



“Fortis Healthcare Limited  
Q2 FY20 Post-Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day. And welcome to the Q2 FY20 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 the operator by pressing '\*' and 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:** Thank you, Vikram. A very good morning and good afternoon, ladies and gentlemen. And welcome to Fortis Healthcare's Quarter Two FY20 Earnings Call. The call is being chaired by our MD & CEO, Dr. Ashutosh Raghuvanshi; with him we have our Chief Financial Officer, Mr. Vivek Goyal; from the SRL side Mr. Arindam Halder, the CEO of SRL joins us, along with Mr. Saurabh Chaddha, the CFO of SRL.

We will begin this call with some opening comments by Dr. Raghuvanshi on the business and the earnings of the previous quarter. Arindam will then take you through key highlights of the diagnostics business. And then we can open the floor for question-and-answers. Over to Dr. Raghuvanshi.

**Ashutosh Raghuvanshi:** Thank you, Anurag. A very good morning to all of you. And welcome to our Q2 Financial Year 2020 Results Call. I am very pleased to share with you our earnings summary and business highlights for the quarter. As you would have seen by now, we have registered quite a healthy set of earnings for Q2, and we are encouraged to see and maintain vibrancy in our business.

I have always spoken of the inherent strength in this business, and we continue to make all efforts to further build on these, primarily in terms of the best-in-class medical and clinical excellence, and world-class patient care. These, coupled with the high quality portfolio of assets, have provided us an opportunity to deliver long-term sustainable and profitable growth in our company. I can, with renewed confidence, state that while challenges remain in our business, our strategic actions and initiatives lay emphasis on consolidation and growth. At the same time, we remain conscious of the fact that the existing portfolio of assets need to be optimally leveraged to reach their full potential. This gradually should also reflect in the performance of the company over the medium and long-term. I do believe that Q2 financial year 2020 results are reflective of this intent and direction.

As I take you to some of the key operational highlights for the quarter, at the outset, a couple of key points. While the diagnostic business continues to be in black, I am very pleased to share that the hospital business also has shown positive bottom-line, from a PBT loss of INR 109 crores in Q2 a financial year 2019, to a profit before tax of INR 24 crores from operations in Q2 of financial year 2020. This was a result of the robust operational improvement in EBITDA margins, and the elimination of the Business Trust fees due to the buyback of RHT portfolio of assets in the last fiscal year. In fact, with both businesses profitable, our consolidated profit

before tax from operations for H1 financial year 2020 stood at INR 91 crores versus a loss of INR 183.6 crores in H1 of financial year 2019. Clearly, our efforts are beginning to show results.

Our liquidity position is relatively comfortable, and we have further strengthened our credit rating by two notches. This is now BBB-plus from BBB-minus. This reiterates the confidence our stakeholders are seeing in the business. Our balance sheet remains healthy, with a net debt to equity ratio of 0.13x. Our cost of debt is stable around 10%. And our working capital matrix, especially our receivable position has improved over the previous period. Coupled with a better operational performance, all this is helping us in strengthening our cash flow and further enabling us to invest in growth initiatives.

Significantly, on growth and expansion, as you are aware, we have earmarked the sum of approximately INR 200 crores as CAPEX for the hospital business for this year, with an almost equal split between growth CAPEX and routine and maintenance CAPEX. The routine and maintenance CAPEX is primarily for investments in refurbishment of our hospitals, upgrading medical equipment, and purchase of new medical equipment. These are now aggressively being pursued and would provide our hospitals the much needed impetus to drive for future performance. We are investing in high end radiology equipment and collectively also looking at advanced medical equipment in the key facility.

On the growth side, we have launched the oncology block at BG Road in Bengaluru, and plans are on track for a timely the launch of Arkot Road facility in Chennai by Q4 of financial year 2020, and the Liver Block in Noida in the next financial year. I must also add here that while we undertake these investments to further strengthen our revenue momentum, we also continuously look to garner higher cost efficiencies across our value chain, be it in terms of personnel costs, procurement costs, or corporate office expenses. Many of you who have had a number of discussions with us on the potential for cost improvements in our business and the steps we have been taking to ensure that we run a tight ship. At all levels across the organization, we are fostering a culture of cost consciousness without compromise on our quality and care.

On all our cost initiatives, we continue to optimize our cost lines in order to enhance manpower productivity and increase efficiencies. For the first half of the fiscal, our overall cost savings are to the tune of INR 32 crores. This has come primarily from rationalizing or non-medical manpower cost, reduction in other expenses, including G&A, and after absorbing the impact of increments and wage hikes. This is and will continue to be an ongoing process.

Another important point is that our bad debt provisioning has reduced during the quarter as a result of sustained efforts we have made in improving our collections and billing processes across the network. All these are reflected in the margin expansion we have witnessed in Q2 of financial year 2020. We will continue to ensure that we keep ourselves focused on all the expense lines in order to ensure that we operate a leaner and optimal cost structure.

Briefly on the financials for the quarter, our consolidated revenues have grown 6.3% to INR 1,212.2 crores, with operating EBITDA margins expanding 320 basis points to 15.7%, versus on a like-for-like basis 12.5%. The consolidated operating EBITDA for Q2 financial year 2020 was significantly higher at INR 190.6 crores, versus INR 122.1 crores in Q2 of financial year 2019. Our PBT from operations, excluding other income, exceptional item and forex stood at INR 70.6 crores, versus a loss of INR 65.3 crores in Q2 of financial year 2019.

From the Hospital business perspective, revenues have grown at a healthy 8.1% to reach INR 972.3 crores in the quarter, while our operating EBITDA margin for the hospital business stood at 13.3% in the quarter versus on a like-for-like basis, 9.7% in Q2 of financial year 2019. Operating EBITDA for Q2 grew 47.2% to INR 129 crores, as compared to EBITDA of INR 87.6 crores in the corresponding previous quarter. Even versus the trailing quarter, operating EBITDA witnessed a growth of approximately 40%.

Our Hospital business continues to see traction with occupancy at 72% versus 69% in Q2 of financial year 2019, and 66% in Q1 of financial year 2020. We have seen a good ramp up in most of our key facilities, among the noticeable facilities FMRI, Mohali, BG Road, Noida, Shalimar Bagh, Faridabad, Louisiana and Anantpur in Calcutta have shown a healthy operating performance, both in revenues operating margins in the quarter. With most of these having an occupancy of over 75%.

Our operating parameters in terms of ARPOB and ALOS are relatively better than the corresponding quarters. ARPOB for the quarter was at INR 1.54 crores versus INR 1.49 crores in the corresponding previous quarter. While ALOS was better at 3.23 days versus 3.42 days in Q2 financial year 2019. It is also noteworthy to mention that FMRI has recorded a growth of 13%, with the highest ever ARPOB of INR 3 crores. And we are also beginning to witness encouraging but initial signs of a gradual improvement in our escorts facility.

On the Diagnostic business, while we have witnessed a growth of 3% in gross revenue to INR 276.6 crores, margins continue to show an upward momentum. EBITDA margin basis net revenues stood at 26.6% versus 23% in the corresponding quarter, and 23.9% in the trailing quarter. Arindam, our CEO of SRL will, subsequent to my comments, take you through the key highlights there.

A couple of last part from my side. I believe we have witnessed and continue to witness a healthy momentum in the business. As we move forward, we will see various initiatives of our investment and CAPEX bearing results, as also from running a leaner and more nimble organization. What will remain fundamental to us would be our unflinching and non-compromising focus on further strengthening our medical expertise, bettering our clinical outcomes, and improving our patient care to world-class standards. I firmly believe that is the core of our business and would eventually help us deliver a better value proposition to all our stakeholders.

Thank you. And I will now hand over to Arindam to take you through the highlights of the Diagnostic business.

**Arindam Haldar:**

Thank you, Dr. Raghuvanshi. And a very good morning to everyone on the call. This has been an important quarter for us, reaching halfway of the fiscal year. After a few quarters of soft performance, we have started seeing growth in volume and a decent jump in our margin figures over the last two quarters. Our efforts towards increasing consumer touch points and managing cost structures have started showing results.

We did nearly 8.4 million test last quarter, which is a growth of around 5% over the same quarter last year, and 7% versus the previous quarter. Our reported net revenue growth is 3% over the same quarter last year, and around 7% versus the previous quarter. Although, on a like-to-like basis, a comparable growth over the same quarter last year will be approximately 6%, corrected for closure of a few large projects. Our B2B business has been growing at a healthy double-digit rate, which is a result of the efforts made over the last 12 months in tie-up with clinics, hospital clients and other institutions businesses. However, there is still some gap in the B2C part of the business where a lot of work has happened in the last six months, and we will be seeing early benefits of the same in later period.

As we speak, we are focused around six drivers of growth in the Diagnostic segment. First is increased accessibility. We have been able to increase customer accessibility via franchisee and owned patient service center via humble collection point. And we have added a net 100 collection centers in the last six months, most of which have come in the last three months. And we are very confident that they will start showing us results in future. We are also focused around some of the new initiatives like digital channel and CRM, and they have shown very high growth, although on a small base.

Our strategy of focused disease portfolio is yielding results, visible in the performance of gynecology and transplant immunology segments. On cost measures, we have been able to manage to hold our general expenses, and also have gained efficiencies basis cost negotiations, resulting in a significant growth in the EBITDA margin. For the given quarter, our EBITDA stands at 23.1% of gross revenue. This compares favorably versus 20.1% in the same quarter last year, and 20.8% in the trailing quarter.

On the technology front, we continue to upgrade our technology and widen our offerings. Recent examples being capillary electro process, high resolution HNO typing by nitrogen sequencing, and cytogenetic speed processing automation. We have also completed phase one of artificial intelligence consortium that we have with Microsoft, we have developed a deep learning algorithm for liquid based psychology. And we will start utilizing the same by end of this year.

Fortis Labs have turned around with our continued focus on generating synergies between the two organizations, resulting in growth after being on a decline over the last couple of years. Thank you for your attention. I would like to hand over the call back to Mr. Anurag Kalra.

**Anurag Kalra:** Thanks, Arindam. Ladies and gentlemen, you would have got the press release and our investor presentation last evening. So in the interest of time, I would now like to open the floor for question answers.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Adhi Desai from York Capital. Please go ahead.

**Adhi Desai:** I have two questions. I guess first on the Hospital. Obviously, Q2 is a seasonally strong quarter for us. But there's also the benefit of cost savings that we are kind of getting and which should increase over the coming quarters. So I want to understand what is sort of like what kind of quarterly EBITDA run rate we should be looking at? I know like there's some guidance, but just is it INR 1.2 billion to INR 1.3 billion sort of like now become a new base for us? That we think we can replicate even in fairly seasonally weak quarter like Q3? Or we think there's still going to be some ups and downs? So just want understand that. And then I can ask my second question after.

**Ashutosh Raghuvanshi:** Adhi, you are right. Historically second quarter is a strong quarter. But I think we have to look at our company slightly differently at the moment, because we are in a kind of a recovery phase. So I do expect the trend to continue as we go into future. So it's not a one off thing. You should see this as a trend.

**Adhi Desai:** Right. So we think we can maintain this 1.2, 1.3 and then maybe build on that going forward? As you mentioned before, we try to take it back to the FY17 base, and then maybe try to grow from there. And this is a kind of 1.2 to 1.3 is the current base, we can we think we can maintain?

**Ashutosh Raghuvanshi:** That's correct.

**Adhi Desai:** Okay. I guess then to my second question, I guess, it's more for Arindam on SRL. Again, fantastic recovery over here. And if I look at it, the recovery was driven more by kind of margin expansion, which clearly is all the cost initiatives we have been doing is kind of coming through. So I want to understand what the strategy is? Like, do we think we have done enough on the cost side? Do we think we can do more here? And at what point do we start refocusing on say, revenue growth itself? I mean, at 2% revenue growth we are still below the industry. So want to understand at what point we can shift gears into focusing on revenue growth itself?

**Arindam Haldar:** So I will take both parts of your question. Yes, we have been focused on improving our efficiencies on the cost side. That work is obviously never over. The low hanging fruits we have realized, but it's an ongoing process, that will continue. But yes, we have seen very healthy returns on that side. Coming to the revenue, we are focusing there as well. There's two parts of our business equally split between B2B and B2C. Our B2B part of the business have been seeing good growth. Still some catch up to do but we are already in double-digits, so healthy double-digits over there. Our B2C part of the business is where primarily the gap is. And we are

completely focused on the same. Over the next couple of quarters we want to break that back on track as well.

**Adhi Desai:** So, I guess in the coming quarters we will start refocusing on revenue growth again over here?

**Arindam Haldar:** That's right.

**Moderator:** Thank you. We have next question from the line of Neha Manpuria from JP Morgan. Please go ahead.

**Neha Manpuria:** Indeed, table that you have provided in the presentation where you give breakup of the hospitals based on profitability. So, two parts there. One, in the 10% to 15% margin, in that bracket, our occupancies are very high. So I am assuming the low margin is more structural. One, how do we look at addressing that, because it's not a simple occupancy? And second is less than 10%, it's a fairly large number of hospitals which are in that bracket, and things like smaller bed hospital, because it's about 120 average. So, are there some opportunities there to probably exit and therefore improve margins, or how should we look at that bracket, improvement in the bracket?

**Anurag Kalra:** So, Neha, on that chart specifically, if you look at the less than 10% margins, these are the hospitals that we have been talking to our investors about. And there are efforts to actually upscale them and take them to the next level. So, as you know, FEHI is in this bracket, Jaipur is in this bracket, Malar is in this bracket, and Sacred Heart and Vashi are in these brackets. These five hospitals are the ones that we are focusing on to upgrade it further and take them to the next level of earnings. Obviously, these things take time, but there is a clear effort. And one of the things that Dr. Raghuvanshi has also mentioned that we are beginning to see initial signs of recovery in one of the major hospitals in this packet, which is Escorts.

**Neha Manpuria:** And what about the 10% to 15%?

**Anurag Kalra:** So in 10% to 15%, we have we have hospitals like Ludhiana, Faridabad, Noida and Amritsar.

**Ashutosh Raghuvanshi:** So this packet seems to be doing well. And to your first question, the second part of that is that, would we be open to sort of realigning part of this portfolio? Absolutely yes. But again, we don't want to do that decision without making proper efforts and see whether these things strategically are important. So, that is the reason why it may take a little bit of time, but we will first try to do the structural steps to be corrected. And if we see that that is unlikely or is it going to take very long time, then we will be quite open to consider whether those assets make sense for us or not.

**Vivek Goyal:** And to speak about our investment and CAPEX plans, there is a certain sum of money that these hospitals have also been allocated in terms of refurbishment and purchase of new medical equipment. So, that automatically should also see them doing much better than what they were doing previously.

**Neha Manpuria:** Understood. In the 10% to 15% bracket, given that occupancies are already so high, are these more legacy issues that might be tougher to solve?

**Vivek Goyal:** So, Neha, Vivek this side. So, as is clearly witnessed that occupancy is quite good in these hospitals. So, there is a clear case of EBITDA margin expansion opportunity here by two counts; one is on the payor side, most of these hospital which are coming in this bracket, they have a high proportion of scheme business where the margin is low, as well as the occupancy is high and ALOS is also high on these hospitals. So we are working on that to improve both these parameters. And number two, there are hospitals like Faridabad and Noida, and Ludhiana also, all three are in that category whereby with very little investment we can expand the capacity and increase the base for allocation of the fixed cost. So, we are working on both these parameter and quite hopeful that, if not all, at least four hospital from this bracket will move to the next category very soon.

**Neha Manpuria:** Okay, understood. My second question is on SRL. I think the third quarter will be the last quarter where we will see this discontinued impact. And in this period we have seen SRL lose share in the B2C segment. One, how large is B2C? If I were to break up by revenue, what portion of our revenue comes from B2C? And second, can that be fixed quickly, or do you think it would take more like four to six quarters to probably for us to even get closer to industry growth, given how the competitive environment is?

**Arindam Haldar:** First question, our B2B, B2C split is roughly half-half. And yes, as I said earlier, B2C is one place where we have lost some share in the past few years, and our growth hasn't caught up to where the rest of the industry is. We are focused around improving our accessibility to patients through patient service centers and collection points across our focus cities. We are already engaged in the same. In the last three months we have been able to add about 100-odd collection centers. We clearly recognize that we have lost some ground on that front in the last couple of years. And that's number one priority for our sales and revenue generating team. So we hope to expand our presence drastically in the next three to six months. And even the ones that you have added in the last couple of months will slowly start showing results. It's difficult for me to give an exact quarter or date when it will go to the industry growth rate, but we are focused around waiting to a double-digit growth rate as soon as possible.

**Moderator:** Thank you. We have next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** The first one is on the cost savings. Dr. Ashutosh, did you say that we have done INR 32 crores year-to-date, did I get that number right?

**Ashutosh Raghuvanshi:** That's correct.

**Shyam Srinivasan:** So, is it one quarter, one and a half quarter? Because I remember we started this in the middle of June or something like that, right?



- Ashutosh Raghuvanshi:** Yes.
- Vivek Goyal:** So, Shyam, this cost reduction is for the half year. And this is typically in the non-medical staff, where we have done some rationalization, and the corporate cost expenses. So, it is a mixture of both. And we expect that this this may continue; this trend may continue.
- Shyam Srinivasan:** I recollect that there was some guidance around what we can achieve for the full year, INR 80 crores to INR 100 crores. Are we changing? Is it faster now, slower, whatever you can share on that cause guidance, please?
- Vivek Goyal:** We are on target, I will say, on this front.
- Shyam Srinivasan:** And the absolute number being?
- Vivek Goyal:** That 80 to 100 which we were targeting earlier.
- Shyam Srinivasan:** Okay. So we are just reiterating that? So there is no change to that guidance? I am just trying to figure that out.
- Vivek Goyal:** Yes.
- Shyam Srinivasan:** Okay. Sorry to persist on the cost. So I just looked at your BSE press release where you gave the filing, where you gave the individual line items. And I am not seeing any absolute cost reduction, everything has actually gone up absolute terms, percentage of sales clearly have come down. So when you talk about the non-medical expenses, bad debt collection, other expense G&A, seems to be more of a function of operating leverage rather than actually cost cuts. Would that be a fair assessment?
- Vivek Goyal:** You are absolutely right. So it will not be visible when you compare line by line. The reason I have told you, because some of our costs, employee cost particularly, doctor cost, paramedic cost go in tandem with the sales. As the revenues grow the costs will go up, and that all is merged under the personal cost, isn't it? So that that will not show the result in absolute term. Having said that, this cost is after absorbing the inflation and the normal increment due to inflation and things like that. So that's why if you compare this cost line by line and compare in absolute term, it will never be matching. But if these efforts were not done, this cost maybe higher by INR 32 crores.
- Shyam Srinivasan:** Got it. That's helpful. Thank you. Second question, again, just on the brand and utilization levels this quarter for the entire hospital business has come in like 72%, which I think has come in higher. So Dr. Ashutosh, if you can share from a doctor perspective or patient perspective, are we now back to one, two years back when the brand was enjoying a much higher, in terms of, recall? So do you think we have reached the journey, or you think there is more upside here in terms of utilization levels?

**Ashutosh Raghuvanshi:** I think we have a lot of headroom still available, both in terms of some of the hospitals where the demand is good, and the occupancy levels are a little high. A couple of examples are, like the Kolkata facility, Shalimar Bagh, Noida. We have some limited capacity expansion available within the existing structures. So there are going to be sort of kind of virtually physical expansion, as well as just the recovery of the brand per say. So both things are going in simultaneously. And we expect that this is not the peak, still a lot of headroom is available and there are a lot of initiatives that are going on in that direction as to how we enhance our clinical talent further, how do we increase the throughput with the existing talent, and how do we improve our patient satisfaction, etc. So that's what I emphasized in my closing remarks as well. So there is quite a bit of headroom there available in most of the hospitals.

**Shyam Srinivasan:** Got it. Dr. Ashutosh, just on doctor attrition, how is it tracking now? Are we okay? Are we able to attract new doctors onboard?

**Ashutosh Raghuvanshi:** Yes. Actually that has been quite heartening. And we had some attrition at senior level though, but that is pretty much which is expected in the normal course of business. So in the highest band of physicians what we track, that has been only to the tune of about 14%, and the it is like slightly lower than what it was last year. So I think that's quite acceptable. On the other hand, there are a lot of interest expressed from physicians in all different markets who want to come onboard and work for Fortis.

**Shyam Srinivasan:** Thank you. And my last question is on SRL. Wellness is 3%, most of our peers are at 8%, 9%, 10%. So is there a plan, because that seems to be growing faster than the market in general. Is there something that we are doing from an SRL perspective on wellness?

**Arindam Haldar:** Shyam, so the wellness part of our business is growing pretty fast clip, it is a small part of our business, presently segment is about 6% of our overall AEL business. That's growing at a very, very healthy clip. And we are focused using both digital medium as well as patient loyalty. We have also recently introduced our loyalty program, first of its kind for SRL, and we are focused on both the digital channel as well as on the loyalty initiatives to make sure that the preventive part of our business goes high. Even today, that part of our business is growing at a very healthy pace.

**Shyam Srinivasan:** If you can tell us how much is online aggregators contributing? When you mean digital is it all your channel or is it like third party online aggregators?

**Arindam Haldar:** It's mostly our channel, I would say almost all of it is our channel. We are obviously listed on pretty much every large aggregator that is available in the country. But the proportion of the business that we get from aggregator will be a mid-single-digit. So most of the business that we get on digital is through our own app and our own website.

**Moderator:** Thank you, sir. We have next question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

**Saion Mukherjee:** Arindam, I have a question on SRL. I mean, you kind of elaborate and we do see improvement in the performance, particularly on the margin side. When you look at some of the other listed players, there seems to be a fair amount of tailwind in the sector where smaller players are not able to sustain, there is a consolidation that's happening for the organized player. And you are coming from a low base. But when I listen to your commentary on growth, it seems a lot more cautious. So given that SRL is a decent brand, you are taking these initiatives, isn't it that you should quickly get back to 15%, 20% growth rate, which is where most of the industry peers are talking about?

**Arindam Haldar:** Saion, obviously, that is the intent. Having said that, our large part, as I repeated earlier as well, the part where we have really lagged in the last two or three years has been the B2C part as well as the accessibility that we could develop. We also lost quite a bit of our collection points to competition and others. So we are gearing up and gathering steam on the same. However, in a distributed market like India, this will obviously mean setting up retail points. And as much as our effort is to hasten the growth, there are sometimes a little bit of time that is required to set up those points and sometimes they take two to three months to get up and running. Internally, we are trying to do whatever is possible to make sure that we get to growth on the B2C part of our business pretty quickly.

**Saion Mukherjee:** Is it possible, Arindam, to let us know, I mean, in terms of the touch points like collection centers or patient touch points, what's the number today and where we would go one year, two year, what's your target there?

**Arindam Haldar:** So, in terms of patient touch points, we are at around about 1,100-odd election centers across India. 100 of them have been added in the last few months. And we clearly understand that we are pretty much lagging behind probably less than half of some of our listed years. And our effort is to breach that level and beyond pretty soon.

**Saion Mukherjee:** So, any number you have in mind that you can share from 1,100 to what level you would go? Because you added 100 in a very short span.

**Arindam Haldar:** No, it will be difficult to give a specific number on the same. However, as I told you, proof of the pudding is in eating. We have added 100 in the last three to six months, so we are obviously going very aggressively.

**Moderator:** Thank you. We have our next question from the line of Sangam Iyer from Consilium NV. Please go ahead.

**Sangam Iyer:** Going back to your slide 19, which Neha was alluding to. Could you just help us understand the metrics here in terms of the ARPOB of your highest EBITDA generating hospitals are similar to the ARPOB of your kind of 10% to 15% average hospitals as well, and occupancy being 76% to 80%. So, what are the levers or what are the initiatives taken here to improve the margins for the lower end of between 10% to 15% that can help expand significantly the EBITDA margin?

**Vivek Goyal:** So, as I explained, there are hospitals here which are at a very high occupancy. And if you see the ARPOB of these hospitals, it is on the lower side. While you are comparing this article with the 25% plus hospital, there are only two hospital in that category, and both of them in the geography where the ARPOB traditionally is lower, because of this ARPOB is a function of geography also sometimes. So these are basically two of them are in NCR where we see sort of substantial improvement scope in ARPOB in these two hospitals. And other two, we are at occupancy level at very high level, but there is a scope of volume expense wherein we can increase the bed capacity without incurring much capital expenditures, things like that. So both these thing will take it to the next level in my view.

**Sangam Iyer:** But given that we are talking here about primarily the volume expansion, is it that inherently that this would continue to remain at a high occupancy but at a lower ARPOB? Because if the ARPOB doesn't improve from here on, at 80% utilization rate, your modules cannot expand beyond this point, until and unless there is function increase in the ARPOB that comes through.

**Vivek Goyal:** So, we are looking at the EBITDA margin. So, when we are able to expand the volume, the cost base will be paired with the highest number. So as I said, it is a function of two, payer mix as well as the volume. And if we are able to do higher volume we will be able to spread the fixed cost on the higher volume, and that will help in improving the EBITDA margin. The fixed cost will be allocated to the larger base.

**Sangam Iyer:** Okay. So is there a possibility of changing the mix in these hospitals towards higher end to improve the ARPOB, or inherently that's not something that is possible and so it's purely volume expansion and thereby getting some operating leverage?

**Ashutosh Raghuvanshi:** No, it is going to be a mix of all of them. And eventually we have to drive the profitability by doing profitable revenue. I'd like to say good quality revenue. So, now that means that the realization is high, the length of stay is low, and it is more procedure based, and it is more payer, either pre-pay or cash. So those are the preferable directions we are taking as far as our driving of revenue is concerned. Because occupancy levels are high and there is some degree of fixed cost, which is going to be there at that level of occupancy, it is important to go beyond that critical mass and increase it. So, that is another lever, not that these are and/or, but these are both parallelly to be done. And the third is, which you said in the beginning, and I agree with that, there are certain structural issues which may be there inherently in some of the units in terms of how certain costs have been built over a period of time as a legacy. So, that correction is also being done by without sort of disturbing the institution in a major way. So, all these three directions we are working on.

**Sangam Iyer:** Got it. Secondly, when I look at the payor mix, that's changing from pure cash of 46% to 42.4% currently, how does the payer mix influence, A, occupancy; and B, the margin? Does it have any direct correlation?

**Ashutosh Raghuvanshi:** It does to some extent. Because what happens typically in some of the scheme kind of patients, like CGHS, ECHS, etc., typically you will find that the average length of stay is slightly higher. And the reason for that is very simple, because of the kind of administrative process which happens there, that sometimes increases the duration which a patient spends in the hospital. Like for example, patients will come and get admitted a day prior at least. And then sometimes if another procedure is to be done, then requests will go, then the pre-authorization will come, which may take another day. So, two or three days patient maybe there in the hospital without actually having any additional procedure. And that is exactly the reason why you will see in some of our hospitals where we have specifically called out in past as well, like Escorts, for example, the average length of stay is slightly higher than the rest of the network. If I have to give a number, the network being 3.4, it used to be about 5.2 in previous given month. So that kind of thing happened. So yes, this does increase the average length of stay. And that is one of the reasons why what happens is that you have an occupied bed and which you could have given to maybe a cash patient with a little bit of discount and had a much better realization. So, these kind of clever shifting of payor is absolutely necessary in order to drive profitable growth.

**Moderator:** Thank you. We have next question from the line of Anand Trivedi from Nepean Capital. Please go ahead.

**Anand Trivedi:** My question was on SRL. Given the trading multiples of Metropolis and Dr. Lal, have you ever considered or are you thinking of spinning off SRL as a separate listed entity?

**Anurag Kalra:** No, nothing right now. As you know, the only action that's going on right now is that we have about three existing private equity investors that hold about 31% stake. Fortis is facilitating the process and an investment bank that's been nominated to find the other private equity to buy out that stake. There are no plans for any spinoff of any nature at this point in time.

**Moderator:** Thank you. We have next question from the line of Shashank Parekh from Rockstud Capital. Please go ahead.

**Shashank Parekh:** Thank you for the opportunity. I have two questions. Firstly, we mentioned that we have 3,663 operational beds, and we mentioned the CAPEX for this particular year. Seeing the potential of Fortis going to 9,000 beds, what do we see the timeline? When do we target? And how many per year are we targeting to increase the number of beds?

**Vivek Goyal:** So, 9,000 is the ultimate aim which is not immediate on the drawing board. So, we will be moving in a stepwise direction. So, our immediate target will be to utilize the existing capacity first to the maximum, and then we have already put up a plan for expansion by another 1,000 beds to 1,500 beds which will be ramp up in a phased manner, say, in the next three to four years. And which will be just from the two aspect, one is on the rationalization of the capital expenditure on a yearly basis, and at the same time, we don't want to bump up the bed capacity in particular location and create a price competition.

- Shashank Parekh:** And CAPEX amount required for that would be?
- Vivek Goyal:** It will be in the range of INR 400 crores to INR 500 crores, because it is not a greenfield expense, it is all Brownfield expansion.
- Shashank Parekh:** So it's cheaper for us?
- Vivek Goyal:** Yes.
- Shashank Parekh:** Okay. And secondly, I just wanted an update. I think last time on the con-call sir had mentioned that we are doing a follow-up on the Supreme Court judgment where there has been a state. So what has been the update on that?
- Ashutosh Raghuvanshi:** So, we were told that before the retirement of Chief Justice happens, we should expect the verdict. So that means that there is still a time window of another week before we can be sure of.
- Shashank Parekh:** Okay. So is it told that this Chief Justice sir will only give their utilization of the...
- Ashutosh Raghuvanshi:** No, they have said that the verdict we, I mean, the judgment is being prepared. So we expect that it will happen. But they never give you a clarity as to when or if, particular date. That has been clarified to us by the court.
- Shashank Parekh:** And just on that line, just wanted to understand that the current things that are happening with the ex-promoter, is there a problem with us in the High Court also, is it that the stay is done due to the Conduct of the Court, that is the only question where Fortis has been stopped? Are we a party in the High Court problems too?
- Ashutosh Raghuvanshi:** No. The thing is that we have filed the court case at the High Court level for recovery, a civil suit, we have filed against the ex-promoters. So that is a separate case which will go on. So we are actually the complainant and we have asked for recovery. So, we are part of the group which is the seeking recovery.
- Shashank Parekh:** But nothing apart from that regarding the stay or anything?
- Ashutosh Raghuvanshi:** No, no nothing at all.
- Moderator:** Thank you. We have next question from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.
- Sanjay Shah:** Congratulations to Doctor for really turning around Fortis in a very short span. Sir, my question is directly to the SRL vertical. Sir, you have talked about improving the collection centers and

business of SRL. But can you highlight on some addition of new test and new critical tests and all, have we added anything and are we planning to do that?

**Arindam Haldar:** Sure. So that's a good question. Yes, we have added a few critical tests, I will just take a couple of examples on the same. We have a center of excellence in HLA in our Gurgaon Reference Lab. We have got a next-gen sequencing machine there and we have started new test, which will assist bone marrow transplant. We have also introduced NICT in recent time, and liquid biopsy around seven-odd months back. We are also evaluating a few tests in the immunology segment.

**Sanjay Shah:** Great. That will help us a lot. Dr. Ashutosh, one question for you. Sir, have you brought in any new therapies like radiology, etc., and improvement in our daycare business where without increasing bed we can increase the ARPOB? That is my main point about it.

**Ashutosh Raghuvanshi:** Yes. So we recently started the radiation oncology facility in Bangalore. So, that was one major addition. In Noida, we are increasing some capacity on the daycare beds as well. And we are adding some daycare capacity also in our FMRI facility. It has neuro navigation systems, etc., to enhance our neuro services in NCR region, Noida and in Hyderabad.

**Moderator:** Thank you. We have next question from the line of VP Rajesh from Banyan Capital. Please go ahead.

**VP Rajesh:** Could you comment on the open offer from IHH? And what's your best guess in terms of when that gets restarted?

**Ashutosh Raghuvanshi:** So, I think as you are aware, this is only because of the court stays. So it is beyond our control. So we will not be really able to comment, as to how this is about a time frame on this. But we expect that, as I was saying earlier, that Supreme Court Chief Justice is due to retire this month later, so we expect that before that some movement may happen.

**Moderator:** Thank you. We have next question from the line of Rishabh Parekh from Sunidhi Securities. Please go ahead.

**Rishabh Parekh:** Just a couple of questions. One is, with the existing assets that we own in the hospital business, if you factor in some kind of viable improvements in ARPOB and ALOS, and certain cost synergies. What is the headroom and EBITDA margin expansion we have? And what is kind of sustainable number you can get in the next, say, two or three years? That is the first question.

The second question is on finance cost. Our net debt is about INR 1,200 crores and we pay quarterly finance cost of about INR 50 crores. . So, can you just break up this finance cost into constituents?

**Vivek Goyal:** Yes. So, I will take the second question first, which is the finance cost one. So, finance cost includes not only the interest costs, it includes the bank charges also for the bank guarantee and

for the card swapping charges and all those stuff. Plus, this year the finance costs also include the lease cost, which is because of the new accounting standards. So we can provide you the greater detail separately, but this is the main reason why you will not be able to compare finance cost when you compare the rate of interest versus the debt.

**Rishabh Parekh:** But this is the sustainable finance cost for the next year also?

**Vivek Goyal:** We are targeting more reduction in that, but the plan is on. So, we are at around 10% right now on the interest side, so there is a plan to reduce it further. And as regards your other question on the EBITDA margin increase, there is an improvement in EBITDA margin. And we have a plan which we have shared in the previous question, how we can move the lower EBITDA margin units to the higher margin units, by changing the payor mix, by adding certain new specialties, and through expansion and improving the look and feel. All those will add to the EBITDA margin. So, we are targeting an incremental EBITDA margin.

**Rishabh Parekh:** No, Sir, my question was, in the next three or four years can we target a hospital business level EBITDA margin of between 18% and 20%?

**Anurag Kalra:** So, as we had stated before, our first target should be reaching to our FY17 levels, which were about 14.5%, 15%. Given our investment CAPEX plan, given the potential that we have implemented by radiation at very low capital cost, there is no reason why we think that over the next three to four years we should not be towards industry benchmarks. And the direction that you said is really the direction that we intend to go towards.

**Moderator:** Thank you. We have a last question from the line of Manoj Bahety from Carnelian Capital. Please go ahead.

**Manoj Bahety:** My question is mainly on some of the auditor comments in this quarterly earnings. First one is in respect of some penalty for not using our facilities towards underprivileged. In fact, I think on June 1, 2018, the company deposited a sum of INR 5 crores, whereas the overall penalty was close to INR 500 crores. And secondly, if you can give some color on the put option liability, which we have recorded in the balance sheet. Are we planning to increase our stake in SRL, because the liability which we have provided in the balance sheet is around some INR 1,100-odd crores, right?

**Vivek Goyal:** Yes. So, the answer is, as you know that this INR 500 crores liability that you mentioned, this is a matter of emphasis in the previous audit report also, which is basically relating to the Escorts case, which is an old pending case and it is in the court. So, the status is as it is as of now. So, it is under judgment, has to be pronounced on that. So, because it is a huge liability it is a matter of emphasis for us, and that's why they have mentioned this.



**Manoj Bahety:** Just on this one, 28 May, 2018, there was some order which has imposed a penalty which has brought down this penalty to INR 503 crores. And then after we have just deposited like INR 5 crores in the escrow account, right?

**Ashutosh Raghuvanshi:** Yes. See, this is the industry wide case in Delhi state, and this was as a result of a PIL which was filed. So multiple hospitals are involved with this case. And because the computation of this number itself has no scientific basis, because Court has said is that the hospitals have made unto profit. And accordingly therefore 10% of patients, whatever profit they would have made, must be paid to the government as a penalty. Now, that has not been substantiated because the number was derived arbitrarily, and hence all the hospitals which were part of this, and many other major hospitals are also part of this litigation, have the same issue. So, this is very kind of an arbitrary number which was put at that time. But since this is a matter which is sub-judice and we do not have a final visibility, that's why it needs to be disclosed. However, we expect that this is going to be resolved in a suitable manner.

**Manoj Bahety:** Thanks for this question. And on my second question?

**Vivek Goyal:** Yes. On SRL put option, so as you rightly said, it has been recognized as a liability in the books of accounts. And we mentioned in the last call also there is a process going on where the existing PE investors had appointed the merchant banker, which is Kotak, to scout for the new PE investor. And that progress is going on. So hopefully, post that that process, this liability may go away from the books of account.

**Manoj Bahety:** Are we planning to increase our stake? Simple the liability is in our balance sheet, like in case the new PE investor doesn't come at the required valuation....

**Vivek Goyal:** So, right now that is not the option we are exploring. The first step is first to find out the new private equity investor, actually, we are doing that is an existing PE investor doing because their fund is getting expired.

**Manoj Bahety:** So, if you are not able to find a new private equity investor, then is it that Fortis has to buyback that stake, or...? Because you have a booked a liability, does it mean that you have an obligation to buy if they don't get exited required valuation?

**Vivek Goyal:** So, as I said, there is a substantial provision on that, it will not be correct to comment on this right now. But I take your point, if there is a liability coming, I think then we have a valid whether it is better to buyback this or to have this liability. So, that option will be available at that time, I will not like to comment right now on this.

**Manoj Bahety:** And what is the time period for this?

**Vivek Goyal:** I think this will be decided in the current financial year itself.



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**Moderator:** Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Sir, over to you.

**Anurag Kalra:** Thank you, ladies and gentlemen. Thank you for being with us on the call today. Gaurav and I are available to take any other queries or any other data points that you may require. Thank you once again for joining us today morning.

**Moderator:** Thank you very much, sir. Thank you, ladies and gentlemen. On behalf of Fortis Healthcare Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.