

Wockhardt Hospitals Ltd.

Price Band	: Rs225- 260 per share	February 1, 2008
Issue open during	: February 1 - 5, 2008	
Recommendation	: Subscribe with a long term view	
Book Running Lead Managers	: Citigroup, Kotak, I-Sec and SBI Caps	
Grading (Fitch)	: 4 / 5	
To List on	: NSE and BSE	
Market Cap post-listing	: Rs27.1Bn or \$689mn (based on the cap price)	

IPO of 25.1mn equity shares of Rs10 each, aggregating to Rs652Cr or \$166mn (at the cap price)

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	74,250,000	93.8%	74,250,000	71.2%
Non-Promoter holding	28,000	0.0%	28,000	0.0%
QIBs excluding Mutual funds	4,912,903	6.2%	18,927,549	18.2%
Mutual funds	0	0.0%	737,613	0.7%
Non-Institutional Investors	0	0.0%	2,458,709	2.4%
Employees	0	0.0%	500,000	0.5%
Public	0	0.0%	7,376,129	7.1%
Total	79,190,903	100.0%	104,278,000	100.0%

Recommendation - Subscribe with a long term view

- Wockhardt Hospitals Ltd. (WHL) is a leading private healthcare service provider with a network of 15 hospitals with 1374 beds.
- Outlook for the healthcare industry is positive with 13% y-o-y growth, population growth, increase in health insurance services and medical tourism.
- WHL is a super-speciality hospital group focused on cardiac, orthopedics, neurology, urology, nephrology and critical care, specializing in minimally invasive surgery. 78% of FY07 revenues was attributable to inpatient income and the rest to outpatient and pharmacy income.
- It operates through Greenfield facilities in metros and Brownfield facilities in Tier-2 cities. Brownfield hospitals can be operational within 6-12 months, which is far shorter compared to Greenfield facilities which take 18-24 months for completion.
- Topline and bottomline grew at a CAGR of 35.6% and 246.3% respectively during FY05-FY07. Better operational performance in 9 months to December '07, with higher EBITDA margin of 20.8%. However, higher interest cost impacted profitability.
- Under the forthcoming expansion project, WHL will invest Rs5.7bn to set up 10 new hospitals, leading to addition of 2097 beds. It will also prepay debt to the extent of Rs2.85bn.
- High leverage of 5.2 as of December'07 is a concern; however leverage will improve to 0.6 post IPO, with infusion of capital and part-prepayment of debt.
- Timely roll-out of hospitals and retaining medical specialists may pose challenges.
- Preferential allotment to key members of management in August 2007 @ Rs300 and Rs10 per share. Pre-IPO placements to Citigroup Global Markets and Bennett, Coleman & Co. Ltd. @ Rs301 and Rs310 respectively in January 2008.
- We find the IPO expensive when compared with peers on several parameters. WHL is priced at 18.4x FY10 EV/EBITDA, compared to Apollo Hospitals 10.4x FY10E and Fortis Healthcare 13.4x FY10E.
- WHL has EV of Rs2.2Cr/bed, compared with Rs0.4Cr for Apollo Hospitals and Rs1.5Cr for Fortis Healthcare. In terms of p/e, WHL is 197.7x FY08E, 59.5x FY09E and 27.8x FY10E (refer peer valuation table on page 6). However, in view of the strong management, established brand name and track record, we recommend subscribing with a long term view.

Company and Promoter background

Incorporated in August, 1991 It was promoted by Mr. Habil Fakhruddin Khorakiwala, promoter of the Wockhardt group.

Positives for the Healthcare industry

Growth in population

India's booming population of 1.1bn is increasing @ 2% p.a. By 2050, it is projected to reach 1.6bn.

Healthcare industry to grow @ 13% y-o-y

Health care industry in India is valued at \$34bn and is projected to be \$60bn by 2012. Healthcare accounts for approx. 6% of the GDP and is focused on by both the government and the private sector.

Health insurance to grow

Presently, only 11% of the population has any form of health insurance coverage. Some form of health protection is provided by government and major private employers, however, health insurance schemes available to the Indian public are generally basic and inaccessible to most. With growth in health insurance, more people are likely to avail of medical facilities.

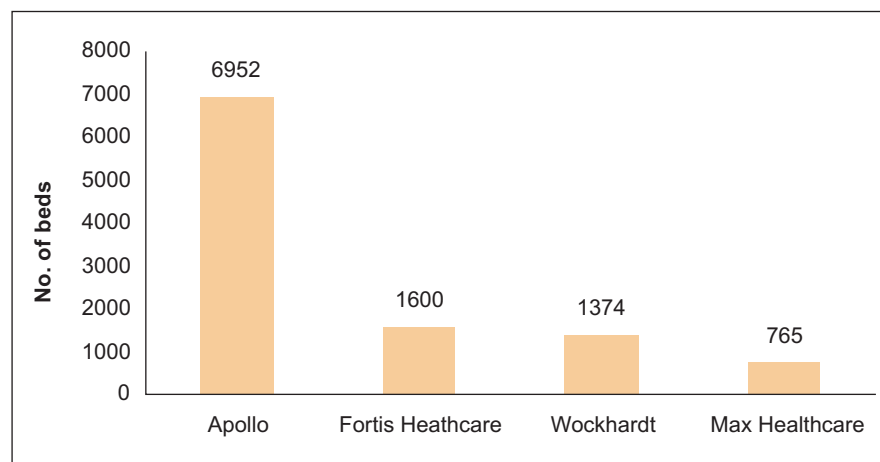
Medical tourism

The emergence of India as a destination for medical tourism leverages the country's well educated, English-speaking medical staff, state-of-the-art private hospitals and relatively low cost to address the healthcare needs of the western world. India provides best-in-class treatment, in some cases at less than 1/10th of the cost in the US/ Europe.

There is a large market of uninsured patients in western countries. Indian medical tourism was estimated at \$350mn in FY06 and is projected to grow to \$2bn by 2012. In FY05, 150,000 foreign patients visited India for treatment. This number is growing @ 30% p.a.

Business Description

WHL is one of the largest private healthcare services companies in India, based on number of hospital beds.



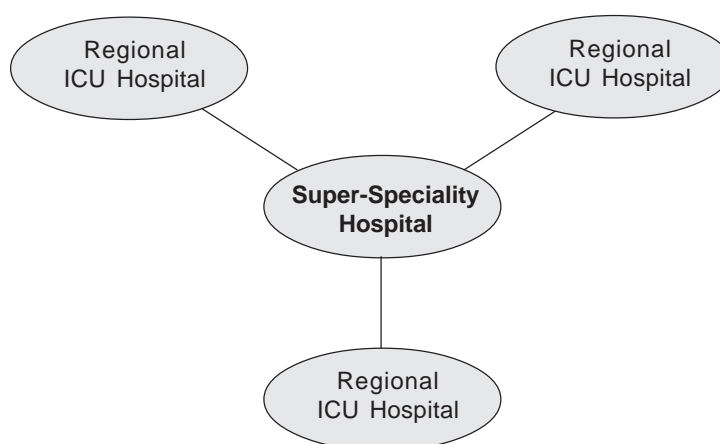
It is the only private hospital group associate of Harvard Medical International. During FY07, it performed 10,000 cardiac, 1,000 orthopedic and 400 neuro / spine surgeries. It also performed 2,100 minimally invasive procedures.

Business Model

WHL has a network of 10 super-specialty hospitals and 5 regional ICU hospitals.

Super-specialty hospitals provide advanced tertiary and higher secondary care. Regional specialty ICU hospitals not only act as referral centers and first point of critical care for larger super-specialty hospitals, but are also self-sustaining as they are strategically located to offer basic tertiary care and higher secondary care.

The Super-specialty hospital serves as a hub which is surrounded by various ICU hospitals.



It follows both the brownfield and greenfield routes to construct hospitals.

Greenfield facilities refer to hospitals, wherein WHL acquires land and constructs the entire set-up afresh. These are mainly done in metros. Greenfield hospitals can be made operational within 18-24 months. It is capital intensive, involving capex of Rs4.2 - 4.5mn per bed. Such hospitals reach cash break-even within 2 years of commencing operations.

Brownfield facilities refers to hospitals wherein WHL enters into an arrangement with a partner who already has a hospital which may or may not be functioning well. WHL then refurbishes and operates these hospitals, pursuant to revenue sharing or lease arrangements. These are mainly at Tier-2 cities. Hospitals set up through this facility can be made operational in 6-12 months. Such hospitals can reach cash break-even within a year of commencing operations.

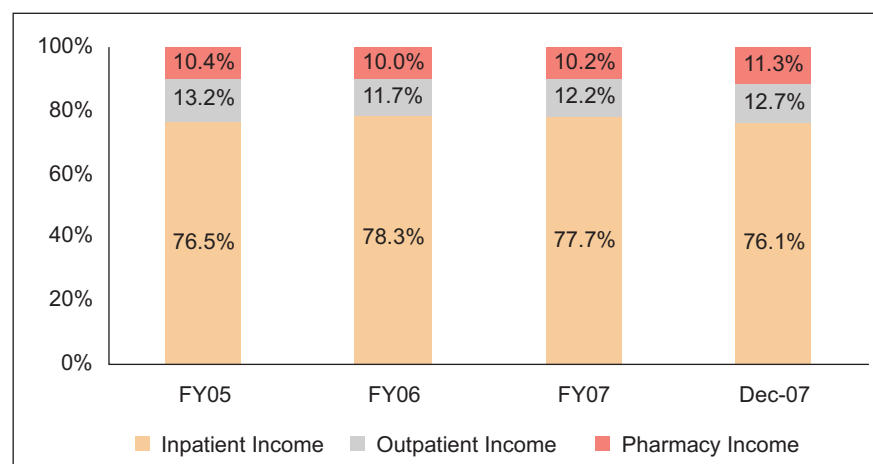
Overview of existing hospitals

Name of hospital	Date of Commissioning	No. of beds	Average Occupancy Rate	Average Stay (No. of days)	Average collections per bed
Greenfield Hospitals					
Wockhardt Medical Centre	Jan-90	3			
Wockhardt Hospital and Heart Institute	Mar-91	92	74%	4	4.3
Wockhardt Hospital& Kidney Institute	Jul-93	67	89%	4.8	1.5
Wockhardt Hospital, Mulund	Jul-02	191	81%	5.1	4.7
Wockhardt Hospital,Bannerghatta Road	Nov-06	200	59%	4.7	2.9
Wockhardt Hospital, Kalyan	Jan-08	60			
Brownfield Hospitals					
Wockhardt Heart Hospital,Nagpur	Jul-04	40	93%	4	3.7
Kamineni Wockhardt Hospital	Jul-05	130	45%	3.7	1.7
Wockhardt Heart Centre	Feb-06	50	42%	4.9	1.4
N.M. Virani Wockhardt Hospital, Rajkot	Jan-07	180	41%	4.3	0.7
Wockhardt Hospital, Chord Road	Jan-07	40	41%	3.2	0.7
Adventist Wockhardt Heart Hospital, Surat	Oct-07	106	22%	2.9	0.4
Wockhardt Hospital, Nagpur	Oct-07	118	18%	5.8	0.1
Sterling Wockhardt Hospital	Apr-08	45	24%	4	0.3
Wockhardt Hospital,Nagarbhavi	Jun-08	53	26%	3.2	0.4

Key Strengths

- Experienced management
- Super-Speciality focus
- Established brand name
- Ability to attract quality medical personnel
- Strategic relationship with Harvard Medical International provides a captive source of qualified doctors

Revenue-mix



Financial ratios

Particulars	FY05	FY06	FY07
EBITDA margin	16.8%	17.8%	16.6%
ROE	3.2%	25.8%	21.9%
Debt-equity ratio	2.4	2.5	4.0
Current Ratio	1.7	1.1	1.8
Inventory turnover (days)	8	9	13
Debtors collection period (days)	18	25	34

Strategy

- Tap the potential of medical tourism.
- Increase reach in tier-2 cities of North through Brownfield hospitals where it currently has negligible presence.
- Develop a chain of regional ICU hospitals which would function as spokes to super-speciality hospitals.

Objects of issue

(RsCr)

Particulars	Amount (RsCr)	Dt. of Implementation
Construct 10 new hospitals	570	FY10
Pre-payment of short term loans	285	Within 3 months of issue

Highlights of upcoming hospitals

Name of hospital	No. of beds	Completion Year
Greenfield Hospitals		
Wockhardt Hospital, Kolkata	342	Mar-09
Adams Wylie Hospital, Mumbai	340	Mar-09
Wockhardt Hospital, Delhi	170	Dec-09
Expansion of Wockhardt Heart Hospital, Mumbai	240	Dec-08
Brownfield Hospitals		
NUSI Wockhardt Hospital, Goa	180	Mar-08
Wockhardt Hospital, Bhavnagar	100	Feb-08
Wockhardt Hospital, Nasik	170	Jun-08
Wockhardt Hospital, Bhopal	280	Jul-08
CMC Wockhardt Heart Hospital, Ludhiana	125	Jul-08
Wockhardt Hospital, Jabalpur	150	Nov-08

Means of Finance

The capex requirements for the expansion plans would be met through IPO funding. Shortfalls, if any, will be met through internal accruals.

Investment Concerns

- Timely roll-out of hospitals
- Retention of medical specialists may pose a challenge
- High leverage of 5x leads to high interest cost

Keynote Capitals's Earnings Estimates (RsCr)

	FY08	FY09	FY10
Sales	301.32	436.43	706.13
Net Profit	13.71	45.55	97.57
EBITDA margin	17.0%	18.2%	21.6%
EPS (Rs)	1.32	4.37	9.36
P/e (x)	197.7	59.5	27.8

Peer comparison

(RsCr)

	Apollo Hospitals	Wockhardt Hospitals	Fortis Healthcare
Net Sales	996.9	236.48	144.46
Net Profit	86.10	15.59	-32.71
Paid-up-Equity capital	58.69	104.28	226.67
Price (as on 31-Jan-08)	497	260	80
Market Cap	2917	2711	1809
EPS (Rs)	14.67	1.50	-1.44
Book Value (Rs)	201.01	14.27	40.30
P/E (x)	33.9	173.9	-55.3
P/B (x)	2.5	18.2	2.0
P/S (x)	2.9	11.5	12.5
EBIDTA margin	16.3%	16.6%	2.4%
NPM	8.6%	6.6%	-22.6%
52 week High (Rs)	630	-	123
52 week Low (Rs)	362	-	68
FVPS (Rs)	10	10	10

TTM except Wockhardt hospitals, which is consolidated FY07 numbers.

Post-issue capital

Peer Comparison - Operational Parameters

	Apollo Hospitals	Wockhardt Hospitals	Fortis Healthcare
Year of incorporation	1979	1991	1996
Promoter Holding	27.6%	71.2%*	74.4%
Institutional Holding	30.1%	18.2%*	7.4%
No. of hospitals	41	15	12
No. of beds	7076	1374	2000
Average Occupancy rate	77%	56%	72%
Average length of stay - days (ALOS)	5.5	4.4	N.A.
Revenue sources	Hospital Pharmacy Consultancy	Hospital Pharmacy	Hospital

* Post- issue
Data for FY07

Financial parameters

	Apollo Hospitals	Wockhardt Hospitals	Fortis Healthcare
Debt-equity ratio (x)	0.5	4.0	1.6
Current ratio (x)	1.7	1.8	1.5
Inventory turnover (days)	23	13	2
Debtors collection period (days)	42	34	17

Data as on FY07

Peer valuation table

1. EV/EBITDA

	Apollo Hospitals	Wockhardt Hospitals	Fortis Healthcare
FY08E (x)	15.6	60.1	26.6
FY09E (x)	12.6	35.4	15.6
FY10E (x)	10.4	18.4	13.4

2. EV / Bed (RsCr)

	Apollo Hospitals	Wockhardt Hospitals	Fortis Healthcare
EV	3012	3078	2337
No. of beds	6952	1374	1600
EV / Bed (RsCr)	0.4	2.2	1.5

3. P/e

	Apollo Hospitals	Wockhardt Hospitals	Fortis Healthcare
EPS FY08E (Rs)	16.01	1.32	-2.18
EPS FY09E (Rs)	19.39	4.37	0.59
EPS FY10E (Rs)	23.90	9.36	1.41
P/e FY08E (x)	31.0	197.7	-36.6
P/e FY09E (x)	25.6	59.5	135.3
P/e FY10E (x)	20.8	27.8	56.8

Consolidated Profit & Loss Statements

(RsCr)

For period ending	31.03.05	31.03.06	31.03.07	31.12.07
Sales and Services	129.10	158.68	236.48	259.48
Expenditure				
Raw materials	47.18	50.57	73.82	71.47
Personnel Expenses	14.82	19.30	29.57	31.04
Operating Expenses	35.06	51.72	78.93	88.83
Administration Expenses	4.81	5.08	7.97	8.20
Selling Expenses	5.60	3.76	6.91	5.98
Total expenditure	107.46	130.43	197.20	205.52
EBITDA	21.64	28.25	39.28	53.96
Other Income	0.13	0.49	0.22	0.50
Interest	9.35	5.70	11.31	23.56
PBDT	12.42	23.04	28.20	30.90
Depreciation	9.07	8.85	12.01	14.59
PBT	3.35	14.19	16.18	16.32
Income Tax	0.24	1.19	1.83	1.85
FBT	0.00	0.32	0.40	0.60
Wealth Tax	0.00	0.00	0.01	0.01
Deferred Tax	1.79	-1.69	-1.65	6.55
PAT	1.31	14.37	15.59	7.31
EBITDA margin	16.8%	17.8%	16.6%	20.8%
NPM	1.0%	9.1%	6.6%	2.8%
EPS (Rs)	0.52	2.87	3.12	0.98
Book value (Rs)	16.55	11.15	14.27	11.30

Consolidated Balance Sheets

(RsCr)

As at,	31.03.05	31.03.06	31.03.07	31.12.07
Sources of funds				
Equity Share Capital	25.00	50.00	50.00	74.28
Preference Share Capital	25.00	0.00	0.00	0.00
Reserves & Surplus	0.46	5.75	21.34	9.69
Dr. bal of P&L	-9.08	0.00	0.00	0.00
Total Shareholders funds	41.38	55.75	71.34	83.97
Secured Loans	79.45	113.26	150.57	201.40
Unsecured Loans	20.00	24.92	135.68	235.00
Total debt	99.45	138.18	286.25	436.40
Total liabilities	140.83	193.94	357.59	520.36
Application of funds				
Gross Block	120.42	131.59	284.14	374.32
Depreciation	36.66	45.35	57.33	71.84
Net Block	83.76	86.24	226.81	302.48
Goodwill on consolidation	13.84	13.84	13.84	13.84
CWIP	37.70	99.36	80.64	139.13
Investments	2.50	0.07	0.00	0.00
Curr. Assets, Loans & Advance				
Inventories	2.83	3.84	8.22	20.94
Sundry Debtors	6.54	10.71	21.79	34.22
Cash and Bank Balances	12.57	8.45	40.92	62.69
Other Current Assets	0.00	-	0.21	2.53
Loans & Advances	10.09	13.73	26.77	42.62
Total current assets	32.03	36.72	97.91	162.99
Current Liabilities	17.86	31.24	49.04	76.12
Provisions	1.09	2.68	5.84	8.68
Net current assets	13.09	2.81	43.03	78.19
Deferred Tax Liability (Net)	10.06	8.37	6.72	13.27
Minority Interest	0.00	0.00	0.01	0.00
Total assets	140.83	193.94	357.59	520.36

Keynote Capitals Ltd.

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Ratings structure

Subscribe & Hold	:	subscribe for listing gains, hold for further appreciation
Subscribe for listing gains	:	expect decent appreciation on listing
Subscribe with a medium term view	:	stock can deliver only over 6-8 months after listing
Subscribe with a long term view	:	value can only be realised over 12-18 months
Await listing	:	good fundamentals; consider valuations on listing

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