr Shivinder Mohan Singh, reduced to less than 1% after the Supreme Court allowed lenders to invoke the pledge against shares of FHL held as security. Thereafter, the search for a new promoter began and bids were invited from investors. IHH was the winning bidder and became the new promoter, investing around Rs 4,000 crore in the company against fresh issuance of around 31.1% stake.

The board has provided in-principle approval for change of the company's name, brands and logo from Fortis and SRL, whose license agreements expired in April and May 2021, respectively. The proposal of change in company name, brand and logo for Fortis and SRL are subject to various deliberations and requisite corporate and regulatory approvals.

For fiscal 2022, FHL had a net profit of Rs 790 crore (including exceptional gain of Rs 315 crore pertaining to remeasurement of the previously held equity interest of SRL in the SRI-DDRC JV at its fair value post acquisition of the balance 50% stake in the said JV in April 2021) and operating revenue of ~Rs 5718 crore, against operating revenue of ~Rs 4030 crore for the corresponding period of the previous fiscal with a net loss of Rs 56 crores. In the first half of fiscal 2023, FHL registered net profit of ~Rs. 353 crores, which includes an exceptional gain of Rs. 51.6 crore pertaining to reversal of impairment in an associate company.

Key Financial Indicators

As on / for the period ended March 31	Unit	2022	2021
Operating income	Rs crore	1,596	1,032
Adjusted profit after tax (PAT)	Rs crore	492	89
Adjusted PAT margin	%	30.8	8.6
Adjusted debt / adjusted networkth	Times	--	--
Interest coverage	Times	25.68	14.51

*CRISIL Ratings-adjusted numbers. Net worth has been adjusted for intangible assets such as goodwill

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Working Capital Facility	NA	NA	NA	54	NA	CRISIL AA-/Positive

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
SRL Ltd	Full	Consolidated being subsidiary
SRL Diagnostics Pvt Ltd	Full	Consolidated being subsidiary
SRL Reach Ltd	Full	Consolidated being subsidiary
SRL Diagnostics FZ-LLC	Full	Consolidated being subsidiary
DDRC SRL Diagnostics Pvt Ltd	Equity method (till April 4, 2021) Full (from April 5, 2021)	Equity method of consolidation (till April 4, 2021) Consolidated being subsidiary (from April 5, 2021)
SRL Diagnostics Nepal Pvt Ltd	Equity method	Equity method of consolidation

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	54.0	CRISIL AA-/Positive		--	29-12-22	CRISIL AA-/Watch Developing	30-11-21	CRISIL A+/Watch Developing		--	--
			--		--	03-10-22	CRISIL AA-/Watch Developing	26-07-21	CRISIL A+/Watch Developing		--	--
			--		--	04-08-22	CRISIL AA-/Watch Developing		--		--	--
			--		--	26-05-22	CRISIL AA-/Watch Developing		--		--	--
			--		--	25-02-22	CRISIL AA-/Watch Developing		--		--	--

Non Convertible Debentures	LT		--		--		--	26-07-21	Withdrawn		--	--
			--		--		--	16-04-21	CRISIL A/Watch Developing		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Working Capital Facility	25	DBS Bank India Limited	CRISIL AA-/Positive
Working Capital Facility	25	Axis Bank Limited	CRISIL AA-/Positive
Working Capital Facility	2	Kotak Mahindra Bank Limited	CRISIL AA-/Positive
Working Capital Facility	2	HDFC Bank Limited	CRISIL AA-/Positive

This Annexure has been updated on 01-Feb-23 in line with the lender-wise facility details as on 02-Aug-21 received from the rated entity.

Criteria Details

Links to related criteria
The Rating Process
CRISILs Bank Loan Ratings
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
CRISILs Criteria for Consolidation
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