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Mukesh plans healthcare foray, sets eyes on 26% stake in Fortis

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BIG-BANG ENTRY INTO HEALTHCARE, POWER TO FOLLOW TELECOM

After its high-voltage entry into wireless broadband and the expected debut into power generation, the biggest surprise to come from Reliance Industries (RIL) could be its foray into healthcare. While the final contours are yet to be drawn up, the prevailing thinking in the management is in favour of entering the tertiary healthcare market by acquiring a stake in one of the domestic corporate hospital chains.

What may come as a bigger surprise is that the company has sent feelers to brothers Malvinder and Shivinder Singh, promoters of Fortis Healthcare, the country's second-largest hospital chain. The Singh brothers are currently locked in a takeover battle with Malaysia's Khazanah for control of Singapore hospital chain Parkway Holdings.

According to industry sources, RIL could be looking at buying around 26% stake in Fortis. The RIL overtures have not gone completely unanswered, since top officials of both companies are understood to have met once to discuss the prospects of such a proposal.

When contacted, an RIL spokesperson declined to comment, while a Fortis spokesperson denied receiving any such offer from RIL. "This speculation is utterly baseless and no such discussion is under way," the spokesperson said.

Sources said while RIL is evaluating the scope of buying a stake in an existing hospital chain, it has not ruled out the greenfield route. It is also separately considering expansion of its concept stores branded Reliance Wellness to several cities. Reliance Wellness, which stocks a range of health products, is housed under the Reliance Retail umbrella. It has branches of this format in Bangalore, Hyderabad and Ahmedabad among others.

The RIL scrip fell 0.76% to close at Rs 1,057.35 on the BSE on Wednesday while Fortis Healthcare rose 0.53% to Rs 152.35. The 30-share benchmark Sensex rose 0.29% to 17,462.87 points.

RIL already has some presence in the pharma sector through Reliance Life Sciences; however, the plans for its foray into hospital business are being chalked out separately.

When asked whether Fortis would be ready to sell 26% to RIL, an investment banker said: "A lot would depend on plans revolving around its overseas expansion. If Fortis decides to go ahead for a full acquisition of Singapore-based Parkway, it may consider offloading stake as an option. Fortis's debt equity ratio at

2.5:1 is already quite high. However, if it decides to exit Parkway, postpone its plans of global expansion and focus only on domestic business for now, it may not divest. It is well-positioned to fund its domestic growth plans.”

The banker added that any investor keen on Fortis now must have long-term interests in mind. “Only those who are looking at a 7-8 year horizon may be interested in buying a stake in Fortis now,” he said.

As on January 2010, promoters and promoters group held over 76% in Fortis. Recently, the Fortis board approved a decision to sell 6.6% stake to Lathé Investment, an investment vehicle of Singapore government’s investment arm, GIC Special Investment for Rs 380 crore.

Analysts said that even if RIL and Fortis reach a deal, it would be difficult to estimate the valuation. This is because valuing healthcare companies is an extremely difficult proposition, since there are no benchmarks or precedents. “Currently, the valuation game for healthcare companies is relatively distorted, where it is completely a function of how the seller and the buyer perceive the deal through the prisms of their understanding and requirements,” a healthcare analyst said.

The corporate hospital business in India is dominated by the Reddy family’s Apollo Hospitals, Aniljit Singh’s Max India and the Manipal Group. Anil Ambani’s Reliance ADAG also entered the tertiary healthcare sector with a 750-bed state-of-art Kokilaben Dhirubhai Ambani Hospital in Mumbai last year. However, the group terms it a corporate social responsibility initiative.

RIL also has philanthropic exposure to healthcare through the Dhirubhai Ambani Hospital at Raigad in Maharashtra.

Healthcare offers good business scope, as the current ratio of beds per thousand persons in India is a paltry 0.9 according to an Ernst & Young estimate, compared to the world average of 2.6.

Even with an investment of \$86 billion (Rs 3.7 lakh crore) over the next 15 years, India would not be able to reach the present hospital bed density levels of Brazil, China and the current world average. However, an investment of that magnitude would pull up India’s average bed per thousand persons to 2