

THE BATTLE FOR FORTIS

Fortis in its board meeting on 19 April 2017, constituted an expert advisory committee to evaluate the offers submitted to the board by the five bidders. The bidders, other than Manipal-TPG, were required to submit their final bids by 1 May 2018, while Manipal-TPG can revise and submit their final bid by 6 May 2018. IiAS has evaluated the bids submitted to the board and what it means for the shareholders.

THE OFFERS SO FAR

IHH Healthcare Berhad (IHH)

IHH has committed the highest total investment of ~ Rs. 74 bn (at Rs. 175 per share), out of which Rs. 6.5 bn will be infused upfront and Rs. 33.5 bn will be infused post due diligence. An open offer to acquire majority stake (56.6%) will be triggered later (Rs. 34 bn will be committed for it).

Manipal-TPG (offer can be revised till 6 May 2018)

Manipal-TPG in its latest bid has proposed an immediate infusion of Rs. 7.5 bn as debt and buy 5% stake in SRL from Fortis. Manipal proposes to demerge Hospitals business of Fortis and merge it with Manipal. The latest offer pegs the Fortis' Hospital business at Rs. 63.2 bn, which implies a per share value of Rs. 161 (Rs. 121 for Hospitals and Rs. 40 for SRL stake). The merged entity will then be listed and a rights issue of Rs. 40 bn (at a price to be decided later) is planned for acquisition of RHT assets. SRL will then be merged with the residual business retained within Fortis (after demerger of Hospitals business).

Munjal and Burmans (Munjal-Burman)

Munjal-Burman already own ~3% stake in the company. They have made the highest binding offer of Rs. 18 bn, at an average price of Rs. 172 per share. Initially, investment of Rs. 8 bn will be made through preferential issue of equity; subsequently, Rs. 10 bn will be infused in form of preferential warrants. The proposal is structured as a financial investment without the intent to acquire control. They propose to divest stake in SRL and use the proceeds to acquire hospital assets from RHT. In case of delay in divestment, the RHT acquisition will be financed through a rights issue. Further, they have sought three board seats, representing minority on the board, after upfront investment.

Fosun International Ltd. (Fosun)

Fosun proposes to initially infuse Rs. 1 bn through convertible debt, demanding a one-month exclusivity, and a subsequent infusion of Rs. 21.8 bn in form of preferential equity after due diligence (at a price of Rs. 156 per share). The proposal is structured as a financial investment without the intent to acquire control.

Radiant Life Care and KKR (Radiant-KKR)

Radiant's primary infusion of Rs. 6.8 bn is ring-fenced against Fortis Mulund. They propose to demerge the Hospitals business into a new company and an open offer will be given to shareholders of new company to acquire 26% stake. For this purpose, ~Rs. 17.0 bn will be utilized to give a cash exit to existing shareholders. The acquisition of RHT's assets will be financed through a rights issue underwritten by Radiant. The stake in SRL will be spun-off into a new company and then divested.

WHAT IT MEANS FOR SHAREHOLDERS

	IHH	TPG- Manipal	Munjal- Burman	Fosun	Radiant- KKR
Parentage					
Experience in managing hospitals	+	+	●	+	+
Experience in India	●	+	+	●	+
Structure					
Simple structure	+	●	+	+	●
Controlling stake post restructuring	+	+	●	●	+
Certainty level					
Full binding offer	●	+	+	●	●
Certainty of non-binding offer	+	■	■	●	●
Valuation and pricing					
Valuation for Fortis (>= Rs.170 per share)	+	●	+	●	+
Exit for Fortis shareholders through open offer	+	+	●	●	+
Clarity on pricing of subsequent infusion	●	+	+	+	●
Total investment and dilution					
Investment level of greater than Rs.25 bn	+	+	●	●	●
More than 25% dilution for Fortis shareholders	●	●	+	+	●
RHT acquisition funding certainties	+	●	●	●	+

+ Positive; ● Neutral/Negative; ■ Not applicable

DETAILED OFFER TERMS

Particulars	IHH	Manipal-TPG	Munjal-Burman	Fosun	Radiant-KKR
Capital infusion	Rs. 40 bn; Rs. 6.5 bn initial and Rs. 33.5 bn subsequently	Immediate debt infusion of Rs. 7.5 bn; purchase 5% stake in SRL (Rs. 1.8 bn)	Rs. 18 bn; 8 bn preferential equity + Rs.10.0 bn preferential warrants; 10.5 bn initial	Rs. 22.75 bn; Rs. 1.0 bn convertible debt; Rs. 21.75 bn preferential equity	Rs. 6.8 bn from purchase of Fortis Mulund; separate acquisition of hospitals business
Other infusion	No plans; but open to a rights issue	Right issue of up to Rs. 40 bn in the merged entity	Subsequent rights issue	Not stated	Subsequent rights issue
Stake after acquisition	6.7% initial;30.6% subsequent; 56.6% after open offer	47.9 %-58.6 % in merged entity (Manipal-Fortis)	3% currently, 11.5% after initial infusion;19.8% after warrants	21.9% after preferential equity	0%; 26% in new holding co (which will carry the hospitals business)
Price	Rs.175 for primary infusion; max Rs. 175 for subsequent infusion	Rs. 122 for hospitals business Rs. 39 for SRL Implied share price of Rs. 161; price for rights issue to be decided later	Rs. 167 for preferential equity; Rs. 176 for preferential warrants; subject to ICDR	Rs. 156 for preferential equity	Rs. 126 for new hold co (hospitals) Rs. 13 for Fortis Mulund (out of entire 170) Rs. 44 for SRL
Due diligence	Subsequent infusion after due diligence;	Done	No diligence required; but want it if right is given to others	Primary infusion only after agreeing to one-month exclusivity; subsequent infusion after due diligence	Subsequent infusion after due diligence
Cash exit to shareholders	Rs. 34 bn	Rs. 16.45 bn (26% calculated at Rs. 121)	Nil	Nil	Rs. 16.2 bn (182.35 mn shares @Rs.126 -6.8 bn) [assuming 26% is obtained through open offer]
Total Investment	Rs. 74 bn	Rs. 25.75 bn (excluding their contribution in rights issue)	Rs. 18 bn	Rs. 22.75 bn	Rs. 23 bn
Experience in healthcare/hospitals	Yes	Yes	No	Yes	Yes
Board seats	Not stated but will have control	Not stated but will have control	3 board seats with initial investment; not seeking control	Not proposed	Not stated but will have control
Funding RHT's acquisition	Acquisition will be funded through secondary infusion	Rights issue in the merged entity	To be funded by SRL sale and/or rights issue	Not stated	Rights issue with Radiant underwriting
SRL plans	Status quo; IHH has a diagnostics vertical	SRL will be merged with the residual Fortis business	SRL to be sold (estimated at Rs. 20 bn); proceeds from sale of SRL to fund RHT acquisition	Not stated	Spin-off and sale of SRL

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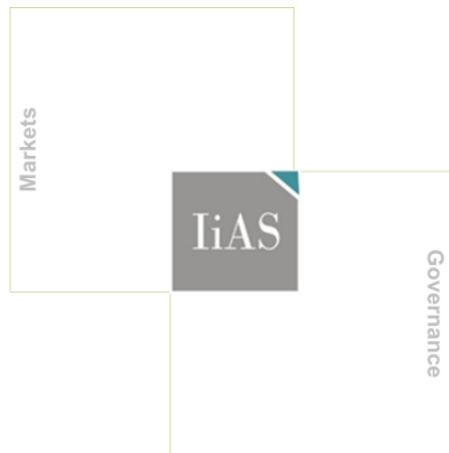
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