



“Fortis Healthcare Limited  
Q4 & FY2022 Post Results Conference Call”

May 26, 2022



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**Moderator:** Ladies and gentlemen good day and welcome to the Q4 and FY2022 Post Results Conference Call of Fortis Healthcare Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. I now hand the conference over to Mr. Anurag Kalra, Senior Vice President, Investor Relations at Fortis Healthcare Limited. Thank you and over to you Mr. Kalra!

**Anurag Kalra:** Thank you Diksha. Very good morning and good afternoon ladies and gentlemen and welcome to Fortis Healthcare's Q4 and FY2022 earnings call. The call is being chaired by Dr. Ashutosh Raghuvanshi, our Managing Director and CEO. With him we have Mr. Vivek Goyal, our Chief Financial Officer. From SRL, Mr. Anand joins us as the CEO of SRL and with him is Mangesh, the Chief Financial Officer of SRL. I am also joined by my colleague, Gaurav, over here. We will begin with some opening comments by Dr. Raghuvanshi on the performance of the quarter and the year followed by which Anand will take you through some key highlights of the diagnostics business and then we shall open the floor for question and answer. Over to Dr. Raghuvanshi!

**Ashutosh Raghuvanshi:** Thank you Anurag. Good morning and good afternoon everyone and thank you for taking time to join us for our Q4 FY2022 earnings call. I hope all of you are safe and well in the aftermath of Omicron wave. We were all relatively fortunate that this time around the wave was less severe and saw fewer hospitalizations allowing us to resume to normal in a shorter span of time. Nonetheless, cases are still being diagnosed and hence we should all continue to be careful.

Coming to the performance of the company I shall comment on the year as a whole and then move to Q4. As you are aware, fiscal 2022 was sort of a mixed bag with COVID impacting us in Q1 of the year. Despite this, we ensured business continuity and sustainability and quickly augmented our efforts to scale up operations once business normalized. This enabled a healthy performance with a consolidated topline growth of 42% and an all-time high EBITDA of INR 1000 Crores plus. This is indeed heartening and reflects the efforts of all my colleagues, employees and clinicians to ensure that the company has clearly moved on from the challenges of the past.

Consolidated revenues for the company stood at INR 5718 Crores with profit after tax at a robust INR 790 Crores versus a loss of INR 56 Crores in FY2021. Our hospital business revenue for the year has grown 37% to INR 4264 Crores with margins improving 740 basis points to touch 15.8%. Our diagnostic business has been aided by COVID volumes and has recorded a robust growth of 55% in revenues to reach INR 1605 Crores in FY2022.

Margins in the business were at a robust 26.5% versus 19.3% in FY2021. Just to put the diagnostic business in perspective, high COVID volumes are unlikely to continue in the current fiscal unless there is another wave which is unlikely.

Our balance sheet remains healthy with a net debt to EBITDA of 0.6x versus 1.04x over the corresponding previous year. We have reduced our debt by approximately INR 300 Crores and have a net debt of INR 549 Crores as of March 31, 2022. Our finance costs are lower by 12% both as a result of debt reduction and lower rate of borrowing. In fact in FY2022 we witnessed a rating upgrade by CRISIL for both our long-term and short-term borrowing programs.

As I mentioned above, our Q4 performance was impacted by COVID through the first half of the quarter. This being less severe and seeing lower hospitalizations we were able to quickly recover towards the end of February and saw normal business in the month of March. While January witnessed a downturn with occupancy going down to 54%, in the month of March we saw the occupancy recovering to about 63%. Overall for the quarter we were at 59% occupancy. We did better than the corresponding previous quarter on most parameters, but were lower when you compare the performance to the trailing quarter since this had negligible COVID revenues. We recorded a consolidated topline of INR 1378 Crores, a growth of 10% over Q4 of FY2021. Our EBITDA margins were better at 16.5% versus 16.3% and our profit after tax also increased 40% to INR 87 Crores for the quarter. Our hospital business revenues grew 6% with EBITDA margins at 13.8% while the diagnostic business revenue grew 22% with EBITDA margins marginally better than the corresponding previous quarter at 22.5%. I shall now share with you some qualitative aspects and operating metrics of both our businesses for FY2022.

Firstly the hospital business, I am quite pleased with the way the business is evolving, occupancy in FY2022 was 63% versus 55% in FY2021 and ARPOB has increased 14% to reach INR 1.80 Crores. We have grown our revenues from key focused specialities such as oncology, cardiac sciences, neurosciences, renal sciences, gastroenterology and orthopedics which contributed 55% to overall hospital revenue versus 53% in FY2021. These have shown a robust 43% in increase in revenue versus last year.

Most of our hospitals have done well in the fiscal and what is also encouraging is the turnaround we are seeing in some of our underperforming facilities such as FEHI. We continue to invest in state-of-the-art medical equipment and infrastructure and expand beds in select facilities in our focus clusters. We have commissioned cath lab, neuronavigation systems, PET CTs, BMT units and the like in select facilities, also supplementing them by on-boarding reputed clinicians in order to significantly strengthen our clinical offering and medical programs.

We remain focused both on revenue and cost levels to improve our profitability. Leveraging digital channels such as mobile app, websites, online campaigns coupled with our sales and marketing effort on large payer mix segment should drive the topline. Cost has and continues to be a priority area as we look at optimizing both direct and indirect expense. We continue to evaluate our drugs and consumable metrics including substitution and consumption optimization. We have also largely in-house our outpatient pharmacy business and radiology services in our facilities, which we believe would add incrementally to our margins. All in all, cost continues to be reviewed across expense lines, functions and facilities, and we remain cognizant of the criticality to our performance.

We continue that our portfolio rationalization program aligning this with our focus cluster approach to grow both organically via Brownfield expansion and inorganically in geographies of Delhi NCR, Maharashtra, Bangalore and Kolkata. This will not only help us channelize our resources more effectively, but also help us gain from economy of scale efficiencies and benefits of cross-leveraging clinical and non-clinical resources. Our plans to add 1200 beds in the existing facilities over the next few years are well underway. Moving ahead, I expect that our hospital business will continue to grow steadily led by the investments we have made and continue to make and with our efforts both from a strategic and operational perspective.

Now on the diagnostic business, I shall be brief in my comments on this as Anand shall take you through in details. SRL has seen a significant turnaround aided both by the higher volumes of COVID tests in Q1 and Q4 of FY2022 and its acquisition of DDRC, SRL joint venture in April 2021. SRL conducted a total of 44.2 million tests in FY2022 versus 23.5 million in FY2021. More importantly SRL in FY2022 has significantly strengthened its channel mix with the B2C versus B2B component at 55 versus 45. It has aggressively expanded its network adding close to 750 net customer touch points and 400 direct clients in FY2022, the highest ever annual addition so far. While this business has done exceedingly well in the last fiscal it would also be important to highlight the current market environment where we are witnessing an increasing level of competition from new incumbents both online and offline, in addition we also do not expect the high COVID test volume seen in FY2022 to witness the same trend in the current fiscal. This could result in short-term aberrations, but I do believe that given SRL's size scale and spread we should be able to mitigate this as best possible. I will let Anand speak more on this in his comments.

As I sum up, I believe FY2022 has made us more resilient and adaptable in our business. We have emerged much stronger in the aftermath of COVID and have the building blocks in place to maintain our growth momentum. All this of course begins within our framework and pursue of excellence in patient care and clinical outcomes. These have and will be continued to drive our performance in the future for all stakeholders. Thank you once again

and please stay safe and well. I shall now hand over to Anand for his thoughts on SRL. Thank you.

**Anand K:**

Thank you Dr. Raghuvanshi and a very good morning to everyone on the call. Personally, I hope that you are all safe and keeping well. On behalf of SRL Diagnostics I warmly welcome you all to our Q4 FY2022 results conference call. Firstly, I would like to thank you for your confidence and trust in SRL Diagnostics. I am pleased to report that we have ended the year in a strong position. This is a testament to the commitment and perseverance exhibited by our teams across the country. It has been reassuring to note that SRL's ability to consistently deliver high-standard diagnostic reports has once again been on display during the pandemic. Our 7000-member strong SRL family takes immense satisfaction in having delivered the absolute best to the citizens amidst the most challenging circumstances. The diagnostics industry has come a long way since the pandemic. It was first announced in the country in March 2020. With growing awareness on importance of laboratory testing and reliable reports coupled with an increasing health consciousness among the young population, we are witnessing an uptick in our preventive packages as well as non-COVID testing, chronic diseases categories and specialized portfolio. Our numbers reflect this as we register the highest ever non-COVID revenue in March 2022 and our non-COVID revenue in Q4 2022 has grown by 24% when compared to Q4 of 2021. At the beginning of the fiscal year, we envisaged a full recovery of non-COVID testing by end of FY2022 and we are pleased to confirm that Q4 2022 has been promising on this front. In Q4 2022, the first six weeks were affected by the Omicron wave of the pandemic which had an impact on Non-Covid revenues while there was a corresponding surge in COVID testing. The non-COVID revenues recovered significantly by March 2022.

During the quarter we reported revenue of INR 332 Crores compared to INR 306 Crores in Q4 2021 a growth of 22%. The company EBITDA for the quarter stood at INR 84 Crores representing a margin of 22.5% compared to 20% margin reported in Q4 of 2021. SRL conducted 10 million plus tests in Q4 2022 and serviced over 5 million patients. SRL added 270 net new collection centers to its network in Q4 of FY2022 taking the total number of touch points to 2502. SRL's B2C, B2B revenue mix strengthened to 54:46 in the quarter compared to 49:51 in Q4 of FY2021. SRL continues to witness a healthy traction in its walk-in patients revenue which grew by 77% in Q4 FY2022 versus Q4 of FY2021. For the FY2021-2022, SRL reported net revenues of INR 1605 Crores compared to Rs.1035 Crores reported during the FY2021, a growth of 55%. The company operating EBITDA for the year stood at Rs.425 Crores representing a margin of 26.5% compared to a margin of 19.3% reported during the previous financial year. The business served a total of over 21 million patients during the year compared to 11 million during FY2021. We completed 44 million tests during the year compared to 23 million tests performed in FY2021.



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SRL has been aggressively expanding its network and have added over 750 customer touch points in FY2022. We are now present in 28 states and 8 union territories and across 6000 plus cities. The B2C, B2B revenue mix for the year was at 55:45 compared to 48:52 in FY2021. The business continued to have a well-diversified geographical mix with no over dependence on any particular region allowing it to capitalize on a pan-India network optimally. The regional Q4 2022 revenue contributions were 30% from the north and central India, 23% from west, 29% from south, 13% from east and 5% from international territories. Digital has been one of our priority areas in FY2022. Our app install numbers have grown by 8.9 lakhs in FY2022 and our website is visited 2 million times each quarter. Our digital revenues doubled in FY2022 compared to FY2021. As part of the digital drive we are also collaborating with online platforms to reach out to new customers. We have taken a slew of measures to improve our customer experience from live phlebotomist tracking to introducing smart health reports and being available on demand, on messaging platforms like WhatsApp, we are continually taking steps to offer the best in customer service. The WhatsApp chatbot especially enables customers now to book tests, get a status on the report, get reports delivered securely, enquire on text and also search for nearest center.

Our goal always has been to launch diagnostic solutions that not only meets the challenges of today, but also anticipates future needs. We have added close to 100 tests to our test menu this year with a special focus on genomics in the field of cancer, reproductive disorders, rare diseases and inherited disorders. Our workforce of over 7000 plus employees across our network are the pillars of our strengths. Training continues to remain one of the company's key focus areas. In the last few years, SRL has progressed to bring many tailor-made competency enhancement programs. In FY2021-2022, the company clocked approximately 5000 mandates of learning and development programs. I am proud of what we have achieved and optimistic about what we can accomplish in the FY2023. I would just like to once again thank all my colleagues at SRL Diagnostics for their incredible effort. We are committed to improve customer experience through data-driven actionable insights and by enabling a convenient one-stop shop for all our customers' diagnostic needs. We are well positioned to continue our momentum in delivering profitable and sustainable growth in the coming years. Thank you very much for your attention. I would like to hand over the call now to Mr. Anurag Kalra, our Head of Investor Relations.

**Anurag Kalra:**

Thank you Anand. Ladies and gentlemen, we shall now open the flow for question and answers.

**Moderator:**

Thank you very much. We will now begin the question and answer session. We take the first question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** Good morning and thank you for taking my question. The first one is on the hospital business, so you said in March we have reached 60% plus occupancy if I recollect the number right, so just the outlook for fiscal 2023 in terms of where utilizations can actually improve, maybe you can make an assumption that, like you said, there is no subsequent COVID wave, so how should we look at hospital occupancy? We have had about for the full year growth, but I think Q4 was 6% so just wanted to understand occupancy plus what is the revenue growth outlook for the hospital business. I also noticed that the ARPOB is whatever right 1.88 for the quarter and this quarter I believe there is no COVID, I think 5%, 6% occupancy only for COVID, so what are some of the drivers if I work the other way around per day I think we have reached a Rs.50,000 ARPOB per day, so just want to understand the dynamics on ARPOB and utilization and how that will drive revenue growth for fiscal 2023? That is my first question. Thank you.

**Ashutosh Raghuvanshi:** As far as the occupancy levels are concerned, we are currently tracking it about 65% and more in some hospitals, so we should aim to go towards 70% by the end of this year. This may happen in the next quarter itself because we are seeing recovery happening on the international segment as well, but certainly that is the target which we are working towards. As far as ARPOB is concerned and the factors which influenced that was essentially a larger mix of the procedural cases and complex cases which have higher yield, we have had some marginal benefits happening from some of the rate revisions in the GIPSA category, so this ARPOB is quite sustainable in our view though with the little bit of case mix change happening towards medical patients. It may get moderated a little bit downwards, but it is likely to sustain at this level.

**Shyam Srinivasan:** Revenue outlook for fiscal 2023?

**Vivek Kumar Goyal:** If I can take Shyam this question, Vivek here, so the revenue as Dr. Raghuvanshi mentioned we are hovering around 65% occupancy and this will result into the increase in the revenue side also, so definitely from the last quarter I mean Q4 of the last financial year, we are targeting around 10% growth in the revenue.

**Shyam Srinivasan:** 10% growth in revenue, let me be greedy, so can you also share margin guidance for fiscal 2023 for the hospital business?

**Vivek Kumar Goyal:** If you see our previous quarter, last quarter was affected because of Omicron, previous quarter we able to achieve margins of 16% plus so we are targeting that same number this quarter also.

**Ashutosh Raghuvanshi:** In the Q3 Shyam, our EBITDA was about 16% plus and we expect to remain at that level or go higher than that.

**Shyam Srinivasan:** Okay and the long-term guidance of us reaching 18% to 20%, Is that over a two-year that we think we can reach there?

**Vivek Kumar Goyal:** That remains, we are targeting that and we are moving quite okay on those targets.

**Shyam Srinivasan:** Got it. I will not hog more questions. Last one on diagnostics, Anand, just on the non-COVID revenues Rs.305 Crores for the quarter, but I know you have not called out the DDRC number in that, it used to do Rs.50 Crores, Rs.60 Crores per quarter. If I strip that out non-COVID revenues declined, so just your outlook around non-COVID revenues? I think Dr. Ashutosh called out that this year 18% of revenues will be at risk given that there is no wave so far, so how should we look at growth for diagnostics?

**Anand K:** The non-COVID revenue is almost similar to Q4 of 2021 if you look at like-to-like kind of a thing, so if you remove DDRC so including DDRC then you are seeing this growth of about 24%, but excluding DDRC you will see that it is almost like-to-like, so there is no dip.

**Shyam Srinivasan:** Thanks for that data point, but outlook just for fiscal 2023?

**Anand K:** The outlook would be that we have to understand that this year FY2022 revenues we have about 20% of the revenue coming from COVID tests and considering that in this year we have also had a lot of COVID allied tests also happening especially during the Q1 of FY2022, so it will have a significant impact going forward in terms of overall revenue contribution for this year, so what we see is a healthy growth in non-COVID revenues, but if you want to see on overall revenues they will tend to remain in the same range and the growth may not be very significant on the overall business.

**Moderator:** Thank you. We take the next question from the line of Mr. Praveen Sahay from Edelweiss. Please go ahead.

**Praveen Sahay:** Thank you for taking my question. The first question is just a clarification on the diagnostic. For 2023 as you had mentioned in 2022 there is COVID testing as well as some COVID allied test happened, so in 2023 definitely what non-COVID revenue we had reported for 2022 we will see some dip in that because of that?

**Anand K:** Currently we have reported Rs.1605 Crores of revenue in FY2022 out of which 20% is from COVID and there is about 4% to 5% contributions from COVID allied test as well to this, so overall if you can take about 25% is coming from COVID and this year we expect that the COVID contribution will range somewhere around 3% to 4% or 4% to 5% kind of range, so the revenue maybe very similar or around those range of what we have this year.



- Praveen Sahay:** Thank you for this clarification, helpful. The next question is as you had mentioned about the guidance related to the hospital business over 10%, but you are also expecting your occupancy level to reach to around 70%, is it what you had said?
- Vivek Kumar Goyal:** Sorry, not in the next quarter, occupancy level what Dr. Raghuvanshi was mentioning was by the year end.
- Praveen Sahay:** Okay, so this 65% by year end reach to 70%. On this ARPOB, as you have reached some specialized testing contribution to around 55%, is there any further room for improvement from clinical mix?
- Vivek Kumar Goyal:** There is room but at the same time it also depends on the facility mix which we are doing, so sometimes in some of that facilities the ARPOB is higher but margin may not be that higher, for example oncology and transplant, so from that angle the ARPOB increase is sustainable more or less because one important thing we could have achieved in last year is the payer mix where we able to shift towards the TPA and cash payer, which we expect to grow further and that will help improve ARPOB further plus the international business coming back that will also help improve ARPOB, so overall we are confident that we will be able to achieve this type of number in our top side.
- Praveen Sahay:** Okay and how much currently the international overall mix has moved and what you are expecting to go further?
- Vivek Kumar Goyal:** It is around 7% right now and our expectation is to move towards 12%.
- Praveen Sahay:** Okay and any color on the operational bed, is there any chances to increase the operational bed from the current level?
- Vivek Kumar Goyal:** Yes, definitely because in the current financial year we are expecting to increase our operational bed around 250 beds okay, but there is a one contract where we have come out in Dehradun, there will be a reduction of bed facility, so overall around 200 beds increase should be there by the year end.
- Praveen Sahay:** So around 200 beds in the operating bed improvement we will see by FY2023?
- Vivek Kumar Goyal:** You are right.
- Moderator:** Thank you. We take the next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta:**

Good morning Sir and thanks for taking my question. Two questions, one pertaining to the previous participant's question also I think the plans for the increase in the hospital beds have been really sort of tepid, so maybe not this year, but from a three years' perspective what is the plan for Fortis in terms of the increasing the number of facilities or number of beds from where we are because earlier we were of the assumption that there is a lot of Brownfield capacity which can be undertaken within the overall system which will cause a good increase in the number of beds, but we are just talking about 200 to 300 beds which is really low compared to the size of operations that we run, that is number one. Second is on the operating margins now again the company has been under the new management for a while now, but we are still very much behind despite very high ARPOB numbers, we are still very much behind some of our peers in terms of where we have been able to reach in terms of EBITDA margins, so are there levers that you see which are still present for catching up with some of the other peers, are there any problems structural in our business model which is causing us to be at a distance compared to our peers in terms of the margins? These are my two questions.

**Vivek Kumar Goyal:**

First of all on the expansion side we are well on our plan for expansion, which is the guidance we have given earlier and on execution side we are on top of it. Last year also we were able to achieve 120 beds and current year there is a plan to increase another 250 beds, the beds which we are saying will be shut down is a non-profit making unit in Dehradun and we had planned to exit and we have exited. Having said that 1300 to 1500 Brownfield bed expansion is online. Out of this 1500, 600 beds is a ramp up of the existing facility so that we will be doing, the bed capacity we have built but we have not operationalized the bed and we are opening up the bed as per the market condition and balance is the sort of Brownfield, but there we are building a new tower, where you know approval kind of structural and everything need to be designed and need to sync with the existing operations of the hospital, and as a result initially it takes some time and once it is designed properly and then the execution may not take much time, so designing part is a very critical part here because overall hospital need to be taken care of. So from that angle, it was planned like this also and we are well on target on that. As regard your other question on margin, margins we tend to not compare ourselves with other first of all, because all business models are different, they are operating in different geographies and the company dynamics are different. For example, in our case as I mentioned in several calls we are having some legacy cost still coming on, because of this ongoing legal battle we are having because of the fraud conducted on this entity by the ex-promoter and secondly there are certain new hospitals like the Arcot Road, we have started newly, and which is at the stabilization phase and initially this hospital is incurring loss and there are three to four hospitals which we have related earlier also which on the revival path and we are making very good progress. Earlier these hospitals where EBITDA negative and we have now moved to almost double-digit EBITDA number on these hospitals and there is a scope going forward, but this is a

gradual process and it will not happen immediately. Most of our operating hospitals are at 20% less EBITDA margin that is quite encouraging which will be compared with the other industry players.

**Sarvesh Gupta:** On the first question if we are at around 3500 right now, what is the target to reach let us say from a three-year perspective and on the second question again the same thing if we are talking about achieving 16% odd next year where do we want to reach in the next two, three years?

**Vivek Kumar Goyal:** Right now we have 4000 beds and we are targeting to reach it to as I said in next five years to 1500 beds and probably next three years to 5000 beds.

**Sarvesh Gupta:** Okay and on margins?

**Vivek Kumar Goyal:** And margin side as I mentioned earlier from 16%, in the next two years if you are asking we will be reaching around 18% and if you are talking about five years we will be about 20%.

**Sarvesh Gupta:** Understood Sir, any update on the legal case if you can provide us any update on that case it is going on?

**Ashutosh Raghuvanshi:** We have not received the verdict on the Supreme Court case, currently again the court has gone in recess. We expect that after this it should come because more than a year has passed. We will certainly be making a mention in the bench once the court is back from its recess.

**Moderator:** Thank you. We take the next question from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

**Ranvir Singh:** Thank you for taking my question. The question is in FY2022 how much operational beds we have increased?

**Vivek Kumar Goyal:** 120 beds.

**Ranvir Singh:** At which location?

**Vivek Kumar Goyal:** One is in Shalimar Bagh and others in Arcot Road we have added, and a little bit in Ludhiana we have place like that, in Jaipur we have a place like that, so as I mentioned earlier we have around 600 beds in our system which are ready to be operationalized, but we are planning depending on the market condition, occupancy level on those hospitals and things like that.

- Ranvir Singh:** The hospital at Chennai in Vadapalani that was 250 beds, that hospital was supposed to get consolidated so that has been consolidated now?
- Vivek Kumar Goyal:** Yes, that has been operationalized but the 250 beds we have not opened immediately, so we are operationalizing as the hospital is renting the bed occupancy level, so right now around 75 beds are operational.
- Ranvir Singh:** So contribution of 75 beds are there in Q4 numbers right?
- Vivek Kumar Goyal:** You are right, EBITDA is still negative that is what I was telling for earlier question.
- Ranvir Singh:** Okay fine and so going forward what we are guiding 200 beds roughly to be added in 2023 that is related to Dehradun, so in addition to that, the part of 600 beds which is lying to be operationalized that will also come up in the system right?
- Vivek Kumar Goyal:** Yes.
- Ranvir Singh:** Any idea about what would be the total operational beds by end of 2023 including this out of the existing beds which are going to be operationalized?
- Vivek Kumar Goyal:** Around 4200 beds.
- Ranvir Singh:** Okay and secondly that litigation related to that Emqore, what is the status there?
- Vivek Kumar Goyal:** That is a litigation somebody had filed outside India and our legal council has represented that. The claim had no merits because the matter is outstanding, in fact we have filed case against that entity in Delhi High Court, so we have a very strong case and we feel there is no merit in that litigation.
- Ranvir Singh:** Okay and earlier the SEBI had disposed of that case against a statutory auditor, so any part of litigation is bearing to promoters of Fortis also?
- Vivek Kumar Goyal:** You are talking about the SEBI investigation and order after that?
- Ranvir Singh:** Yes.
- Vivek Kumar Goyal:** SEBI has come out with its final order actually and they have imposed penalties on ex-promoter and their entities, and they have also imposed penalty on Fortis and two of its subsidiary FHsL and Escort. The total penalty amount is Rs.2.5 Crores and the main thing SEBI has mentioned in its order is there was a sort of misrepresentation in the account during that period when promoter was controlling this entity and they have understood that

they have used this entity for their benefit, but as a separate legal entity because company was used for this fraud and the accounts of the company were giving misleading presentation in the form of not showing the related audit and different things like that so they have imposed this penalty, but we are planning to maybe litigate this, we are evaluating the legal course of action and will be litigated.

**Ranvir Singh:** So litigation will continue from Fortis side on this issue or this issue has been resolved now?

**Vivek Kumar Goyal:** The penalty amount has been sort of fixed now at Rs.2.5 Crores, so we are litigating that there should not be any penalty because we are the victim of this case. There is new management, new promoter, new shareholders, so why the new shareholder should be punished, so that is why we are fighting this case.

**Ranvir Singh:** Okay, just a clarity here because one case was related to improper payment through erstwhile promoter so that the investigation and statutory auditor was related to that permit or this is a separate set of litigation?

**Vivek Kumar Goyal:** This is the same thing, the statutory auditor has refused to sign the account in 2017 and for that the SEBI thing has started, then the new directors have been appointed by the shareholders. They have done a thorough investigation and based on the investigation and the finding of E&Y and Luthra & Luthra Partners, we have filed a criminal complaint also against the ex-promoter and their entity and we have filed a civil suit also, so the recovery circuiting is going on.

**Ranvir Singh:** So the litigation is from company's board against erstwhile promoter right?

**Vivek Kumar Goyal:** Yes, erstwhile promoter and their entities.

**Moderator:** Thank you. We take the next question from the line of Saion Mukherjee from Nomura. Please go ahead.

**Saion Mukherjee:** Thank you for taking my question. Sir one question I was thinking what kind of cost pressures in general you are seeing for both your hospital and diagnostic business and are you in a position to pass that and net-net these inflationary pressures, is it like positive, negative or neutral for both the businesses?

**Vivek Kumar Goyal:** In general, there is a cost pressure because of the inflation, as we see the inflation is going up so is the wages and other costs, transportation cost also. For the expansion some of our equipments are imported, because of Rupee depreciation that cost is also going up. We are

able to absorb some of this cost through price increase and the mixed increase in the ARPOB as I mentioned going towards higher payers, but having said that we feel this pressure will continue going forward also and we have to figure out how to absorb this cost.

**Saion Mukherjee:** You would say at the margin this is negative for both the businesses?

**Vivek Kumar Goyal:** When I was giving the guidance, I have taken care of this inflationary thing and that is the reason I was not very bullish about the margins when the other gentleman was asking.

**Saion Mukherjee:** You mentioned about the diagnostic industry with the new entrants coming, setting up some large targets, what is your view about the industry's competitive dynamics and how is SRL planning to respond to that and if you can just take us through, you have done some significant expansion in touch points, etc, so how should we think about let us say organic expansion of touch points, labs or even acquisition, anything that you want to share from a strategic perspective given that the segment is seeing I think there is a lot of changes it seems are happening here. 4650

**Anand K:** Thank you. As we all know SRL is a full service laboratory, so we operate across all segments. We have collection centers, we have home collection, we have digital networks for reaching out and we also have hospitals labs that we operate, so I think to expand across these segments we have been aggressively working on improving our network expansion strategies across geographies so that is why across the last six months if you see every month we have been adding close to 100 customer touch points into our network. Apart from that we are also working on how we can improve our relationships with hospitals and smaller labs. We are working on hospital and standalone lab management projects also to expand in that space. While at the same time we also revamp and improve our capabilities on the digital front so that we can give a complete digital experience for our customers, so that thing is also going on. In the parallel, we also work with the digital aggregators, the aggregators who operate in the preventive space, so basically the aggregators work mostly in the direct to consumer segment which means on those tests where the patients or the consumers take decisions by themselves, so on those tests based on their requirements many of these aggregators tie up with labs like us. We provide the backend services for them, just the testing services, so these are the various activities that we do which we expand across all these segments. Apart from this, we are also evaluating options for inorganic expansion as well across the geographies that we work in, so we are evaluating some opportunities and we will be working on them.

**Saion Mukherjee:** On the pricing front, our prices coming down what are you seeing on ground, because we see a lot of competitive offers by new entrants, so are we set for a lower price higher

volume kind of a business, how should we think about? What is your assessment as to where the margins are headed for this business over the next two, three years?

**Anand K:** This business as we have seen over the last so many years is largely driven by doctors and their prescriptions, so almost you can say about 60% to 70% of our work is driven by doctors, so the direct to consumer segment as I discussed earlier as well works mostly in the wellness category and that too the wellness, sort of budget wellness as you can say, because the price points are much lesser and where patients take decisions for themselves and some of the chronic segments where patients do testing by themselves, things related to diabetes so only those segments patients would be very price conscious and there would be opportunities for price reduction. We have also realized that these price offers are limited for a period of time and they are very geography specific, so even when we launch new labs into new territories, we also make offers, bundled offers to our customers so that it encourages them to experience our services. A laboratory is not something that we are going to think about every day, so no amount of prodding is going to make you go and do a test even if I offer it free, unless there is a specific requirement. This requirement today is largely driven by doctors and the acute and chronic portfolio if you see is much higher. Even today for SRL, the preventive illness is only ~6% of our total revenue, so you should take it that way. There is a huge area of acute and chronic diseases which are our primary markets which will continue to thrive in the way it is doing now.

**Saion Mukherjee:** Okay, so this 22% to 23% margin you think is sort of sustainable given your business model and plans that you have?

**Anand K:** Yes, around that range.

**Saion Mukherjee:** Just one question I had, I remember initially when IHH came in, there was this thought of using the SRL platform for international test volumes using the IHH network, is there any plan on that front? Is that something given all the infrastructure that you have to sort of utilize it better?

**Anand K:** I think we are evaluating all options, so we are making plans for that, we are discussing on that.

**Saion Mukherjee:** Can you just share the capex number that we should factor in for FY2023 and 2024?

**Vivek Kumar Goyal:** FY2023 we are targeting around Rs.400 Crores capex which includes maintenance and growth capex, so you can allocate 50:50% for both.

**Moderator:** Thank you. The next question is from the line of Mr. Nitin Agarwal from DAM Capital. Please go ahead.

**Nitin Agarwal:** Thanks for taking my question. Sir my question is regarding the hospital profitability metrics that you have shared, in this we have about 10 hospitals which are in the less than 15% range in fact eight of them are below the 10% EBITDA margin range and that is a reasonable chunk of our operational beds as well as revenues. When you look through the next year or so where do you see some of these numbers really moving in terms of how many of these 10 hospitals will be actually seen getting into at least in the 15%, 20% bracket range and are there any specific hospitals where these kind of improvements look a lot more difficult than the others?

**Vivek Kumar Goyal:** We are working on this to be very honest and there are four to five hospitals which may remain in this category still because of the problem these hospitals are having. For example the hospital in Chennai Malar one, it is having its own problem relating to infrastructure and the market-related challenge there. We are not expecting it to be revived, but some of these hospitals like right now the FEHI and Jaipur are there, so both the hospitals are showing very good sign and we expect this to move not in the current year maybe next year to the double digit EBITDA margin type of things.

**Nitin Agarwal:** You mentioned there are about four or five hospitals which seem to be struggling, is there any thought to look at any sort of strategic options for these hospitals or they will continue to be part of our network despite these challenges?

**Vivek Kumar Goyal:** We are evaluating all options.

**Ashutosh Raghuvanshi:** Of course, there has to be adequate and fair effort to turnaround the problem as such, but if that is not to be then obviously the rationalization is something which we are very open to and we would take those decisions at the right time and we are evaluating how to go about it.

**Moderator:** Thank you. We take the next question from the line of Neha Manpuria from Bank of America. Please go ahead.

**Neha Manpuria:** My questions have been answered. Thank you so much.

**Moderator:** Thank you. We take the next question from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

**Pranav Tendulkar:** Thanks a lot for the opportunity. Sir, currently we have around 3900 beds, is that right?



- Vivek Kumar Goyal:** Around 4000 beds.
- Pranav Tendulkar:** Right, so total Brownfield and Greenfield expansion, as you said that Greenfield will be expanded by 200 beds and then there will be a Brownfield addition, am I right or I heard it wrong?
- Vivek Kumar Goyal:** Not really, we are having only Brownfield expansion program not any Greenfield right now.
- Pranav Tendulkar:** Okay, so that is 200 beds for next year?
- Ashutosh Raghuvanshi:** There is one O&M project which we are going to commission in this year, but that is the beds we do not count.
- Pranav Tendulkar:** Right. Sir have you benchmarked on a hospital facility wise surrounding hospitals in the city or the vicinity and are there any takeaways from that like-to-like basis if you see and if you just remove the expenses from the corporate case and legal expenses, etc., have you benchmarked existing portfolio vis-a-vis comparable facilities around?
- Vivek Kumar Goyal:** We do that exercise on a regular basis at the hospital level and benchmark the competition also and as I mentioned in my earlier comments that in most of the facilities we are quite competitive when we compare ourselves with our competition and there are a very few hospitals which we have discussed in the last question, four to five hospitals, where there are some other structural problems may be cost related, may be infrastructure related, may be market related, so that is the only place where we are struggling but most of the places we are doing quite okay when we compare ourselves with the competition.
- Pranav Tendulkar:** Right. What is the strategy of Greenfield expansion, like how would you select various cities or localities, can you just highlight some parameters on selecting the same?
- Ashutosh Raghuvanshi:** Greenfield is not a preferred way of expanding for us that is a last option. The only situation or circumstances in which we would choose a Greenfield would be that if there is a cluster where there is a very potential future site, if I have to give an example, the north Bangalore area has less hospitals so that would be one area where we could consider a Greenfield hospital. So, it has to be a growth area, it has to be an area where the Greenfield properties are available and then only we will consider. Otherwise it will have to be a Brownfield or an organic model only.
- Moderator:** Thank you. We take the next question from the line of Mr. Kunal R from Edelweiss. Please go ahead.

**Kunal R:** Good morning and thanks for this opportunity. Sir most of my questions are answered but just one question, several of your peers have very strong balance sheets now and we have seen a lot of improvement in your balance sheet also, are there enough acquisition opportunities available or do we sort of run the risk of you overpaying for it or if you acquire hospitals that are maybe not most efficiently run then there is a pressure on your margins going ahead, how should we look at things?

**Ashutosh Raghuvanshi:** Obviously any assets we evaluate we would look at various types of synergy and improving the performance from the base level whatever is there today and that is of prime concern. Though we are looking for expansion but we would definitely be very mindful of how these valuations are sitting, so if there is an extremely competitive kind of situation where people are maybe willing to pay a reasonably high amount for an asset we would not be in that again, but definitely there are many assets which will become available. For us, what is the most important criteria is first as I said that we should be able to synergize it with our existing network which means that it has to be in the main geographic clusters which we have identified namely the NCR region, Punjab and Mumbai and larger metropolitan region and Maharashtra, and then we would look at Bangalore and Kolkata where we have presence. So, within these clusters if there are opportunities where we can derive synergies from our human resources and all other systems there only we will prefer to go.

**Kunal R:** Sure Sir and maybe just pardon my ignorance here. I see that 21% of your hospital revenues have come from digital channel, what constitutes digital revenues here, is it mainly outpatient or was it pharmacy revenues or what exactly is it?

**Ashutosh Raghuvanshi:** No, the digital revenues or digital channel patients could come for procedures, they could come for admission, etc. that is just we look at digital as only a channel of patient flow. Yes, there are outpatient consultations, but we do not have any pharmacy supplies or anything like that. If they are coming to the hospital and they are using our pharmacy that revenue may be getting counted here as well, but it is essentially the inpatient as well as outpatient revenue put together on the patients which are acquired through the digital channel. In the CRM, it is separated out as to which channels the patients are coming from and those who access us through the website or the app or external apps those are our digital revenue.

**Kunal R:** Sure Sir. Just last one, it has been two months since the government has allowed all international flights in India, so where would you be now? Would that be pre-COVID levels as far as medical tourism goes?

**Ashutosh Raghuvanshi:** We have almost recovered to about 70% to 80% of pre-COVID levels in terms of international patients. We expect that to recover complete 100% level which was pre-COVID

and then go ahead of that and settle somewhere around 12% to 13% of our total revenues. Before pandemic, we used to have about 10% of our revenues coming from international patients.

**Moderator:** Thank you. We take the next question from the line of Amit Khetan from Laburnum Capital. Please go ahead.

**Amit Khetan:** Good afternoon and thank you for taking my question. Just one question on diagnostics, you mentioned about collaborating with online aggregators. Could you shed some light on what is the difference in the margin profile on the business that you see from these digital aggregators versus your normal business?

**Anand K:** Thanks. We treat such opportunities as similar to how we handle our regular B2B clients, so this will be similar to that the way we handle other B2B clients.

**Amit Khetan:** Got it, so these would also come in the 22% to 23% kind of range?

**Anand K:** Overall, it will be similar to our B2B customers so it will not be out of range.

**Amit Khetan:** Got it and you had earlier guided for the last few quarters around 23% to 25% kind of a range for the diagnostic business. Would you stand by that guidance right now or would you like to revise that in the light of competition?

**Anand K:** I think in the last year also during our previous calls we have guided around 22% to 23%, so we will remain in that range.

**Moderator:** Thank you. We take the next question from the line of Varun Khandelwal from Bullero Capital. Please go ahead.

**Varun Khandelwal:** Good afternoon everyone. One quick question, to what extent does the impending Supreme Court judgment have a bearing on existing expansion plan or fundraising plans and also are there any thoughts on what the open offer price is likely to be which are going to remain at 170 or would IHH be compelled to revise it higher, would you have any clarity on that?

**Vivek Kumar Goyal:** This Supreme Court thing is definitely has a bearing on our fundraising ability. Having said that, we are able to raise an attractive quality bank and our rating as mentioned by Dr. Raghuvanshi in the beginning got also upgraded and we are now enjoying higher rating in short term and AA minus rating in the long term. We expect that based on the rating, there is further scope to go up. With that and status quo of Supreme Court going away will help in attracting some more quality banker and that will ultimately help us in reducing the cost. Having said that, our requirement is not much for fundraising for this Brownfield expansion

and the cash flow is quite strong and with those cash flows and the support from the existing bank we will be able to manage all this cash flow. Regarding your second question, I think this is to be decided by IHH and we are not supposed to be having any view about this.

**Varun Khandelwal:** Just one more followup question, for some of your existing facilities I believe there is more space available as per the FSI issues applicable to those areas. I think for a place like Gurgaon, it has some room for potential improvement, is that still the case or have you already expanded and consumed those potential beds that could have been built?

**Vivek Kumar Goyal:** Whenever we are doing the Brownfield expansion, we are keeping the existing available FSI and trying to optimize that to the extent as possible.

**Moderator:** Thank you. We take the next question from the line of Mr. Tushar M from Motilal Oswal Financial Services. Please go ahead.

**Tushar M:** Thanks for the opportunity. Just on diagnostic side, given that the online guys are coming up with significantly lower prices and at the same time there is a good amount of traction in terms of better service to the customers, is that putting a question mark in terms of having a like physical front-end presence as a business model?

**Anand K:** Thanks Tushar. In fact if you have seen my presentation, we have actually grown on the walk-in front significantly compared to the previous quarter. The walk-in into the center is also significantly growing while home collection will also continue and the digital will be primarily driven through home collections, but otherwise walk-ins will continue and they will have a very good impact because the last mile connectivity is provided by these centers and so these centers will have a very key role in overall growth of the company.

**Tushar M:** Got it, so volume-wise probably there is not too much of a difference, but at a pricing level?

**Anand K:** At the pricing level also there is no difference.

**Tushar M:** Okay and secondly, these online guys are also kind of trying to build up their own diagnostics lab, of course the network is currently not so strong as the existing company like you, but eventually even they are also kind of building it so why would anyone kind of tie up with SRL Diagnostics going forward not in the immediate term but as a long term?

**Anand K:** The kind of test menu that large labs like us have which is in the range of 4000 plus tests, it is not comparable and it is built over a long period of time. We have been in existence for 26 years now and it has been built over a long period of time and we have a large referral



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laboratories across the country, so replicating this infrastructure is not possible in a short term, so that is going to be a very important factor. These kind of focused digital marketing will happen more on the routine tests, which are more self-driven and it will not be more of a doctor driven test, so for those tests you will require a larger infrastructure which you will have to build across different parts of the country to serve and compete and provide services as per the TAT requirements of those customers in those areas.

**Moderator:** Thank you. As there are no further questions I now hand the conference over to the management for the closing comments.

**Anurag Kalra:** Thank you ladies and gentlemen for taking the time to be with us on the call today. If there are any followup queries or questions, please feel free to reach out to Gaurav or myself, we will be more than happy to address those. Thank you once again and have a good day.

**Moderator:** Thank you. On behalf of Fortis Healthcare that concludes the conference call. Thank you for joining us and you may now disconnect your lines.