



“Fortis Healthcare Limited's  
Q3 FY'2022 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY'22 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. Please note that this conference is being recorded. 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, sir.

**Anurag Kalra:** A very good afternoon ladies and gentlemen and thank you for taking the time to join us on our Q3 FY22 Earnings Call. The call is being chaired today by our M.D. and CEO -- Dr. Ashutosh Raghuvanshi. With him, we have our Chief Financial Officer -- Mr. Vivek Goyal. On the SRL side, Mr. Anand -- the CEO joins us over here. With him we have Mangesh Sirodkar -- Chief Financial Officer of SRL.

I hope all of you have got a chance to go through the "Results", the "PR" and the "Presentation" that we had sent across on Friday evening. All these documents are also uploaded on our website.

We will start the proceedings with some opening comments by Dr. Raghuvanshi and then Anand will take us through some brief highlights of the Diagnostics business, post which we will open the floor for question-and-answer. Over to Dr. Raghuvanshi.

**Dr. Ashutosh Raghuvanshi:** Thank you, Anurag. Good afternoon, everyone and thank you for taking the time to join us on our Q3 Financial Year '22 Earnings Call today. I hope all of you are safe and well in light of the third wave that we witnessed in January this year.

I shall come straight to the results for the quarter and my thoughts on the business performance and the way forward. Q3 for us has clearly been a relatively robust quarter. I say that due to the fact that in this quarter, we have lot of string of festivals, and as a result of that, typically the Q3 performance is generally muted versus the trailing quarter. However, this time around, our Q3 performance for both hospitals and diagnostic business has not only been very strong with the corresponding previous quarter, but it's also similar to the trailing quarter which itself reflects the health of our business. Our consistent efforts towards revenue acquisition and cost optimization initiatives have begun to yield results and we do expect these to continue to play out as we move forward.

Specifically, coming to the quarter, our consolidated revenues were at INR467 crores, a growth of 25% versus the corresponding previous quarter. This compares to INR1,463 crores in Q2 of financial year '22. Our consolidated EBITDA margins are at a healthy 20% which is 300 basis points higher than the corresponding previous quarter and similar to Q2 of financial year '22. Our profit before tax has increased by 79% to INR185 crores while our profit after tax has grown robust 163% to reach INR142 crores.

We continue to maintain a healthy ARPOB and given our cash flow generation have further reduced our net debt by approximately INR248 crores in the quarter. Our net debt at the end of Q3 stands at INR621 crores. This reflects a net debt-to-EBITDA of 0.53x compared to 1.3x in Q3 of financial year '21. Our net debt-to-equity stands at 0.09x at the end of financial year '21.

Our Hospital business remains on a firm footing; we have witnessed an occupancy of 65% in Q3 versus approximately 64% in both the corresponding and trailing quarter. COVID contribution to this is negligible with non-COVID occupancy in the quarter at 64% and non-COVID revenues accounting for almost 98% of the total hospital revenues. Higher complex surgical volumes in selected medical specialties and the rebound in the international business have resulted in an 18% increase in ARPOB to INR1.86 crores.

All these have enabled the hospital business revenue to reach INR1,118 crores in the quarter, a robust growth of 24% and also slightly better than the Q2 of financial year '22. The Hospital business EBITDA grew 46% to touch INR190 crores. This reflects a margin of 17%, 260 basis point improvement over Q3 of financial year '21 and similar to the margins in Q2 of financial year '22. If you were to exclude the startup costs of our Vadapalani facility in Chennai, hospital business margins are at approximately 18%.

Our Diagnostic business has also performed meaningfully well, with revenues growing approximately 27% to INR389 crores versus the corresponding previous quarter. This was aided both by the acquisition of DDRC in Q1 of financial year '22 and the higher B2C revenue components.

Non-COVID revenue grew 33.8% versus Q3 of financial year '21 while COVID revenues declined marginally versus the corresponding previous quarter. The EBITDA margins in the business stood at 26.6%, which were 270 basis points higher than Q3 of financial year '21 and better than 25.7% margins in Q2 of financial year '22.

Some qualitative comments on both businesses: On the hospital side, investments are on track to augment our bed capacity by 250 to 300 beds a year for the next few years and further bolster our medical and clinical infrastructure. We have added oxygen generation plants in five of our facilities and have introduced several other high-end equipment like neuro microscopes, neuro navigation systems, cath labs and endoscopy suites in many of our facilities. We have also onboarded eminent clinicians in cardiology and oncology in selected facilities.

The international business recovery has been encouraging with revenue of INR 66 Cr in the quarter, a growth of 45% versus Q3 of financial year '21.

It's also important to highlight, there are digitization initiatives have now begun to show traction. Revenues from digital channels led by the efforts to further enhance key digital medium such as our website, app, and digital campaigns have resulted in a year-on-year increase in digital revenue of almost 125% versus the corresponding previous quarter.

On the diagnostic business, while Anand will delve into more details, I'm quite pleased that our consistent performance and earnings trajectory.

The acquisition of the balance 50% stake in our DDRC SRL JV has turned out very well and we have now completed the integration of that business into SRL.

The B2C revenue component which contributes a healthy 52% to overall diagnostic revenues has grown in excess of 40% in the quarter, led primarily by the growth witnessed in walk-in patients.

SRL continues to expand its customer touch points and has added approximately 284 such customer touch points in Q3. At present, the business has 2,200 plus such touch points, which are expected to further increase going forward. This should hopefully result in a better customer touch point-to-lab ratio, improving utilization and gaining higher operating leverage.

To sum up, all in all, we have witnessed a good Q3 across both our businesses and plans effort to ensure that as we end financial year '22 and enter financial year '23, the growth momentum will continue. I say this with a bit of cautious optimism as the current quarter has had an impact due to the third wave of COVID, primarily in the month of January and one doesn't know if at all this situation comes back again. As we speak, we are seeing gradual recovery in businesses, which we expect will only accelerate going forward. This should hopefully enable us to end the year reasonably well. In addition, the strength of our balance sheet also allows us the flexibility to evaluate select inorganic opportunities in our focus clusters of Delhi – NCR, Bengaluru, Maharashtra, and Kolkata.

Such strategic initiatives and a steadfast focus on revenue enhancement and cost optimization in both businesses should bode well for growth and profitability for all stakeholders going forward.

With this, I hand over to Anand for an update on the diagnostic business. Thank you.

**Anand K:**

Thank you, Dr. Raghuvanshi, and a very good afternoon to everyone on the call. Thank you for joining us today. On behalf of SRL diagnostics, I warmly welcome you all for Q3 FY'2022 results conference calls. It's really good to be able to speak to you again this quarter.

We witnessed the onset of an Omicron induced third wave in many parts of the country. It has been a relief that the effect of the surge has been milder compared to the previous surges. I wish you all well and hope that the future holds better days for everyone.

Looking at the numbers for Q3, we are confident that our streak of good revenue growth continues. We have posted revenues of Rs.388 crores in Q3 FY22 versus Rs.306 crores in Q3 FY21, recording a growth of over 27%. Q3 FY22 figures include DDRC and not directly comparable with Q3 FY21.

COVID revenue share stands at 19% in Q3 '22 compared to 24% in Q3 '21. COVID revenues have reduced due to price caps across the country. COVID revenues will depend on how the pandemic pans out in the coming months.

Our non-COVID revenues however have grown by about 33.8% in Q3 FY'22 versus the corresponding previous year quarter.

Our test volumes have grown to 11.2 million tests in Q3 FY22 from 6.7 million tests in Q3 FY21, registering a 69% growth. Out of the total test volumes, non-COVID volumes specifically grew from 6.1 million in Q3 FY21 to 9.9 million in Q3 FY22, recording a 63% growth. We have maintained a healthy EBITDA margin at 27% for Q3 FY22 versus 24% in Q3 FY21.

In an endeavor to go closer to the customers and improve our omni-channel presence, I'm pleased to inform that we have opened the highest number of customer touch points in the last quarter. SRL added 284 net new collection customer touch points to its network in Q3 FY22, taking the total number of touch points to 2,200 plus. SRL has been aggressively expanding its network, having opened approximately 100 such touch points each month since August 2021. This also translates well in our B2C contribution of the business, which stands at 52% as compared to 46% in Q3 FY21.

We have an equitable distribution across geographies in India, and our endeavor is to grow further in focus geographies through organic or inorganic routes. We are exploring opportunities for acquisition that make a strategic fit.

I'm also happy to announce that SRL Lab Software, GLIMS is the first among lab chains to be integrated with the government's Ayushman Bharat Digital Mission as a health information provider. We have pioneered a lot of concepts in India, fueled by our endeavor for innovation. It's our privilege to be part of the national digital health ecosystem in India.

Offering superior customer experience and enabling convenience at all. Touch points has been a relentless pursuit, especially since customer expectations have changed during the pandemic. We are continually improving our web and app interface. They should experience at all our centers and home visit experience. Currently, we are providing home collection services at 150-plus cities across the country, and this will remain one of our focus areas. Our average NPA scores for patients for Q3 is close to 80. Improving our patient experience and patient satisfaction scores will remain a constant endeavor.

We are also witnessing an upward trend in the wellness category. Our customers are now more cognizant about their health and are taking measures to monitor their vitals. SRL has well curated wellness packages and our offerings of smart reports for wellness packages has received an encouraging response from customers. SRL's revenues from preventive healthcare packages grew 23% over Q3 of FY'21.

To support our government at the National COVID Vaccination Program, we started vaccinations for general public in four of our centers. SRL vaccinated approximately 16,500 people till end of December. We are particularly taking care of the safety of our employees and have begun the process of administering the precaution dose.

We have added 20 new specialized and super specialized tests to our test menu in the period between July and December '21. We will continue building our test menu and advance our efforts, particularly in genomics in the areas of oncology, reproductive health, infectious diseases and inherited disorders.

**Moderator:** Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

**Amit Khetan:** Firstly, can you talk a little about the new hospital in Chennai, how is that ramping up, how many beds are currently operational, and what is the kind of occupancy we are seeing there and when is this expected to break even?

**Vivek Kumar Goyal:** This hospital is built with around 200 beds when it will be fully ramped up. But right now it is operating around 75 beds and occupancy is around 45%. So, there are some challenges. I think next year it should be breakeven on the EBITDA side.

**Amit Khetan:** Secondly if I look at the margin profile that you've shared of your hospitals, there are some five or six hospitals that continue to be in less than 10% margin category. So, which are these hospitals and where are you seeing things improving in the near-term and where do you see structural issue? For the hospitals, where we have some structural issues, is there a plan to take any kind of strategic decisions maybe once the SC judgment is out of the way?

**Vivek K Goyal:** Four, five hospitals remain the same, one is of course FEHI, our premium hospital for cardiology, then followed by Jaipur, Vashi in Mumbai and Chennai hospital, Malar. So, these are the four hospitals which may be majorly contributing in this list. So, we are evaluating all the options. FEHI, Jaipur including Vashi are showing very good of recovery. Malar, still we are struggling. We are exploring all the options whatever possible in the current circumstances.

**Amit Khetan:** Would it be right to assume that any action you take will be post the Supreme Court judgment?

**Vivek Kumar Goyal:** Nothing is to do with Supreme Court judgment, but right now, we are evaluating various options.

**Moderator:** We'll move on to the next question from Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** First one is in the ARPOB Rs.1.86 crores, up 18%. So, what are some of the drivers for this? Is there an element of pent up when we look at this number or do you think this is the kind of level maybe like a double digit growth in ARPOB, is that sustainable?

**Dr. Ashutosh Raghuvanshi:** Shyam, this is a mix of a couple of factors. One was the case mix. So, there were higher number of surgical cases. I don't believe this is pent up demand, because second quarter also we saw almost near normal work on the non-COVID side. One of the contributing factors was the international business which picked up specially during the latter part of November and December. So, that contributed in a significant way. As we had said in the previous quarter call also that we would expect the ARPOB to be slightly muted. We had at that time said that it is likely to be less than the second quarter; however, it has been higher and it is showing this growth simply because of the case mix as well as the international contribution being better than expected. But I expect that eventually it will not be in the same percentage of growth as we have seen now, but we may see some growth in future as well.

**Shyam Srinivasan:** I remember we're doing a lot of things, right, one is this payer mix rationalization, second was the GIPSA rate increase. So, aren't those sustainable, why is a little bit of caution around the ARPOB?

**Dr. Ashutosh Raghuvanshi:** GIPSA, as we had mentioned somewhere around the second quarter, there are obviously expectations that the international traffic will come to normal gradually. The reason why I am being cautious about it is that the case mix itself is change as the things start getting more and more normalized, there will be increased number of medical patients, etc., So, because of that, we believe that on a blended basis, the rate of ARPOB growth may be a little lower than what we have seen typically in this quarter, but there certainly will be a growth.

**Shyam Srinivasan:** On the price increases, we are not considering something at this point of time, right?

**Dr. Ashutosh Raghuvanshi:** Not right away, but we will be taking some price increase as you know that the yearly costs start hitting when the new year starts in terms of increments and staff cost, etc., So, certain inflationary pressures are there. In order to take care of that, we will have some price correction in the first quarter of the next year, you should have a price correction.

**Shyam Srinivasan:** Like a 4% to 5% medical inflation linked price increase?

**Dr. Ashutosh Raghuvanshi:** Yes, somewhere in that range.

**Shyam Srinivasan:** Just a second question around human resources, doctors, what is the attrition that you're seeing? During the last 12, 18 months, I think we have managed to pay or reduce guaranteed fee for doctors. As things reopen and things become more normalized, do you foresee there is an issue here in terms of inflation in both wages for medical, non-medical staff even for doctors as they come back and start doing the higher volume of growth and expect to be paid higher, is that a dynamic that you think will likely pay out say in fiscal 23?

**Dr. Ashutosh Raghuvanshi:** The dynamics is complex as you have rightly appreciated, but we haven't seen major attrition happen during this period. And that could be because of many factors and people may not be wanting to change, etc., But when we look at the model of payment and the changes we have

made to that I don't think that will affect. And the reason why we are confident of that is when we do a detailed analysis and look at individual incomes, etc., the new model actually has given people better individual remuneration, especially to the people who are more committed towards our organization and are not visiting consultants. So, with that in mind, I am pretty confident that this new model is actually something where the company's interests and the physicians' interests have got aligned. And as a result of that, this should be very, very sustainable. The only place we still see challenge on the human resources is the nursing side, where during this phase of pandemic we saw the attrition go down. That is again started going up, but that is more of an industry-related problem. So, we are not too concerned about that. And then there are many other progressive steps we are taking in terms of other cadres of human resources like for example, the National Apprenticeship Act has been liberalized and has been made very tropical. And we are exploring many of such initiatives in order to make sure that we have a better and a continuous supply of manpower and also there is some cost advantage.

- Moderator:** The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.
- Saion Mukherjee:** Sir, can you talk about the pricing environment particularly in the diagnostic in the non-COVID tests, are they stable, increasing, decreasing and by what rate?
- Anand K:** Pricing environment in the non-COVID business is sort of stable as far as requirements for acute and chronic diseases are concerned. So, you will see a lot of pricing happening in the wellness packages, which is where all the digital operators are there. So, there you will find that there are a lot of pricing offers have been rolled out, but otherwise, if you see the prices have remained more or less the same across the board.
- Saion Mukherjee:** So, as the COVID contribution comes down going forward, and you sort of execute on the collection center and volumes increases, what should we expect in terms of steady state EBITDA margin for the diagnostic business?
- Anand K:** Currently we are having an EBITDA margin which is in the range of 25% to 28%, which is primarily due to higher workload and operating leverages that we get from COVID. Going forward on a steady state, we would expect it to be somewhere around 23% to 24% is what my take.
- Saion Mukherjee:** Secondly, on the hospital side, can you give some granular details on your expansion plan, which are the key hospitals where we will be adding, I think you mentioned about 300-plus beds every year? And also on the acquisition prospects, what are you seeing in the marketplace both for hospital and for the diagnostic business?
- Vivek Kumar Goyal:** Yes, we are well on track for all our expansion program, whereby we have chalked down a plan for expanding our bed capacity by about 1500 beds over next four years' time. And we have completed expansion in Shalimar Bagh where we have increased by 50 beds, similarly, we have completed the expansion at Mulund where 100 beds have been added. There are four hospitals



where we are increasing almost 250 beds in each hospital where the land is available and we are building a new block there. So, the work is on. I think in next couple of years those hospitals will also start. Apart from that there are opportunities available in hospitals where by a little investment we can increase the bed capacity. So, that also we are exploring like in Calcutta, like in Bangalore a couple of units. So, all those opportunities we are exploring.

**Dr. Ashutosh Raghuvanshi:** So, as far as acquisition is concerned, I think we have said it earlier that there are certain geographies which we are interested in, which is the clusters where we already are present. So, NCR obviously remains one area which we will be considering and the Mumbai, Maharashtra area is another one and there are some potential opportunities may come in other geographies, like Bangalore, and Calcutta as well. But our first priority is the Brownfield expansion within the given hospitals and then the second option is for acquisition. So, in a calendar year we will certainly be exploring all opportunities which come to us. And I think we are in a pretty strong balance sheet kind of situation right now and we will have ability to execute some of those.

**Moderator:** We'll move on to the next question that is from the line of Rishabh Parekh from Sunidhi Securities. Please go ahead.

**Rishabh Parekh:** Hi, just a question on your ARPOB again. One of the key drivers this quarter, as you mentioned was medical tourism, which is about 5%, 6% of our revenue. Just wanted to know what was the peak number pre-COVID and structurally how much higher ARPB do medical tourists contribute?

**Dr. Ashutosh Raghuvanshi:** So, overall, the contribution to the business was about 10% before the pandemic. As far as the yield is concerned, it is all pretty similar to cash paying patients, which is the highest paying cash. So, that's why it's gives the positive impact on the overall ARPOB because this is at the highest price band of whatever prices we charge. But it is not significantly different from what a domestic person pays.

**Rishabh Parekh:** Just following on that, what would be the difference between the cash paying patients versus our company level ARPOB which is 1.86 crores?

**Vivek Kumar Goyal:** So, it is different for different facility basically. So, it is a mixture of the payer mix and facility mix. Generally, cash paying patients are having the highest ARPOB, following by TPA which is generally 20% lower than the cash paying and the PSU business you may say 30% lower than the cash paying patients and ESI is generally 40% lower than the cash paying patients.

**Rishabh Parekh:** Coming on to SRL, you all have done a phenomenal job in the last one year in expanding revenue, EBITDA and touch points. But just early on the call, you mentioned that steady state EBITDA margin without COVID would be anywhere between 23%, 24%. This is still lower than our competitors. So, is there any fundamental cost structure that we have in our diagnostics business that we cannot correct or what is the reason for the gap?

- Anand K:** Thanks for your compliments. What I would like to say is that as we continue to expand our B2C share of the business, the margin profile will keep improving, but this is what in the short term that we are saying that we'll be doing at.
- Moderator:** The next question is from the line of Shantanu Basu from SMIFS Limited. Please go ahead.
- Shantanu Basu:** Most of my questions have been answered just one data point. So, I want to know the non-COVID ARPOB, was it very similar to the actual published ARPOB for the whole business?
- Vivek Kumar Goyal:** So, non-COVID ARPOB is lower than, the COVID ARPOB, I'm talking hospital business, so it is around in the range of 1.4 crores to 1.5 crores although the occupancy is quite low at this point of time. Non-COVID ARPOB is around Rs.1.95 crores.
- Moderator:** The next question is from the line of Kunal from Edelweiss. Please go ahead.
- Kunal:** I don't think I completely understood the SRL margin guidance. Last year you did somewhere around 23.5% kind of margins, this year you did 26.5%, right. At the same time, you had a very sharp decline in COVID realization year-on-year. Now, with COVID testing actually going down again, you are saying the margins will fall. So, I don't completely understand this, if you can maybe explain that to me?
- Anand K:** We had in FY'21 margin profile of about 19% and in this current year our margin profile has improved significantly, mainly driven by operating leverages as well as some changes that we have brought about in the overall processes and systems. If you see this quarter, we have about 19% contribution from COVID, but on a year-to-date basis, we will be somewhere around 21% contribution from COVID. So, with that kind of a contribution from COVID, and with the COVID rates during the year being very fluctuating, so it's very difficult to determine the exact contribution or the operating leverage that we get from COVID. So, that is the reason we are saying that we need to go through a non-COVID phase and how much of non-COVID returns and the kind of volumes that it can bring in, so we will be able to understand this better. So, that's why we are placing it at about 23-24%.
- Kunal:** Just one question on the hospital side. So, currently 17% to 18% of our revenue comes from PSU, CGHS, PWS, etc., Just maybe 12 or 24 months down the line, will you still see around the same proportion or should it fall down substantially?
- Vivek Kumar Goyal:** That we expect to continue the same, reason being we are on the expansion mode and for the expanded bed capacity initially we may require this payer mix also. So, you may get the similar type of payer mix. Although our endeavor will be to reduce non-government and PSU and increase the PN care, which is the fact actually is going up quarter-on-quarter.
- Kunal:** So, in one of the slides on patient volume, I see that teleconsultation has gone down very sharply after the COVID second wave. It's almost like from peak had gone down I think 80%. So, is this

one part of the business that you would like to build going further and how should we see this business panning out?

**Dr. Ashutosh Raghuvanshi:** So, essentially, the outpatient numbers have still been low, and they have not come back to the kind of pattern which we used to see earlier. Though, in terms of how many patients are coming, it has recovered significantly, but as you have correctly noted that the overall numbers have been low. So, what we are seeing is that patients are avoiding outpatient appointments, but they are coming for procedures. So, in terms of inpatient admissions, we are seeing a good trend. Going forward as things normalizes further, the number of outpatients may increase further, but we are not banking solely on that, we are also taking certain steps in terms of enhancing our digital offering, as well as having a very aggressive outreach policy including having outpatient departments in the wider geography.

**Kunal:** Sure sir. That's helpful. But my question was specifically regarding teleconsultation. So, is this the number that we should probably work with, I think there's some 4,300 or something like that teleconsults?

**Dr. Ashutosh Raghuvanshi:** So, teleconsults we don't expect to rise too much, but there should be some kind of steady growth. What we have noticed is that the kind of service offerings we have of tertiary, quaternary care patients tend not to go for a teleconsultation and they prefer a consultation in person, whereas certain specialties like mental health, etc., are ones which are gradually moving towards virtual consults. So, we expect to grow on that segment, and we want to build on that expertise and experience and build the numbers further. But I would say that in short term in say next couple of quarters, we would not expect a very large increase in this virtual consults. But then we are trying to build the other part of the business which is primarily focused around mental health and a few other chronic illnesses. So, that should yield these numbers to go up in virtually consultation.

**Moderator:** We will move on to the next question that is from the line of Jayesh Gandhi from BNP Paribas Mutual Fund. Please go ahead.

**Jayesh Gandhi:** A couple of questions from my side. First and foremost, if you can give us a very quick brief update on the litigation or court matter, where do we stand now? It's been quite a while, we have been hanging be around. Second is, of course, the news item which is regarding Emqore Evensecure Private Capital Trust filing a suit against us, another 21 parties for infringement of copyright. Maybe a quick update on that as well from your perspective will be very helpful?

**Dr. Ashutosh Raghuvanshi:** So, as far as the legal case in Supreme Court is concerned, arguments hearings had concluded in the month of May last year. In normal course, one expects the judgment to come in six months' time which has also passed. So, we do not have a visibility currently as to when they are going to pass the judgment. As you know, the court was also quite disrupted in between. But we are hoping that we should get something maybe by March latest, that is our expectation, that's what is kind of an educated guess. But we don't have clarity on that. Regarding the second part of

your question about the Emqore litigation which we had reported earlier, in our view, that is an absolutely frivolous kind of case, where we believe that we have absolutely no reason to be concerned of. Having said that, the merits of the case are as follows, which is that there is a party which claims that they had some kind of a non-binding term sheet signed with Fortis and they never got an opportunity to invest in Fortis. But whatever records, etc., which we have available, that doesn't show that. The second part of their contention is that the erstwhile promoters had pledged the brands to them. They say that they should be compensated for that. So, neither is the New Jersey jurisdiction in any way is linked to us or even this organization we don't know where it operates from. So, we believe that this is a completely frivolous suit and it would be tackled as and when we get the notices. As we had said earlier in our disclosure, that we have not received a notice. However, one notice has been served to IHH and hence we are aware of the details of the matter.

**Jayesh Gandhi:** It's been served to IHH, not to you as of now?

**Dr. Ashutosh Raghuvanshi:** As of now, but it seems that they have also included Fortis as a party.

**Jayesh Gandhi:** My second question was regarding the overall business momentum and the way forward. Currently running at around 65% occupancy how you look at it. As you see the next two years, how do you see this improving? Second is that, if I look at Q2 and then Q3 on the hospital business side, it seems like we were hitting a kind of a plateau in terms of revenues, ARPOB margins, etc., So, what would be the levers for us in the next two years to improve some of these key metrics?

**Dr. Ashutosh Raghuvanshi:** As far as the occupancy figures are concerned before this wave came, we're trending towards about 68%. So, we expect the occupancy levels to go and settle at 70%-plus over a period of time. So, that is one lever which we are going to get. The second thing is as far as the third quarter is concerned, historically, the third quarter is always a slightly muted quarter, for the reason that there are multiple festivals which come during this period, because of which doctors, staff also take vacations and that is why it sort of reduces the number of elective cases happening during these months. So, considering that slightly higher revenue than the previous quarter rather than lesser. So, in our view, this has been a reasonably good thing and there will be further growth. The third lever of growth which we have is that as we stated that there are certain Brownfield expansions within our network. And some of those bed capacities are coming on stream now. We have approximately about 45 beds in our Shalimar Bagh facility, which is incidentally doing extremely well and then we are adding another 13 deluxe rooms in our FMRI facility as well as there are beds which are going to be commissioned in our Mulund facility in Mumbai, approximately 70-odd beds by March or April. So, with all that addition also, we expect to see a certain top line growth. Since these are all Brownfield kind of growth, so any growth which happens in revenue obviously would impact the margins in a very positive manner.

**Jayesh Gandhi:** These numbers don't seem pretty large, but nevertheless, final question is what would be your CAPEX for next two years?

**Vivek Kumar Goyal:** It will be in the range of 300, 350 crores annual which will be a mixture of the maintenance CAPEX and the growth CAPEX, you may attribute 50% each for them.

**Jayesh Gandhi:** Would it be fair to assume that there is really no Greenfield CAPEX that you're doing now, largely brownfield for next two years, at least not envisage as of now?

**Dr. Ashutosh Raghuvanshi:** We are not inclined towards doing Greenfield. Our focus is on Brownfield or a possible acquisition if it comes in an attractive valuation. The Brownfield expansion itself, we have about 1,200 beds which are going to come on stream. Out of that about 200 are already functional, about 110 are the ones which I mentioned which will get commissioned within the running quarter and then the following year also we expect to add another 150 beds. So, that is a pretty decent pace of growth. Greenfield, we are not very inclined to, except for in certain geographies where there may not be opportunities to acquire something, because nothing exists like for example, if I have to say, north of Bangalore, where a lot of housing developments are happening and the hospital supply is low, we would like to take a position there, then those could be Greenfield. Other than that, we will be focusing on an attractive valuation acquisition is possible within the given clusters we have.

**Jayesh Gandhi:** Where I was coming from is to take a clue from some of your competition has announced significant Greenfield expansion across India. But anyway, all the very best and thank you for the inputs.

**Moderator:** The next question is from the line of Shaleen Kumar from UBS. Please go ahead.

**Shaleen Kumar:** So, we are looking to add how many beds on a yearly basis, Brown plus Green acquisition and if you can talk about let's say three-to-four-year plan, is there a possibility of broader guidance?

**Vivek Kumar Goyal:** 1,500 beds.

**Shaleen Kumar:** Out of it, if I heard correctly around 1,100 to 1,200 beds is Brownfield?

**Dr. Ashutosh Raghuvanshi:** We had earlier given a guidance of about 1,200 beds. Now we are increasing that guidance further and we are saying that about 1,500 beds. This is Brownfield. As far as acquisitions are concerned, those are slightly opportunistic and we won't be able to put a number.

**Shaleen Kumar:** But Brownfield we have a visibility and this'll be over a period of next three to four years or four to five years kind of thing?

**Vivek Kumar Goyal:** Four to five years.

- Shaleen Kumar:** What would be broader CAPEX per bed here, because it's a brownfield, so, I believe it should be meaningfully lower than Greenfield?
- Vivek Kumar Goyal:** Rs.55 lakhs to Rs.75 lakhs depending upon the location.
- Shaleen Kumar:** Should we consider them to come evenly something like 250 to 300 beds every year again or is it like we will see some spike coming at a later half of your timeframe guidance?
- Vivek Kumar Goyal:** I spike the spike we will be seeing in the third year onwards, because most of these Brownfield is where we are building additional tower. So, this takes generally 18 months to 24 months for building a tower and then stabilizing it. So, in previous time, you will be seeing that spike.
- Moderator:** The next question is from the line of Arjun, an individual investor. Please go ahead.
- Arjun:** Everybody's very concerned about the Supreme Court judgment. I'm sure it will come in due time and hopefully god willing should be positive. Just want to know what the company plans to do post this event if you could just throw some light on that from a company perspective?
- Dr. Ashutosh Raghuvanshi:** Thank you, Arjun. There are several initiatives which would be taken post this resolution, I mean, a lot depends on how exactly the resolution happens. But we need to make our structures a little more efficient, that is one initiative which we will have to do so that we get advantage of our operational flexibility, etc., between different entities, etc., So, that is one major activity which we will have to undertake. And then as you know that we have investors in our diagnostic business. So, we do have an agreement with them where over the next few years, we are supposed to give them some kind of an exit either an IPO or something like that. So, those will be certain steps taken in that direction. And other than that, we would also have a little more flexibility in raising some fresh capital and going for some significant acquisition. But, as I said earlier, we will be careful and calibrated in our growth.
- Moderator:** Ladies and gentlemen, that was the last question I now hand over the conference to the management for the closing comments.
- Anurag Kalra:** Thank you, ladies and gentlemen, for taking time to be with us on the call today. If there are any follow-up questions or clarifications, Gaurav and I are available. Please do feel free to reach out to us. Thank you very much again and have a good day.
- Moderator:** Ladies and gentlemen, on behalf of Fortis Healthcare, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.