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# PTL Enterprises: That Old Sinking Feeling

***IiAS recommends voting AGAINST the company's decision to sell the hospital business not so much because we believe the sale of the hospital business is unwarranted, but because the valuations are much too low. If the board has decided to exit the healthcare business, it must conduct an auction: shareholders are likely to get better valuations if a competitive bidding process is adopted.***

## Patient History:

On August 30, 2014, PTL Enterprises published its AGM notice, in which it has presented a resolution for the sale of the hospital business to shareholders. The following details emerged:

1. PTL's two subsidiaries, Artemis Health Sciences Ltd. (AHSL) and Artemis Medicare Services Ltd. (AMSL; a step down subsidiary of PTL) are being sold to Leto Healthcare Private Limited (LHPL), which is a related party: Onkar Kanwar (promoter) being the interested party on both sides of the transaction.
2. The rationale for the sale: healthcare is a non-core business and therefore a strategic exit from this business will enable the company to focus on its core operations.
3. Total consideration of Rs.2.03 bn, which comprises Rs.1.81 bn towards shares, Rs.0.19 bn towards loan assignment and Rs.0.02 bn towards sale of hospital equipment owned by PTL and leased by its subsidiaries.
4. The valuation was undertaken by Grant Thornton and SBI Capital.

PTL Enterprises is owned by the Kanwar family (that also owns Apollo Tyres). The Kanwar family, through investment companies, owns 69.82% of the shareholding. The Governor of Kerala owns 5.10% and Kerala State Industrial Development Co (KSIDC) owns another 2.27%. AHSL and AMSL house PTL's entire healthcare business. The healthcare segment comprises two hospitals:

1. A 300 bed hospital in Sector 51, Gurgaon that has a provision to enhance its capacity to 500 beds at an additional cost of Rs.400 million; and
2. A 47 bed multi-speciality hospital in Dwarka, New Delhi that commenced operations in September 2012.

*Table 1: Build-up of PTL Enterprises' holdings in AHSL (subsidiary) and AMSL (step-down subsidiary)*

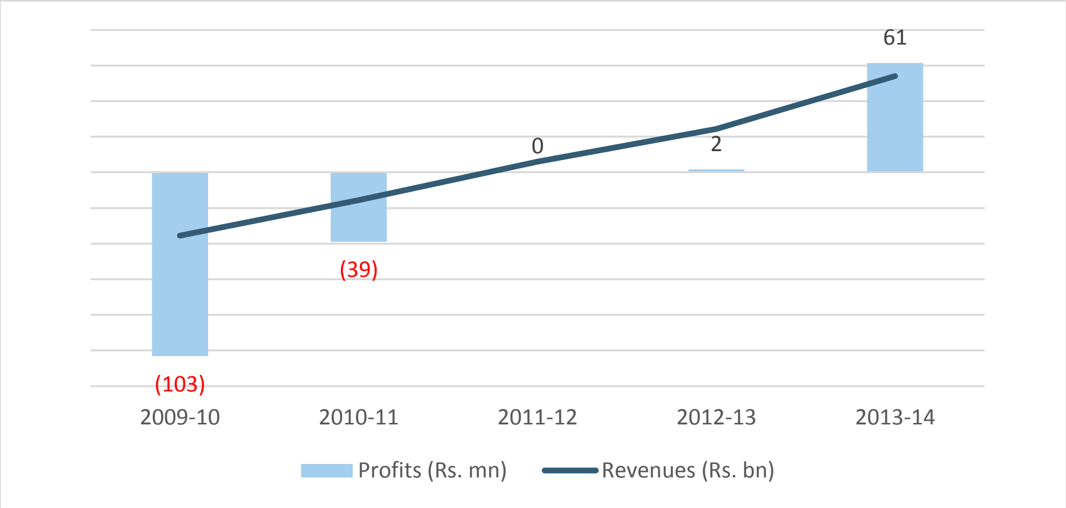
| | AHSL | | | | AMSL | | | |
|---|---|---|---|---|---|---|---|---|
| **Date** | **No. of shares** | **Rs. Bn.** | **Average Cost Rs./Share** | **% held** | **No. of shares** | **Rs. Bn.** | **Average Cost Rs./Share** | **% held** |
| 31-Mar-14 | 16,510,000 | 1.16 | 70.00 | 100.00% | 3,025,000 | 0.42 | 140.00 | 14.38% |
| 31-Mar-13 | 16,510,000 | 1.16 | 70.00 | 100.00% | 3,025,000 | 0.42 | 140.00 | 14.38% |
| 31-Mar-12 | 16,510,000 | 1.16 | 70.00 | 100.00% | 3,025,000 | 0.42 | 140.00 | |
| 31-Mar-11 | 16,510,000 | 1.16 | 70.00 | 100.00% | | | | |
| 31-Mar-10 | 13,434,500 | 0.81 | 59.96 | 81.37% | | | | |
| 31-Mar-09 | 15,010,000 | 0.90 | 59.97 | 90.91% | | | | |
| 31-Mar-08 | 10,010,000 | 0.60 | 59.95 | 86.97% | | | | |
| 31-Mar-07 | 10,010,000 | 0.60 | 59.95 | 86.97% | | | | |
| 31-Mar-06 | 10,000 | 0.00 | 10.00 | 0.00% | | | | |

*The remaining shares of AMSL are held by AHSL. Therefore, AMSL is a step-down subsidiary of PTL Enterprises.*

## The complaint

A few large retail shareholders approached IiAS to help protect their rights as minority investors. They raised concerns saying that the hospitals were being sold to the promoters for a steal. Additionally, investors held the view that beyond the hospital sale transaction, PTL also owns 31 acres of land in central Kochi – they were afraid that, in a similar transaction PTL, would sell the land to promoters for very low valuations. Thus, non-promoter shareholders would be deprived of the fundamental value of their shareholding.

*Chart 1: Performance of PTL Enterprises' healthcare segment*




## Test Results

IiAS ran some standard tests, and the test results are discussed below.

| Test # | Test | Test Result |
|---|---|---|
| 1. | Is the hospital business truly non-core? | Negative |
| 2. | Is the tyre manufacturing business truly the core business? | Negative |

## Findings:

- PTL Enterprises, earlier know as Premier Tyres Limited, was set up in 1959 as a tyre manufacturing company. The company became a "sick unit," following a series of losses, liquidity pressures, and labour issues during the early 1990s. Apollo Tyres took over took over the company in 1995.

*Table 2: PTL's Healthcare segment is, by far, the largest contributor to its overall business*

| *Amounts in Rs. mn* | **Healthcare** | | **Total** | | **Healthcare / Total** | |
|---|---|---|---|---|---|---|
| | **2013-14** | **2012-13** | **2013-14** | **2012-13** | **2013-14** | **2012-13** |
| Revenues | 2,611.6 | 2,164.8 | 3,038.2 | 2,580.4 | **86.0%** | 84.0% |
| Segment profits | 194.6 | 149 | 552.1 | 513.6 | 35.0% | 29.0% |
| Interest expenses | 133.2 | 150.9 | 223.6 | 271.1 | 60.0% | 56.0% |
| Net Profit | **65.0** | **1.7** | 242.6 | 171.1 | **27.0%** | 1.0% |
| Segment Assets | 3,132.3 | 2,873.9 | 3,425.4 | 3,140.8 | **91.0%** | 91.0% |
| Segment Liabilities | 1,572.0 | 1,446.7 | 2,824.0 | 2,704.7 | 56.0% | 53.0% |
| Capital Expenditure | 64.4 | 76.0 | 66.0 | 124.8 | 98.0% | 61.0% |
| Depreciation | 90.5 | 95.8 | 96.5 | 100.9 | 94.0% | 95.0% |

### Observations

PTL's hospital business generated 85% of consolidated revenues and over 25% of profits (based on segment results) in 2013-14. It accounted for over 90% of consolidated assets on March 31, 2014. Additionally, most of the debt has been taken to invest in the healthcare business. While the company may have technical or legal reasons of calling the business "non-core", at a more practical level, this stance cannot be justified.

- Hospitals are long gestation businesses. PTL's first hospital in Gurgaon became operational in 2007: the healthcare segment achieved cash break-even in 2010-11 and registered a nominal profit in 2011-12 (See Chart 1 above). Therefore, the timing of the transaction raises concerns – the minority shareholders have borne the brunt of the investment cycle and the new buyers will reap the benefits of a stabilized, revenue-generating business.
- Over the past several years, there has been limited investments in the tyre manufacturing business. PTL Enterprises has a "relatively old tyre manufacturing unit with not very modern machinery"[1].
- Revenues from the lease of plant aggregated Rs.400 mn annually over the past three years. This accounts for about 15% of annual revenues but a large share of profits – largely because the business has almost no expenses. The lease of the plant was contracted for an eight-year period: the lease is expected to be renewed in FY15. Notwithstanding, the ability to grow the tyre manufacturing business remains limited, as the company has no direct presence in the tyre market.

| Test # | Test | Test Result |
|---|---|---|
| 3. | Is the valuation right? | Negative |

### Findings

- LHPL has offered Rs.94 per share for the shares of AHSL and Rs.86 per share for the shares of AMSL. At these prices, the total equity consideration aggregates Rs.1.81bn.
- The investment in the Gurgaon hospital itself was Rs.2.0 bn[2]. Therefore, selling two hospitals (Gurgaon and Dwarka) for Rs.1.81 bn is below the investment in these hospitals.
- PTL's healthcare segment achieved cash break-even in 2010-11 and registered a marginal profit in 2011-12 (See Chart 1 above).

### Observations

- In 2010-11, PTL Enterprise acquired all remaining shares held by minority shareholders in AHSL for an average price of Rs.113.86 per share. This acquisition price was established in the year in which the hospitals had achieved cash break-in. In 2013-14, the hospitals have generated returns – therefore, a valuation of Rs.94 per share for AHSL is extremely low.
- In 2011-12, PTL Enterprises invested in the shares of its step-down subsidiary, AMSL at an average valuation of Rs.140 per share. The Gurgaon hospital is held by AMSL: In 2011-12, the hospitals business had begun to report nominal profits. Therefore, in 2013-14, when the business are reporting much healthier profits, a sale price of Rs.84 per share for AMSL is extremely low.
- This week, Apollo Hospitals announced its plan to set up 12 hospitals housing 2,175 beds for an investment of Rs.20.33bn. The investment per

[1] *Source: Management Discussion and Analysis, PTL Enterprises Limited Annual Report 2013-14*
[2] *Source: Directors Report, PTL Enterprises Limited Annual Report 2006-07*

bed for Apollo Hospital averages at Rs.9.3mn per bed. If a new 347 bed hospital were to be set up, it would entail an investment (only infrastructure cost) of at least Rs.3.24bn: the sale price of Rs.1.81bn is less than the set up cost of a new hospital at current prices.

- On July 22, 2014, Max India announced a stake sale in its hospital business to a South African healthcare major for a valuation of Rs.24 mn per bed. Based on this, the valuation of PTL Enterprises should be around Rs.8.30bn.
- US-based private equity fund Carlyle acquired 24% in Medanta Medicity for Rs.9.50 bn, taking the valuation to Rs.32 mn per bed. The hospital is located in Gurgaon. Based on this calculation, the valuation of PTL Enterprises' two hospitals should be around Rs.12.15 billion.

## History of ailments

- PTL was acquired by Apollo Tyres in 1995. The plant was then leased to Apollo Tyres. Despite there being an obvious harmony of businesses, Apollo Tyres sold its stake in PTL to a promoter-owned company in 2006. In this case too, PTL emerged from BIFR and its history of losses, following which its shareholding was transferred from a listed company (with minority shareholders) to an unlisted promoter held company. While one may debate the veracity of the valuation at that time, the larger issue mirrors what seems evident in PTL: businesses held by listed companies are sold to unlisted promoter-owned companies once they stabilize.
- Onkar Kanwar promoted Apollo Tyres announced a very aggressive debt-funded acquisition on Cooper Tires in 2013: the deal size aggregated USD 2.5bn. The promoters' abject disregard for minority shareholders is evident in this transaction. Because the deal was debt funded (See Borrowings and Guarantees: Lessons from Apollo Tyres), it did not need the approval of minority shareholders – nor did the company plan on getting minority shareholders' approval. Apollo Tyres stock price fell 31% on the day of this announcement. IiAS published commentary opposing the transaction. The company was unable to close the transaction: the share price has gone up over 3-fold since.
- In 2010-11, PTL gifted 1,575,500 shares (9.54% of AHSL's paid-up share capital) of AHSL to AHSL's CEO for his contribution to the business. In the following year (2011-12), PTL Enterprises bought back those shares from the CEO for a little over Rs. 179 mn – in effect, the CEO of AHSL was paid an average price of Rs.113.86 per share by PTL Enterprises.

## Diagnosis

LHPL's offer price is very low and does not appropriately reflect the valuations of the healthcare business. The hospital sale transaction is unfavourable to minority shareholders. IiAS recommends that shareholders vote **AGAINST** the resolution which will be presented at the AGM on September 22, 2014. IiAS' detailed voting recommendations on PTL Enterprises AGM resolution are available on IiAS' website www.iias.in.

## ℞ : IiAS' prescription

The sale of the hospital business is unwarranted, especially given the positive outlook for the growth of the healthcare segment in India. Notwithstanding this, if indeed the company wishes to exit this business, it must consider conducting an auction of the healthcare business, allowing LHPL to also participate. The bidder with the highest price, subject to the price being comparable to other similar transactions that have taken place recently, should be sold the hospital business.

## Disclaimer

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