

Recommend: "AVOID"

Issue Snapshot

Issue Period:	Jan 31 - Feb 05 , 2008	
Price Band	Rs.280 - Rs.310	
Issue Size	Rs.7,024.4 - Rs.7,777 mn	
Market Cap	Rs.29.2 - Rs.32.33 bn	
Issue Size	25,087,097 shares	
Employees:	500,000 shares	
QIB:	14,752,258 shares	
Non-Institutional:	2,458,709 shares	
Retail:	7,376,129 shares	
Face Value:	Rs.10	
Book Value:	Rs.10.60 as on Dec 31,2007	
Capital Structure:		
Pre Issue Equity	Rs.792 mn	
Post Issue Equity	Rs.1,043 mn	
Shareholding Pattern	Preissue (%)	Post issue (%)
Promoter	93.75	71.20
Others	6.25	4.74
Employees	0.00	0.48
Public	0.00	23.58
Total	100.00	100.00
Total no. of shares	79,190,903	104,278,000

Company Highlights:

- WHL is a private healthcare service company. WHL has a super specialty focus on areas such as cardiology & cardiac surgery, orthopedics, neurology & neurosurgery, urology & nephrology & critical care and they specialize in minimally invasive surgery.
- WHL has shown a CAGR of 35% in the topline; 35% in EBITDA and 245% in the bottomline from FY 2005 to FY 2007.
- Investment Rationale: The company has special focus on tertiary care clinical areas like cardiology & cardiac surgery, etc; Only private hospital group in India associated with Harvard Medical School; Pan India presence; Ability to retain & educate skilled personnel's.
- Concerns are: Though the company has a national presence, nearly 71% of the revenues are generated by the hospitals in Mumbai & Bangalore; High debt – equity ratio; The company operates brownfield hospitals where the commission earned by WHL is very low; Low margins for the figures recorded in Dec – 07;
- Fitch has assigned an IPO Grade "4/5" to this issue.
- Healthcare spending in India is expected to rise by 12% per annum through 2005-09 and this figure is expected to reach 5.5%, or approximately US\$60.9 bn by 2012, according to IBEF-E&Y. CRISINFAC expects the total healthcare delivery market in India to grow from Rs.1,253 bn in 2006 to Rs.3,642 bn by 2016.

Website: www.wockhardthospitals.com

Abhishek Kothari

abhishek.kothari@spasecurities.com

Mobile: +91 9321481484

Phone: +91 22 40439000

Valuation: The stock is currently available at a P/E of 300x to 332x on the lower & upper price bands respectively of its FY 08E EPS of Re.0.93. The industry P/E is at 25x which shows that this issue is highly priced. The EV/Bed of WHL is at 23x & 26x on the lower & upper price EV bands respectively where as the that of Apollo & Fortis is at 4x & 15x respectively, which again shows that the issue is expensive. The significant revenues of the company will start from 2010 when all the expansion plans of the company will be over & it will start giving higher returns to investors. Currently, the issue price looks to be on the expensive side. The industry is poised to have an upward trend in the near future and it's better to invest in peer group companies like Apollo which is available at a cheaper P/E and whose EV/Bed is also relatively cheaper. Hence, we recommend "Avoid" to the issue.



Wockhardt Hospitals Limited (WHL)

Equity Research Desk

IPO-Analysis

29th January, 2008

Company Background

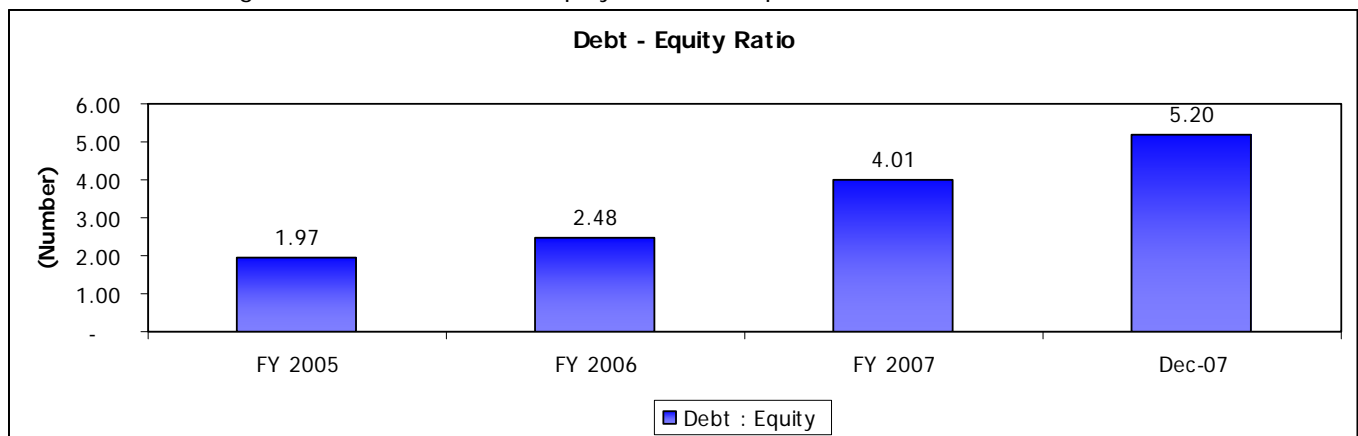
The company was incorporated on August 28, 1991. WHL is a private healthcare service company. WHL has a super specialty focus on areas such as cardiology & cardiac surgery, orthopedics, neurology & neurosurgery, urology & nephrology & critical care and they specialize in minimally invasive surgery. WHL has a pan-India presence with a network of ten super-specialty hospitals and five regional specialty intensive care unit ("ICU") hospitals providing healthcare services in western, southern and eastern India. WHL's network consists of super specialty hospitals, which provide advanced tertiary & higher secondary care and regional specialty ICU hospitals, which include regional ICU hospitals that provide basic tertiary care & higher secondary care hospitals. Six of the existing facilities are "Greenfield" facilities, which WHL or their group companies have constructed. WHL operates the remaining nine facilities as "Brownfield" facilities, which means that they refurbish, equip and operate hospitals located on the premises of others pursuant to revenue sharing or lease arrangements. The company also owns and operates ten pharmacies located at their facilities.

Company Snapshot

- WHL has shown a CAGR of 35% in the topline; 35% in EBITDA and 245% in the bottomline from FY 2005 to FY 2007. In comparison of FY 2007 to FY 2006, the company has shown a growth of 49% in the topline; 39% in EBITDA & 9% in the bottomline.
- **Investment Rationale:**
 1. WHL focuses on tertiary care clinical areas such as cardiology & cardiac surgery, orthopedics, neurology & neuro-surgery, urology & nephrology and critical care. They specialize in minimally invasive surgery. The company is believed to have established themselves as leaders in those areas, with more than 18 years of experience developing high-end clinical expertise. The specialty focus helps them attract and train super-specialist clinicians. WHL has been investing significantly in the technology, equipment and infrastructure required to perform the most advanced procedures. To extend, support and strengthen their specialty focus, the company has established and intends to expand the network of regional specialty ICU hospitals, which can refer patients to the super-specialty hospitals.
 2. In India, Wockhardt is the only private hospital group associate of Harvard Medical International ("HMI"), a self-supporting not-for-profit subsidiary of Harvard Medical School. WHL's super-specialty hospital in Mumbai is one of the first hospitals in South Asia to have received international accreditation from Joint Commission International (JCI). JCI is part of the Joint Commission on Accreditation of Healthcare Organizations, a non-profit corporation that is the largest accreditor of healthcare organizations in the United States.
 3. The company currently has 15 hospitals, located at various places throughout India. In northern India, WHL has plans for an additional 5 Greenfield hospitals (the completion time being 18-24 months) & another 12 Brownfield projects (the completion time being 6-12 months). The current bed capacity of WHL is 1374 beds which it intends to increase it to 1,957 by FY 09 & 4,793 by 2010. The company has also started moving towards tier II cities by way of Brownfield expansion.
 4. For the fiscal year ended March 31, 2007 and the nine months ended December 31, 2007, WHL has an averaged retention rate of 99% and 100%, respectively, for full-time consultants at their hospitals. They also have separate and specific training programs for doctors, nurses, paramedical professionals and management personnel.

• **Concerns:**

1. Though the company has a national presence, for the fiscal year ended March 31, 2007, Wockhardt Hospital, Mulund in Mumbai; Wockhardt Hospital, Bannerghatta Road and Wockhardt Hospital and Heart Institute in Bangalore collectively generated Rs.1,674 mn in income or 70.7% of the total income. For the nine months ended December 31, 2007, these hospitals collectively generated Rs.1,771 mn in income or 68.3% of the total income. These three hospitals collectively have 483 beds, constituting 35.2% of the total hospital beds. Due to this concentration, any negative economic, regulatory, competitive or other developments concerning these hospitals may adversely impact the company's financial condition and results of operations.
2. The following chart shows the debt – equity ratio over a period of time for WHL:



3. The company operates Brownfield hospitals, which mean that they refurbish, equip and operate hospitals located on the premises of others pursuant to revenue sharing or lease arrangements. The company has plans of having more hospitals of this kind & we expect the margins to be hampered as the commission earned by the company in these hospitals is in single digit.
 4. For the nine months period ended Dec 31, 2007, the NPM recorded by the company was 2.82% and this is a cause of worry since the company has been paying a significant amount of money as interest for its capital.
- Fitch has assigned an IPO Grade "4/5" to this issue. This indicates above average fundamentals of the company.

Industry Scenario

- Healthcare spending in India is expected to rise by 12% per annum through 2005-09 and this figure is expected to reach 5.5% or approximately US\$60.9 bn by 2012, according to IBEF-E&Y. CRISINFAC expects the total healthcare delivery market in India to grow from Rs.1,253 bn in 2006 to Rs.3,642 bn by 2016.
- According to the WHO, despite this increasing trend, India lags behind other developing nations in per capita total expenditure. The Indian healthcare industry also suffers from limited government spending. According to CII-McKinsey, India had only 1.5 hospital beds per thousand people in 2001, while China, Brazil, Thailand and South Korea had an average of 4.3 beds per thousand people. Moreover, the number of allopathic physicians in India was only 0.60 per thousand in 2005 compared to 1.15 in Brazil, 1.06 in China and 1.57 in the Republic of Korea, according to the WHO. India also suffers from a shortage of nurses. There were only 0.80 nurses per thousand people in India in 2005, according to the WHO, compared to 3.84 in Brazil, 1.05 in China, and 1.75 in the Republic of Korea. According to FICCI-E&Y, India is expected to have a shortage of 1.2

million nurses by 2012 assuming the target is a ratio of two nurses per doctor. This shortage is particularly severe in the intensive care segment, where the average nurse to bed ratio is only 1:1.

- According to the Planning Commission (2002), it is estimated that the occurrence of noncommunicable diseases is likely to grow faster than communicable and infectious diseases between 2002 and 2012 and that it will constitute approximately 57% of disease occurrences by 2020.
- According to CII-McKinsey, spending patterns are expected to shift by 2012. Of the expected Rs.1,560 bn private healthcare spending, inpatient spending is expected to account for 47%, up from 39% in 2001. CRIS-INFAC expects inpatient revenues to grow to Rs.1,268 bn and Rs.2,312 bn in 2011 and 2016, respectively from Rs.637 bn in 2006 and outpatient revenues to grow to Rs.903 bn and Rs.1,329 bn in 2011 and 2016, respectively from Rs.617 bn in 2006. This growth is expected to be driven by the rise in lifestyle diseases, especially cancer and cardiovascular disease, which are growing rapidly. CII-McKinsey expects that these two diseases alone will constitute more than 35% of inpatient expenditure by 2012. CRIS-INFAC estimates that, in terms of hospitalized cases, cardiology, oncology and diabetes will collectively account for 52.5% of inpatient revenues as compared to the current 36% of inpatient revenues.
- Due to the increase in treatment of complex lifestyle diseases, which generally entail higher average expenditure per treatment, the growth in income levels of the urban middle class and the expansion of healthcare infrastructure and health insurance across India, CRIS-INFAC expects the total healthcare delivery market in India to grow from Rs.1,253 bn in 2006 to Rs.3,642 bn by 2016. According to IBEF-E&Y, approximately US\$60.9 bn or 5.5% of India's gross domestic product is expected to be spent on healthcare by 2012, up from approximately US\$34.9 bn or 5.2%, in 2004. FICCI-E&Y expects the Indian healthcare industry to grow from US\$34.2 bn in 2006 to US\$78.6 bn in 2012. Private healthcare is expected by CII-McKinsey to continue to be the largest component of healthcare spending in 2012 and could increase to Rs.1,560 bn by 2012 if health insurance coverage becomes more widely available to the upper and middle classes. Government spending is also expected to increase. CII-McKinsey expects public spending to double by 2012.

Peer group comparison

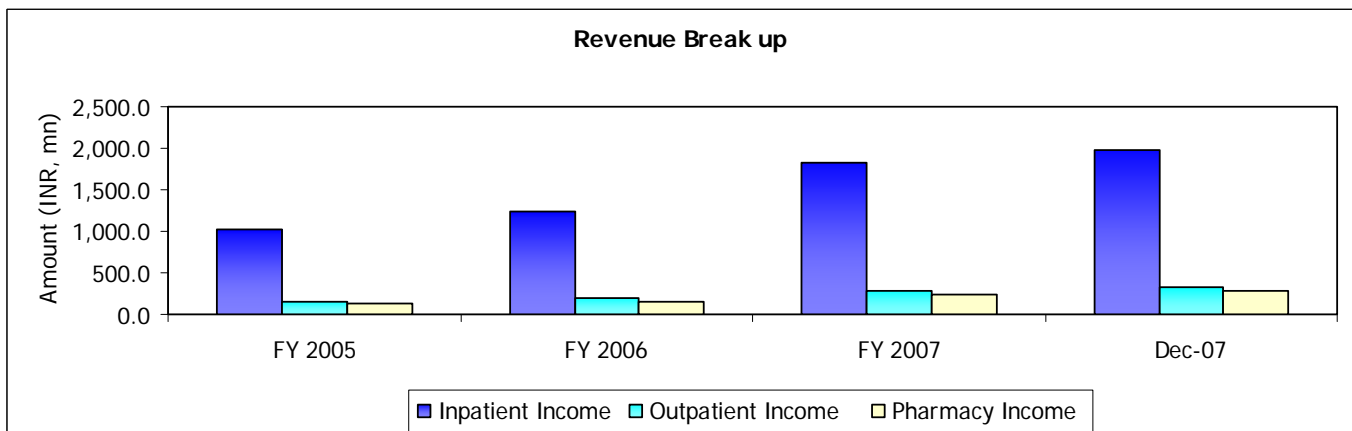
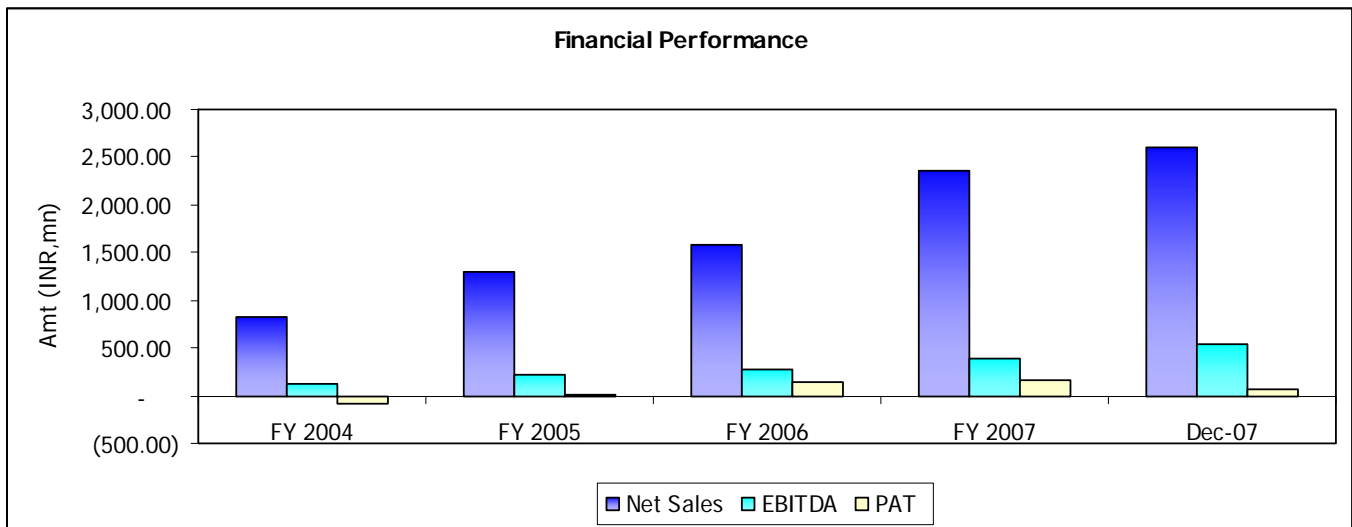
Company*	EV/EBITDA (x)	P/E (x)	MCAP/SALES (x)	P/BV (x)	EPS (Rs.)	Share Price (Rs.)	EV / BED (x)
WHL at Lower Band	44.56	299.73	8.44	40.93	0.93	280.00	23.33
WHL at Upper Band	48.91	331.85	9.34	45.31	0.93	310.00	25.61
Apollo Hospitals Limited	17.90	27.15	2.65	3.84	18.15	492.90	4.06
Fortis Healthcare Limited	86.39	-----	3.54	4.79	(4.70)	77.95	14.78

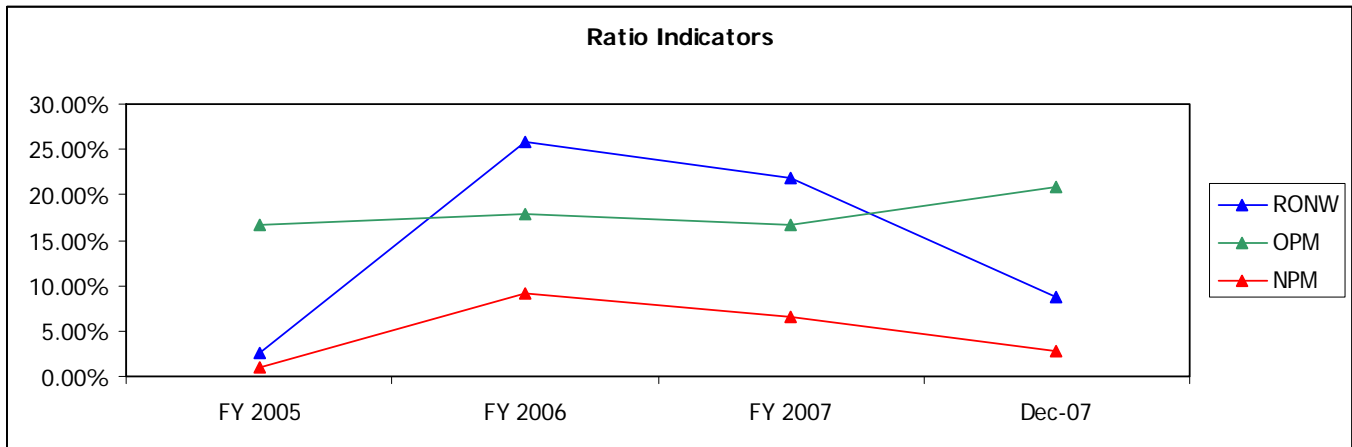
*Source: SPA Research.

Key Financials

Financial Snapshot (Rs. In Million)					
	Dec-07	FY 2007	FY 2006	FY 2005	FY 2004
Sales	2,594.81	2,364.84	1,586.78	1,290.97	822.53
Total Income	2,599.79	2,367.04	1,591.63	1,292.30	823.28
Operating Profit	539.60	392.83	282.49	216.39	116.73
Net Profit	73.06	155.91	143.71	13.08	-86.64
EPS* (Rs./share)	0.92	1.50	1.38	0.13	-0.83
Share capital	742.78	500.00	500.00	500.00	60.00
Reserves & Surplus	96.88	213.40	57.51	4.59	4.59
Net worth	839.66	713.40	557.51	504.59	64.59
Total Debt	4,363.96	2,862.45	1,381.84	994.53	1,242.12
Book Value* (Rs./share)	10.60	6.84	5.35	4.84	0.62

**The no. of shares are of the post issue equity i.e. 104.28 mn shares.*





Income Statement					
Rs, mn	Dec-07	FY 2007	FY 2006	FY 2005	FY 2004
Net Sales	2,594.81	2,364.84	1,586.78	1,290.97	822.53
Increase / Decrease in Work in Progress	127.37	43.77	10.08	8.17	3.68
Purchases	842.07	782.01	515.82	479.93	265.16
Personnel Expenses	310.41	295.69	192.95	148.21	112.22
Operating Expenses	888.30	789.34	517.17	350.61	256.96
Selling Expenses	59.80	69.06	37.62	55.95	39.99
Administrative & General Expenses	82.00	79.68	50.81	48.05	35.15
Operating Expenditure	2,055.21	1,972.01	1,304.29	1,074.58	705.80
Operating Income	539.60	392.83	282.49	216.39	116.73
Other Income	4.98	2.20	4.85	1.33	0.75
Gross Profits	544.58	395.03	287.34	217.72	117.48
Finance & Interest charges	235.55	113.07	56.99	93.51	82.75
Depreciation	145.87	120.12	88.45	90.72	82.21
Profit Before Tax	163.16	161.84	141.90	33.49	(47.48)
Tax	90.10	5.93	(1.81)	20.41	39.16
Profit After Tax	73.06	155.91	143.71	13.08	(86.64)
Extraordinary Items	-	-	-	-	-
Net Profit	73.06	155.91	143.71	13.08	(86.64)

Cash Flow Statement

Rs, mn	Dec-07	FY 2007	FY 2006	FY 2005	FY 2004
Cash Flow from Operations	545.99	389.53	288.13	204.15	(94.87)
Cash for Working Capital	(154.81)	(101.44)	44.52	(2.21)	(4.36)
Net Operating Cash Flow - A	391.18	288.09	332.65	201.94	(99.23)
(Purchase) / Sale of Fixed Assets	(1,487.31)	(1,338.89)	(729.12)	(322.14)	(249.43)
(Purchase) / Sale of Investments	-	0.71	24.30	(25.00)	(139.39)
Loan (to) / from Companies	(548.51)	443.53	94.22	21.62	(159.58)
Interest Received	11.36	11.04	3.32	3.87	0.82
Net Cash Flow From Investing - B	(2,024.46)	(883.61)	(607.28)	(321.65)	(547.58)
Proceeds from Equity	53.18	-	249.99	190.03	-
Proceeds from Preference Share Capital	-	-	(249.99)	249.99	-
Proceeds / (Repayment) from Borrowings	2,040.33	1,037.08	293.08	(119.58)	735.22
Interest Paid	(242.53)	(116.88)	(59.66)	(99.23)	(83.57)
Net Cash Flow From Financing - C	1,850.98	920.20	233.42	221.21	651.65
Net Cash Flow (A+B+C)	217.70	324.68	(41.21)	101.50	4.84
Opening Cash	409.18	84.50	125.71	24.21	19.37
Closing Cash	626.88	409.18	84.50	125.71	24.21

Particulars	FY 2005	FY 2006	FY 2007	Dec-07
RONW	2.59%	25.78%	21.85%	8.70%
OPM	16.76%	17.80%	16.61%	20.80%
NPM	1.01%	9.06%	6.59%	2.82%



Wockhardt Hospitals Limited (WHL)

Equity Research Desk

IPO-Analysis

29th January, 2008

Balance Sheet					
Rs, mn	Dec-07	FY 2007	FY 2006	FY 2005	FY 2004
Sources of Funds					
Share Capital	742.78	500.00	500.00	500.00	60.00
Reserves & Surplus	96.88	213.40	57.51	4.59	4.59
Miscellaneous expenditure (written off)	-	-	-	(90.79)	(103.88)
Networth	839.66	713.40	557.51	413.80	(39.29)
Secured Loan	2,013.96	1,505.68	1,132.61	794.53	714.13
Unsecured Loan	2,350.00	1,356.77	249.23	200.00	527.99
Loan Funds	4,363.96	2,862.45	1,381.84	994.53	1,242.12
Deferred Tax Liability, Net	132.74	67.22	83.70	100.56	82.62
Minority Interest	-	0.04	0.03	0.03	-
Total Liability	5,336.36	3,643.11	2,023.08	1,508.92	1,285.45
Application of Funds					
Goodwill	138.39	138.39	138.39	138.39	138.39
Gross Block	3,743.17	2,841.37	1,315.91	1,204.20	1,125.68
Less: Depreciation	718.41	573.32	453.53	366.56	275.96
Net Block	3,024.76	2,268.05	862.38	837.64	849.72
Capital work in progress	1,391.34	806.43	993.55	377.04	133.49
Net Fixed Assets	4,554.49	3,212.87	1,994.32	1,353.07	1,121.60
Investments	-	-	0.70	25.00	-
Current Assets					
Inventories	209.40	82.18	38.41	28.33	20.16
Sundry Debtors	342.22	217.90	107.06	65.35	40.64
Cash & Bank	626.88	409.18	84.50	125.71	24.21
Other Current Assets	25.26	2.14	-	0.02	-
Loans & Advances	426.16	267.65	137.25	100.91	252.98
Less: Current Liabilities & Provisions	848.05	548.80	339.16	189.47	174.14
Net Current Assets	781.87	430.25	28.06	130.85	163.85
Total Assets	5,336.36	3,643.11	2,023.08	1,508.92	1,285.45

Objects of the issue:

1. Meet the cost of development and construction of Greenfield and Brownfield hospitals.
2. Prepay short term loans.
3. General corporate purpose including strategic initiatives & meet the issue expenses.

The detailed cost of the above objects of the issue is given below:

(Amount, INR, mn)

SNo.	Particulars	Total
1.	Meet the cost of development and construction of Greenfield and Brownfield hospitals.	5694.70
2.	Prepayment of short term loans.	2850.00
3.	General corporate purpose including strategic initiatives.	•
4.	Issue expenses.	•
	Total	•

The objects of the issue have not been appraised by any bank or any financial institution or an independent organization.



Wockhardt Hospitals Limited (WHL)

Equity Research Desk

IPO-Analysis

29th January, 2008

Disclaimer: This report is for the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. SPA Securities Limited (hereinafter referred as SPA) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The intent of this document is not in recommendatory nature. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. SPA or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. SPA or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. *The recipients of this report should rely on their own investigations. SPA and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. SPA has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.*

Disclosure of Interest Statement

1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock – No
3. Broking relationship with company covered - No

This information is subject to change without any prior notice. SPA reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, SPA is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Hitendra Gupta	Research Analyst	hitendra.gupta@spasecurities.com
Tarun Surana	Research Analyst	tarun.surana@spasecurities.com
Abhishek Kothari	Research Associate	abhishek.kothari@spasecurities.com
For more information Visit us at www.spacapital.com		
SPA SECURITIES LTD.	Member NSE-Capital Market & Wholesale Debt Markets, SEBI Regn.no. INB231178238, F&O Market, SEBI Regn.no. INF231178238. Member BSE-Capital Market, SEBI Regn.no. INB011178234	
SPA MERCHANT BANKERS LTD.	SEBI registered Category-1 Merchant Bankers SEBI Regn. No. INM000010825	
SPA CAPITAL SERVICES LIMITED	Investment Advisory services, AMFI Reg. No. ARN-0007	
SPA COMTRADE PRIVATE LIMITED	Member of NCDEX & MCX. NCDEX TMID-00729, NCDEX FMC no. NCDEX/TCM/CORP/0714	
SPA INSURANCE SERVICES LTD.	Direct Broker for Life and General Insurance broking IRDA Lic. Code No. DB053/03	
MUMBAI		
101, 10th Floor, Mittal court A-Wing, Nariman Point, Mumbai 400021. Tel: (022) 22801240-49; 40439000 Fax: (022) 22846318		
NEW DELHI		
25, C-Block Community Centre, Janak Puri, New Delhi - 110 058 Tel: (011) 25517371, 25515086, Fax: (011) 25532644 B- 1A- 132, Sector-51, Noida - 201301 Ph: 0120 - 4241222-26 Fax: 0120 - 4241227 409, Qutab Plaza, DLF City, Phase- I, Gurgaon Ph: 0124 - 4380090-94 Fax: 0124 - 4380089		
KOLKATA		
Diamond Chambers, Room no. 8-O, 8th Floor, 4 Chowringhee Lane, Kolkata - 700016 Tel: (033) - 22521537 Fax: (033) - 22521540		
BANGALORE		
703 & 704, 7th Floor, Brigade Tower, 135, Brigade Road, Corporation Division no. 61, Bangalore - 560025 Ph: 080 - 41148395		
JAIPUR		
UL-15, Amber Tower, Sansar Chand Road, Jaipur - 302001. Tel: (0141) 5107044/5107144 Fax: 5107144		
CHENNAI		
3H, 3rd floor, East Coast Chambers, 92/34, G.N.Chetty, T. Nagar, Chennai - 600014 Tel: (044) 52071380-82 Fax: 52071379		
AHMEDABAD		
407, Anand Mangal Complex - I, Behind Omkar House, C.G.Road, Navrangpura, Ahmedabad Tel: (079) 32998056		
Disclaimer: The information contained in this report is obtained from reliable sources and is directed at institutional investors. In no circumstances should it be considered as an offer to sell/buy or, a solicitation of any offer to, buy or sell the securities or commodities mentioned in this report. No representation is made that the transactions undertaken based on the information contained in this report will be profitable, or that they will not result in losses. SPA and/or its representatives will not be liable for the recipients' investment decision based on this report.		