



“Fortis Healthcare Limited  
Investor Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Fortis Healthcare Limited Investor conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anurag Kalra – Senior Vice President, Investor Relations at Fortis Healthcare Limited, thank you and over to you Sir.

**Anurag Kalra:** Thank you Aman. A very good evening and good afternoon ladies and gentlemen and my apologies for beginning this call a little late. We have on the call today Mr. Bhavdeep Singh – our CEO and Mr. Gagandeep Bedi – our Chief Financial Officer to address and update related to the demerger of our diagnostics business. I shall request the CEO to begin with some opening comments and a broad overview of the rationale and then I shall take you through a short presentation of this, over to you.

**Bhavdeep Singh:** Thank you very much Anurag and good afternoon. Thank you all for joining the call. As you would recall just recently 2-3 weeks back we had shared with all of you that the Board of Directors had authorized for us to explore opportunities to maximize shareholder value and unlock value for the asset of business. With that said, this afternoon the Fortis Healthcare Board of Directors approved a demerger of the diagnostic business into a separately listed company and the arrangement and the plan around this is what we will walk you through today and just to give you an update on where we are.

We believe that moving forward that this is good for both businesses. We can get good for the hospital business, we can get good for the diagnostics business as well and while there are multiple reasons for doing this I think the outcome around having two freestanding strong businesses, independent businesses is very good and goes well for the organization.

Just to very quickly walk through it, you are probably aware, we have two listed entities, we have Fortis Healthcare and we have the Fortis Malar business. Both are listed entities and publicly traded companies. As there are multiple steps in this, the first step very quickly that I'll just talk through is that the Fortis Malar Hospital is being sold to Fortis Healthcare for a price of 43 crores. So at this stage the hospital business, all the existing hospitals and the Fortis Malar Hospital, will be in the Fortis Healthcare entity. The asset of diagnostic business, demerging coming out of the Fortis Healthcare business will move over and sit in the erstwhile Malar entity that I have just referenced with a hospital was so now that will house the asset of the diagnostics business in existing diagnostics business that was there and some minor investments as well. So you have two separate entities and both again publicly listed entities and publicly traded entities.

From a shareholding perspective for every share that the Fortis shareholder, for every one share that they have, they will receive 0.98 shares of the new SRL, the erstwhile Malar entity, they

will receive 0.98 shares. So for every 100 shares they will receive 98 shares of this new entity. You all are aware that the diagnostics business Fortis is 56% owner, the 44% the balance 44 is owned by investors, that investor pool of the 44% ownership for every 1 share they will receive 10.8 shares of the new entity. So again, for every 1 share they will receive 10.8 shares of the new entity.

So that's the gist of what's going to be happening. We think this is going to take somewhere between 9 to 12 months to conclude and again as I just mentioned I think that going forward we believe it's a great outcome, we think it's a great way to unlock value for shareholders but again I think long-term the best part here is that you have two freestanding businesses that will do quite well going forward.

So with that I am going to ask Mr. Anurag Kalra to give you some more details and insights into this transaction.

**Anurag Kalra:**

Thank you Sir. Ladies and gentlemen, the Board has approved a composite scheme of arrangement and amalgamation that will eventually result in the demerger of our diagnostics business undertaking into a separate listed company. Please note that this scheme is subject to all regulatory and statutory approvals including those from the stock exchanges, our creditors, shareholders as also the sanction of the jurisdiction High Court will be required for this to be implemented. Upon the scheme becoming effective the diagnostics business of Fortis Healthcare Limited including that housed in SRL would be vested in Fortis Malar. The name of Fortis Malar would subsequently be changed to SRL Limited and we will also propose to list this company on the NSE in addition to the BSE where it is currently listed.

Before I go into the details of the scheme I just wanted to highlight that given the nature of such transaction there are regulations on disclosure that we would need to adhere to but we will try and resolve your queries as best possible.

The presentation I would talk about will take you through the pre-transaction structure. What are the steps involved in the transaction as mentioned in the composite scheme and the post-transaction structure.

If you look at the current company structure you would be aware that the promoters hold a fully dilutive stake of 63.1% in Fortis Healthcare Limited with the balance being held by the public comprising of our institutional investors and retail shareholders. Fortis Healthcare Limited holds a stake of 56.4% in SRL. The balance stake in SRL approximately 43.6% is held with the non-promoter holding. The promoters hold an additional 5.3% and about 38.3% is the non-promoting holding, so total of about 43.6%.

Fortis Healthcare also indirectly through its subsidiary holds in Fortis Malar a 62.4% stake. Malar as you know is a listed entity comprising of a hospital facility in Chennai. It's listed currently only on the BSE. 37.6% in Fortis Malar is held by the public shareholders of Malar.

The scheme envisages a series of steps that will result in that the demerger of the diagnostics business undertaking currently residing in Fortis Healthcare. Fortis Malar's hospital business would be sold via a slump sale process to Fortis Healthcare Limited. Fortis Malar would continue to have its existing diagnostics business and some investment that it currently has on its books. For the sale of this hospital business to Fortis Healthcare, Fortis Healthcare would pay a consideration of Rs. 43 crores to Fortis Malar. Please note that this 43 crores value is only for the hospitals business. For the swap ratio, the entire value of the Malar entity comprising of the hospitals business, the diagnostics business and the investment sitting in Malar has been taken into account. The valuation has been done by PWC and has now been approved by the respective Boards of the companies involved herein.

The next step would be the demerger diagnostics business undertaking of Fortis Healthcare which also includes its investment in SRL to Fortis Malar and Fortis Malar in lieu of this would issue shares in the share entitlement ratio of 0.98:1. This means that for every one share held by a Fortis shareholder, he will get 0.98 shares in Fortis Malar. This ratio is calculated basis the outstanding number of equity shares on a fully diluted basis both in the case of Fortis Malar and in the case of Fortis Healthcare. As a result of this, Fortis Malar will issue approximately 51.2 crore shares to the shareholders of Fortis Healthcare.

The last step would be the merger of SRL which is now being held under Fortis Malar with Fortis Malar. So SRL as an entity will now be merged with Fortis Malar. Fortis Malar as a result of this step would issue shares to the shareholders of SRL excluding itself, which means they will issue shares to the 43.6% shareholders sitting in SRL. The share ratio for the same would be 10.8:1 which means that for every one share held by a non-Fortis shareholder in SRL, non-Fortis shareholder holding 43.6%, they will get 10.8 shares in Fortis Malar. This share exchange ratio is calculated basis the outstanding number of equity shares in SRL proportionate to the 43.6% shareholding. As a result of this, Fortis Malar would issue approximately 37.8 crore new shares to the shareholder of 43.6% in SRL.

Once these steps are over the resultant entity which now incorporates the diagnostics business undertaking including SRL and will be renamed as SRL would have a resultant equity base of 91 crore shares out of which 56% of the shares will be held by the Fortis shareholders. In a sense, for Fortis shareholders every 1% shareholding in Fortis would give them approximately 0.56% shareholding in the resulting entity.

The resultant structure of the new company which is Fortis Malar, now to be renamed SRL, would be as follows: The promoters would hold a 40.6% stake in the new SRL or the SRL Company. The public of Fortis Healthcare Limited would hold 20.8% stake. The public shareholders of SRL and Malar would hold 37.3% stake in Fortis Malar and there is a small stake of 1.3% which will be indirectly held by Fortis Healthcare Limited. So that's the resultant structure that we see after consummating all these steps.

That is a brief of my presentation and if there are any questions we would be happy to address them. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Neha Manpuria from JP Morgan. Please go ahead.

**Neha Manpuria:** My first question is on the implied swap that you have mentioned here, the share entitlement ratio. If I use that I get value for Fortis shareholder stake in SRL at about 3000 crores. I know you don't want to give a number, but I just wanted to know the basis for the ratio that we have arrived at?

**Anurag Kalra:** As you would be aware PWC has done the valuation of all the companies that are involved here. They have used various methodologies. To your question specifically on SRL we believe that they have used the DCF analysis and the comparable market multiple analysis given that there are similar companies that are listed in the diagnostics space. So they have recommended a value which the Board has kind of approved but at this point as you know we would not be able to tell you those exact values of the business.

**Neha Manpuria:** So they have used comparables of listed peers at the time of the listing, would that be fair?

**Anurag Kalra:** Yes.

**Neha Manpuria:** My second question is on the 43 crores that we are paying to acquire the hospital business of Malar that is only the hospital business, what other business? You said diagnostics and investments, what are these investments and how much, are they significant?

**Anurag Kalra:** Yes, the overall value of Malar's, you know Malar is a listed company so there is a market cap around it. These are significant investments, the diagnostics business, the investments and the hospital business, the total value of that has been used to calculate the swap ratio.

**Neha Manpuria:** These investments are in other diagnostic chain, in other hospitals? What are these investments?

**Anurag Kalra:** The investment is sitting at cash which we got from RHT because you know Malar is a part of the RHT, you are well aware of that and that's the money that we got from there.

**Neha Manpuria:** My last question is what are the basic approvals that we would need? I understand you'll need shareholder approval probably from Malar and Fortis but other than that are there any other big regulatory approval that we would need for completion of this transaction?

**Anurag Kalra:** We would need approvals from the stock exchange; we would need approvals from our creditors and our shareholders followed by, of course, approval by the High Court. Post the

High Court giving an approval the Board will meet again to set a record date and we will take it from there, so you need a number of approvals for this.

- Moderator:** We have the next question from the line of Saion Mukherjee from Nomura. Please go ahead.
- Saion Mukherjee:** Can you give some details on SRL balance sheet which would be now part of the new entity? I understand there would be some existing diagnostics business also of Malar but a large of the balance sheet would be on from SRL, right? So if you can give some numbers there?
- Anurag Kalra:** We have done some indicative analysis on the March 2016 numbers. Basically the SRL with this demerger as and when it is effective and I repeat these are indicative numbers, the total balance sheet size should approximately reduce by about 1400-1500 crores which will be divided into the fixed assets that will go off the books with SRL being demerged and I am only talking about SRL because as you rightly said that is the largest chunk of the business, the other businesses are quite small and in the form of goodwill. But net net there would be a reduction of about 1300-1400 crores in our balance sheet size as and when this is approved and implemented.
- Saion Mukherjee:** So there is no debt, right?
- Anurag Kalra:** There is absolutely no debt.
- Saion Mukherjee:** What is the extent of inter-company transaction between SRL and Fortis Healthcare now that would continue to separate entity?
- Bhavdeep Singh:** Fortis Healthcare has a service agreement with SRL and it is in place now and that will continue to be in place.
- Saion Mukherjee:** How much business of SRL comes from Fortis?
- Anurag Kalra:** About 15%.
- Saion Mukherjee:** 15% of SRL sales, right?
- Anurag Kalra:** Yes.
- Bhavdeep Singh:** If you look at the presentation we have shared with you a lot of new information on the stand-alone financials of SRL. You can have a look at that and if there's anything else we can speak again.
- Moderator:** We have the next question from the line of Sweta Kariya from B&K Securities. Please go ahead.

**Sweta Karia:** One question on the margins of SRL. On the PPT that you have posted on the website, can you throw some highlight on the margins, the sustainability of the same with the new players now being listed Thyrocare and Dr. Lal?

**Bhavdeep Singh:** This is a good question but to be very honest we would like to use this discussion for the purpose of the demerger. I guess I make one little summary comment is that SRL is the leading diagnostic player in the country today from a geographical presence, from a brand perspective, from a complexity of test perspective and we expect just as much as we ever have if not more now that the business will continue to grow, continue to have very strong growth and lead the market as we go forward. But again to be fair, we would like to stick to the topic of the demerger, we think the demerger certainly positions SRL as an independent entity to do just exactly what I just mentioned now. So I think at some other point if you would like to catch up on that we would be happy to discuss it.

**Sweta Karia:** Some light on the valuations when the company will be listed, saying that we have got premium valuations as high as 66 and 67 for the other two listed entities, so some color on that front?

**Bhavdeep Singh:** Anurag mentioned, we expect this transaction to take anywhere between 9 to 12 months to complete and it's very difficult to start thinking about what the valuation might look like. This is work that it takes place in this period of time and I think we will all be a lot wiser and smarter about this by the time we are done but nothing to comment on right now. It would be speculation at best.

**Moderator:** We take the next question from the line of Girish Bakhru from HSBC. Please go ahead.

**Girish Bakhru:** First one on the CAPEX, now with the demerger how much CAPEX is there under Fortis and if you could also walk us through the separate CAPEX of SRL that now Malar will do?

**Anurag Kalra:** SRL doesn't have much of a CAPEX. I think its 50 crores odd, so that will continue. From a CAPEX perspective the demerger is not going to make any difference from that perspective.

**Girish Bakhru:** On the Malar side if you could also give some color on the profitability, how much was the margins in the hospital?

**Anurag Kalra:** So the margin in the hospital was in the range of 4 crores and that's around a 9-10% EBITDA margin.

**Girish Bakhru:** Any particular reason why so low margins compared to other assets?

**Bhavdeep Singh:** Couple of things in Muller, one is we are investing in our Malar hospital right now with respect to infrastructure. It's an older facility so we are investing in it. Another thing we got is to be made a substantial investment in heart transplant program. The transplant program

requires investment and requires a high number of beds and its position is very well, so we have the leading heart transplant program in the country by far and I think going forward as we continue to grow our transplant business, as we continue to expand other specialties I think this number will get better. So we feel very good about the hospital. As a member of the Fortis team I am very glad that we are acquiring it. I think it quite enhances what we are as an organization and I think it goes well going forward.

**Girish Bakhru:** On this overall deal, with some assumption if I could ask this that assuming the current share prices both of Malar and Fortis at current entitlement ratio, how much shareholder wealth accretion are we taking in?

**Anurag Kalra:** Please repeat the question I am not able to understand.

**Girish Bakhru:** Basically I am trying to ask that with this demerger what is the extent of shareholder value creation.

**Anurag Kalra:** There is a certain value that the values have put for the entities involved. On listing when this scheme is implemented the valuation or the value of SRL will be decided by the market. You are well aware of the multiples that our competitors are trading at and I leave it to your best judgement to take it from there.

**Girish Bakhru:** But assuming certain scenarios if you could give some color on where exactly do you see that this deal being positive overall for the Fortis shareholders?

**Bhavdeep Singh:** As we mentioned earlier about valuation, I think I said the same here that it is premature but Anurag said it right, anyone of us can look around and see what's been happening on some of the other players that have come about. Keep in mind that we are in leading position, our strength, our brand presence and the fact that we are the oldest and most reliable, most trusted brand here. I think that the upside is quite significant otherwise why else would we be doing this. So we are very bullish on it. We think the businesses in a fantastic position, we think the business is going to deliver great results and the net of that is going to be a fantastic, a very high return to the shareholders.

**Moderator:** We have the next question from the line of Alankar Garude from Macquarie. Please go ahead.

**Abhishek Singhal:** You mentioned 9 to 12-month time frame. Given both the entities are listed right now, isn't that an aggressive time frame? I was wondering the fact that you are utilizing already listed entity to get this deal done. Shouldn't the time frame be far shorter for this process to roll out?

**Anurag Kalra:** We have taken the views of our advisors and the legal help. This has to go through a number of processes. 9 to 12 months is the ideal time limit we think which we will take to implement this because this has a High Court process and there is a certain time limit that takes, so I think 9 to



12 months for now is the number that we are going with. We would love it if it happens faster but this is what seems ideal right now.

**Moderator:** We have the next question from the line of Rakesh Naidu from Haitong Securities. Please go ahead.

**Rakesh Naidu:** I understand that SRL value under the transaction you expect somewhere around 5000 crores. Just a hypothetical question, since you don't want to talk on valuation, what could be a sensitivity around say supposing if it's been valued at instead of 5000, 4000 or 6000 crores, how would have that impacted our swap ratio?

**Anurag Kalra:** Very clearly the value whatever you said, we are not commenting on the value but the value has been a fair value that's been decided by the valuers and then approved by the Board. Whatever happens will eventually happen on the day Malar becomes an SRL entity and lists. At that time you will actually know the value as the market gives you. For our valuation perspective we have to do a fair value and like I mentioned before on the call the valuation methodology is used where on the terms of DCF and compatible market multiples.

**Rakesh Naidu:** So will it be possible to throw some light in terms of how this could have impacted our swap ratio for Fortis shareholders?

**Anurag Kalra:** Clearly I think there is a fair value to this, the fair value of Malar entity and there is a fair value of the SRL business and the swap ratio is decided as per that.

**Rakesh Naidu:** Net net, supposing if I am holding a 1 share of Fortis I will get 0.98 in the new diagnostics business, that understanding is correct?

**Anurag Kalra:** Yes, 0.98 share, that is right.

**Moderator:** We have the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

**Kashyap Pujara:** The FHSL, the 1.3% that's continuing to be held in the Fortis Malar entity which is a SRL entity eventually that is nothing but the current 1.2 crore equity that the promoters own in Malar that is what it continues?

**Anurag Kalra:** Typically Fortis Healthcare held 62.3% in Malar. As a result of the demerger of the diagnostics business undertaken the value going there that 62.3% is now through Fortis itself has come down to 1.2% or 1.3%, that's what it is.

**Moderator:** We have the next question from the line of Sweta Kariya from B&K Securities. Please go ahead.

**Sweta Karia:** Sorry, I know you mentioned about the regulatory approvals that we will require for the deal, if you could repeat that that will be great?

**Anurag Kalra:** As is the combination of such transactions this requires certain filings and approvals by the regulatory authorities, like I mentioned in the initial part of my conversation including those of our creditors, our shareholders and the jurisdictional High Court.

**Sweta Karia:** Any hierarchy or any other color on the procedure for the same?

**Anurag Kalra:** There is a step by step process that has to be followed and we are doing that in consultation with our legal advisors for the transactions.

**Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor over to the management for closing comments, thank you and over to you.

**Bhavdeep Singh:** Thank you very much again all of you for joining. We appreciate you coming on the call. I think net net, lots of good questions; we appreciate your interest in the demerger activity that will be taking place. I think we have tried to share what we can and what we know and based on that we think this is a certainly good step for the organization. I think going forward if there are other questions, anything else that you would like to discuss please feel free to reach out for either Anurag or Gaurav. They would be more than happy to address them. So with that thank you very much. We appreciate you all coming on board and have a good evening.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Fortis Healthcare Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.