ICMR
IBS Center for Management Research
www.icmrindia.org

BSTR/357

IBS Center for Management Research

Fortis's Acquisition of Wockhardt Hospitals

*This case was written by **Hadiya Faheem,** under the direction of **Debapratim Purkayastha,** IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.*

To order copies, call +91-8417-236667/68 or write to IBS Center for Management Research (ICMR), IFHE Campus, Donthanapally, Sankarapally Road, Hyderabad 501 504, Andhra Pradesh, India or email: info@icmrindia.org

www.icmrindia.org

ICMR
IBS Center for Management Research
www.icmrindia.org

BSTR/357

Fortis's Acquisition of Wockhardt Hospitals

"The acquisition is expected to provide operating synergies and unleash new opportunities for growth, apart from delivering pan India presence to Fortis."[1]

– **Fortis Healthcare Ltd., in August 2009.**

"Fortis would probably gain a lot from this acquisition, with presence, expansion, and with so much profitability accruing. Fortis will have this readymade business coming to them at a time when there is a huge demand."[2]

– **Vikas Dandekar, chief pharma correspondent, PharmaAsiaNews.com[3], in August 2009.**

FORTIS GAINS A PAN-INDIA PRESENCE

On August 24, 2009, India-based Fortis Ltd. (Fortis), a hospital chain established by the promoters of Ranbaxy Laboratories Limited[4] (RLL), acquired 10 hospitals of the Wockhardt Hospitals Group (Wockhardt Hospitals), a subsidiary of Wockhardt Ltd.[5] (Wockhardt), for Rs.[6] 9.09 billion.[7] The deal included the three nursing colleges of Wockhardt Hospitals. Commenting on the deal, Malvinder Mohan Singh (Singh), Group Chairman, Fortis and Religare Enterprises Limited[8], said, "This landmark deal is an important milestone in the history of Indian healthcare as it brings together two leading brands to create a national healthcare delivery network. This partnership will enable the vast pool of medical talent and quality healthcare infrastructure under the Fortis network to deliver a superior value proposition to the citizens of our country!"[9] The acquisition was described by experts as the biggest in the Indian healthcare industry.

The acquisition was expected to benefit both Fortis and Wockhardt Hospitals. Besides expanding its network of hospitals, Fortis would have a presence in the southern, eastern, and western states of India thereby fortifying its position as one of the leading healthcare providers in India. Besides,

---

1 "Fortis buys Wockhardt Hosps for Rs 909 cr," www.indianexpress.com, August 25, 2009.

2 "Fortis-Wockhardt Hosp Deal Win-win for both: Pharma Asia," www.moneycontrol.com, August 24, 2009.

3 PharmaAsiaNews.com is a website that offers regulatory and business news related to the pharmaceutical and biotechnology industry. It covers India, China, and Japan.

4 Established in 1961, Ranbaxy Laboratories Ltd., based in New Delhi, India, is one of the largest pharmaceutical companies in India.

5 Wockhardt Ltd. was set up in the 1960s by Habil Khorakiwala as a biotechnology and pharmaceutical company in Mumbai, India.

6 As of November 2009, 1US$ = Rs. 46.29.

7 "Fortis to Spend Rs 9.09 bn to buy 10 Hospitals," http://economictimes.indiatimes.com, August 24, 2009.

8 Religare Enterprises Limited is a financial services group spread across India and several international locations. It offers financial products and services to individuals, retail investors, and institutional and corporate clients.

9 "Fortis to Acquire 10 Hospitals from Wockhardt," www.fortishealthcare.com, August 24, 2009.

Fortis would gain access to Wockhardt Hospitals' management team. The acquisition was also expected to help Fortis realize its ambition of owning 6,000 beds and becoming a US$ 1 billion revenue earning company by 2012.[10]

Where Wockhardt Hospitals was concerned, the deal would help it reduce its debt burden of Rs. 5 billion of the total debt of Rs. 34 billion.[11] Besides, Wockhardt Hospitals planned to expand its hospitals with the remaining money. Habil Khorakiwala (Khorakiwala), chairman, Wockhardt, added, "We will use the funds to clear our debt and the remaining will be used for the 10 hospitals which we still have under our control. We also plan to add five more hospitals to the network."[12]

Fortis, being the highest bidder, secured the deal with Wockhardt Hospitals largely due to the perceived synergies between the two companies. Experts said the deal swung in favor of Fortis since the other bidders such as Indian healthcare major, Apollo Hospitals[13] (Apollo), and Manipal Hospital[14], dropped out of the race since they felt that the deal was valued at a premium, according to experts.[15]

Some analysts felt that Fortis had paid a premium for the acquisition. They estimated that the acquisition of 10 hospitals would have been worth around Rs. 6.5 billion.[16] Their argument was strengthened by the fact that Apollo, which had also aggressively competed for the acquisition, pulled out at the last moment quoting the high price. Moreover, the locations that Wockhardt Hospitals offered were in Mumbai, Bangalore, and Kolkata where Apollo already had a presence. Fortis, however, justified the premium price saying that the advantages from the acquisition were manifold. Some experts also expressed doubts as to whether Fortis could leverage any benefits in the short term since it had paid a premium to strike the deal. On the other hand, others felt that it was logical for Fortis to strike a deal with Wockhardt Hospitals since setting up such facilities would cost it double the amount it had paid for the acquisition of the 10 hospitals.

Some analysts opined that the deal would strengthen Fortis's position in the healthcare industry in India. Sarabjit Kaur, an analyst with Angel Broking,[17] added, "The deal will be beneficial for Fortis, as it consolidates its presence in the hospital segment. At estimated valuations of 8-9 times EBDITA, the deal is attractively valued."[18] However, some analysts also felt that Fortis would have to overcome various challenges before it could reap benefits from the deal.

BACKGROUND NOTE

About Fortis

The history of Fortis dates back to February 1996 when Malvinder Mohan Singh and Shivinder Mohan Singh, the promoters of RLL, set up the company as Rancare Limited (Rancare). The hospital chain was founded with the vision of creating an integrated healthcare delivery system.

[10] Joe Mathew, "Newsmaker: Shivinder Mohan Singh," www.business-standard.com, August 28, 2009.

[11] "Fortis Acquires 10 Wockhardt Hospitals for Rs 909 cr," http://content.magicbricks.com, August 26, 2009.

[12] "Wockhardt Agrees to Sell 10 Hospitals to Fortis," http://economictimes.indiatimes.com, August 25, 2009.

[13] Founded in 1983 in Chennai, Apollo Hospitals is a leading hospital chain in India. As of September 2009, it had 8,065 beds across 46 hospitals.

[14] Manipal Hospital is the flagship organization of the Manipal Health System. The hospital chain has state of the art facilities for molecular diagnostics, stem cells, and genetics.

[15] "Fortis Leads Race for Wockhardt Hospitals," http://business.rediff.com, June 18, 2009.

[16] Ram Prasad Sahu, "Twice Bitten, Ready for More," www.business-standard.com, August 31, 2009.

[17] Angel Broking is a wealth management and stock broking company in India.

[18] "Wockhardt Agrees to Sell 10 Hospitals to Fortis," http://economictimes.indiatimes.com, August 25, 2009.

On June 20, 1996, Rancare was renamed Fortis Healthcare Limited (Fortis). On July 1, 1996, it received the certificate for commencement of business.

In 2001, Fortis's first hospital at Mohali commenced operations. In the same year, the Fortis Heart Institute was inaugurated in Mohali (Refer to Exhibit I for Fortis's Timeline).

As of 2005, the company had operations in Bangalore, Chennai, Kota, Mohali, Amritsar, Faridabad, Noida, Jaipur, Raipur, New Delhi, Mumbai, and Mauritius. These hospitals included multi-specialty hospitals and super specialty centers that offered services to patients in areas of orthopedics, neurosciences, cardiac care, renal care, oncology, gastroenterology, mother and child care, etc.

Though the company expanded rapidly, it took the inorganic route to grow its operations further. In 2005, it acquired Escorts Heart Institute and Research Center[19] (Escorts) for Rs. 5.85 billion.[20] Fortis's deal with Escorts was described as the largest acquisition in the Indian healthcare industry in 2005.

In 2006, the company continued with its expansion spree. In March 2006, it acquired a 99.86 percent stake in International Hospital Limited for Rs. 301.5 million.[21]

In 2007, it made forays into women's health and maternity care by acquiring The Cradle[22]. The company renamed it Fortis La Femme. In the same year, it acquired Malar Hospitals Limited[23] for Rs. 340 million.[24]

By February 2009, Fortis had a network of 26 hospitals with nearly 3000 beds.[25] For the year ended March 31, 2009, Fortis recorded an operating income of Rs. 630.5 billion (Refer to Exhibit II for Fortis's financials).

About Wockhardt Hospitals

Wockhardt Hospitals was established as a subsidiary of Wockhardt Ltd. in 1991 under the name First Hospitals and Heart Institute Limited. In 1995, the hospital started commercial operations. In October 2000, it changed its name to Wockhardt Hospitals Ltd.

In 2000, Wockhardt Hospitals operated with three hospitals and 139 beds.[26] The same year, it associated with Partners Harvard Medical International[27] (PHMI) to develop high quality facilities and clinical programs. In addition, PHMI offered Wockhardt Hospitals operating systems that enabled staff training and development, quality management, and continuous improvement in patient care.

[19] Founded in 2000, Escorts Heart and Research Center offers services related to cardiac care.

[20] Prashant Mahesh, "Wockhardt Deal to Open New Markets," http://economictimes.indiatimes.com, August 30, 2009.

[21] "Fortis Healthcare Limited," www.sebi.gov.in, April 25, 2007.

[22] The Cradle is a boutique hospital for women based in Delhi.

[23] Founded in 1992, Malar Hospitals Limited is one of the leading multi specialty hospitals in India. It is based in Chennai.

[24] Prashant Mahesh, "Wockhardt Deal to Open New Markets," http://economictimes.indiatimes.com, August 30, 2009.

[25] Shweta Kapur, "Fortis Healthcare Eyes Majority Stake in Wockhardt Hospital," http://profit.ndtv.com, February 20, 2009.

[26] "Wockhardt Hospitals Plans Rs 5.69 bn Investments in Hospital Projects," www.indiaprwire.com, January 31, 2008.

[27] Partners Harvard Medical International's (PHMI) service portfolio includes working with clients to develop schools that offer training to healthcare professionals. It also offers help to academic institutions to innovate and progress. The PHMI team includes senior faculty members of Harvard University offering professional expertise in fields such as medicine, education, nursing, medical planning, research, leadership, management training and consulting, architecture, and business strategy.

In January 2001, Wockhardt Hospitals and PHMI entered into a multi-year partnership to develop training and education programs. This was a bid to support quality improvement and organizational development throughout the network of Wockhardt hospitals. In September 2001, Wockhardt Hospitals and PHMI founded the Wockhardt-Harvard HIV/AIDS Education and Research Foundation (WHARF) with the stated aim of developing and delivering training programs for frontline care providers working to address the issue of HIV/AIDS[28] in India.

In 2003, Wockhardt Hospitals increased its hospital network by launching four new specialty hospitals in Mumbai. The same year, Wockhardt Hospitals in association with PHMI, developed and implemented a performance improvement plan for Wockhardt Hospitals located in Mumbai. In 2005, Wockhardt Hospitals located at Mumbai received international accreditation from the US-based Joint Commission International[29] (JCI).

In 2007, the company expanded its super-specialty hospital chain to Delhi, Kolkata, and Bangalore. In February 2008, the Khorakiwala family, who owned a 93 percent stake in Wockhardt Hospitals, planned to raise an Initial Public Offering (IPO) at a price of Rs. 280 to Rs. 310 per share.[30] However, it later dropped the idea due to troubled market conditions triggered by the global economic slowdown. In September 2008, Wockhardt Hospitals located in Bangalore received accreditation from JCI.

For the financial year (FY) 2008, Wockhardt posted a net loss of Rs. 1.4 billion. It also suffered hedging losses of Rs. 5.8 billion.[31] Moreover, its plan to expand the hospital chain led to the company incurring a huge debt. The mark-to-market losses on the Forex transactions taken by Wockhardt to fund overseas operations and the global economic downturn added to its troubles. By December 2008, its debt had risen to Rs. 34 billion.[32]

In a bid to arrest the losses, Wockhardt started selling off its businesses. In early 2009, it sold its animal health division to Vétoquinol[33] for Rs. 1.7 billion.[34] In June 2009, it sold Esparma GmBH[35] to Mova GmBH[36] for Rs. 1.2 billion.[37] In July 2009, it sold its Farex and Protinex brands in its nutritional business to Abbott Laboratories[38] for Rs. 6 billion.[39] In view of the losses, the

---

[28] HIV (Human Immunodeficiency Virus) is the virus that causes AIDS (Acquired Immune Deficiency Syndrome). A person infected with HIV is called HIV positive. In the long run, HIV leads to AIDS.

[29] Joint Commission International (JCI) is the international division of Joint Commission Resources. Since 1994, JCI has been working in collaboration with the ministries of health, healthcare organizations, and global organizations in more than 80 countries. In September 2007, JCI received accreditation from the International Society for Quality in Health Care. The accreditation offers the assurance that the training and processes and standards used by JCI while reviewing the performance of healthcare service providers meets the highest international benchmark set for accreditation entities.

[30] Prashant Mahesh, "Wockhardt Deal to Open New Markets," http://economictimes.indiatimes.com, August 30, 2009.

[31] Sameera Anand, "India's Fortis Healthcare Buys Wockhardt Hospitals," www.businessweek.com, August 26, 2009.

[32] "Why Wockhardt Sold 10 Key Properties," http://business.rediff.com, August 26, 2009.

[33] Vétoquinol is a France-based company with interests in improving animal health, research and development, marketing, sales, and manufacturing.

[34] Kumar Shankar Roy, "Trouble-hit Stocks Gain 3-10 Times from Lows," http://timesofindia.indiatimes.com, September 18, 2009.

[35] Esparma GmBH is a Germany-based pharmaceutical company. It was acquired by Wockhardt in May 2004. The acquisition marked Wockhardt's foray into the German healthcare market.

[36] Mova GmBH is a subsidiary of Germany-based drug major, Lindopharm GmBH.

[37] Kumar Shankar Roy, "Trouble-hit Stocks Gain 3-10 Times from Lows," http://timesofindia.indiatimes.com, September 18, 2009.

[38] Abbott Laboratories, headquartered at Abbott Park, Chicago, USA, is a pharmaceutical and healthcare company founded by Wallace Calvin Abbott in 1888.

[39] Kumar Shankar Roy, "Trouble-hit Stocks Gain 3-10 Times from Lows," http://timesofindia.indiatimes.com, September 18, 2009.

promoters of Wockhardt decided to sell some portion of its stake in the hospital business to private equity players.

THE ACQUISITION

When Wockhardt Hospitals put up 10 hospitals for sale in late 2009, it attracted the interest of several major hospitals chains, including Fortis, Apollo, and Manipal Hospital. Several reasons were attributed for this interest, the most important being the instant access to eight of its hospitals that were in operation (the remaining two were under construction). Moreover, the acquirer would gain a presence in the southern, eastern, and western parts of India.

The acquisition race ultimately narrowed down to Fortis, Apollo, and Manipal Hospital. Industry analysts considered Apollo as the favorite to clinch the deal considering its existing hospital network and the fact that the takeover would strengthen its presence in the Indian healthcare market further. However, in June 2009, Apollo quit the race since it felt that Wockhardt Hospitals was charging a premium for the hospitals. According to Preetha Reddy, managing director, Apollo, "There is a lot of synergy between us, but we have a responsibility towards our shareholders and investors. Valuation was done and what we felt was a fair valuation that would have been fine with our board, investors, and shareholders, was really not what the hospital group (Wockhardt) was looking at."[40] Subsequently, Manipal Hospital too backed out citing the high price quoted by Wockhardt Hospitals. In the end, Fortis won the bid since it was the highest bidder. Some analysts remained skeptical over the success of the Fortis–Wockhardt Hospitals deal since they felt that it was a risky bet for Fortis as Wockhardt Hospitals was valued at three times its net sales and traded at a price that was three times its book value whereas Apollo hospitals traded at twice its net sales and twice its book value.[41]

Despite the Rs. 6.5 billion value estimated by analysts for the acquisition of the 10 hospitals, Fortis went ahead and entered into a definitive agreement to acquire the hospitals in exchange of Rs. 9.09 billion in debt and equity, on August 24, 2009. Out of the Rs. 9.09 billion, Rs. 1.9 billion was capital for work-in-progress for the two hospitals that were under construction.

The acquisition was done through the wholly-owned unit of Fortis. In September 2009, Fortis planned to float a rights issue of Rs. 100 billion to fund the expansion, priced at Rs. 110 per share.[42] It planned to use Rs. 3.5 billion of the Rs. 100 billion proposed rights issue.[43] This issue would add Rs. 1 billion equity to the existing equity of Rs. 2.27 billion.[44] The rest was to be funded through a debt of Rs. 2.5 billion.[45] It also planned to use the Rs. 3.5 billion it had raised through the IPO in 2007.[46]

The management team including the CEO was expected to move to the Fortis network. Fortis said that there would be no change in management since they wanted to work with the existing Wockhardt Hospitals staff.

---

40 "Apollo Hospitals Shelves Plans to buy Wockhardt Units," www.thaindian.com, June 17, 2009.

41 "Apollo Hospitals Promise Higher Returns than Fortis," http://economictimes.indiatimes.com, September 7, 2009.

42 Kiran Kabtta Somvanshi, "Apollo Hospitals Promise Higher Returns than Fortis," http://economictimes.indiatimes.com, September 7, 2009.

43 Ram Prasad Sahu, "Twice Bitten, Ready for More," www.business-standard.com, August 31, 2009.

44 Kiran Kabtta Somvanshi, "Apollo Hospitals Promise Higher Returns than Fortis," http://economictimes.indiatimes.com, September 7, 2009.

45 "Wockhardt to Sell 10 Hospitals to Fortis," http://epaper.livemint.com, September 22, 2009.

46 "Fortis to buy 10 Wockhardt Hospitals in Rs 909-cr Deal," www.ibef.org, August 25, 2009.

Some industry observers felt that the Rs. 9.09 billion paid for the acquisition was too high since the deal was evaluated at Rs. 6.5 billion in the market.[47] On the other hand, Fortis maintained that the deal would enable it to move closer to Apollo's position in terms of number of hospitals, beds, doctors, and nurses/paramedics (Refer to Table I for Fortis' operations after the deal with Wockhardt Hospitals). Some analysts also felt that deal was justified. Monika Sood, a healthcare infrastructure adviser at Feedback Ventures Pvt Ltd.[48] (Feedback Ventures), said, "Though Fortis needs to infuse some fresh funds to some of these hospitals, the price calculated on the basis of the 15-20% margin (in the hospital business) from a ready revenue of at least Rs313 crore [Rs. 3.13 billion] is a fair valuation."[49]

Table I

Fortis' Operations after Wockhardt Hospitals Deal

Operations	Fortis	Wockhardt	Total	Apollo
Number of Hospitals*	28	10	38	46
Number of beds**	3,278	1,902	5,180	8,000
Doctors	912	674	1,586	2,000
Nurses/Paramedics	3,892	1,295	5,187	3,000

**Owned and managed*

*** Beds for Wockhardt includes two greenfield projects*

Source: Ram Prasad Sahu, "Twice Bitten, Ready for More," www.business-standard.com, August 31, 2009.

As part of the deal, Fortis and Wockhardt signed a business transaction agreement with a non-compete clause that required Wockhardt to avoid setting up hospitals in the immediate regions of the 10 hospitals acquired by Fortis. Moreover, it would not be able to operate in Mumbai, Kolkata, and Bangalore for a period of three years. Two Mumbai hospitals were excluded from the no-competition agreement, according to Khorakiwala.

Fortis took financial advice on the acquisition from Religare Capital Markets Limited[50]. Wockhardt Hospitals utilized the services of IL&FS Financial Services Ltd.[51]

THE BENEFITS

The main benefit to Fortis from the acquisition was getting a pan-India presence in the healthcare market. Sood added, "It's a good deal for Fortis as it gets entry to important new markets with best infrastructure and running hospitals."[52] Analysts felt that Fortis had acquired this presence without any major liabilities as the hospitals were revenue-generating. The 10 hospitals of Wockhardt Hospitals acquired by Fortis accounted for 85 percent of the revenue for Wockhardt. For the FY 2008-2009, Wockhardt Hospitals had recorded a turnover of Rs. 3.13 billion.[53] Some experts

---

[47] Ram Prasad Sahu, "Twice Bitten, Ready for More," www.business-standard.com, August 31, 2009.

[48] Feedback Ventures Pvt Ltd. is an integrated infrastructures services company based in Delhi.

[49] C H Unnikrishnan, "Wockhardt to Sell 10 Hospitals to Fortis," www.livemint.com, August 24, 2009.

[50] Religare Capital Markets Limited is a wholly-owned subsidiary of financial services group, Religare Enterprises Limited. It is engaged in proposed institutional business and investment banking.

[51] IL&FS Financial Services Ltd. is one of the foremost finance and infrastructure development companies in India.

[52] C H Unnikrishnan, "Wockhardt to Sell 10 Hospitals to Fortis," www.livemint.com, August 24, 2009.

[53] "Why Wockhardt Sold 10 Key Properties," http://business.rediff.com, August 26, 2009.

pointed out that since the hospitals were operational, Fortis would have a steady flow of income. Moreover, the existing eight hospitals would help the company overcome hurdles such as construction delays, approvals, and issues related to land acquisition.

Fortis said that the acquisition of Wockhardt Hospitals was in line with Fortis's ambitious plans for expansion. Moreover, it would give Fortis a much needed presence in the southern, eastern, and western parts of India. The deal would make Fortis the largest healthcare provider in several states such as Maharashtra, Haryana, Punjab, Delhi, Rajasthan, Uttar Pradesh, and Punjab, according to experts. In addition to this, the acquisition would result in an increase in bed capacity for Fortis and take it closer to the largest hospital network in the country owned by Apollo. As of September 2009, Apollo had 8,065 beds across 46 hospitals.[54] The Wockhardt Hospitals acquisition would augment Fortis's bed capacity by 1,902 beds including 534 beds in two Greenfield projects. This would take its aggregate bed capacity to 5,180 beds spread over 38 hospitals.[55] Singh said that the acquisition would help Fortis realize its ambitions to have 40 hospitals and 6,000 beds by 2012. Experts believed that the increase in bed capacity was an added advantage to Fortis as it was very difficult to develop to that level through organic growth.

The deal was also expected to consolidate Fortis's position in specialties such as orthopedics, cardiac, renal, and neuro sciences since over 50 percent of Wockhardt Hospitals' services were dedicated to these specialties.

Another major gain for Fortis was that it would gain immediate access to Wockhardt Hospitals' talent pool of 650 doctors and 1,300 medical staff.[56] After the completion of the acquisition, Fortis would have a talent pool of 9,250 personnel consisting of 1,575 plus doctors and 5,000 nurses and paramedics. In addition, Fortis would get three hospitals with international accreditation. With this, Fortis would have a total of 13 national and international accreditations for its hospitals. According to healthcare experts, this accreditation would help Fortis attract patients and position itself as a preferred destination for Medical Value Travel.

Analysts believed that the growing Indian healthcare industry offered an excellent opportunity for Fortis to make profits over a long period of time. According to a report titled *Healthcare Trends 2008* by Technopak Advisors Pvt. Ltd.[57], the Indian healthcare industry was estimated at US$ 35 billion for fiscal year 2009 and was poised to reach US$ 75 billion by 2012.[58] (Refer to Exhibit III for a note on Indian healthcare industry).

In addition to this, Fortis could exploit synergies in other areas such as nursing colleges, purchase and supply, training & development, marketing, and project implementation. Analysts opined that the Wockhardt Hospitals deal would give Fortis benefits of scale, which could help it bring down costs related to medical equipment. This was expected to result in overall savings of 5 to 7 percent.[59] Moreover, the deal would help Fortis push up its operating margin to 17 percent from 14 percent since Wockhardt Hospitals had a strong operating margin of 20 percent.[60]

The acquisition was also said to be a step toward Fortis realizing its ambition of becoming a US$1 billion revenue earning company by 2012.

---

[54] "Apollo Hospitals Overview," www.apollohospitals.com.

[55] Prashant Mahesh, "Wockhardt Deal to Open New Markets," http://economictimes.indiatimes.com, August 30, 2009.

[56] "Fortis Healthcare to Acquire 10 Wockhardt Hospitals for Rs 909 cr," www.thehindubusinessline.com, August 25, 2009.

[57] Founded in 1991, Technopak Advisors Pvt. Ltd. is a management consulting firm based in India.

[58] Nandita Vijay, "Indian Healthcare Industry Poised for Greater Growth," www.pharmabiz.com, September 10, 2009.

[59] Ram Prasad Sahu, "Twice Bitten, Ready for More," www.business-standard.com, August 31, 2009.

[60] Ram Prasad Sahu, "Twice Bitten, Ready for More," www.business-standard.com, August 31, 2009.

The acquisition brought in substantial benefits for Wockhardt too. It would help bail out the company from the financial crisis it found itself in, according to experts. With the proceeds received from Fortis, Wockhardt planned to repay its debt of Rs. 5 billion of the total debt of Rs. 34 billion.[61] The remaining Rs. 4 billion was to be used for expansion of its hospital network. It planned to add 1,200 beds in two to three years and to open new hospitals in Bhopal, Varanasi, and Patna.[62]

LOOKING AHEAD

Many experts unanimously hailed the deal as win-win for both Fortis and Wockhardt. Sood added, "The deal in one stroke has tremendously increased footprint, reduced competition, and allowed access to a great medical team and operational hospitals for Fortis. Had Wockhardt not needed the money to repay its debts, it would not have sold the hospitals like this at this point of time."[63]

The deal was to be completed by the end of December 2009. The integration process, according to Fortis, would take over a year. The company said seamless integration was taking place since the acquired hospitals did not overlap with its existing hospitals. The CEO of Wockhardt Hospitals, Vishal Bali (Bali), added, "The integration will not be much of a problem as the acquired facilities are in the geographies where Fortis does not have much presence today. So, it is intellectual networking that needs to take place."[64]

Fortis planned to add 1,500 people to hospitals in Kolkata, Bangalore, and Mumbai as part of its expansion plans.[65] It also planned to invest Rs. 2 billion in two hospitals of Wockhardt Hospitals.[66]

Analysts opined that if all went well with the Fortis–Wockhardt Hospitals deal, it would help Fortis steer ahead of its contender Apollo and to emerge as a leader in the Indian healthcare industry.[67] However, some also felt that Fortis would have to overcome various challenges before it could reap the benefits from the deal. Some analysts still felt that Fortis had paid a premium to acquire the 10 hospitals. An analyst said, "If the deal was struck at the market expected price, then Fortis would have recovered the money in about five years. At the current cost and if the acquired hospitals are able to maintain an Ebidta of 20 per cent, it will take about seven years."[68]

Another major concern for Fortis was the integration of manpower and retention since all the staff members and Bali, were to move to Fortis. Sood added, "Retaining staff will be a real challenge."[69]

The integration of processes and IT functions of both the hospitals was expected to pose a problem, according to experts. Experts opined that Fortis had to set the strategic direction for the merged IT by ensuring that it was aligned with the business and clinical management of Fortis and Wockhardt Hospitals.[70]

---

61 "Wockhardt Bid to Reduce Debt," www.telegraphindia.com, June 17, 2009.

62 "Wockhardt Agrees to Sell 10 Hospitals to Fortis," http://economictimes.indiatimes.com, August 25, 2009.

63 Soma Das, "Fortis' Masterstroke: Wockhardt JV Makes it a Key National Player," www.financialexpress.com, August 26, 2009.

64 "Wockhardt Hospitals to Get Re-branded as Fortis Group," www.business-standard.com, September 28, 2009.

65 Madhumathi D S, "Zero Overlap Eases Merger of Wockhardt Hospitals, Fortis," www.thehindubusinessline.com, September 22, 2009.

66 "Fortis Healthcare to Acquire 10 Wockhardt Hospitals for Rs 909 cr," www.thehindubusinessline.com, August 25, 2009.

67 Kapil Khandelwal, "IT's Chance at Fortis," www.asianage.com, September 20, 2009.

68 Ram Prasad Sahu, "Twice Bitten, Ready for More," www.business-standard.com, August 31, 2009.

69 Noemie Bisserbe, "A Crippling Sellout," http://businessworld.in, August 29, 2009.

70 Kapil Khandelwal, "IT's Chance at Fortis," www.asianage.com, September 20, 2009.

Some industry observers opined that Fortis also faced the challenge of successfully integrating the acquired hospitals into its network. Integrating the IT architecture of Wockhardt Hospitals into the Fortis network would be a huge task. Fortis and Wockhardt Hospitals would also have to jointly evaluate in what way to move their clinical applications to world-class applications in patient management and relationship systems, clinical systems, medical devices integration, clinical department systems, business and clinical intelligence, and clinical department systems.

Exhibit I

Fortis's Timeline

Year	Event
April 1999	Foundation stone laid
June 2001	Fortis Heart Institute inaugurated
June 2001	Fortis hospital commissioned at Mohali
November 2001	In-patient-department inaugurated at Fortis
November 2001	Fortis Inn Rehabilitation Center started
August 2002	Fortis multi specialty hospital inaugurated
July 2003	Fortis hospital at Amritsar inaugurated
August 2003	Fortis hospital at Amritsar commissioned
October 2003	Agreement signed between Fortis and Jessa Ram and Bros Charitable Hospital Trust (Jessa Ram) for the operation and management of Jessa Ram Hospital, New Delhi
April 2004	Phase I construction begins at Jessa Ram
August 2004	New logo of Fortis launched by the then Finance Minister, government of India, P Chidambaram
October 2004	Phase I construction completed at Jessa Ram
November 2004	Fortis hospital at Noida inaugurated by Pranab Mukherjee, the then Defence Minister, government of India
June 2005	Fortis hospital at Mohali inaugurated
June 2005	Fortis commences construction of its hospital at Shalimar Bagh, Delhi
July 2005	Soft launch of the cardiac program at Fortis hospital, Noida
September 2005	Fortis acquires 90 percent of the equity share capital of Escorts Heart Institute and Research Center Limited
October 2005	Fortis signs agreement with Jeewan Mala Hospital Private Limited for the operation and maintenance of Jeewan Mala Hospital, New Delhi.
November 2005	Cardiac program launched at Fortis hospital, Noida
January 2006	Fortis enters into an agreement with Khalil Public Welfare Trust for the operation and maintenance of Khyber Medical Institute, Srinagar, Jammu & Kashmir, India
March 2006	Fortis acquires a stake of 99.99 percent of the paid up equity share capital of International Hospital Limited
March 2006	Acquires 100 percent of the paid up equity share capital of Oscar Bio-Tech Private Limited.

Year	Event
August 2007	Fortis Escorts Hospital inaugurated in Jaipur
August 2007	Fortis hospital at Mohali receives JCI accreditation
September 2007	Groundbreaking ceremony held at Fortis hospital at Gurgaon
September 2007	Fortis acquires Malar Hospitals Limited at Chennai
August 2009	Fortis acquires 10 hospitals of Wockhardt Hospitals

Adapted from "History & Timelines," www.fortishealthcare.com.

Exhibit II

Fortis' Financials

(Rs. in Millions)

Particulars	Year ended March 31, 2009	Year ended March 31, 2008
Operating income	6305.45	5070.95
Other income	283.93	408.94
Total income	6589.38	5479.89
Total expenditure	5446.85	4862.32
Operating profit	1142.53	617.57
Less: Finance Charges	436.61	554.77
Profit before Depreciation	705.92	62.79
Less: Depreciation	487.40	468.25
Profit/(Loss) before tax & Prior Period Items	218.52	(405.45)
Less: Tax Expenses	41.09	195.49
Less: Prior Period Items	0.8	(1.14)
Add: Extraordinary Items	64.01	-
Net Profit/(Loss) for the year	240.64	(599.81)
Profit/(Loss) attributable to Minority Interest	27.42	(50.42)
Share in current year loss of associate companies	(5.03)	(5.44)
Net Profit/(Loss) attributable to shareholders of the company	208.19	(554.84)

Source: "Fortis 13th Annual Report 2008-09," www.fortshealthcare.com.

Exhibit III

A Note on the Indian Healthcare Industry

Healthcare refers to the management and treatment of illness, and the safeguards provided through services offered by dental, medical, pharmaceutical, alternative medicine, nursing, clinical services, and related health professions. The healthcare industry comprises hospitals, medical care providers, specialist clinics, pharmacies, and medical diagnostic centers. Healthcare is one of the largest income and employment generating sectors in India.

In 1991, the demand for healthcare services stood at US$ 4.8 billion. During the 1990s, the healthcare industry in India grew at a Compounded Annual Growth Rate (CAGR) of 16 percent. This resulted in an increase in the demand for healthcare services to US$ 22.8 billion in 2001-2002.[71]

The increase in the per capita income of people was cited as one of the major reasons for the growth in the demand for healthcare services. With the rise in purchasing power, the Indian middle class consumers were willing to spend money on quality healthcare. This was complemented by the steady supply of healthcare services offered by the private sector, which was getting involved in owning or running hospitals. The booming healthcare industry also paved the way for medical tourism, which grew at a significant rate over the years. In 2006, the medical tourism market in India was estimated at US$ 350 million.

The rising healthcare cost in foreign countries and the difference in healthcare costs made India a preferred destination for healthcare solutions. Other reasons included improved performance in the healthcare sector due to the growth in the insurance and pharmaceutical markets in India.

In 2006, the Indian healthcare sector was pegged at US$ 17 billion and it was expected to grow at a rate of 13 percent annually. The healthcare sector in India was also one of the largest service sectors in the Indian economy, generating employment for over 4 million people. According to a RNCOS[72] market research report, 'Opportunities in Indian Healthcare sector', the healthcare expenditure in India constituted nearly 5.2 percent of the country's GDP.[73] By 2012, this figure was expected to reach 6.2 percent or 7.5 percent.[74]

In 2007, a McKinsey & Co.[75] (McKinsey) report estimated that the Indian healthcare industry would cross the US$ 190 billion mark in less than two decades with a growth of 10.8 percent annually.[76] The key reasons for this growth were metropolitan lifestyle, increasing health awareness among the youth, and increasing percentage of household expenditure on health. McKinsey also predicted that rural healthcare would grow and account for nearly half of the total healthcare consumption.

According to a study by the Assocham Financial Pulse[77] (AFP) on 'Financial Health of the Indian Healthcare Industry', Indian healthcare was growing at a rapid pace due to several initiatives taken by the government and the private sector. AFP reported that the net profit of 10 major healthcare hospitals grew by 42.44 percent during the first quarter of fiscal year 2010 compared to the first quarter of fiscal year 2009 (Refer to Table A for growth of Indian healthcare industry).[78,79]

[71] "Changing Face of Indian Healthcare Industry," www.prlog.org, February 8, 2009.

[72] RNCOS is a market research consulting firm.

[73] "Healthcare Industry will Boost the Indian Economy," http://express-press-release.net, August 3, 2006.

[74] "Life Sciences & Healthcare," www.globalhunt.in.

[75] Founded in 1926, McKinsey & Co. is one of the world's leading global management consulting firms and offers advisory services to leading organizations, businesses, and governments worldwide.

[76] "India's Healthcare Industry to See Mammoth Growth: McKinsey," www.moneycontrol.com, June 27, 2007.

[77] Assocham Financial Pulse is a study carried out by Assocham Research Bureau to analyze the financial performance of healthcare organizations in order to know the growth of the Indian healthcare industry.

[78] Birender Kumar, "Financial Health of the Indian Healthcare Industry," www.assocham.org, August 2009.

Table A

Growth of Indian Healthcare Industry

(Q1 FY' 10)

Parameter	Growth in %
Total income	23.94
Net profit after tax	42.44
Total expenditure	21.37
Employment cost	22.24

Source: Birender Kumar, "Financial Health of the Indian Healthcare Industry," www.assocham.org, August 2009.

Major players in the healthcare industry were Apollo Hospital, Zydus Cadila, Piramal Healthcare, and GlaxoSmithKline, Fortis, Kovai Medical Center and Hospital Limited, Sharma East India Hospital & Medical Research Limited, Malar Hospitals Limited, TTK Healthcare Limited, and Siemens Healthcare Diagnostics Ltd. In addition to these players, the healthcare provider market was highly fragmented with a 94 percent unorganized sector comprising several small players.[80] The AFP study reported that the total income and net profit had grown significantly for these healthcare service providers (Refer to Table B for total income and net profit of Indian healthcare majors).

Table B

Total Income and Net Profit of Indian Healthcare Majors

(Q1 FY' 10)

Company	Total income (in %)	Net profit (in %)
Apollo	23.36	53.06
Piramal	16.48	45.48
Cadila	26.54	32.69
GlaxoSmithKline	24.15	19.56
Fortis	155	8.33
TTK Healthcare Limited	91.44	500
Siemens Healthcare Diagnostics Ltd.	17.96	500

Adapted from Birender Kumar, "Financial Health of the Indian Healthcare Industry," www.assocham.org, August 2009.

A report by FICCI[81]-Ernst & Young[82] reported that the rapid growth of the Indian healthcare industry had created several opportunities for investors. According to the report, India was expected to reach a bed to thousand population ratio of 1.85 or 2 by 2012. Another area

[79] AFP carried out its study of ten major healthcare hospitals in India — Apollo, TTK Healthcare Limited, Cadila, Fortis, GlaxoSmithKline, Siemens Healthcare Diagnostics Ltd., Malar Hospitals Limited, Piramal Healthcare, Sharma East India Hospitals & Medical Research Limited, and Kovai Medical Center and Hospital Limited.

[80] "Healthcare Industry in India," www.expomo.com, January 2009.

[81] The Federation of Indian Chambers of Commerce and Industry (FICCI) was established in 1927 to garner support for the independence movement and safeguard the interests of the Indian business community.

[82] Ernst & Young, based in London, UK, is one of the largest professional services firms in the world.

providing an opportunity was the medical equipment industry, which was estimated to reach US$ 4.97 billion by 2012 from US$ 2.17 billion in 2009. The report also stated that clinical trials offered tremendous market potential and were predicted to become a US$ 1 billion industry by 2010. The health services outsourcing sector was estimated to reach US$ 7.4 billion by 2012.[83] The medical tourism market was also poised to reach US$ 2 billion by 2012. In addition to this, the medical technology market, estimated at US$ 2.7 billion in 2006, was likely to grow at a rate of more than 20 percent and cross US$ 12 billion by 2012.[84]

In view of these estimates, analysts felt that the Indian healthcare industry offered an excellent opportunity for healthcare service providers to tap the growing healthcare market.

Compiled from various sources.

[83] "Healthcare," www.india-now.org, April 13, 2009.

[84] "Healthcare Industry in India," www.expomo.com, January 2009.

References and Suggested Readings:

1. **"Healthcare Industry will Boost the Indian Economy,"** http://express-press-release.net, August 3, 2006.
2. **"Fortis Healthcare Limited,"** www.sebi.gov.in, April 25, 2007.
3. **"India's Healthcare Industry to See Mammoth Growth: McKinsey,"** www.moneycontrol.com, June 27, 2007.
4. **"Wockhardt Hospitals Plans Rs 5.69 bn Investments in Hospital Projects,"** www.indiaprwire.com, January 31, 2008.
5. **"Healthcare Industry in India,"** www.expomo.com, January 2009.
6. **"Changing Face of Indian Healthcare Industry,"** www.prlog.org, February 8, 2009.
7. Shweta Kapur, **"Fortis Healthcare Eyes Majority Stake in Wockhardt Hospital,"** http://profit.ndtv.com, February 20, 2009.
8. **"Healthcare,"** www.india-now.org, April 13, 2009.
9. **"Apollo Hospitals Shelves Plans to buy Wockhardt Units,"** www.thaindian.com, June 17, 2009.
10. **"Wockhardt Bid to Reduce Debt,"** www.telegraphindia.com, June 17, 2009.
11. **"Fortis Leads Race for Wockhardt Hospitals,"** http://business.rediff.com, June 18, 2009.
12. C H Unnikrishnan, **"Wockhardt to Sell 10 Hospitals to Fortis,"** www.livemint.com, August 24, 2009.
13. **"Fortis to Spend Rs 9.09 bn to Buy 10 Hospitals,"** http://economictimes.indiatimes.com, August 24, 2009.
14. **"Fortis-Wockhardt Hosp Deal Win-win for Both: Pharma Asia,"** www.moneycontrol.com, August 24, 2009.
15. **"Fortis to Acquire 10 Hospitals from Wockhardt,"** www.fortishealthcare.com, August 24, 2009.
16. **"Fortis Healthcare to Acquire 10 Wockhardt Hospitals for Rs 909 cr,"** www.thehindubusinessline.com, August 25, 2009.
17. **"Fortis Buys Wockhardt Hosps for Rs 909 cr,"** www.indianexpress.com, August 25, 2009.
18. **"Fortis to buy 10 Wockhardt Hospitals in Rs 909-cr Deal,"** www.ibef.org, August 25, 2009.
19. **"Wockhardt Agrees to Sell 10 Hospitals to Fortis,"** http://economictimes.indiatimes.com, August 25, 2009.
20. **"Fortis Acquires 10 Wockhardt Hospitals for Rs 909 cr,"** http://content.magicbricks.com, August 26, 2009.
21. **"Why Wockhardt Sold 10 Key Properties,"** http://business.rediff.com, August 26, 2009.
22. Sameera Anand, **"India's Fortis Healthcare Buys Wockhardt Hospitals,"** www.businessweek.com, August 26, 2009.
23. Soma Das, **"Fortis' Masterstroke: Wockhardt JV Makes it a Key National Player,"** www.financialexpress.com, August 26, 2009.

24. Joe Mathew, **"Newsmaker: Shivinder Mohan Singh,"** www.business-standard.com, August 28, 2009.
25. Noemie Bisserbe, **"A Crippling Sellout,"** http://businessworld.in, August 29, 2009.
26. Prashant Mahesh, **"Wockhardt Deal to Open New Markets,"** http://economictimes.indiatimes.com, August 30, 2009.
27. Ram Prasad Sahu, **"Twice Bitten, Ready for More,"** www.business-standard.com, August 31, 2009.
28. Birender Kumar, **"Financial Health of the Indian Healthcare Industry,"** www.assocham.org, August 2009.
29. **"Apollo Hospitals Promise Higher Returns than Fortis,"** http://economictimes.indiatimes.com, September 7, 2009.
30. Kiran Kabtta Somvanshi, **"Apollo Hospitals Promise Higher Returns than Fortis,"** http://economictimes.indiatimes.com, September 7, 2009.
31. Nandita Vijay, **"Indian Healthcare Industry Poised for Greater Growth,"** www.pharmabiz.com, September 10, 2009.
32. Kumar Shankar Roy, **"Trouble-hit Stocks Gain 3-10 Times from Lows,"** http://timesofindia.indiatimes.com, September 18, 2009.
33. Kapil Khandelwal, **"IT's Chance at Fortis,"** www.asianage.com, September 20, 2009.
34. **"Wockhardt to Sell 10 Hospitals to Fortis,"** http://epaper.livemint.com, September 22, 2009.
35. Madhumathi D S, **"Zero Overlap Eases Merger of Wockhardt Hospitals, Fortis,"** www.thehindubusinessline.com, September 22, 2009.
36. **"Wockhardt Hospitals to Get Re-branded as Fortis Group,"** www.business-standard.com, September 28, 2009.
37. **"Life Sciences & Healthcare,"** www.globalhunt.in.
38. **"Apollo Hospitals Overview,"** www.apollohospitals.com.