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An Indian Healthcare Company's Foray onto the World Stage

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Fortis Healthcare expanded from one hospital to over 70 in a dozen years. It is now consolidating to focus on what it does best: saving lives.

In 2001, the man who internationalised India's Ranbaxy Laboratories, the late Dr. Parvinder Singh, turned his attention from pharmaceuticals to the healthcare delivery business. Together with his two sons, Malvinder and Shivinder, Singh established Fortis Healthcare and its first hospital at Mohali in the state of Punjab in North-west India. Within a dozen years, Fortis expanded to 11 countries, running over 70 hospitals and employing more than 23,000 people.

Much of this growth has been inorganic. In 2005, it shelled out Rs 5.85 billion (US$135 million at that time) for a 90 percent stake in Escorts Heart Institute, India's largest cardiology and cardiac surgery company. In 2008, it added to its portfolio Malar Hospitals in Chennai, and in 2009 it pulled off the deal which propelled the company into the healthcare big league in India: the Rs 9.1 billion (US$187 million) deal for the ten hospitals under Wockhardt Hospitals, then the third largest hospital operator in India.

"In a competitive global environment market leadership in your home market provides significant upside in using the economies of scale for cost advantages,talent optimization and business model innovation.All these add together to provide an opportunity to grow further and faster," says Fortis Group Chief Executive, Vishal Bali. "When you have a large asset base in your home market you have harnessed a unique capability and knowledge of your business which gives you the distinctive skill of where to compete and how to compete."

Globalised healthcare

Fortis has indeed expanded, and not only within India. In 2010, it brought under its wing Hong Kong's largest private primary healthcare company, Quality Healthcare for US$193 million. In the same year, in early 2011 it also acquired a controlling stake in Australia's Dental Corporation which has operations in Australia and New Zealand followed by the acquisition of a hospital and a radio diagnostics business in Singapore besides an investment in Sri Lanka and Dubai and a network of hospitals in Vietnam. All this came off the back of the unsuccessful bidding war against Malaysian sovereign wealth fund, Khazanah, for Singapore-listed Parkway Holdings, Southeast Asia's largest healthcare company.

One of the main reasons for the rapid expansion was the desire to capitalise on globalisation trends which has opened up multiple sources expansion and thus for revenue growth in the healthcare industry.

"Healthcare continues to be one of the fastest growing sectors globally ,one of the key trends in healthcare delivery in the last half a decade has been the impact on the sector by the forces of globalisation," says Bali. "These forces can channeled under two streams,the globalization of healthcare delivery company's and the globalization of healthcare consumers," he says, introducing the arena of medical tourism. "The concept of patients criss-crossing the globe to receive healthcare – and Singapore is a dominant provider of that in the region – has become a very robust trend. What started as a holiday coupled with a small medical procedure largely driven by aesthetic work, has now become a trend where patients are now criss-crossing the globe for life-saving and life enhancing complex surgical procedures including heart transplants." This trend now encompasses healthcare consumers from both developed and developing countries.

Bali continues, "Global healthcare options is fueled by the fact that healthcare in many countries is either becoming unaffordable or is not accessible. Patients in the developed world find that healthcare costs in their home countries have gone up so dramatically that a large section of the population in those countries are going beyond the circle of affordability like Europe and United States, on the other hand, we have the issue of accessibility in the developing world where there is a lack of infrastructure, medical technology and clinical expertise like sub-Sahara Africa,West Asia, Vietnam, Cambodia,Indonesia, Myanmar and Bangladesh. That gives rise to the entire phenomenon of people seeking high quality affordable healthcare in other countries."

However for all countries providing affordable quality treatment to patients in their own countries would be a most welcome proposition. Before that can happen, one would need investments in infrastructure and healthcare professionals who can provide such healthcare. Here, globalisation once again plays a key role.

"Globalisation gives a tremendous opportunity for healthcare delivery organisations to look at cross-border opportunity for growth primarily driven by the fact that healthcare talent has become more mobile," Bali elaborates. "There is an emerging opportunity for healthcare talent in terms of clinicians who are now looking to relocate to their home countries after educating and training themselves in other countries. Clinicians are finding access to improved infrastructure and new medical technology particularly in the developing countries and see a future.This mobility of healthcare talent has created new opportunities for healthcare delivery cos: since many of these clinicians have been trained in very robust and highly intellectual healthcare delivery environments and provide them with a springboard for their success.They are bringing back the entire expertise and knowledge that they have gained over a long period of time."

"Apart from that the nursing talent has also become mobile and talented nursing professionals are moving from one country to another. So it's all adding up to globalisation of healthcare services driven by globalisation of talent."

Costs of expansion

In Bali's own words: "The big opportunity here is that healthcare delivery organisations are not getting limited by the physical presence of their current organization infrastructure. They can now serve the global healthcare consumers both in their home markets and expansion of their geographical footprint."

That access to global consumers has boosted Fortis' revenue numbers. Consolidated operating revenue for the 2008-09 Financial Year was Rs 6.30 billion, which was equivalent to US$125 million in March 2009, the end of the Financial Year; for FY 2011-12, it was a massive Rs 29.8 billion, or US$596 million in March 2012.

All that expansion has helped dislodge its main domestic competitor, Apollo Hospitals, as the biggest Indian hospital chain by number of beds and revenue. However, the cost of expansion soon became too much to bear. In May 2013, Fortis completed the sale of its stake in Dental Corporation for A$270 million (US$240 million). Immediately following that was the decision to divest the stake in Vietnam's Hoan My Medical Corporation for US$80 million.

"One of the key issues of very aggressive inorganic growth in a short period of time is the impact it creates on the balance sheet " Bali says. " Most of the inorganic growth had been driven through debt funding which has contributed to increased debt levels of the company. Obviously this needs to be pared down and that is being done through a combined process of raising bonds and divestments."

The bonds that Bali speaks of are the Foreign Currency Convertible Bonds (FCCBs) that were issued to International Finance Corporation (IFC) for a total of US$55 million besides the US$45million equity investment in June 2013. The money raised will be used to "progressively unwind the debt position of the company", as described by Bali ahead of the release of the company's 2012-13 FY results.

To further balance the books, Fortis created a business trust to manage some of its real estate assets. The Religare Health Trust (RHT) was listed on the Singapore Exchange (SGX) in 2012, raising about S$510 million (about US$400 million). That money helped boost Fortis' global profit after tax for the financial year 2012-13 to Rs 5 billion (US$82 million), up from Rs 72 million (US$11.8 million) the year before. Fortis described the jump as "a one-time gain arising from the business trust transaction".

"Fortis has put together an asset-light structure for its future expansions, particularly in hospitals," articulates Bali on Fortis' strategy going forward. "We recognize that our core competence as a company is managing patient care and clinic services and not managing hard assets. One of the key cost drivers for expanding healthcare infrastructure is going to be real estate and civil infrastructure. From that context it was important to put together a structure Where the company would continue to have access to perpetual capital. The Religare Health Trust is basically a business trust that is going to enable this process for Fortis."

"Therefore, there is this one-time gain that was sitting in the books last year. We moved all the hard assets on our balance sheet into the Religare Health Trust. Moving forward, the RHT will help with the build-out of the infrastructure, and Fortis will be putting in capital only for medical equipment and run the P&L (Profit & Loss) of the hospital. It will pay a service fees for utilisaation of the hard assets to RHT. This makes it a very asset-light growth structure and enables faster expansion into the future for the company."

Fortis, which has 28 percent stake in RHT, will benefit from the dividend payout generated by the business trust while freeing it from managing the properties on which the hospitals stand. That begs the question: Who owns the buildings? RHT or Fortis?

"The buildings and properties will be owned by RHT," Bali clarifies. "RHT will own the infrastructure, which is basically the hospital buildings and infrastructure related to the hospital building, while Fortis will own the medical infrastructure and all patient care processes"

Integration is key

In spite of the post-overexpansion financial manoeuvring, Bali says the company is focusing on why they set out to acquire a broad range of expertise in the first place.

"In the rapidly evolving world of healthcare delivery with globalization of operating models we envisioned that one of the key differentiators for the company would be an integrated healthcare delivery network, which would also encompass different verticals of healthcare delivery," he explains, on the strategic rationale behind the acquisitions. "When I say different verticals of healthcare delivery it means a company that encompasses within its network primary care, diagnostics, daycare specialty and hospitals. That was the overiding strategy in building out the healthcare delivery network with a focus on Asia."

Much of the consolidation in operations could be traced back to what Bali says is the company's focus, which is tertiary care hospitals.

"As a group our hospitals are predominantly focused on providing tertiary care to patients in the core specialities of Cardiac sciences,Orthopedics,Neurociences,Oncology.In Singapore our hospital focusses on Colorectal disorders which is the highest cause of cancer in the region. It is the synergy of high end technology, competent clinical expertise and personalised nursing care which makes tertiary care successful, we have replicated these services in all 70 hospitals of the group and that is the core of what we do: Saving and Enriching lives."