"Fortis Healthcare Limited Q1 FY20 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Q1FY'20 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: Thank you. Ali. Very good evening, ladies and gentlemen, and welcome to Fortis Healthcare's Q1 FY'20 Call. On the call with me, we have Dr. Ashutosh Raghuvanshi -- our Chief Executive Officer; we have Mr. Vivek Goyal -- our Chief Financial Officer; on the Diagnostics side for SRL we have the CEO -- Mr. Arindam Haldar and Mr. Saurabh Chadha who is the CFO of SRL.

We will begin the call with some opening comments by Dr. Raghuvanshi, post that I will request Arindam to make his thoughts on the SRL performance for the quarter, and then we will open the floor for questions and answers. Over to you Dr. Raghuvanshi.

Dr. Ashutosh Raghuvanshi: Thank you, Anurag. Hi! Good Evening, everyone and thank you for taking time to be with us on the call today to discuss our Q1 financial year '20 results.

I am pleased to announce that our Q1 earning performance is reflective of the thoughts that I had shared with you in our previous call at the time of our Q4 financial year '19 results. We have a fundamentally sound portfolio of assets with the potential to deliver superior returns over a period of time. Our Q1 results show that the business has achieved stability and we today have all the building blocks in place for a progressively improving performance as we move forward.

Before I go into some operational highlights of the business, I would like to share with you that from a bottom line perspective, given the normalization of business and a growing and sustainable operating performance over the last few quarters, our liquidity position has significantly strengthened and we have also been further successful in reducing our borrowing and borrowing cost as can be seen in the results of the quarter. Of course, the full impact of the RHT buyback has also been seen in this quarter thereby fully reflecting the improvement in our EBITDA. In line with our earlier stated intent of focusing not only on EBITDA but on bottom line profitability, it is noteworthy that on operational PBT level our consolidated business has significantly turned the corner from a loss of INR118 crores in Q1 last year to a profit of INR20 crores in Q1 this year. Clearly, focus continues to be both at EBITDA and PBT, PAT level and also taxes need to improve or optimize all line items in our P&L and balance sheet continue as planned.

Briefly on the Financials for the Quarter: Our consolidated revenue have grown a healthy 9.2% to INR1,138 crores with operating EBITDA margins expanding 480 basis points to 12.5% versus on like-for-like basis 7.7%. The operating EBITDA was significantly higher at INR142.3 crores for the quarter versus INR15.1 crores. This was due to the improvement in the operational performance of the business and the impact of the net BT cost which were there in the corresponding previous quarter.

Our Hospital business revenue have grown 11.3% to reach INR913 crores in the quarter while our operating EBITDA margins for the Hospital business were at 10.1% in Q1 financial year ’20 versus on a like-for-like basis 5.1% in Q1 of financial year ’19. Operating EBITDA for Q1 stood at INR92 crores in the Hospital business as compared to a negative EBITDA of INR23.5 crores as a result of the BT fees at the time and a subdued operational performance. On a like-for-like basis, the operating EBITDA more than doubled from INR42 crores in Q1 of financial year ’19 to INR92 crores in Q1 of financial year ’20. I am sure many of you would also be analyzing the EBITDA number versus the trailing quarter. There it is important to note that Q1 generally has a seasonality aspect to it and the quarter also absorbed the additional cost related to salary, wages, increments as well as the variable payouts to our employees and doctors. This makes Q1 financial year ’20 not entirely reflective of the earning movement that one sees versus the trailing quarter.

On the Diagnostics business as well, we have witnessed a healthy performance with gross revenues growing at 4.2% to reach INR258 crores in the quarter and margins at 20.8% versus 16.3% in the quarter. Arindam, our CEO of SRL, will subsequent to my comments take you through the key highlights there.

On the balance sheet side, our net debt-to-equity has further strengthened to 0.14x as compared to 0.29x in the previous quarter and 0.14x in the trailing quarter. We have a relatively comfortable net debt of INR1,031 crores

From a business perspective, our Hospital business continues to see traction with occupancy at 66%. As I had mentioned earlier, this has to be seen in the light of seasonality impact versus the 68% occupancy in Q4. June was somewhat muted but it is also important to highlight that July-September quarter is expected to witness a strong ramp up. Our operating parameters in terms of ARPOB Rs.1.57 crores in Q1 financial year ’20 versus Rs.1.53 crores in Q1 financial year ’19. ALOS in the Q1 of ’20 versus 3.39 in the quarter of ’19 are relatively better than both the corresponding and previous quarters signifying that our continued emphasis on optimizing our product mix and service offerings across our facilities.

Our focus remains on key facilities that we believe have significant potential to recover as well as ramp up. We have initiated our investment plans in these key facilities whether there be in terms of expanding or introducing new medical equipment or medical programs and technology upgradation.

In the quarter, we have successfully commissioned the Robotic Program in Mulund and also launched the Oncology Program in BG Road.

Amongst the noticeable facilities, FMRI, Mohali, Anandapur, BG Road, Mulund, Noida and Shalimar Bagh have shown a healthy performance in the quarter. We believe there is a significant further potential to expand margins in these facilities basis a relatively better product mix and expanded service offerings.

On the expenses side, as we had reiterated earlier, the focus in terms of existing of Greenfield expansion is currently limited to only the three facilities. These are Arcot Road in Chennai, a 200-bed facility that we expect to commission sometime later this year. We have received certain approvals and we are in the process of getting the rest of the approvals and the commencement of the facility would be subject to receiving these approvals. When we have the BG Road facility, this has been commissioned in part whereas we have begun the Radiation Oncology facility and Nuclear Medicine, thus also expanding the BG Road portfolio to include a comprehensive oncology service. We are also progressing on track with the Noida expansion for a new block catering to our Liver Transplant Program which again for us will be an important part of our medical portfolio. This would be commissioned shortly as well.

On the cost side, focus continues across the spectrum of the organization while on one hand we are looking to optimize cost in areas of manpower productivity, procurement and IT which are ongoing initiatives, we have at the same time also completed actions that will garner cost efficiency in our corporate and regional cost. These stem from smaller to larger actions as also a better and more efficient organizational structure which was introduced recently to better align working between the hospitals and the corporate functions.

We also remain cognizant of strengthening of our cash flows which will enable us to further accelerate our pace of investment for growth and expansion. Actions related to non-core asset divestments are progressing well with us having recently concluded the stake sale of our 28.9% equity sale stake in MSCL, Mauritius. Working capital improvement and improving our receivables collection cycle is being diligently worked upon. In addition to this, we have also initiated an exercise to explore simplification of our corporate structure including the RHT portfolio of assets that we acquired in January this year which would also help to further optimize cash flows.

All in all, I think Q1 has witnessed an encouraging start for us. There are a lot of initiatives that are currently being undertaken across the organization. This will play out over the course of next few quarters. We have seen a healthy start to Q2. So, that is quite encouraging as well. As I had stated in my last call with all of you, I firmly believe that the company’s business fundamentals are in place, we have a good portfolio of assets, backed by quality medical power, a proven track record in clinical excellence and a committed workforce, all of which will hold us in good stead as we move forward.

With this, now I hand over to Arindam to take through the highlights of the Diagnostics business. Thank you.

Arindam Haldar: Thank you, Ashutosh, and a very good evening to everyone on the call. This has been a very important quarter for us as well being the start of the new fiscal. After a few quarters of soft performance, we have started seeing test volume and revenue growth and a significant jump in our margin figures over the last two quarters. And honestly, we are quite excited about our prospects. Our efforts towards increasing consumer touch points and managing cost structures have clearly started showing results.

Last quarter we did nearly 7.8 million tests which is a growth of 6% over the same quarter last year. Our reported net revenue growth for Q1 last year as well as over the trailing quarter is about 4.2%, although on a like-to-like basis the comparable growth will be more like 6% corrected for closure of a few large projects. We have also been able to increase both our touch points in terms of franchisee owned patient service center for sample collection as well as our revenues from the B2B clients. Some of our new initiatives like digital channels and CRM have also shown very exciting results. As you know, we are focused towards improving our operational efficiency and ensuring strict quality and process control across our network especially at the clinical reference labs.

We have been able to reduce direct cost by nearly 90 basis points over the same period last year and also manage to hold our general expenses resulting in a significant growth in our operating EBITDA. The absolute operating EBITDA grew by 33% over the same period last year, about 10% over the trailing quarter. For the given quarter, our EBITDA stands at 20.8% of gross revenue works out about 23.9% of net revenue, and this compares very favorably versus 16.3% in Q1 last year and 19.5% in the trailing quarter.

Our strategy of focused approach towards select disease portfolios have started yielding results clearly visible in the gynae segment with the release of NIPT and preeclampsia test portfolio last year and also in oncology where we have recently released liquid biopsy and organ-specific profile test.

We have a firm plan to drive growth in revenue and margins in the coming quarters and I can reiterate six drivers behind the same: #1, is increased customer penetration in all our key markets primarily via the franchisee route through adding more patient service points; #2, enhanced disease portfolio focus to bring in right test to doctors and patients; #3 is our continued focus to upgrade our technology and widen our specialized test menu. #4 is enhancement of our portfolio of preventive packages under SRL care. #5, higher throughput through our digital channels and through our CRM effort.

I am also happy to state that our SRL App has become the first in the diagnostics industry to have more than a million downloads on Android Play Store.

And last but not the least, we have this unique position of having both a large hospital and a diagnostic company under the same umbrella. We are continuing our focus of generating even higher synergies between Fortis and SRL to utilize the immense medical talent available on both sides to improve our reporting and clinical interpretation.

Thank you for your attention. I would like to hand over the call to Mr. Anurag Kalra, Head of our Investor Relations.

Anurag Kalra: Thanks, Arindam. Ladies and gentlemen, in the interest of time we would now open this for question-and-answer please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Just one clarification on the EBITDA numbers for both Hospital and SRL. What is the impact of IND AS 116 that is booked in the quarter?

Vivek Goyal: The 116 is basically for this lease accounting. So, it is having a positive impact on EBITDA by Rs.11.82 crores and there is a corresponding dip in the depreciation by Rs.9.75 crores and balance is mainly in interest.

Saion Mukherjee: Can you split between SRL and Hospital this Rs.11.82 crores?

Vivek Goyal: Positive impact in EBITDA is 5.2, depreciation is negative impact is 5.43, interest negative impact is 1.65 for SRL.

Saion Mukherjee: Second question is on the margin. Actually you mentioned about some improvement. Obviously, year-on-year, because it was a very weak period. But if I look at over time margins are 10.1% for the quarter appears to be weak, I mean, we had done much better in the past at a similar revenue base. So, I am wondering like how should we think about because there is a transition. So, if you can guide for margin this year it will be great particularly for the hospital business?

Anurag Kalra: Saion, hi! Anurag here. Saion, like Dr. Raghuvanshi was mentioning, when you look at the trailing quarter, there are a couple of things that we wanted to highlight. So, in Q4 FY'19, our operating EBITDAC for the Hospital business was about Rs.107 crores and this time it is about Rs.92 crores. As Vivek just mentioned, there is a lease accounting impact which is on the hospital about Rs.6, 6.5 crores. But when you compare it versus the trailing quarter, there are a couple of things that you have to keep in mind; one is the fact that Q4 had a service oriented export scheme, the benefit of that was accrued to us in Q4 only, this was about Rs.7-odd crores. Other than that, whenever you compare Q4 versus Q1, there is always the impact of the incremental or the variable pay and the increments that we have to provide for in Q1 for the rest of the year. Now, this amount itself is close to about Rs.7-8 crores which is always a change that you see from Q4 to Q1. And other than that, of course, given that Q1 is April-May-June, peak summer season compared to Q4, you also have the power and fuel bill up by about Rs.3, 4 crores.

So, when you actually look at it, given the seasonality impact, given these differences, Q1 normally is not exactly comparable to Q4.

Saion Mukherjee: I understand that. I mean the point is 10.1%, you would agree is a lower number. Now, your commentary suggest that it is kind of stable but we are not seeing signs of improvements. My question is essentially when do we see that and in that context if you can guide for EBITDA margin going forward for fiscal ’20 it will be helpful?

Dr. Ashutosh Raghuvanshi: We cannot really put forward guidance on the EBITDA margin per se, but what I can tell you as I said earlier is the traction in the second quarter is always more than the first quarter. So, you are right that at the same revenue pace, the margins could have been better. But you have to also look at it in totality as to the trajectory which the business has taken in last 1.5-years. So, you would see an upward shift in the margin profile; however, I would not be able to put an exact number to that right now. We definitely aspire to have a much higher number. Anything above 14%, 15% is what one would expect least. So, our expectations are also in that direction. However, we may not be able to achieve that kind of margins in one or two quarters, but we definitely will be aiming to go in that direction pretty soon.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, first question is any update on the open offer and the litigation surrounding that?

Dr. Ashutosh Raghuvanshi: Sarvesh, right now there are no updates. As you know that the Supreme Court had upheld the verdict. They had finished the arguments, etc., We do expect that there should be some movement soon. We are exploring all the possibilities as to how we can sort of address this question. We can probably make a mention in the court, etc., So, we are exploring those options and we would be doing that pretty soon within this week.

Sarvesh Gupta: I think court had reserved the judgment in maybe five, six months now. So, I was just wondering if we are taking any steps from our side to accelerate the process because that is also a big client sort of problem for IHH to complete its process of takeover and all that?

Dr. Ashutosh Raghuvanshi: All the arguments and hearing was over only about a month back and that is the time when the court has said that now the hearing is complete and we will reserve the judgment for now. So, it is true that it has got delayed from that time and of course whatever time it has taken is pretty long, but we respect the judicial process. Now from our side, we will be making a mention to the court that to pronounce the verdict as early as it is feasible for the court. So, we can make a prayer to the court and we will be doing that.

Sarvesh Gupta: This week itself?

Dr. Ashutosh Raghuvanshi: Pretty soon, we are in the process of preparing for that.

Sarvesh Gupta: Sir, regarding the management changes, we have read in some reports that the problem was so widespread in the Fortis organization that one only needed to be batch mate or the ex-promoters to even hold a high management position in Fortis. So, while we have seen in changes at the CXO levels, if you can provide some color about what are the changes that we have been able to do at the middle management level and maybe the top management level that would be very helpful because I think all these problems were not just limited to the higher management level? So, we would be interested to know more about it.

Dr. Ashutosh Raghuvanshi: I think that is a process of improving the culture of the organization is always an ongoing process. With the new leadership as you can expect there are certain alignments which need to be done in the functioning of the organization. One of the major things which I have undertaken is to restructure the organization from a previous very regional base structure to a structure which is based around small clusters which directly under the influence of the corporate functions. So, the responsibility and the accountability patterns have been changed. In order to make them more efficient and also many factors which you mentioned about people's alignment, etc., have also been taken care of largely in that process.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question is on the cost saving target that we gave in the last call. Sir, you mentioned about Rs.85-90 crores over the next two years. If you could give us some color on how much of that has been in action because you mentioned roughly about Rs.25 crores of that number can flow through in FY'20, so, should we expect that number from the next quarter onwards or do you see this being more back-end weighted?

Dr. Ashutosh Raghuvanshi: No, Neha. Some of that impact has already started showing in terms of say human resources itself we have achieved better performance of about Rs.16-18 crores and as we go through the year we will achieve the target within this year over the next two, three quarters I think of Rs.100 crores.

Neha Manpuria: Sir that would indicate a significant ramp up in profitability from the current levels. So, could you give us some color on how you are seeing occupancy trends that gives you that confidence along with the cost saving in July probably?

Dr. Ashutosh Raghuvanshi: As I had mentioned in my statement earlier also that the trend of the next quarter appears to be very good. July quarter occupancy levels were definitely better than the 66% this quarter.

Neha Manpuria: My second question is if I were to check the EBITDA number after adjusting for RHT QoQ, if I exclude the lease impact hospital has declined QoQ and our SRL is pretty much flat. But still on a consol level there seem to be an improvement in EBITDA. Is there something else in terms of the international business losses which you have reduced, etc., where we are seeing this improvement or this is just corporate overhead reduction?

Anurag Kalra: No, Neha. When you look at the consolidated numbers, in Q4 the trustee-manager of RHT that accounted for a little of fees. This time what has happened? While the RHT TM 100% owned by Fortis, nothing is coming in the income line because there is no RHT portfolio of assets; however, certain cost associated were to the tune of about Rs.3-4 crores are still there in the consolidated EBITDA line.

Moderator: Thank you. The next question is from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.

Sanjay Shah: Can you please highlight on the IHH? There is a new management role in the function of our hospital chain and progress of RHT.

Dr. Ashutosh Raghuvanshi: RHT acquisition was done in the January month. So, that part was already done. Now, as far as IHH changes are concerned, those are routine changes which are happening at the board level. They do not really directly impact the functioning of Fortis on day-to-day basis; however, we look forward to working with the new team.

Sanjay Shah: Do you see any benefit coming out from the new management because we are excited about the new management coming in and seeing the IHH function in the other hospitals, can we see some good outcome of that?

Dr. Ashutosh Raghuvanshi: As we have said earlier also, we look forward to lot of synergies between the two groups on many fields specifically on the side of procurement both on the CAPEX as well as the consumables, etc., and also on the side of technology like IT sharing, etc., So, these are the areas where we look for direct synergies of improving our performance as well as improving our patient experiences. So, we are working closely with them on aligning on these kinds of issues and then gradually I guess this would also get translated into actual savings and benefits.

Sanjay Shah: Apart from savings and more focus, I would like to understand about the function. So, can we expect some improvement in ARPOB after this IHH taking a serious part and making India as a medical tourism?

Dr. Ashutosh Raghuvanshi: ARPOB is obviously a function of multiple things, payers, etc., you are right that international patients probably bring in higher ARPOB. Our focus has always been on different markets depending on what kind of patient profile is available. Like in NCR region, in the main hospital we have lot of focus on international patients, so that will go on. Our ARPOB are typically quite satisfactory. It has grown marginally in the last quarter but I think that is a function which is independent of what our relationship with our parent organization is. That is a process which will always go on in terms of improving that metric.

Moderator: Thank you. The next question is from the line of Adi Desai from York Capital. Please go ahead.

Adi Desai: My question is for Dr. Raghuvanshi. Based on the context of what Saion and Neha asked earlier, I guess our EBITDA this quarter for hospital have been 10.1%. If I look at from QoQ perspective, I understand that, they are not comparable but our revenue has declined by Rs.5.5 crores while our EBITDA has declined by about Rs.15 crores. Even if I compare it to say Q1 2018 where we did revenues of Rs.934 crores and EBITDA of Rs.127 crores. So, margins are lower by about 3.5% compared to two years ago the comparable quarter. And even compared to last quarter our EBITDA has declined more than our revenue. Wanted to understand how the cost saving for that right, I mean, obviously there is a cost inflation but I am surprised that our EBITDA is declining more than our revenue. So, how do I think about that – is that something we should expect to continue, do we need the revenues really start growing in a significant way, how do we think about because I would have expected revenue to decline more than EBITDA, so that is where my surprise is, so I just wanted to sound that?

Anurag Kalra: Adi, like I mentioned before, when you compare it versus the trailing quarter, there are a couple of points to be noted there…

Adi Desai: In terms of one-off, I would have expected cost savings to have actually made that up. I just want to understand the context of cost savings. What do we do this quarter?

Dr. Ashutosh Raghuvanshi: Cost saving is something which is going to have kind of annualized impact because there are a lot of structural changes which the earlier question was asking about how we are making the difference in the organization structure, etc., Now, lot of those savings as Neha also mentioned will be slightly back-ended in this year.

Adi Desai: So, we would not have received too much in Q1. Is that a fair assumption and you get more in Q2, Q3, Q4?

Anurag Kalra: I think that is right. Like Dr. Raghuvanshi mentioned a couple of initiatives have happened actually in the middle of the quarter. I can give you an example also. The reorganization of the corporate functions aligning it with the hospital functions which will actually optimize the entire structure of the business. That has actually happened only about 20-days or three weeks ago. So, the impact to that in terms of cost savings will actually play out over the next quarter. Similarly, we have a corporate office as well. There are certain cost initiatives that have taken place during the course of the quarter. So, that impact will actually play out over Q2, Q3 and Q4 as you move along.

Adi Desai: I guess my second is on the occupancy ARPOB ALOS kind of metrics where obviously like ARPOB increased decent amount; 2.6% YoY this quarter and our ALOS decreased quite significantly, so obviously using much more efficiently. Our occupancy is at 66%. So, is there a strategy to bring the occupancy to say 70% plus this year, is this more kind of actively trying to solve for ARPOB ALOS, how we are kind of thinking about this and if it is occupancy what are the initiatives we are taking to take this occupancy back to 70% or so?

Dr. Ashutosh Raghuvanshi: Occupancy is already sort of going towards 70% in the previous month also post the first quarter. So, we are pretty confident about the occupancy level going up but there are several other initiatives which we are parallelly doing in terms of improving efficiency and also the kind of revenue bring in. So, the focus is ongoing more for the cash kind of business rather than the credit kind of business. So, we are trying to balance these two out to improve this further. As you know, there is a lot of sensitivity around price at the moment. So, we do not have that much opportunity on pricing. So, we need to work little more on the occupancy as well as on the length of stay. Now, occupancy as I said earlier is already trending in that direction and we are looking to enhance it further.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: My first one is just a data point. What is the number of operational beds that we have in Fortis – does it include also the BG Road new addition and stuff, if you can just give us a quick update?

Anurag Kalra: Shyam, we have about 3,700 operational beds currently. The BG Road facility has been commissioned to the extent of basement plus ground floor. So, we have really not added any beds in the new block as of now because right now the occupancy there is not optimal. So, we would rather use that first and then only expand further.

Shyam Srinivasan: I am just doing the math from last time. I know you do not give this number often, but I had like 3,100 beds around this time last year. So, is there any increase in beds or I think my previous year number might be wrong?

Anurag Kalra: Shyam, we have actually been around the 3,700 mark only.

Shyam Srinivasan: Not much change on YoY or QoQ basis on the number of operational beds, would that be fair?

Anurag Kalra: Yes.

Shyam Srinivasan: So, just in light of this, my second question is on the key hospitals. It is heartening to see FMRI grow 18%. But can you talk about FEHI, Noida, what is happening to the other ones which probably still seem to be lower than where the corporate average?

Dr. Ashutosh Raghuvanshi: FMRI, Noida, Shalimar Bagh, Anandapur in Kolkata have grown reasonably well, Mulund also has had a satisfactory growth compared to last year. The one hospital where we have not seen satisfactory performance is Fortis Escorts and also we have not seen a satisfactory performance in our Nagarbhavi facility and Malar facility in Chennai as well. Other than that, most other hospitals have grown in a satisfactory manner.

Shyam Srinivasan: My last question is on diagnostics. 4% growth reported 6% like-for-like. Do you think there is a path to reach a double-digit number at some point of time like where your peers are and what needs to be done to achieve that?

Arindam Haldar: Shyam, this is Arindam. Just reiterating what I had mentioned last quarter to all of you that is the intent that we have and quite focused on the same to see how we can take this business growth from the current level of 4% or 6% towards early part of double-digit. Difficult to give a specific date or a timeline to it but we are completely focused on the same and we have built in a strategic roadmap to reach there.

Shyam Srinivasan: Are you picking up more noise from the government or any of the regulators on price capping of test?

Arindam Haldar: EDL, as you know from WHO got released middle of last year. So, that is an ongoing discussion I would say. I would not have a clear visibility any of us have right now to talk about whether EDL equates to a price control, but all of us in the industry are engaged on the same.

Moderator: Thank you. The next question is from the line of Anand Aggarwal from BlackRock. Please go ahead.

Anand Aggarwal: I am a bit confused by the numbers. Bear with me. Just to clarify this. Adjusted for AS 116 the like-to-like EBITDA this quarter was only Rs.86 crores. Is that correct versus Rs.107 crores last quarter?

Vivek Goyal: Yes, correct.

Anand Aggarwal: Second, I think it was also mentioned that you realize about Rs.16-18 crores of cost savings on the manpower side. What is that number – is that something that you realized in the quarter, annualized basis, for the quarter, exit rate for the quarter?

Dr. Ashutosh Raghuvanshi: That is the exit run rate for the quarter.

Anand Aggarwal: You are saying in Q2 you should see the entire Rs.16 crores to 18 crores of benefit?

Dr. Ashutosh Raghuvanshi: That is right.

Anand Aggarwal: For three quarters, this will be about let us say Rs.48 crores to 54 crores of benefit on top of this whatever additional savings you are able to deliver?

Dr. Ashutosh Raghuvanshi: I will put an exact number on this, but that is the direction we are taking. The reason why I will not put a number is because there are times when you are exiting someone, you are inducting some new talent, so the numbers may fluctuate during the year, but the idea is to reduce the cost of operations on human resources and all other areas of fixed cost as well and that number on an annualized basis should be approximately Rs.100 crores is what we are aiming for.

Anand Aggarwal: How much would you realize it in this year? That is what I am trying to get at.

Dr. Ashutosh Raghuvanshi: That is what I was saying earlier that we expect to achieve at least 80% to 90% of that amount.

Anand Aggarwal: Just last question on the ARPOB side. What was the reason for the increase, could you give some color around it, was it just a mixed thing or anything more to that?

Dr. Ashutosh Raghuvanshi: ARPOB also has gone up actually, it has not gone down.

Anand Aggarwal: What was the reason for it going up?

Dr. Ashutosh Raghuvanshi: That is a case mix change. There is no price.

Moderator: Thank you. The next question is from the line of Nico Yosman from Morgan Stanley. Please go ahead.

Nico Yosman: Just want to clarify you mentioned earlier that operating EBITDA excluding accounting impact is Rs.86 crores this quarter for consolidated. What was that number again for Hospital and Diagnostics?

Vivek Goyal: Rs.86 crores is the Hospital. Diagnostics is Rs.49 crores.

Nico Yosman: You also mentioned that there is no price hike in hospitals. How about in diagnostics, what is the driver of the higher realization, but this is just mix only?

Arindam Haldar: Here it is primarily the mix. Price table has remained pretty much flat in this quarter as well last year.

Nico Yosman: Are you saying that 50:50 issue in raising price in the diagnostics segment as well?

Arindam Haldar: Yes, in the industry there is sensitivity around increasing prices, so most of the growth will come from volume growth.

Nico Yosman: Can we say that margin should be sustainable at the current level, there is not much quarter-to-quarter seasonality this quarter?

Arindam Haldar: There is a slight seasonality that one sees in the quarter-to-quarter that has just started, most of the vector borne diseases happened, so a little bit of seasonality that come in Q2 traditionally, but we are on a healthy space as far as the margin profile is concerned. So, we should be able to sustain, of course, large part depends on a bit of seasonality, Q2 is typically better, Q3 is typically a little subdued quarter.

Moderator: Thank you. The next question is from the line of Anuj Jain from Globe Capital. Please go ahead.

Anuj Jain: I just wanted to understand our cost of borrowing, like we said we had Rs.1,000-odd crores of debt in our books, so what is the margin cost of borrowing for that one?

Vivek Goyal: Marginal cost of borrowing is around 10%, average cost is coming around 10.25%.

Anuj Jain: What was it earlier prior to the rating upgrade?

Vivek Goyal: It was around 14%.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: On your newly commissioned facility of Arcot Road and BG Road, I am wondering what is the cost going to be like initially?

Dr. Ashutosh Raghuvanshi: Arcot Road is not operationalized as of now. What I said was that the intent to commission it before the end of this year subject to certain permissions in that. The CAPEX for that is approximately around Rs.38 crores within this financial year and once it is operational then there would be obviously some negative cash flows. So, this subject to the clearances and permissions which we are yet to receive, but we are in the process of doing that and we are pretty hopeful that this will be commissioned within this calendar year.

Saion Mukherjee: I was specifically asking about the negative cash flow impact that you mentioned for these two sites. What is the quantum that we could expect?

Dr. Ashutosh Raghuvanshi: The CAPEX is Rs.100 crores for all these things. The negative cash flow will depend on how much of duration the Arcot Road facility is functional. There is no negative cash flow as far as BG Road is concerned because it is a running hospital and it is only an add-on service. Arcot Road depending on whether we are operational for one quarter or less it would depend on that. So, I expect that within this financial year that negative cash flow might be to the tune of about Rs.10 crores to Rs.12 crores.

Saion Mukherjee: This assumes commissioning when, so Rs.10 crores to Rs.12 crores if you are assuming negative cash, so this…?

Dr. Ashutosh Raghuvanshi: That means we would possibly get it going around January.

Saion Mukherjee: Annualized like Rs.40, Rs.50 crores is what an impact would be.

Dr. Ashutosh Raghuvanshi: Not really. The run rate keeps on changing. So, on an annualized basis we do not expect more than Rs.30 crores of negative cash for the full year.

Saion Mukherjee: Are you saying that for Fiscal '21 when you have the full year of operations, the EBITDA impact would be Rs. (-30) crores, is that the right statement?

Dr. Ashutosh Raghuvanshi: No, in 2021 it would not be Rs.30 crores because if there are two months gone, the first two months the loss is higher and it typically keeps coming down. So, if we do commission it in January then in three months it would have gone to some stage of operations. So, for the next financial year if we are looking at it, it should be slightly less than that. It is anybody's guess but it could be approximately about say maybe 20 to 25.

Saion Mukherjee: Last thing on CAPEX. For this fiscal what is the number and including these two facilities overall CAPEX and how much you have done for Q1?

Dr. Ashutosh Raghuvanshi: We expect to spend about Rs.200 crores in this year; Rs.100 crores for upgradation and replacement in the existing facilities and Rs.100 crores for the new setups on the growth CAPEX which we are planning. So, far on the growth CAPEX side, we have spent in the first quarter about Rs.15 crores.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Anurag Kalra: Thanks, Ali. Thank you, ladies and gentlemen. My colleague Gaurav and I are available to take your questions and any data that you may require. Thank you for taking the time to be on the call with us today. Have a good day.

Moderator: Ladies and gentlemen, on behalf of Fortis Healthcare Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.