



“Fortis Healthcare Limited
Q2 FY 2021 Results Conference Call”

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Moderator: Ladies and gentlemen, good day. And welcome to the Q2 FY 2021 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, Margret. A very good afternoon and good evening, ladies and gentlemen. And welcome to Fortis Healthcare Q2 FY 2021 Earnings Call. The call is being chaired by our Managing Director and CEO, Dr. Ashutosh Raghuvanshi; along with him we have Mr. Vivek Goyal, our Chief Financial Officer. From the SRL, we have Mr. Anand K, SRL CEO; and Mangesh, the CFO of SRL.

We will start the presentation with some comments by Dr. Raghuvanshi, post which Arindam will take you through some comments on the diagnostics business for the quarter. And then we can open the floor for question-and-answers. Over to Dr. Raghuvanshi.

Ashutosh Raghuvanshi: Thank you, Anurag. Good afternoon, everyone. And thank you for your time today. Let me begin by wishing you all in advance a very Happy Diwali, and hope that you and your families are safe and well.

We continue to face challenges in the current environment but have also begun to see signs of initial recovery in our business. Given our Q2 performance, we do feel a sense of positivity as we enter the second half of the fiscal. At the same time, we are launching the pandemic trends closely and are ready to adapt as the situation demands. Before I begin, I would like to express that gratitude towards our employees, especially those that are at the front line in our battle against COVID. They have gone above and beyond the call of duty to ensure best possible and safe care for our patients.

Coming to the performance for the quarter:

We have clocked consolidated revenues of Rs. 995 crores versus Rs. 1,212 crores in the corresponding previous quarter. While this is below the Q2 financial year 2020, largely as a result of the pandemic, it is significantly better than the revenues we had in Q1 of the fiscal. In fact, versus Q1 revenue, we have grown 64%. Similarly, our EBITDA at Rs. 146 crores, while lower than Q2 financial year 2020, is much better than the trailing quarter, and has shown more than 2x growth over Q1. This reiterates our belief that we are slowly and steadily heading towards normalization.

I am also going to state or rather caveat my comments by saying that while we are seeing the pandemic recede across India, some states, as you would know, are beginning to see the so called third wave. And here, I am referring to what has been happening in Delhi NCR. We cannot

discount the possibility that similar situations could arise in other geographies in which we operate. This could lead to certain additional challenges in terms of pricing, bed expansion and other regulatory hurdles, which we will have. So while we remain sanguine on the situation, this is going to a dynamic environment to operate in or the foreseeable future. We remain confident that we will be ready to adapt to whatever challenges are so in our way.

Our balance sheet remains healthy with a net debt-to-equity of 0.16x as on 30th of September, 2020, as compared to 0.18x as of 30th of June. Our net debt stands at Rs. 1,113 crores versus Rs. 1,004 crores in the corresponding quarter, and Rs. 1,238 crores in Q1 of financial year 2020. While we have effectively navigated our cash and liquidity position to ensure sustainability of operations, we have also begun the process of optimizing the capital structure of some of our key wholly-owned subsidiaries that we believe will further strengthen our cash flows. In fact, with the receipt of some income tax returns and improving operational performance, and coupled with available bank borrowings, we are today in a relatively strong position to reinstate and pursue our growth and expansion plans.

Both the hospitals and the diagnostics business have registered healthy growth versus the trailing quarter in terms of top-line and profitability. We have seen our hospital business occupancy increase from 37% in Q1 to 57% in Q2. I am also pleased with the fact that we have begun to see traction in non-COVID occupancy which was languishing at 32% in Q1. This has now increased to 38% in Q2 and continues to show a positive trend. The month of October is also on similar lines. Our COVID occupancy has increased from 5% in Q1 to 19% in Q2, and is now stable at around 23% to 24%. Our ARPOB stood at Rs. 1.49 crores versus Rs. 1.51 crores in the trailing quarter, versus the previous quarter it is lower by 4%v largely as a result of the COVID patient mix.

Our diagnostics business has fared better than the hospital business. It has surpassed pre-COVID revenues in Q2 and trend continues in October. Not accounting for COVID revenues, the business has reached approximately 75% of pre-COVID levels in the quarter, with September at over 90%. For the diagnostics segment, we are looking at COVID as a short to medium-term opportunity and have commissioned new COVID testing facilities in places like Hyderabad, Chennai, Bangalore, Kolkata and Deogarh. We did 5.2 lakh COVID tests versus 1.25 lakh tests in Q1, a robust growth of over 300%. On the non-COVID side of the business, we are taking concrete steps in order to strengthen our top-line and profitability, with a renewed focus on the B2C segment and network expansion. I will let Anand detail that out a bit more post my comments.

Despite the current environment, I think from a long-term perspective, we continue to stick to our growth and expansion strategy that will see us adding approximately 1,300 beds across the network in next few years. As you would be aware, we have recently launched a 250 bedded multi-specialty hospital in Chennai that was inaugurated by Honorable Chief Minister in the month of October. We have also begun expansion plans in facilities such as Shalimar Bagh, Noida,

Mulund and Anandapur in Kolkata. That will come on stream in the next year or two. On the medical equipment and technology, we have added state-of-art equipment, such as Dual Source Dual Energy Somatom Drive CT scanner in Kolkata, a unique Plethysmography machine at Fortis Rajan Kunj and Mumbai's first Tesla Advanced Biometrics MRI to ramp-up the radiology offering at Fortis, Mulund. We are also prioritizing our efforts towards leveraging information technology and digital initiatives to enhance operational efficiencies and ensure a seamless and superlative patient experience. As such, I am quite pleased with the way we are preparing ourselves for the next fiscal and by that time I am hopeful we will see complete normalization.

I would also like to highlight some salient points on the cost side. As you are aware that last fiscal, we had set a target for cost reduction that we had met. This year, our cost efforts have helped us navigate the current environment. Large part of our workforce has taken voluntary salary reductions. We had also deferred hiring for the time being. While our costs would continue on the most aspects, be it related to manpower optimization, taking decisions on in-house versus outsourced business services, renegotiating vendor contracts and other corporate office and sales and marketing costs, it would also be pertinent to state that temporary cost reductions as related to manpower will come back into the system in a calibrated manner as performance metrics gets better.

This in no way means our costs will balloon, but there could be a lead lag effect by the time we see the results of our other ongoing cost efficiency measures in the P&L. I think cost reduction or rather cost optimization is here to stay, and is going to be a perennial item to look at across functions and facilities. Many of you have a question of a number or an amount of cost savings, but you would appreciate that in the current environment, and we are not close to being over this, as of now, it would be challenging for us to share a figure or an amount at this time. But rest assured, we will see reasonable cost savings playing out in the short to medium-term itself.

I have spoken about our portfolio assessment, non-core assets, divestments, expanding clinical programs and digitization and IT initiatives in the past. And so while I am not going to dwell on them, again, these are key areas that we would continue to pursue with full commitment and progress going ahead. In the end, I remain optimistic that we will be in the progressively better position in the second half of the year and do expect that financial year 2022 would be a normal year for us. We are sticking to the fundamentals of building on clinical excellence and acumen, along with patient service and experience, backed by high-quality medical infrastructure. These, we believe, are the imperatives to build a robust and sustainable business that would create long-term shareholder value for all stakeholders.

Thank you for your time. And I would now like to hand over to Anand to take you through his thoughts on the Diagnostics business. Over to you.

Anand K:

Thank you, Dr. Raghuvanshi, and a very good evening to everyone on the call, and a very Happy Diwali as well. This has been a very important quarter for us, reaching half year of the fiscal

year. After the quarter of complete lockdown and operational constraints, we have started seeing growth in volumes and a decent jump in our margins over the few months. We have seen a good recovery in terms of our non-COVID business during this quarter. SRL achieved Rs. 111 crores top-line in the month of September 2020, crossing the Rs. 100 crores revenue mark for the first time and recovery of 92% in non-COVID business compared to pre-COVID levels.

We did nearly 5.9 million tests last quarter, which is a recovery of around 71% over the same quarter last year. Our reported net revenue growth is 2.4% over the same quarter last year, and around 100% versus the previous quarter. COVID contributed to about 30% of our total revenue in Q2. We conducted more than 0.5 million COVID RT-PCR tests in our labs across India. In addition to COVID testing facilities in Delhi NCR, Mumbai and Kerala, SRL launched its 10th RT-PCR lab recently in Hyderabad, thereby expanding its network across Chennai, Bangalore, Kolkata and Deogarh.

Our B2C business has been growing at a 12% plus rate, backed by collection center network and home collection channel. Our home collection facility is available in all lab locations, and home visits have nearly doubled over the same quarter last year. The recovery of walk-ins has been slow, and we hope to be back to normal by end of Q3 on these numbers. Our B2B business is at 96% of the same quarter last year, majorly pulled up by direct clients, while corporate and international business is still facing issues due to logistic constraints and hiring freeze in MNCs across India.

We have been able to increase customer accessibility, which is franchise and owned patient service centers for sample collection with the addition of around 180 new customer touch points last quarter. Some of our new initiatives like digital channels for patient access and CRM have shown very high-growth, though over a small base. Our strategy of focus business portfolios to address current hospital and patient needs are yielding results, visible in the performance of COVID and COVID allied tests. Our new product promotions like immune check panel showed good response with the addition of three preventive packages in our smart report portfolio. We have managed to hold our general expenses and gained efficiencies based on cost negotiations, resulting in significant growth in the EBITDA margin. For the given quarter, our EBITDA stands at 25% of gross revenue. This compares favorably versus the same quarter last year under negative growth of 7.5% over last quarter.

We have continued to upgrade our technology and widen our offerings. Recent examples being the introduction of digital pathology at our Goregaon reference lab. We have completed Phase 1 of the AI-driven algorithms for liquid-based pathology as part of the Microsoft AI consortium, and started utilizing the same for patients. We initiated the Phase 2 of the project in breast cancer with Microsoft Corporation USA. We are also including Gurugram and Bangalore reference labs in our digital pathology network this quarter. Our focus on improving our genomics portfolio has resulted in an increase in debt numbers of genomic-based tests, especially in reproductive health and oncology.

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

Anurag Kalra: Thanks, Anand. Ladies and gentlemen, we had circulated the investor presentation and press release, hope everybody has gone through it. In the interest of time, we would now open the floor for question and answers, please.

Moderator: Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: My first one is on the outlook for the second half. You talked about Delhi having to see some kind of a COVID uptick, like third wave, so how should we look at the occupancy, October is at 66% like you have said, so how should we look at it in terms of the mature hospitals, in terms of the key flagship hospitals, how are they now tracking? And from a non-COVID and surgical procedures, elective procedures, what are we doing as a hospital to encourage patients to come back?

Ashutosh Raghuvanshi: Yes. So Shyam, there are three parts to the question. And as I said in the beginning, there is a kind of an unpredictable kind of situation. However, it is unlikely to see a dip in occupancies or anything of that nature. If at all, it would require us to reconfigure a little and maybe a little change in the COVID versus non-COVID patients. So we have seen a continuous increase in our occupancy numbers across our network. In almost all the hospitals, we are seeing the occupancy levels improve from September to October, and I believe that the trend is likely to remain. November, as you know, typically is a festival month and some drops may happen. However, we are not seeing that so far. So we expect that the third quarter should remain a better quarter than what normally it is.

As far as the confidence building for patients is concerned in the hospital, that's a very important thing. In all our best hospitals, we have put in systems in place where there is a very distinct process for how the patients are entering into the system and how they are being processed. So there is a very visible confidence-building measure. So we are seeing the non-COVID work gradually picking up. Though the numbers are still short, but it is picking up. We have also started seeing a trickle of international patients coming as well. We have seen international patients come to both our Delhi as well as our Bangalore facility, and we expect that trend also to continue.

Shyam Srinivasan: Just second question is on the cost savings, you talked about it. But if you could highlight some of the savings that could stay in second half of this fiscal, maybe in fiscal 2022. Anything granular in terms of overtime or in terms of staffing or in terms of consumables, if there are certain line items that, Mr. Vivek, if you can highlight, it will be very useful for us. I know you are not quantifying the savings, but at least where, if you have done a benchmarking study with other hospitals, where are the gaps and how can we narrow that from a cost perspective?

Ashutosh Raghuvanshi: Certainly, there are many initiatives. And I think some of them we can detail it out to some extent. I will request Mr. Vivek to elaborate on that.

Vivek Kumar Goyal: Thank you, sir. So on the cost savings side, as the Dr. Raghuvanshi mentioned, in the last two quarters we were able to achieve our target of 20%, 22% sales cost saving on the fixed cost. It is both on manpower side and the fixed cost side. So this endeavor will continue. However, there were certain voluntary reduction of salary which we are rolling back, in the sense, there will not be voluntary reduction of salary from the next quarter onwards. However, we are taking other measures, which will, to some extent, compensate that effect. Plus, we continue to expand our money judiciously on the marketing and sales, which has given us a big saving, almost marketing and sales budget has been reduced to almost 70%. And we feel that, that will continue in the forthcoming quarter also. And plus, the other administrative costs, like Dr. Raghuvanshi mentioned, judicial hiring of the manpower, wherever it is required then only we are doing that thing. So all those things will continue. So I will say, in next quarter also there will be cost savings, but it will not be to the extent of 20%. It may be to the extent of spend 12%, 13%.

Shyam Srinivasan: Got it. Thank you. My last question is on SRL. It's actually seen a very solid bounce back. And if I am not wrong, I think the PCR test that you have done is the highest among the peers. So just from an execution perspective, what has changed? If Mr. Anand could highlight what are the key kind of priorities that he is looking for the second half? Thank you.

Anand K: Thanks, Shyam. I think we have been able to do a highest number of PCR tests across the country because we have established a lot of labs in the Q2. And those efforts continue in Q3 as well. So we have been able to add labs in Hyderabad, Chennai. And now we are adding it in Raipur, Surat, and also in Guwahati shortly. So with all this expansion, we think that over the next half of this year we will be able to cover a lot more ground on the COVID testing as well, since we feel that the demand for COVID testing will sustain at least until the end of first quarter of next fiscal. So with that in mind, we are ramping up our resources, both for testing services as well as the collection of samples. Because now the testing is more important and critical, and the reports also are being expected on the same-day or maximum by the next day. So earlier situations where reports used to come after two, three days is not acceptable scenario at this point of time. And that calls for more number of labs. So we are investing more on those lines as well. And also, we are increasing our capacity on the COVID allied test, which will help us to contribute to the patient care in the various hospitals that we support across all the major cities across India.

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

Neha Manpuria: I have two questions, first on the hospital business. As we are seeing the third wave in Delhi, are there any, let's say, FMRI or even, for example, Bangalore. Is the profitability ramp up slower than other units, probably because of their dependence on outstation patients? And do you think

we would need outstation patients to come back for these centers to show an improvement in profitability?

Vivek Kumar Goyal: Yes. So Neha, if I can take this question. So FMRI, of course, the profitability is still affected because of the international business is still not there, to the extent it was there in the pre-COVID era. So we have achieved international revenue from the international patients to the extent of 20%, 25% of pre-COVID level. However, having said that, FMRI particularly has achieved the highest-ever domestic revenues. They are using other levers to increase our revenue. And with the profitability going up with that, I hope they will achieve at least 80% of the pre-COVID level in terms of their EBITDA. And once the international patients comes to the normal levels, their profitability may even go up from the earlier levels.

Neha Manpuria: So basically, in our larger hospitals which are dependent on, let's say, outstation, not necessarily international but even domestic outstation patients, we are able to see enough revenue from the local market to offset the outstation patient. Is that the right way to read this?

Vivek Kumar Goyal: Yes. To some extent, yes, the revenue level, as you might have seen, we are already reaching almost 80%, 85% of the pre-COVID levels, so which is quite encouraging. So when you say outstation, I was referring to the international patients. So between the states the movement is allowed and now the patient has started coming from those states. Although the flow is not at pre-COVID level, but it is increasing.

Ashutosh Raghuvanshi: Neha, if I can just add to that, the domestic patients have started traveling across the country. However, the numbers are still slightly lower than what they were pre-COVID times. But we expect that gradually, as the confidence starts coming back in patients' minds, a lot of pent-up demand which is there should also start playing out in the next two quarters.

Neha Manpuria: Understood. And sir, an extended question on that. As we are seeing a new wave of COVID patients in Delhi NCR, have we again started seeing any impact on surgical volumes or in-patient admissions or outpatient even, which would mean that the recovery that we have started seeing probably slows down?

Ashutosh Raghuvanshi: Not so far. Though we have higher occupancy on the beds which are designated for COVID, but we are not seeing a drop happening in the rest of the work. The rest of the work also continues to gradually increase.

Neha Manpuria: Understood. My second question was on SRL. The home testing or home health care seems to have picked up for SRL and most of its peers. As I think about the profitability of, let's say, a walk-in patient versus a home testing, does the increasing share of home testing impact our profitability of that volume? I am just trying to understand for SRL, is it more profitable to service the volume through walk-in versus the home testing, how should I think about that?

- Anand K:** So Neha, it doesn't really affect the profitability to that extent. The only thing, the scalability becomes difficult because one particular phlebotomist is only able to cater to so many patients in a day. So profitability-wise, it's not a difficult thing, because the average revenue per acquisition or the ticket size of the patient for home testing is usually higher than the normal retail walk-in patient. So profitability-wise, there are no issues, but scalability becomes difficult because you need to cater to more number of patients, you need to have more number of phlebotomist.
- Neha Manpuria:** So wouldn't that increase the cost of the business, sir? So since we are expanding the collection centers and we will need to start expanding the home testing, would that mean that the margins for SRL continue to remain under pressure as we are investing in home testing?
- Anand K:** It actually works this way that earlier we used to have central home collection facilities in each town. But what's happening currently is we are moving into a hub-and-spoke model for home collection as well. So these retail customer touch points that we have, in the form of our patient service centers, they are now converted in to hubs from which you have home collection technicians moving out in those local areas. So it's more local, and hence, the cost of operations are also coming down because of this activity.
- Moderator:** Thank you. The next question is from the line of Sumit Choudhary from Zaaba Capital. Please go ahead.
- Sumit Choudhary:** Congratulations on a good set of numbers. A few questions from my side. First is on the hospital business, if I look at quarter-on-quarter, the operating leverage is about 60%. That is basically if you look at the Q-o-Q revenue improvement, that's about Rs. 250 crores; and Q-o-Q EBITDA improvement is Rs. 150 crores. So should we expect this kind of operating leverage to sustain going forward as well?
- Vivek Kumar Goyal:** Yes. So, because we are seeing this occupancy growth from the September onwards, and we are operating now on a consistent basis above 67% occupancy, so we feel that this growth will continue. Not to that extent because quarter-on-quarter if you see, the first quarter was quite bad and that's why the growth is coming around 76%. So we may expect the decent growth in the forthcoming quarter, but not to the extent of 76% of course.
- Sumit Choudhary:** No. What I am saying is the flow-through of the additional revenue into EBITDA. Should we expect it to be like, on every incremental dollar of revenue should we expect 60% of that to flow through to EBITDA incrementally as we have seen in the quarter gone by?
- Vivek Kumar Goyal:** Yes, that will happen.
- Sumit Choudhary:** And that is before additional cost-saving initiatives come through?
- Vivek Kumar Goyal:** Yes. So I am including all those things taken together. So EBITDA will be on a higher side.

- Sumit Choudhary:** So then if I look at your last year top-line in Q2, it was about Rs. 970 odd crores. So basically, if we get to that run rate, we are talking about Rs. 200 crores of quarterly EBITDA just in the hospital business. Does that make sense?
- Vivek Kumar Goyal:** Rs. 200 crores quarterly EBITDA was not there.
- Sumit Choudhary:** No, no, I am saying, going forward it can get there. Basically, from Rs. 746 crores of EBITDA in 2Q, if I just look at the normalization to, just call it, under Rs. 1,000 crores of revenue run rate in, let's say, a year from now or FY 2022. And if I assume 60% of that flow-through to the EBITDA line, which we just discussed, we are talking about another Rs. 150 crores quarterly EBITDA growth, right? So from Rs. 62 crores of EBITDA in Q2, we are talking almost Rs. 200 crores in a normalized scenario or the quarterly run rate of EBITDA.
- Vivek Kumar Goyal:** So one, you are assuming that the revenue will increase from the corresponding quarter previous year, that may or may not be possible depending upon.....
- Sumit Choudhary:** No. I am saying even up to that level, right. I am just saying corresponding quarter previous year was about Rs. 972 crores, right?
- Vivek Kumar Goyal:** Yes.
- Sumit Choudhary:** I am saying, even if we go back to just that level, we are talking almost Rs. 200 crores, assuming a 60% operating leverage.
- Vivek Kumar Goyal:** Yes, I got your point. So it will not be to that extent because some portion, as I said, almost Rs. 50 crores, Rs. 60 crores will be going towards that rollback of salary thing which I have told you. So that obviously will be taken out. And there will be some related cost of losses in the Arcot Road, because we have just started the Arcot Road in the month of October. So as you know, initially, we need to feed the hospitals with the cash, so will that's be the additional maybe Rs. 7 crores, Rs. 8 crores in the quarter.
- Sumit Choudhary:** Right. But then there will be additional cost savings which you alluded to as well, right, to some extent. So I mean, if I recall correctly, last year this time you had guided to Rs. 125 crores to Rs. 150 crores being the normalized EBITDA run rate per quarter for the company. Should we now, with the benefit of cost-out hindsight, etc., should we now expect that Rs. 150 crores run rate to be materially higher on a like-for-like basis given the points you made about marketing costs, etc.?
- Vivek Kumar Goyal:** Yes. Rs. 150 crores is achievable once the international revenue will replace this COVID revenue. So at that time, we will be able to see that type of revenue because COVID is having the other impact, it is a low-margin business, lot of price cap and all those stuff is there, as we know, on COVID.

- Sumit Choudhary:** Understood. And just one more question on the hospital business. You outlined our plans for 1,300 more beds. And I presume, from what you just mentioned about Anandapur, etc. Anandapur, etc., these are essentially Brownfield beds. So should we expect them to be margin-accretive or should there be a drag on margins initially as well as you bring these beds on board?
- Vivek Kumar Goyal:** No. These are all Brownfield projects, which we are talking about. And there will not be any drag on the margins. There is a gestation period for these beds to be operational between 6 months to 18 months. And the short answer to your question is, it will improve the margin, not drag on the margin.
- Sumit Choudhary:** Understood. Thanks. And third question is for Anand. Just, Anand, given you have been in this role for a few months now, just would love to understand if there are any like big cost-out opportunities you have kind of noticed in your last few months of stint at SRL? And sustainably, like where do you expect SRL to get to in terms of margins and growth?
- Anand K:** Yes. Thanks. I think we are seeing a steady growth in margins, driven both by efficient management of materials on one side, and also on the other side we are also trying to rationalize the costs by improving our efficiencies in the lab, bringing out the labs where we are doing redundant testing. So those we are stopping and optimizing the test between the labs. So some sort of regionalization, centralization, all those aspects are also happening. And with the return of non-COVID business, which we have seen that it has come back to almost 100% in October, so we are hoping that we will be able to improve our margins considerably over the next quarters if this trend continues. So the cost saving is a continuous process, and I am sure that this will continue in this quarter as well. And the impact will be seen over the next six months and flow into the next year.
- Moderator:** Thank you. The next question is from the line of Naresh Parekh from Sunidhi Securities. Please go ahead.
- Naresh Parekh:** I have a few questions regarding your hospital business. Firstly, I wanted to understand what is the profitability of a COVID bed in terms of ARPOB? And what is the variable cost associated with the COVID beds?
- Vivek Kumar Goyal:** So the COVID bed ARPOB is around Rs. 90 lakhs per bed, Rs. 90 lakhs to Rs. 95 lakhs, different geographies are having different rates. As with the profitability, it's very difficult to come out with a profitability number per bed. But gross contribution is almost 10% lower than the normal. So if you look at the fixed cost, then of course the EBITDA margin will be lower a on COVID bed.
- Naresh Parekh:** So what would be the gross contribution, by gross contribution you mean variable cost divided by revenue, right?
- Vivek Kumar Goyal:** Yes, yes.

- Naresh Parekh:** What would be the gross contribution for non-COVID bed and a COVID bed?
- Vivek Kumar Goyal:** So in a normalized situation, our non-COVID gross revenue is almost 70% while COVID is coming to 60%.
- Naresh Parekh:** Got it. And just had another question on the cost side. FY 2020, the total hospital expenditure was about Rs. 3,300 odd crores. And what would be the fixed and variable component of this Rs. 3,300 crores, which was the last year expenses number? And what would be a broad ballpark cost-saving initiative in this year for the fixed expenditure? The doctor had mentioned that there would be about 20%, 25% in the first two quarters, and then the next two quarters would see about 12% to 15%. So on a full year basis, could we expect approximately a 15% reduction in the fixed expenditure?
- Vivek Kumar Goyal:** Yes. It will be there, if we compare with the previous year for sure. Because as I mentioned, we have already achieved 20%, 22% for the first half and for the remaining half, although the salary cut has been rolled back, but other initiatives, like I mentioned about the sales and marketing, the administrative costs, travel savings, which is automatically coming down because of the travel restrictions, a lot of things are happening online. So those costs should give us 10% to 12% savings in the forthcoming quarter also.
- Naresh Parekh:** And what would be the breakup of the last year Rs. 3,300 crores in terms of fixed and variable, the 50:50 would be accurate?
- Vivek Kumar Goyal:** There are, for example, we have personal cost of around Rs. 1500 crores on in a normalized situation, okay. The other cost of around the Rs. 1800 crores, I am talking about pre-COVID without any salary cut and all those stuffs. So in personal cost also a lot of things are variable and doctor share are variable. And in other cost, which I have said, Rs. 1800 crores, there are hospital services, raw material cost which are semi variable in nature. Out of Rs. 1500 crores of personal cost, around Rs. 400 crores is doctor share, so that's variable. So out of Rs. 1800 crores of other cost, except hospital services, consumables and power, which is around Rs. 1000 crores, rest all are fixed.
- Management:** Thank you. The next question is from the line of Shantanu Basu from SMIFS Limited. Please go ahead.
- Shantanu Basu:** So I just want to know your COVID bed ARPOB and your non-COVID bed ARPOB as well as the total COVID beds for Q2. And my second question is with regard to the money owed from Singh Brothers. So how much do we owe from Singh Brothers as of now? And any update on the IHH open offer court case?
- Vivek Kumar Goyal:** Yes. If I can take the ARPOB thing firstly. It is less than Rs. 1 crores for COVID patients on an annualized basis while for non-COVID it is Rs. 1.75 crores.

- Shantanu Basu:** Sorry, how much, Rs. 1.75 crores?
- Vivek Kumar Goyal:** Yes.
- Shantanu Basu:** Okay. And what was the total number of COVID bed allotted in the system in Q2?
- Vivek Kumar Goyal:** So we have allotted around 1,300 beds for COVID patients.
- Shantanu Basu:** Okay. That was for Q2, right, sir?
- Vivek Kumar Goyal:** Yes. As on date, it is almost a similar number which we have said earlier, a little bit increase because of the pressure on the COVID patients.
- Shantanu Basu:** Okay, sir. And what about the money owed from Singh Brothers as of now?
- Ashutosh Raghuvanshi:** Yes. So we have approximately about Rs. 500 crores of receivables or claims with Brothers. We have filed civil-suit for Rs. 403 crores, which was identified by SEBI. And we have also initiated other proceedings based on the information available to us. As far as the status of the open offer is concerned, that is still a matter which is sub-judice. The hearing in the Supreme Court is scheduled for 1st of December. We expect that it should take a couple of hearings to get the matters resolved. But being a sub-judice matter, we really cannot comment as to what time it will take or what will happen.
- Management:** Thank you. The next question is from the line of Bhagwan Chodhary from Sunidhi Securities. Please go ahead.
- Bhagwan Chodhary:** As you mentioned that FY 2022 you see to be a normalized year, so you consider COVID patient in that year or your point is that it should be normalized for the non-COVID business? Can you please elaborate more on that side?
- Ashutosh Raghuvanshi:** Yes. So we expect that the non-COVID business should come to a normal level by that time. If there is still a COVID incident at that time, that would probably be an additional business, which will go on parallelly.
- Bhagwan Chodhary:** Got it. Thanks. And secondly, on the current COVID patients, as you said, that 67% around the current occupancy is. So how much would be the non-COVID and COVID, if you can share that?
- Vivek Kumar Goyal:** Yes. So the COVID is 23% and non-COVID is 41%.
- Bhagwan Chodhary:** Okay. And this 41% occupancy, you expect to reach the 65%, 70% by the end of Q4?
- Vivek Kumar Goyal:** Yes.

Moderator: Thank you. The next question is from the line of Vikas Manu, a retail investor. Please go ahead.

Vikas Manu: Sir, just can you elaborate on the IHH open offer, sir? Just like trying to understand, so it's too difficult to follow as a retail investor here. Just thinking what does it depends on, what is the exact problem, like why it is taking so much time?

Vivek Kumar Goyal: Yes. So essentially there was a stay order, which was given on the application of the IHH by the Supreme Court in an unrelated matter, which was linked with the ex-promoters and IHH. And since the ex-promoters had claimed at some stage that they have control of Fortis, which they had already lost before this IHH came on board, so they did go to the court. And because of that, there was a stay in the Supreme Court. And since then, there have been few hearings which have not really resulted in any actions. And that's precisely the reason why there is no movement on that. SEBI as well as certain individual shareholders have also made intervention in the matter in the Supreme Court in order to request the court to not link this matter with the ex-promoter issues. But the court has said that they will hear the detailed arguments on 1st of December regarding this.

Vikas Manu: Thanks. So approximately, right, so how many sittings or how many approximately, from your perspective, right, how many times like this will take? How many months or how many court hearings it will take? Because every time it's getting postponed without any hearings. I am closely tracking it to the Supreme Court portal. I am just thinking every time the hearing is also not happening, sometimes just like that they postponed it. So it's too difficult for us to understand because there is no update from our company side as well, right? So approximately how long this will drag?

Ashutosh Raghuvanshi: I mean, though we cannot really hazard a guess. As you know, the legal system operates in its own way. However, during the last hearing, the judges did make comment that they will try to listen to the entire argument. They have asked for written submission so that the time is not wasted. And they said that they would try and conclude the matters as soon as feasible. But we have to wait for the honorable court to decide on that.

Moderator: Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: I just wanted to follow-up on the prior participant's question on the split of COVID and non-COVID beds in occupancy. So is the understanding correct, by the end of the year we would have roughly, say, 1,200, 1,300 beds or slightly more to COVID. And these beds could theoretically run at a much higher occupancy? And the rest of the beds would obviously be maxed on occupancy, let's say, at the 75% level. Therefore, our overall occupancy could be higher by the end of the year. And with the cost coming back on the doctor salaries and the rest of it being a bit lower, if we use those ARPOB and the contribution margin calculations, we should be able to get back to a mid-teens sort of margin. Is that the right way to think about it?

Vivek Kumar Goyal: Yes. So I think the assumption we are making that this 1,300 bed will remain 1,300 in the forthcoming quarter also. In this coming quarter, in third quarter definitely it will remain 1,300 and it may go up maybe slightly because of the COVID situation emerging in Delhi, like we have discussed. But in fourth quarter if things improve, maybe this 1,300 may come down and we may reallocate those beds to the non-COVID patients. So it is totally depending upon how the things emerge in the forthcoming quarter. Third quarter, we have the visibility, but the fourth quarter it is difficult to say. But that will remain 1,300. In my view, it should come down slightly from 1,300.

Nagraj Chandrasekar: Understood, sir. And just on the bed-by-bed, the hospital-by-hospital Y-o-Y revenue change. If I see, one of our large peers and the bulk of their network in Delhi and have seen a very fast ramp-up to occupancy and prior year revenues, whereas for us, the biggest hits, as you explained, FMRI is understandable because of non-state and international patients. But Escorts and Noida have also seen much larger hits to revenues Y-o-Y than our other hospitals. So why have we seen this relative underperformance in the Delhi hospitals Y-o-Y?

Vivek Kumar Goyal: So if I can attempt to answer your question. Noida, I will say, is sitting up differently, especially when we see the occupancy level in the month of September and onward, and so is the FMRI. As I mentioned in the beginning, FMRI, we have achieved the highest domestic revenue in FMRI. And Noida, also, we are reaching the highest level actually in the revenue side. As regard the FEHI, we need to understand that FEHI is mainly cardio specialty hospital and we all know that cardio is a facility which is affected a lot because of the COVID. And the revenue in cardiology is affected a lot. And that is the reason probably why the hospital has not reached to the level. Still it is operating at almost 60% occupancy level. But I agree, earlier they were operating at 75%, 80%. But I think as the lockdowns open up and people start coming for the treatment, I think it will also reach that level.

Nagraj Chandrasekar: Understood. And just on the SRL part question for Mr. Anand. We have done the highest, you mentioned 0.5 million RT-PCR tests. I see that our average realization is around Rs. 1,340 per test, whereas the caps have been roughly Rs. 2,400 in Delhi, Rs. 2,900 in Chennai, I think around Rs. 1,900 or Rs. 2,000 in Mumbai. So why is there this big gap between the price cap and the realization?

And secondly, as you set up these centers, are you committing to a very large capital investment for something that might not be around in terms of testing opportunities two, three, four quarters down the line? And you might also see increased government pushing down on the realization as well. So just the thoughts on spending on setting up these centers versus these two factors which might go away in the next three, four quarters?

Anand K: So thanks. On the first part of your question on the realization, so what you have to understand is that we have been operating mainly in Mumbai and Gurgaon as our main labs. And after that, we started with Kolkata, and then we started Bangalore. And Chennai was started last. So most

of the premium-priced markets we were not present especially during the second quarter, that is currently under consideration. So you know that Bombay and Gurgaon rates had fallen considerably during the second quarter itself, Rs. 2,600, Rs. 2,200 in some cases, and we were also operating in UP. So all these states contributed to our lower realization on the COVID revenues. That was for your first part of your question.

The second part of your question is on ramping up of facilities. So most of these locations where we are adding up this COVID testing, we are not investing separately on any infrastructure. So, we are just setting up an RT-PCR lab within our existing infrastructure. We already have regional reference labs in all these locations. So we don't see a big difference in terms of number of tests being done there. And even if the COVID is not there in those locations, we will convert them into regular molecular biology labs which will perform hepatitis, HIV and other infectious diseases as well as some of the other molecular biology markers that we can do in those labs.

Moderator: Thank you. The next question is from the line of Aditya Khemka from Incred AMC. Please go ahead.

Aditya Khemka: So just a couple of questions. One thing I missed probably on your investor deck was, there was no CAPEX like regarding our hospital CAPEX program, where are we planning our CAPEX over the next two to three years? What are the commissioning time lines, etc.? I understand such details may be tough to give on the call, but can you just approximately give me your CAPEX budget for the next one or two years?

Vivek Kumar Goyal: Yes. So I can take that question. So the CAPEX, as I mentioned, there are 1,300 beds expansion program over the next five-year period. However, we have already started incurring CAPEX for increasing our bed capacity by 375 beds. So that is the new CAPEX which will start coming from probably next year onward. We are expecting around 150 beds addition next year, and followed by another 200 beds in the following year. This does not include the ramp-up of the Arcot Road, BG Road and Noida, which were the stuck CAPEX for which we have commissioned during the year.

Aditya Khemka: So this 700 new beds that you are talking about, are these all 700 greenfield and Arcot Road, etc., are Brownfield CAPEX? Or amongst these 700 beds also there is some Brownfield CAPEX?

Vivek Kumar Goyal: No. I mentioned out of 700, 375 is the Brownfield only. All are Brownfield. And these we will be commissioning in the next two years, near 2021 and 2022. And this does not include the bed ramp-up which we will be doing in our Arcot Road facility because right now we have started only 50 beds in Arcot Road, which will be ramped up to 200 beds over next few years. Similarly, BG Road 200 beds and we are ramping up slowly. Right now it is around 30, 35 beds, and we will be ramping up to 200. Noida, we have started, so that will be ramped up fully. So those ramp up beds will come in additional to the tune of 400.

- Aditya Khemka:** Got it. Secondly, what are our plans on the SRL footprint, SRL expansion, the number of labs? What is the CAPEX that we will be needing on that side?
- Vivek Kumar Goyal:** So not much actually. Anand will be able to explain, but not much CAPEX on the extension because it is not that capital intensive. However, these are plan for expanding the network.
- Anand K:** Yes. Actually, see, we have a very good network across the country at this point of time. So, including our JV footprint we have about our 400-plus labs, which is the highest among our peers. So with this network, I think we will go further into expansion of our customer touch point network rather than adding more labs. And even such expansions, especially in the Tier 2 and Tier 3 cities, it will be more out-of-hospital lab management networks and standalone lab management networks rather than investing directly into greenfield labs.
- Aditya Khemka:** Understood. And from your SRL revenue split in the investor deck that you released today, there were walk-ins and there were direct clients, two separate categories. Could you just explain the difference between walk-ins and direct clients?
- Anand K:** Okay. What we classify as direct clients is nothing but what is classified as pickup points by some of our peers. The other one is classified as lab-to-lab by some of our other peers, so it is generally a B2B basis.
- Aditya Khemka:** Got it. I understood now. Just one last question on and it is more directed towards Dr. Raghuvanshi. Doctor, since IHH took over, obviously, a lot of things must have changed inside the organization, the way you function, the way you think about capital allocation, the way you reward employees, and there must have been a plan after the acquisition of how you would execute on some of these parameters over the next few years. My question to you is, given that we have come through this unprecedented pandemic and we are going through a very tough time in terms of how we operate, would you say the time lines for implementing those changes have gotten stretched? Or would you say that we have been able to execute on our plans in that transformation along this pandemic?
- Ashutosh Raghuvanshi:** Yes. So I would say that we did have a little bit of bump, I must say, because the month of April, May and part of June definitely was a time when we couldn't do some initiatives. I mean, if I have to give an example, we wanted to change to an Oracle fusion, which was a big transformational project, that got sort of delayed by about six months. Having said that, we have sort of compressed the time lines towards the end of the project, and we would still be quite on track. And I would say that most of the initiatives which are transformational in nature are very much on track. Not only that, the expansion of this 1,300 beds, which we described over the next three to five years, essentially expansions within the existing facility, Brownfield kind of expansion, all those are also on track, except that they got delayed by about four to five months. And we have started work on most of this as of now, so I expect that whatever commitment was there at the time of IHH coming in, is very much intact and on track.



*Fortis Healthcare Limited
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Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the Fortis Management for closing comments.

Anurag Kalra: Ladies and gentlemen, thank you for being on the call with us today. Gaurav and I are there to handle any more query, clarifications you may have. Thank you for your time once again, and very happy Diwali to all of you. Thank you. Bye-bye.

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