



“Fortis Healthcare Limited  
Q2 FY17 and H1 FY17 Post Results Conference Call”

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**Moderator:** Ladies and Gentlemen, Good day and Welcome to the Q2 FY17 and H1 FY17 Post Results Conference Call for 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 for an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anurag Kalra –Vice President, Investor Relations at Fortis Healthcare Limited. Thank you and over to you, sir.

**Anurag Kalra:** Thank you, Zaid. A very Good evening, and Good afternoon, Ladies and Gentlemen. And Welcome to Fortis Healthcare's Quarter Two FY17 Earnings Call. The call today is being chaired by our CEO - Bhavdeep Singh, along him we have our Chief Financial officer - Gagandeep Bedi, from the Diagnostic Business we have the CEO of SRL – Mr. Sanjeev Vashishta and joining him is Mr. Srivatsan – President Commercial.

We will start the call with some opening comments by Mr. Bhavdeep Singh, followed by with Sanjeev will share his views on the Diagnostics business as it's done the quarter gone by and then I shall make a brief financial presentation. Post that, we will then open the floor for question-and-answer. Over to you, Mr. Bhavdeep.

**Bhavdeep Singh:** Good afternoon. Thank you very much, Anurag. And thank you all for joining the call. You have undoubtedly have received our release and information related to the quarter, so I will just give a quick overview.

I will tell you the headline numbers. We are extremely pleased and extremely encouraged by what we have seen happen in the second quarter. I think the most gratifying part is the discussions and communications we have been having with you folks over the last year. The plans that we talked about, the initiatives that we shared with all of you, they are now starting to be deployed. And the manifestation is that we are starting to see some good outcomes from there.

So, we will talk more about it but all of this is being led by strong occupancy numbers, our occupancy numbers are north of 80%. I am sure you are aware the it is better than most of our competitors and it is growing. There is a quarter-on-quarter impact, seasonal impact, some impact by virtue of things like Dengue and Chikungunya. But even so, on a quarterly basis, year-on-year we have grown from the mid-70s to the low 80s and that is very encouraging.

On the revenue basis, good solid growth of 10% - 11%, exactly what we have been saying, we have been talking about low double-digit growth. We said it was sustainable before and we continue to believe that it is still sustainable and we think that we will certainly build on that as we go forward.

From an EBITDA perspective and EBITDAC perspective, our EBITDA was at Rs. 44 crores which is a 120% improvement over quarter two last year, solid improvement over last year,

and solid improvement over the prior quarter. The numbers that we track quite closely within the organization is EBITDAC and I am sure you are aware that the differential between EBITDA and EBITDAC primarily is our business trust which finished at Rs. 167 crores and a margin of almost 17% which is quite gratifying, with 16.8% last year, so extremely, extremely favorable when it comes to that. I think if I had to sum it up again, apart from the occupancy piece, our ARPOB numbers are good; our ALOS numbers are good.

From Clinical side, we continue to be very committed to all of our multi-specialties, our cardiac sciences is till huge for us. In the orthopedics department we continue to grow. Oncology, where we have made a significant investment in starting in 2011 and that is doing exceptionally well as well. So, across the board we are very optimistic, we are very bullish about the general direction that the organization is headed in and I think that bodes well.

And the last thing that I will share very quickly is that, with respect to just a forward look just a little bit, I think a question that comes up very often is, the numbers over there, how do you feel about the numbers going forward? And I think that, again as I just mentioned, we feel this is sustainable, I think the initiative that we have talked about are starting to kick in. We are not at full throttle yet but we will be. So good numbers, good outcomes, good process, good cost containment and I think the best part about this is great patient care which is what we are most proud of.

So, thank you very much. I am going to ask my colleague, Sanjeev Vashishta, to give you a quick overview of SRL. And then we will take a look at the finances.

**Sanjeev Vashishta:**

Thank you, Bhavdeep. Good afternoon, everybody. So, it has been a very satisfying quarter for us as well. As you are aware, the numbers we have already floated. The growth has been decent; we have grown by about 12%. From the trailing quarter also we have seen a substantial growth as much around 12% - 12.5%.

Now, what exactly has happened during this quarter is that we have really concentrated on taking the volumes up in terms of certain basic tests which were actually coming down; the volume seems to be coming down. Secondly, we have given a tremendous push to our digital program and we have seen the traction coming from there. PPP was one area where we thought there is growth which is possible and if you look at the quarter-on-quarter growth on the PPP side, we have grown by almost about 100%. So to be precise, it is 92% growth on the PPP side.

We have also seen our program which we started on the home collect front through our buck box. I think it has caught the fancy of the people, people are quite happy with hygienic way of creating the phlebotomy, we have been quite successful on that side as well.

SRL is perhaps the only company where we have started to brand certain tests and this is one segment where we are trying to brand a few tests by doing a bunch of stuff. And as of now we have got six branded products, we have seen a 30% growth in those branded products.

EBITDA numbers are good. If we look at EBITDA numbers, they are upwards of 25%. And as we go along, we will share with you more details when we are taking the Q&A.

Thank you very much. Over to you Anurag, please.

**Anurag Kalra:**

Thanks, Sanjeev. Ladies and Gentlemen, I shall take you through the financials. I will cover quarter two FY17 numbers first, followed by H1 FY17. For the quarter, I shall start with the group consolidated business.

The consolidated business comprises basically our hospitals and diagnostics businesses. At the consolidate level, our revenues for quarter two FY17 were Rs. 1,196 crores, they witnessed a growth of 11%. Our consolidated EBITDAC for the quarter was Rs. 219 crores, this grew 17%, representing a margin of robust 18.3%, this compares to a margin of 17.3% in the corresponding previous quarter. Our consolidated operating EBITDA was at Rs. 99 crores; this grew a robust 40% over the previous quarter. And our consolidated profit before tax before any foreign exchange fluctuations and any exceptional items was at Rs. 43 crores, showing a very solid growth of 86%.

The Hospital business has done extremely well. Revenues grew 11% to reach Rs. 972 crores for the quarter. We reported our highest ever EBITDAC in a quarter which was at Rs. 164 crores, this grew 20% and the margin was 16.8%. This compares to a margin of 15.6% in the corresponding previous quarter. So, a very good performance by the hospital business at 16.8% margins. Our operating EBITDA for the Hospital business was Rs. 44 crores; this was a 2.2x increase over the corresponding previous quarter.

The Diagnostics business showed revenues of Rs. 213 crores, a growth of 12%. Operating EBITDA for the Diagnostics business stood at Rs. 54 crores, representing a margin of 25.3%. Hence, our consolidated operating EBITDA for the Hospital and Diagnostics was at about Rs. 99 crores for the quarter, versus Rs. 71 crores in the previous quarter.

Going now to the rest of the P&L. For quarter two FY17 we had Rs. 41 crores of other income, this compares to Rs. 29 crores in quarter two of FY16. Our finance cost stood at Rs. 46 crores for the quarter versus Rs. 29.5 crores in the corresponding previous quarter. Our depreciation and amortization was at Rs. 51.7 crores versus Rs. 46.9 crores, hence our PBT before FOREX, before exceptional was at Rs. 43 crores versus Rs. 23 crores in quarter two of FY16.

Our foreign exchange loss and our exceptional gain accounted for a net of a negative Rs. 2.3 crores, which compared to a positive Rs. 23.7 crores in quarter two of FY16. Our tax expense stood at Rs. 24 crores for quarter two FY17 versus Rs. 17.8 crores in quarter two FY16.

Accounting for our share of associate, which is largely our 28% share of profit from RHT and the relevant minority interest, our PATMI for the quarter was at Rs. 31.4 crores versus Rs. 40.2 crores in quarter two of FY16. As I had mentioned earlier, quarter two FY16 had an exceptional gain of about Rs. 24 crores. So if you were to exclude that, we have shown a good growth in PATMI over the previous corresponding quarter.

I will take you through some broad level H1 FY17 numbers now. Again, on a consolidated level, Hospitals and Diagnostics both, our revenue stood at Rs. 2,317 crores, a growth of 10% over H1 of FY16. Our consolidated EBITDAC was at Rs. 399 crores, a 15% growth and representing a margin of 17.2% versus 16.4%. Our consolidated operating EBITDA grew 40% to reach Rs. 162 crores in the first half of FY17. PBT before FOREX and exceptional items was Rs. 43 crores, and this Rs. 43 crores number compares to a mere Rs. 3 crores in H1 of FY16. So you can see the substantial insignificant growth that we have witnessed in our operational results.

On the Hospital business, for the first half of FY17 revenues were Rs. 1,882 crores versus Rs. 1,710 crores, a growth of 10%. Our EBITDAC for the first half in the Hospital business was at Rs. 303 crores, a 19% growth, and representing a 16.1% margin, and this compares to a margin of 14.9% in H1 of FY16. Our operating EBITDA for the Hospital was at Rs. 66 crores and this is a 3x increase over H1 of FY16, so very, very solid performance there.

On the Diagnostics business, for the first half SRL revenues were at Rs. 405 crores, a growth of 10%. Operating EBITDA of SRL stood at Rs. 97 crores; this represents a margin of 23.9% versus a margin of close to about 26% in H1 of FY16. Hence, the consolidated operating EBITDA for both the Hospitals and the Diagnostics business was at Rs. 162 crores versus Rs. 115 crores in the corresponding previous period.

Going on to the rest of the P&L for the first half, we had another income of Rs. 68.2 crores versus Rs. 51.8 crores. Our finance cost stood at Rs. 88 crores for the first half and this compares to a number of Rs. 63.7 crores in H1 FY16. Our depreciation and amortization was at similar levels, it was Rs. 99 crores in H1 FY17 versus a number of Rs. 100 crores in H1 FY16. Profit before tax before FOREX and exceptional items was at Rs. 43 crores and this like I had mentioned earlier, compares to a number of Rs. 3 crores in H1 of FY16. After accounting for foreign exchange gain/losses in exceptional items, we had a foreign exchange gain in exceptional of net positive Rs. 3.7 crores and this compares to a number of positive Rs. 129 crores in H1 of FY16. Please note that H1 of FY16, there were two elements to foreign exchange gain loss, we had a foreign exchange gain of about Rs. 70 crores and we had an exceptional gain of about Rs. 59 crores as a result of the divestments that we had done in quarter one of FY16.

The tax expense was at Rs. 27 crores for H1 FY17, similar number in H1 FY16. After accounting for minority interest in share and associates, our PATMI for H1 FY17 stood at Rs. 47.6 crores, this compares to a reported number of Rs. 131 crores. And like I had mentioned

earlier, this Rs. 131 crores also includes a forex and exceptional gain of Rs. 129 crores. So excluding that, on a first half basis we have again seen a very, very strong growth at the PATMI levels.

I shall take you through the balance sheet, that is last part of the presentation. Balance sheet as of September 30th, 2016, we had shareholders' equity of Rs. 4,886 crores, we have FCCBs at Rs. 564 crores and our debt stood at Rs. 1,074 crores. So total capital employed in the business as of 30th September was Rs. 6,523 crores. Deployed into net fixed assets of Rs. 1,692 crores, we had goodwill of Rs. 2,186 crores which largely relates to the India business now. We had investments of Rs. 1,189 crores. Cash and cash equivalents of Rs. 908 crores. Our net current assets stood at Rs. 549 crores and the total asset base of Rs. 6,523 crores. Balance sheet continues to be healthy and very strong. We had a net debt of about Rs. 729 crores, representing a very strong net debt to equity ratio of 0.15x. And that is where we are.

That is the end of our financial presentation. We would now welcome questions from the audience. Thank you.

**Moderator:**

Thank you, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Kumar Saurabh from Motilal Oswal Securities. Please proceed.

**Kumar Saurabh:**

My first question is around occupancies. We have seen a significant improvement in occupancy at the consol level from 77% it has gone to 82%. However, if we look at sequentially, the improvement is even better, from 74% it has gone to 82%. FEHI has shown a significant improvement in occupancy. So one reason you mentioned is that seasonally it was a strong growth, but on a sustainable basis how should we look at? And if you can also explain the FEHI improvement and FEHI occupancy.

**Bhavdeep Singh:**

So, a couple of things on occupancy. As you rightly said, and I alluded to earlier, we have gone from 77% to 82%. There is a seasonal component normally where our occupancy is slightly higher because of Dengue, the annual Dengue virus. The difference is that this year that our numbers are comparable to Dengue last year, and nonetheless the occupancy has gone up. And as you rightly said, I think quarter-on-quarter we are seeing occupancy growth going forward. And I would tell you that all of this is very little ahead by default, it is all through a plan with respect to what are we doing through medical specialty perspective, from a clinical perspective, launching new clinical programs. I will give you a couple of examples, we are in the midst of launching a full bone marrow transplant program in Gurgaon, our organ transplant program, and we launched a cardiac transplant plan in Bombay, that was about seven, eight months ago. Our liver transplant program, we have gone from doing under 100 transplants three years ago to doing a 180 transplants last year. Our oncology program continues to grow as well. So I think across the board, from clinical specialty perspective we are clearly driving more patients and the Fortis brand continues to get stronger.

I think the second piece is, we are bringing on new doctors. We referenced it last time; a top orthopedic surgeon in the country has joined us about six months ago. Similarly, one of the top nephrologist combination has come on board. One of the top gastroenterologists in the country, maybe the top in the country is going to be joining us in the next couple of weeks. So, I think we continue to bring a good mix of clinical specialties through doctors who are extremely skilled at what they do. So, I think the occupancy by plan, by design is working well. We have also further strengthened our empanel model to ensure we have multiple doctors available, 20 patients or whatever they might be looking for. So I think what we are doing is very much sustainable and I think it is really the first thing when you talk about revenue numbers, when you talk about profit numbers, the first thing to look at is occupancy and that has been a key driver for us.

With respect to FEHI, Fortis Escorts Heart Institute, we had a record month; just this past month we hit Rs. 38 crores which is a huge number for the hospital. And the occupancy numbers there are very strong. We were, you might remember, sitting in the low 60s from an occupancy perspective; we are now over 80%. Apart from the fact that cardiac program has gotten very strong and continues to grow; we have done a couple of transplants there very recently. We also introduced a gastro program, about two and a half years back. Our orthopedic program has gotten very strong, we introduced renal scientists and neurology, and we brought robots that is one of our two robot centers in the company. And for the first time in probably good ten years we are adding beds. So this is a hospital where we are sitting at 295 beds for the last 10 years, we are adding 45 - 50 beds, so this is going to become a 350 bedded hospital and we are just very excited about what is happening. I mean, this hospital is just a huge success story. You just go in the hospital you can feel it, you can feel the buzz right from some of the best nurses in the country, there are doctors at top shelf. So occupancy will continue, numbers should continue. We are adding beds, so revenue growth will continue and certainly that means a better bottom-line all the way around as well.

**Kumar Saurabh:** And sir, on the Brownfield expansion side, we have been talking about addition of beds, even in this quarter's presentation we have mentioned 2,000 bed addition potential capacities. So how should we look at it in FY17 second half and FY18 in terms of bed additions?

**Bhavdeep Singh:** So, as you rightly mentioned our growth strategy in beds is through Brownfield. We have a couple of hospitals, we have a Bannerghata Road hospital in Bangalore where we are going to be adding about 150 - 175 beds. We are adding beds in Jaipur where we have added a floor.

**Kumar Saurabh:** This we are talking about commissioning of beds in next six month or this is the plan for future?

**Bhavdeep Singh:** We are adding capacity, the beds will be commissioned either at the end of this fiscal year or in the first half of next year. So I would tell you that we are adding anywhere between 400 to 600 beds on an annual basis going forward. And as you have heard us say before, we have

4,000 beds today and we see that number without adding a single hospital, going to 7,000 - 8,000, maybe north of that as well.

**Kumar Saurabh:**

And on the diagnostic business side, how should we look at the margins. We know that this is a seasonally strong quarter, but when we look at your peers they have reported even stronger quarter. So, how should we look at from SRL's perspective this quarter? Are you happy with your performance?

**Sanjeev Vashishta:**

So Kumar, if you look at it, frankly our first quarter was bad and why it was bad was for a simple reason that we were in the process of cleaning up the act. A last couple of years we have been pushing out the labs which are not making much sense to us. And about two quarters back we started this exercise of cutting down collection centers which were not really aligned to us either in terms of quality or in terms of other activities. So just to give you a number, just to give you a sense of the numbers, last two years we have cut out almost about 500 - 550 collection centers, now it is a large number. Given the fact, two years back our numbers were northwards of 1,450, today our net collection center number is 931. Now, all this has been done as a consolidation exercise, we expect to only go upwards from here. This was really essential as far as we are concerned, given our ethos and philosophy to give the quality work to our customers; this is what has been done.

If you talk about the margins, margin in this quarter while if you look at the previous quarter our growth was only about 7% odd, this quarter the growth is upwards of 12%. The margins have taken a slight beating for multiple reasons. One is that, if you look at the numbers carefully, we have increased the marketing spend considerably, our marketing spend has been done on various fronts, one is on looking at the incentives from the channel partners, even the sales teams. We have started now creating good brand among the collection centers, this was something which was lacking. We are looking at creating CCs on the high speed now, collection centers that is. Our Home Collect program has been a huge success; we have been investing monies over there. We have taken up the initiative to up the digital marketing spend and this is something which has happened for the first time. If you will revisit our site anytime sooner you will see that the website is completely revamped, our app has been improved. So I think a lot of money has been spent into marketing.

Secondly, last year same quarter there was this huge incidence of H1N1 which typically has, first of all the realization was very higher, that is the reason why the growth was also very high last year same quarter, which was upwards of 14% as opposed to this year's 12%. There the margins were also very good. So there is a slight dip in the margins, but we are going to make up for this as we see last year last two quarters, this Q3, Q4 were pretty sad for us and we concede that. But this year we see lot of hope and the way the quarter has been, I guess we are going to make up for these margin losses in the times to come.



**Kumar Saurabh:** So on a sustainable basis, as we mentioned that this quarter was seasonally strong. So how should we look at your margin performance in the coming quarters which would be ex of seasonality impact?

**Bhavdeep Singh:** See, while if we talk about the revenues, certainly the revenues have to go up in the season. If you look at what kind of cases we got was typically Chikungunya and Dengue and this was actually constricted to NCR and certain pockets of North India. So given the fact that our only about 30% to 32% of the business is coming from North India, we did not get substantial cases on the Chikungunya and Dengue front and that is how our growth was, it could not have been better than 12% - 12.5%.

On the margin side, government actually has sliced or capped the prices of Chikungunya and Dengue. So, the margins are not that great. But going forward as I see, the way we are now handling the affairs and now we are looking at multiple other things and following what we call a deep strategy, you will see that while we are more or less there in terms of number of labs that we have in every nook and corner of the country, now we intend to go deeper into the market and we will be creating more and more channels. And since we are already over and done with the cleaning up act and we have got certain minimum benchmarks which we are expecting from our collection centers, I think the numbers should be good going forward.

As I have always maintained in this industry on a sustainable basis, one should not rejoice unless you see EBITDA margin of about 25% - 26%, so that is what we are aiming at. I do not see that should be a problem and we should be in this league in maybe 18 months' time.

**Kumar Saurabh:** So you are saying that the current quarter run rate can actually become sustainable margin run rate in 18 months' time period?

**Bhavdeep Singh:** Absolutely.

**Moderator:** Thank you. Our next question is from the line of Neha Manpuria from JP Morgan. Please proceed.

**Neha Manpuria:** I have a few questions on the Hospital business. First, what would in your view be the contribution of the analogy in our revenue number? I mean, because it is 11% growth so if I look at year-on-year growth it is double-digit in line with our guidance, but I am assuming it has a component of seasonality in it.

**Bhavdeep Singh:** I would say that when you look at the seasonal component, there is a bigger impact on occupancy than there is on revenue. Because of Dengue and because of Chikungunya while you have hospital stay, this is not a high volume or high revenue business, I mean it is not a high value business. So I think that 10% growth that we are looking at, you rightly said it is as per guidance because our length of stay actually went up a little bit. I would say that anything, it is neutral; it might even have been slightly, adversely impacted because we ended up with

full hospitals and sometimes having patients waiting or once in a rare occasion even turning patients away. So I think that it has a bigger impact on occupancy, not so much on financial. So, it helps fill the beds up but this is not a huge valuing business from a financial perspective. I think that this is what is happening, Neha, we have spoken before about the initiatives and the clinical piece that I talked about earlier, combined with a fully process driven environment, I think that is what is bringing in and I think that is what is going to keep it there.

**Neha Manpuria:**

And sir on margins, 17% margins for the quarter is a fantastic number, it is the highest we have done in long time and probably highest margin. What drove this margin, I mean, what were the three key things which drove this margin and how should we look at the trend going forward in terms of margin expansion? Would it be similar to the run rate that we have seen or would this run rate moderate as most of the low hanging fruit is probably already in this 17% number?

**Bhavdeep Singh:**

I think, there are a couple of big contributing factors. One is, from a mix of business and quality of business we are doing. We talked earlier about the transplant business for example, where the volume of transplants that we are doing is among the highest in the country today, whether it is liver transplant, whether it is gastro transplant, where there is cardiac. So I think certainly that, you look at neurosurgery and neurosurgery business is going exceptionally, exceptionally well and continues to do well. So I think when you look at the quality of business and the mix of business, when you start talking about very specialized things like a bone marrow transplant, when you start talking about cancer, I think that mix is certainly helping, that would be one thing.

The second thing that I am very pleased about is the cost containment and cost management that the team has done over the last six, eight months. We recognize, and I think by the way it is a challenge for just every company in India today is that we have to get leaner; we have to get more efficient, driven by process. So we have had a huge cost cutting initiative, cost management initiative that we started at the beginning of the calendar year. It is a bit like a snowball, it is just building. And I do not think any of this, I mean, I think the margin price you have to be a bit sensitive on price with respect to the market place, I think you give a quality, the work you are doing, the specialties you are doing, the clinical outcomes you are delivering certainly helps differentiates who you are. I think there is an opportunity there. And you have to do in a wise and smart manner. So I think there is an opportunity to certainly hold, perhaps make some improvement that certainly we are targeting based on clinical outcomes. But I think on the cost base, it is very sustainable, it is not a gift, and we did not get a gift for the quarter so it's going to go away next quarter. On the contrary, our push is going to be to get further additional cost out of the system.

**Neha Manpuria:**

And sir, third, if I look at the BG Road revenue, that seems to have come off for this quarter, was there certain changes in doctor or what lead to this decline in the numbers and how are we addressing this?

**Bhavdeep Singh:** So a couple of things, one is, the Bangalore market is a very competitive hospital market. I am sure you are familiar with the market also, you have multiple hospitals, and you are not competing against one hospital you are competing against many. We have not had any significant doctor attrition, I do not think that is the piece here, I think it is the competitive environment. Our plan, while I would restrict to addressing it, some of it is just a click well. I think in any business Bannerghata Road is one of our most successful hospital, it has got a fantastic bottom-line, very, very strong loyal market place there. That is a hospital, however, where we are investing tremendous amount of money in. We are going to be launching a new block, we are adding beds there and we are launching an oncology block there which is going to be huge and very, very successful. We are very excited about it; we are working on bringing couple of the top doctors in the south to head our oncology program. So, a little bit of a dip, some of it is seasonal, some of it is competitive, we have a very good plan in place, we have a new hospital head running the hospital who has been with us for a while, we think he is a high potential leader who is going to do lots of great things. So I think having the right person, the right team is going to contribute as well. And more excited about what BG is going to do, I think the second half of this year and next year are going to be bust out month during the time for them.

**Neha Manpuria:** And we had about a year back talked about achieving PAT positive, that was our target that we had set in terms of the overall business. It seems that we are getting there quarter-by-quarter. Now if you look at your vision for the next two years or what you want to achieve, both in terms of your operations as well as financial numbers, have you thought about this when it relates to both margins and also dividend payout potentially, free cash flow generation and dividend payout?

**Gagandeep Bedi:** Indeed, you are absolutely right. I think we are well on our path to PAT positive and I think with these improving margins, of course the first step as we have been saying and we have been speaking for quite some time, we would be also contributing to free cash flow and thereby getting us to a PAT positive number. And if you see for the quarter itself, those are already there in terms of PAT positive.

**Neha Manpuria:** And when do we see us becoming a dividend paying company and therefore...?

**Gagandeep Bedi:** First step would be to make it dividend able, I think paying the dividend would be a call which the Board needs to take. So our first aim is to make it PAT positive, make sufficient profits when we are able to make, our total intent is to pay dividend and we are working towards exactly that part.

**Moderator:** Thank you. Our next question is from the line of Girish Bakhru from HSBC. Please proceed.

**Girish Bakhru:** First question was on the FHTL closure, so Q3 onwards will we see the full impact of that?

**Bhavdeep Singh:** Yes, Girish. FHTL we closed middle of October, so we start consolidating from middle of October, that is right.

**Girish Bakhr:** And on FEHI particularly, I was wondering if you could give us the occupancy either of a last quarter or FY16, what was the number?

**Bhavdeep Singh:** So, quarter two FY16 FEHI had occupancy of 67%, quarter two FY17 which is the quarter gone by is 86%. Quarter one FY17 FEHI occupancy was 77%.

**Girish Bakhr:** So I am just trying to understand where the inflection point came in, because if I look at the revenue, entire FY1 the numbers were single-digit or in fact sometime negative and Q1 we did 9% and this quarter is 19%. So where was the real inflection point and what lead to that?

**Bhavdeep Singh:** As I mentioned earlier, this is the eminent cardiac facility in the country, and just to use a very simple street term, we stepped up our game. We brought in a couple of new doctors, we have a pediatric, cardiac surgeon who joined us six, seven months ago, we have looked at as I mentioned earlier, we have the top nephrologist and top urologist in the country came on board in April. We have stepped up our competing program from orthopedic perspective. Liver transplant, we have introduced liver transplant towards the end of last year. So, I think this is just a function of, we have changed a couple of management people, good leadership in the hospitals, a terrific engagement by the cardiac, Dr. Ashok Seth and the rest of the cardiac team. And then we introduced some of the special clinics. But I think the one thing that even inside the organization that we stress is, while we have added some of these specialties, the cardiac business is just really doing well. And our endeavor and the direction we are headed in is around making us center of excellence for cardiac in the country. So what we are working on day to day is around how do we build and have absolutely the best cardiac facility in the country hands down. And that is going to happen over the next six, eight, 10, 12 months, and by virtue of that, the quality of work that we are doing. So I talked to you about transplants earlier, we now are one of the only one or two hospitals in the country that is doing minimal cardiac surgery with an insertion of just 4 - 5 inches. So I think the complexity, the quality of work, the outcome, you may be aware that Fortis Escorts is the only hospital of any large player that is now reporting clinical outcome. That helps build people faith about if I am going to choose where to go, if I know that somebody is publishing outcomes and I can see exactly how they are doing. So I would say three things, I think clinical excellence, new doctors and new programs and operational excellence across the board is contributing. And again, none of this is won and done, that is why I said we are adding 50 beds to the hospital because we need the beds and we think we are going to continue to grow.

**Girish Bakhr:** I understand these drivers particularly, but what would be the change in the customer base, because I remember two years ago you had a very high share of HSN insurance based customers. How has that changed in FEHI particularly?

**Bhavdeep Singh:** We will share those numbers in a second. One thing that I would like to share with you is that our business here is actually a better business now than it was three, four years ago, I have explained you why. In days gone by the radius from which Fortis Escorts pulled from could have been highest 200 - 300 kilometers, people coming from Raipur, Raigarh, Dehradun, etc. What we are finding is that a much more substantial piece of our patient base today is local. So we still have the patients coming from Raigarh, Raipur, etc. but I would tell you that a larger chunk of our patients is local and I think that by virtue of that, again, the numbers we will give in a second, I know I must sound like a broken record but it is just about good doctors doing great procedures, great outcome and getting that word out.

**Gagandeep Bedi:** I do not have the exact number of the mix for Escorts, but what has happened is significantly the mix has changed the way from the government, the CGHS that we had stopped earlier has been opened, but it is a very insignificant and a minute number. The fundamentals have changed in terms of the business going after medical programs that have been added as Bhavdeep pointed out. And the pair mix has also moved in favor of the higher margin businesses versus what it was last year.

**Girish Bakhr:** And just on the SRL side, I had this query particularly looking at the number of tests they are essentially flat and I would assume that given the high vector borne seasonal quarter this should have gone up and consequently realizations should have been lower. Can you explain that discrepancy there?

**Sanjeev Vashishta:** See Girish, as I have shared with you, our only about 30% business comes from North India and these vectors borne diseases are more prominent, more pronounced in essentially NCR and other adjoining areas. So, we couldn't really capture the vector borne diseases to that extent or test for these vector borne diseases to that extent. So to us I think it is more like a natural growth as opposed to it being a festival season essentially as it usually is. If you look at our last Q2, you would have seen the growth in that quarter was close to about 14.5% and that is where we were able to truly capture, because we had insignificance of H1N1 which was rather prominent. So that is the reason why you see that the number of tests have not really grown to that extent.

**Moderator:** Thank you. Our next question is from the line of Shweta Karia from B&K Securities. Please proceed.

**Shweta Karia:** Just one basic question on the reduction in the BT Cost part, can you give some color on that or some clarity on that going forward? What are our plans for reduction in the capital structure from RHT?

**Bhavdeep Singh:** Could you please repeat your question.

**Shweta Karia:** I just wanted to know the traction in reduction in BT Cost part as we reduce our stake in RHT.

**Anurag Kalra:** So, we are not reducing our stake in RHT, the transaction that we have announced or which we have concluded by mid-October is FHTL which is basically buying back 51% economic stake of the entity that owns the two hospitals which is SMRI Gurgaon and Shalimar Bagh. The impact of that on EBITDA is an annualized number of Rs. 200 crores, that means it is a Rs. 50 crores per quarter number.

**Moderator:** Thank you. Our next question is from the line of Nitin Agarwal from IDFC Securities. Please proceed.

**Nitin Agarwal:** Just a question in regards our pretty high occupancy levels that we are working across the network. Where do you see occupancy sort of peaking out for us, because I presume it really must be a challenge to manage your occupancies across such high levels? And then what does it really imply for our revenue growth going forward in terms of capacity additions at this saturated network level?

**Bhavdeep Singh:** You are absolutely right, I think occupancies what we see in terms of hospitals peaking out around 85% mark. We do have hospitals even today with an average occupancy running at 82%; we do have hospitals that are running high. Yes, it does pose operational challenges; the answer lies in much better planning. That is why in terms of our Brownfield strategy just to add to that and reinforce it, there are these hospitals that are running high occupancies. That is where capacity is being already invested in and being added. And as these occupancies grow the capacity release in terms of new beds will pan out. And that is the calibration we have been talking about to most of you in most of our investor meet.

**Nitin Agarwal:** But given the pretty high occupancy levels, a 400 to 600 bed addition per year, will that be sufficient, I mean does that take care of the demand which we are meeting, rather encountering right now?

**Bhavdeep Singh:** It is a good question. It is a question that we have been, as things are getting better things are improving, to be very honest we are reassessing the plan as well. So initially that was our thought, but quite honestly as requires, so Gurgaon is a good example, Noida is a good example. We are actually looking at accelerating the timelines when it comes to adding. So quite honestly that is something it is work-in-progress, as we continue to move forward, as we continue to introduce new medical specialties, doctors, etc., we will assess that. But your point is a fair one and one that we are also talking through and we are making modifications as appropriate.

**Nitin Agarwal:** And secondly on the EBITDA bit, I mean there is a sharp improvement that we have seen in general the operating performance for the hospital business in the quarter. Yes, I mean there was partly some seasonality associated with it but apart from that, I mean are there any other factors sort of came together or probably beginning to crystallize from this quarter or that we have seen the sharp improvement in the operating performance?

**Bhavdeep Singh:** I think certainly we have alluded it earlier around the mix, and I believe our clinical mix is going to get better. As I just mentioned, we are introducing a bone marrow transplant program, we are expanding our neurosurgery program. Our transplant program is a long way to go. I think our oncology program, because we are adding two oncology blocks going forward. So I think our mix is going to continue to get better and I think that will continue to improve margin piece of it. The second piece is operational excellence around cost, cost management. We have a cost base in our hospital that we have looked at, what is discretionary cost, what cost that we can impact, what's cost that we can retake. And it has been a good experience and by virtue of that we are targeting actually a bigger number next year and I am looking forward to achieving that as well. So we have met our target this year and then some we are achieving it, but targets next year will be larger and I am sure we are looking at that as well.

**Nitin Agarwal:** And on the diagnostic piece, given the way you have seen the market, what do you see as a sustainable steady growth for the business if I take a three to five year view of the business given the reality of the market?

**Anurag Kalra:** So Nitin, the industry is growing at a rate of 15% to 16%, so of course in the organized sector obviously we are expected to grow at least better than that. And that is what we are aspiring to do and we see it would not be too difficult for us to bounce back in a couple of quarters' time and we will see this number is going to be upwards of 15%, 15.5%, 16%.

**Nitin Agarwal:** And what has your experience been with respect to, I mean, with a fact that some diagnostic players have got listed the business has got lot more visibility. And there are a lot of established hospital chains making up their own plans in terms of trying to build diagnostic businesses on their own. So have you seen any change in any dynamics across different market because you are a fairly diversified business, in any specific markets or in terms of the competitive intensity has changed in any materials noticeable way?

**Bhavdeep Singh:** So it might sound a bit right, because I have been talking about this for quite a long time. See, the opportunity in the diagnostic sector is humongous, that is the reason why everybody is thronging this space. I have given a few parameters, if you look at sample to test ratio in our country is abysmally poor, it is just little under two. So from one sample we carry out fewer than two tests. Whereas in Europe it is close to 8, in America it is close to about 15. So what I am saying is what we need to do is, instead of pouncing on the same pie which is there, I think we have to create multiple pies. And this what we are planning to do, we have been doing this for a long time and now we are more organized in terms of reaching out to the key opinion leaders, doctors, prescribers. And the good news is that all the organized players, three - four of us who are likeminded, who stand for quality, we are trying to do a bunch of stuff to educate the prescribers and the masses. So I have seen that the opportunity is huge, there is no dearth of, I mean, if people ask me is it becoming more competitive? It is bound to become competitive, at the same time the opportunity is there and the way we are expected to grow, very clearly the line of sight that we have is over the next five, seven years the growth has

almost stalled, it is only going to go upwards. So, 16% - 17% is what I feel should not be a problem for the industry to go through that.

**Moderator:** Thank you. Our next question is from the line of Tushar Manudhane from Anand Rathi. Please proceed.

**Tushar Manudhane:** Just on the diagnostics side with respect to blending, would like to understand will this again help only in the volume growth or you think at least six branded products you see better pricing as well?

**Bhavdeep Singh:** So see, certainly the idea is that only. Once you have the branded product you expect to charge a little more for that. And we are investing money into creating brand which is quite visible from the fact that we have upped our marketing expense. Historically, I think we were putting money into creating a nice ecosystem to deliver the diagnostic services whether in terms of infrastructure, in terms of fees, in terms of creating a very strong talent pool of pathologists. And as you are aware, we have got around about 500-odd doctors with us. But now I think the focus is clearly on other things as well such as improving the marketing, we have to reach out to the masses to our brand; we have to do a bunch of good stuff on the marketing side. So one is sales and second is marketing, so we are now putting some extra efforts or focus on to these two areas and you will see that we will be catching lot of eyeballs as we move forward in our journey.

**Tushar Manudhane:** So this would be impacting the margin over the medium term for the diagnostic business?

**Bhavdeep Singh:** See, given the fact that our gross margins are upwards of 70% - 71%, even if I am able to generate 10% - 15% more volumes, the kind of spend I am making on the midline side would be much less than what I am earning on the revenue side. So it will pay off and we are on the right path to actually come up to a level of around 25% - 26% EBITDA margins in times to come. And you would have seen how we have grown over the last few years on the margin side, I think that is some story where every year on the expanded base we have taken, we have actually increased the margins by about 2.5% - 3% every year on a year-on-year basis.

**Tushar Manudhane:** And lastly, if you can just help me understand how much is with volume growth maybe because of this Chikungunya and Dengue for the quarter year-on-year?

**Anurag Kalra:** So Nitin, despite the fact we did not get any Chikungunya and Dengue cases because as you know our presence is rather balanced. Just to reiterate, we get 32% each from west and north, 19% from east, a little less than 17% from south, about 3% odd is coming from international business. So this is a very balanced growth, only about 30% - 32% business coming from north where Chikungunya was prevalent. Yet, despite that, we have seen a volume growth of 10.5% this quarter. And it is not too different from the competitor, not too much of a difference over there. And as we are picking the pace you will see that volume growth is going to be substantial.



**Moderator:** Thank you. Ladies and Gentlemen, that was our last question. I now hand the conference over to the management of Fortis Healthcare for closing comments. Over to you.

**Bhavdeep Singh:** Thank you very much. I think in summary, first of all, we appreciate all of you joining the call and updating the shareholders about what is happening at the Fortis Hospital business and SRL Diagnostic business. The net of all of this is we are encouraged by where we are, we have done a lot of good work and a lot of thinking has gone into various initiatives between SRL and Fortis Healthcare business that were deployed, and more encouraged that they are starting to show some progress. And that is the way you look at it, we look at it as progress, we look at it as the encouraging, we believe there is a lot more to be done. We are extremely bullish with Sanjeev and his team and the Fortis team here; we are extremely bullish on where we are. We believe that we stand out well against competition and I think more and more we will start to see that just based on what we are doing. And whatever growth we are showing, whatever improvement we are showing, none of this is won and done. We believe it is sustainable and we certainly expect that our numbers will hold and continue to get better going forward. So thank you very much. If there is any follow-up for anyone here, certainly please feel free to give us a call and we will be happy to discuss anything further as you might deem appropriate. Thank you and have a good evening.

**Moderator:** Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Fortis Healthcare Limited, that concludes today's conference call. Thank you all for joining us. And you may now disconnect your lines.