

**Fortis Healthcare Limited**

Tower-A, Unitech Business Park, Block-F,
South City 1, Sector – 41, Gurgaon,
Haryana – 122 001 (India)

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Email : secretarial@fortishealthcare.com

Website : www.fortishealthcare.com

FHL/SEC/2019-20**April 03, 2019**

**The National Stock Exchange of India Ltd.
Corporate Communications Department
“Exchange Plaza”, 5th Floor, Bandra-Kurla
Complex, Bandra (East), Mumbai – 400051**

**BSE Limited
Corporate Services Department
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001**

Scrip Symbol: FORTIS**Scrip Code:532843****Sub: Reg. 30 – Revisions in Credit Ratings**

Dear Sir(s),

With reference to the provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, it is hereby informed that the Company has, today i.e. on April 3, 2019, received changes in credit ratings by “**CARE Ratings**” in respect of the Company and Escorts Heart Institute and Research Centre Limited (subsidiary of the Company).

The relevant reports made by CARE Ratings covering the rationale for revisions in the credit ratings are attached herewith.

This is for your information and records please.

Thanking you,
Yours faithfully,
For **Fortis Healthcare Limited**

**Sumit Goel
Company Secretary
ICSI Membership: F6661**

FORTIS HEALTHCARE LIMITED

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

CARE/DRO/RL/2018-19/4282

Mr. Girish Kumar Gupta

Chief Financial Officer

Fortis Healthcare Limited

3rd Floor, Tower – A, Unitech Business Park,

Block – F, South City 1, Sector – 41

Gurgaon, Haryana - 122001

March 29, 2019

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY18 (audited) and Q3FY19 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Bank facilities - Long Term - Term Loan	55.00	CARE BBB- [Triple B Minus] (Under Credit watch with developing implications)	Revised from CARE C (Single C) and placed on credit watch with developing implications
Bank facilities – Fund based – Overdraft	50.00	CARE A3 [A Three] (Under Credit watch with developing implications)	Revised from CARE A4 (A Four) and placed on credit watch with developing implications
Total	105 (Rs. One hundred and five crore only)		

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept

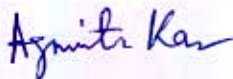
¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

- in. Kindly revert as early as possible. In any case, if we do not hear from you by April 03, 2019, we will proceed on the basis that you have no any comments to offer.
4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
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 6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
 7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
 8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



[Agnimitra Kar]

Manager

agnimitra.kar@careratings.com



[Sudhir Kumar]

Associate Director

sudhir.kumar@careratings.com

Encl.: As above

Disclaimer

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

Annexure 1

Details of Rated Facilities

1. Long-term facilities

1.A. Rupee term loans

Banker	Type of facility	Rated amount (Rs. Crore)	Remarks
Yes Bank	Medical equipment loan	40.00	Structured repayment till FY24
HDFC Bank	Term Loan	15.00	To be repaid in FY20
Total		55.00	

Total long-term facilities - Rs. 55.00 crore

2. Short-term facilities

2.A. Overdraft

Banker	Type of facility	Rated amount (Rs. Crore)	Remarks
Yes Bank	Overdraft	50.00	12 months, on demand
Total		50.00	

Total short-term facilities – Rs. 50.00 crore

Annexure 2

Press Release

Fortis Healthcare Limited (FHL)

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Bank facilities - Long Term - Term Loan	55.00	CARE BBB- [Triple B Minus] (Under credit watch with developing implications)	Revised from CARE C (Single C) and placed on credit watch with developing implications
Bank facilities – Fund based – Overdraft	50.00	CARE A3 [A Three] (Under credit watch with developing implications)	Revised from CARE A4 (A Four) and placed on credit watch with developing implications
Total	105 (Rs. One hundred and five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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

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

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

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

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

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in financial risk profile through IHH's equity infusion

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

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

being paid to RHT for utilization its assets. Reduction of these expenses is expected to improve cash flow and coverage metrics.

Introduction of new promoter having global experience in healthcare industry

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

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

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

Superior asset quality

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

Favourable industry scenario

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

Liquidity profile

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

Key Rating Weaknesses

Pending investigation/ litigations against the group

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

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

Below-average operational performance in the past

FHL witnessed continuous decline in occupancy level over the quarters – Q1FY19 occupancy level being lower than that in Q1FY18, which was lower than that in Q1FY17. Similar trend has also been observed for

Q2 and Q3 in the current year. ARPOB and ALOS have remained almost stagnant during the last 11 quarters.

Impact on profitability in FY18 and in 9MFY19

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

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

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

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

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

Applicable Criteria:

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

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

[Criteria for Short-term Instruments](#)

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

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

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

About FHL:

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

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

A - Audited

About IHH:

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

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

Analyst Contact:

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Tel: 011-45333232

Email: sudhir.kumar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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

Disclaimer

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concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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Annexure-1: Details of Instruments/Facilities

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

Annexure-2: Rating History of last three years

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

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

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

CARE/DRO/RL/2018-19/4283

Mr. Girish Kumar Gupta

Chief Financial Officer

Escorts Heart Institute and Research Centre Limited

3rd Floor, Tower – A, Unitech Business Park,

Block – F, South City 1, Sector – 41

Gurgaon, Haryana - 122001

March 29, 2019

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY18 (audited) and Q3FY19 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Bank facilities - Long Term - Term Loan	28.00	CARE BBB- [Triple B Minus] (Under Credit watch with developing implications)	Revised from CARE C (Single C) and placed on credit watch with developing implications
Bank facilities – Fund based – Overdraft	15.00	CARE A3 [A Three] (Under Credit watch with developing implications)	Revised from CARE A4 (A Four) and placed on credit watch with developing implications
Total	43 (Rs. Forty three crore only)		

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by April 03, 2019, we will proceed on the basis that you have no any comments to offer.

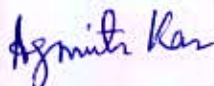
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If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



[Agnimitra Kar]

Manager

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[Sudhir Kumar]

Associate Director

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Encl.: As above

Disclaimer

Page 2 of 10

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

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Details of Rated Facilities

1. Long-term facilities

1.A. Rupee term loans

Banker	Type of facility	Rated amount (Rs. Crore)	Remarks
Yes Bank	Medical equipment loan	15.00	Structured repayment till FY24
HDFC Bank	Term Loan	13.00	To be repaid in FY22
Total		28.00	

Total long-term facilities - Rs. 28.00 crore

2. Short-term facilities

2.A. Overdraft

Banker	Type of facility	Rated amount (Rs. Crore)	Remarks
HDFC Bank	Overdraft	15.00	12 months, on demand
Total		15.00	

Total short-term facilities – Rs. 15.00 crore

Annexure 2
Press Release

Escorts Heart Institute and Research Centre Limited (EHIRCL)

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Bank facilities - Long Term - Term Loan	28.00	CARE BBB- [Triple B Minus] (Under credit watch with developing implications)	Revised from CARE C (Single C) and placed on credit watch with developing implications
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Total	43 (Rs. Forty three crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of EHIRCL follows the revision in ratings of its holding company i.e Fortis Healthcare Ltd (FHL) from CARE C (Single C)/ CARE A4 (A Four) to CARE BBB- [Triple B Minus]/ CARE A3 [A Three] (Under credit watch with developing implications). EHIRCL shares strong operational synergies and linkage with its parent i.e FHL.

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

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

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in financial risk profile through IHH's equity infusion

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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

Introduction of new promoter having global experience in healthcare industry

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

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

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

Superior asset quality

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

Favourable industry scenario

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

Liquidity profile

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

Key Rating Weaknesses

Pending investigation/ litigations against the group

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

Also, in various forums, the hospitals operated by the Group are under litigations against by government authorities including DDA, NMMC, etc. The group also has various statutory liabilities under dispute which

are pending resolution in various forums. Outcome of these investigations/ litigations will be a key monitor able given the magnitude and potential implication.

Below-average operational performance in the past

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

Impact on profitability in FY18 and in 9MFY19

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

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

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

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

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

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short-term Instruments

CARE's methodology for service companies

CARE's methodology for financial ratios (Non-Financial Sector)

CARE's methodology for Factoring Linkages in Ratings

About EHIRCL:

EHIRCL was incorporated in 2000 as a company engaged in research in cardiology and other medical fields. In 2005, FHL acquired a majority stake in EHIRCL via a share purchase agreement. Over the years, FHL has increased its stake in EHIRCL to 100%. EHIRCL owns a specialty hospital with 340 beds in Delhi providing advanced cardiac care facilities and operates a hospital in Raipur.

About FHL:

FHL, incorporated in 1996, is a leading healthcare player with presence in multiple verticals spanning diagnostics, primary care, day care specialty and hospitals. The group operates 43 healthcare facilities with approximately 4,100 operational beds. FHL also operates one of the largest private diagnostic centres in India through its subsidiary SRL Ltd. Its network comprised of 368 laboratories, more than 1,000 collection centres with over 5,000 direct clients. In November 2018, IHH, through its subsidiary - Northern TK Ventures Pte Ltd had infused equity in FHL leading to holding of ~31.1%.

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

A - Audited

About IHH:

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

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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

Annexure-1: Details of Instruments/Facilities

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

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	55.00	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE C (11-Apr-18)	1)CARE BBB+ (Under Credit watch with Negative Implications) (06-Mar-18) 2)CARE A- (Under Credit watch with Negative Implications) (13-Feb-18) 3)CARE A+	1)CARE A+ (04-May-16)	1)CARE A+ (23-Apr-15)

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

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