



“Fortis Healthcare Ltd Q4 FY17 and Full Year FY17
Financial Results”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Fortis Healthcare Limited Q4 FY'17 & Full Year FY'17 Financial Results. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anurag Kalra - Vice President, Investor Relations at Fortis Healthcare Limited. Thank you and over to you, Mr. Kalra.

Anurag Kalra: Thank you, Karuna. A Very Good Evening, Ladies and Gentlemen and Welcome to Fortis Healthcare Q4 FY'17 and FY'17 Results Call. The call is being led by our CEO -- Mr. Bhavdeep Singh; we have Gagandeep Bedi, our CFO with him; from the Diagnostics business SRL, we have Arindam Haldar -- CEO of SRL, along with him, we have Mr. Srivatsan who is the President, Commercial.

We will start the call with "Some Opening Comments by Mr Bhavdeep Singh on the quarter gone by", followed by which "Arindam will take you through Some Key Highlights on the Diagnostics Business," I shall then take you through "Some Key Financial Highlights" and we shall then open the floor for "Questions and Answers". Over to Mr Bhavdeep.

Bhavdeep Singh: Thank you very much, Anurag, and thank you all for joining the call this evening. It has been a very interesting year for Fortis Healthcare. You all know that any one of us when we look at our fiscal year, we draw a little red circle on November 9 when demonetization hit. Again, when we look at our business, we look at it in a couple of different buckets -- We look at what happened up until demonetization. Fortis Q1 and Q2 were extremely strong.

The Hospital business, the Diagnostics business, both the business, we had very strong quarters. Demonetization hit, November was okay and December was a bit soft, January was very tough. January might have been one of the toughest one and I think when we see this as we look across the industry has happened, not just us but I think many of our partners in the industry, February bounced back a little bit and March things did try to creep back up.

I think that as we look at the overall year while our EBITDA number has improved then Anurag Kalra and we will walk you through some of the numbers, but at a high level, our revenue grew for the year at 9%. If you look at the Hospital business, the revenue grew by 8%, certain a good number there, and similarly, the Diagnostics business grew as well at 10.6% increase over last year. So good solid revenue numbers I think in spite of demonetization. In Q4, we saw bit of weakness, but again I think that is coming out of the challenges that we had around demonetization, but as I just mentioned, numbers are coming back up and very optimistic of where we are as we look at Q1 in the balance of '17-'18.

The Healthcare industry at large as you all know lots of challenges right now. What we have done over the last six months between the initial impact of demonetization. Subsequent to that, you all aware that there is some pricing and challenge impact that the industry is faced by virtue

of some of the things that happened was stent pricing. We reassessed our model, we looked at just exactly how we are running our business and we are focusing on ensuring that we will continue to give the best possible patient care. The stent pricing piece have come about, we actually see that is a positive for the industry, we will see that is a positive for India, we will see that it is a positive for cardiac patients around the country. Certainly, we believe that anything that improve the access, it is good for patients and good for us as well and we are starting this year increase in volumes in Cardiac procedures involving stent because from an affordability perspective, it has certainly made us far more competitive.

So as we look forward, the organization continues to invest in great patient care. We continue to invest in our hospitals from a technology perspective, from an equipment perspective. We continue to have absolutely very-very well doctors I believe in the world. By virtue of that we are investing in multiple programs. We started out 15-years ago primarily as a Cardiac facility. Subsequent to that, we have added multiple specialties, with more recently, we have dwelled very-very deep into areas of oncology and we all are aware of the cancer burden in India today and the challenges we are having there.

Transplants: We are now doing more heart transplants. Just about anybody in Asia, I believe in the next year, two years, we have the largest cardiac transplant program in the world.

Liver Transplant: We are one of the large liver transplant program.

Bone Marrow Transplant: We started new program about four-five months back, are doing exceptionally well.

So we are very-very bullish. '16-'17 was an interesting year, as I said the tale of two years between pre-demonetization and post-demonetization, but that is behind us. Q1 is after a very-very good start and I think as I look forward for the rest of the year, I think that we are poised to have an exceptionally good year going forward driven by clinical excellence, driven by focus on patient care, driven by investing in equipment technology and driven by great doctors and nurses.

So feeling very positive and I am now going to ask Arindam to just quick comments on SRL and then we will ask Mr. Anurag Kalra to walk us through "Specific Financials."

Arindam Haldar:

Good Evening. So I will just take you through some of the "Critical Highlights of the SRL Diagnostics Business." It was an interesting quarter, started off with a pretty soft January, just coming out of the demonetization, but the business really bounced back pretty well, we had a pretty good February and March and overall for the quarter we grew by 12.3% which is probably better than peer group companies at a net revenue basis. We also invested behind certain critical marketing areas. So although we had flat EBITDA versus a quarter last time, that is primarily because of certain marketing expenditure we had around Digital, around Cluster Marketing, and we believe those will all pay us back in the coming year.

Overall in the quarter, we did close to 9 million tests which is also a 6.5% growth versus the same period last year. So, as we ended the year, we ended the year pretty strong, and we do believe that we have a strong quarter ahead of us as well.

Anurag Kalra:

Thank you, Arindam. Ladies and gentlemen, I shall take you through the “Brief Financials both for the Quarter and the Full Year.” I shall start with the Quarter; our Hospital business revenues for Q4 were at Rs.913 crores, this was a growth of about 5%. The net Diagnostics business revenues stood at Rs.203 crores Vs Rs.180 crores, this was a growth of 12.3%. On a consolidated basis, our consolidated revenues for Q4 FY’17 were at Rs.1,123 crores, again a growth of 5%-odd. The Hospital business EBITDAC which is EBITDA before the net business trust cost stood at Rs.110 crores, this represents a margin of 12% versus a margin of 14.8% in the corresponding previous quarter and 14.3% in the trailing quarter. So you can clearly see the higher impact of demonetization in Q4 in our financials. The Diagnostics business EBITDA for the quarter was at Rs.40 crores. This represents a margin of 19.9% versus a margin of 22.6% in Q4 FY’16. Margins at 19.9% are also similar to the margins in the trailing Q3 FY’17.

On a consolidated basis, our consolidated operating EBITDAC stood at Rs.148 crores, representing a margin of 13.2% versus a margin of 14.9% in the corresponding quarter. You have seen a substantial reduction in our business trust cost post the FHHL acquisition. Our business trust cost are down 43% to about Rs.64 crores, the comparable number over the corresponding previous quarter was Rs.113 crores. Our operating EBITDA is at Rs.84 crores, a very strong robust growth of about 79% that we have witnessed in Q4 of FY’17.

Other income was at Rs.62.5 crores versus a number of Rs.34.2 crores in Q4 FY’16. Our EBITDA stood at Rs.147 crores in Q4 FY’17, including other income which showed a growth of about 80.5%. Our finance costs have actually increased versus Q4 FY’16 and this is largely due to the FHHL transaction for which we had to take a loan.

Depreciation, amortization is down from Rs.72 crores in Q4 FY’16 to about Rs.63 crores in Q4 FY’17. This is because in Q4 FY’16, we had a one-time charge on accelerated depreciation that we had taken. Now, the depreciation that you are seeing in the current quarter is on a normalized stable state basis. Our PBT before exceptional items was a negative Rs.10 crores, this compares to a negative Rs.44 crores in Q4 of FY’16 and hence as you can see, there has been a substantial improvement in our PBT before exceptional items. PAT before minority interest and share-in associates was a negative Rs.37.8 crores. This again is stronger than Rs.104.2 crores negative that you saw in the corresponding previous quarter. After accounting for the share-in associates and minority interest, our PAT for Q4 FY’17 was at a negative Rs.63.8 crores, This compares to a negative Rs.90.7 crores in Q4 of FY’16.

I shall take you through the FY’17 numbers now: Our Hospital Business revenues for the year FY’17 stood at Rs.3,712 crores, this compares to a number of Rs.3,428 crores and hence the growth of about 8.3%. Our Diagnostics business revenues were at Rs.795 crores, up 10.6% Vs

Rs.719 crores number in FY'16. Our consolidated business revenues for the year stood at Rs.4,574 crores, up 8.7%.

Coming to the EBITDAC, starting with the Hospital Business; The Hospital business recorded an EBITDAC of Rs.545 crores versus a number of Rs.505 crores. This represents a margin of 14.7% which is similar to the margins in FY'16. In light of the demonetization, maintaining overall volumes is a pretty decent performance that we have managed to show.

The Diagnostics Business EBITDA for the year was at Rs.175 crores similar to the previous year. The margins of the business were at 21.9% versus a margin of 24.3% in the previous year. Our overall EBITDAC for the year was at Rs.734 crores versus a number of Rs.664 crores for the year, this is a growth of 10.5% over FY'16, and this represents a margin of 16.1% versus margin of 15.8% in the previous year.

Again following that, net BT cost for FY'17 stood at Rs.372 crores, this is a decline of about 19% and here the decline is not fully reflective of the whole year as the FHTL transaction was completed in October, and hence the full benefit of the FHTL transaction will only be seen in FY'18.

Other income for FY'17 was at Rs.166 crores, this compares to a number of Rs.99 crores in FY'16. Our finance cost again was up to about Rs.229 crores compared to a number of Rs.134 crores in the previous year. Depreciation, amortization was relatively a similar number as of FY'16; it stood at about Rs.222 crores. Our PBT before exceptional items was at Rs.75.4 crores compared to a number of mere Rs.2.2 crores in FY'16. So, very strong robust performance at the PBT level. Our PAT before minority interest and share-in associate was a negative 2.6, this compares to a number of negative 30.1 in FY'16. Our PATMI was at Rs.426.1 crores in FY'17 versus a number of Rs.27.7 crores in FY'16. The number in FY'17 also records the one-time gain that we had booked for our shares of the FHTL transaction that we had done.

Coming to the Balance Sheet versus 31st March, 2016: Our shareholders equity as of 31st March, 2017 was Rs.6,311 crores. This is a balance sheet as per IND AS numbers. Shareholders to the equity again I repeat was Rs.6,311 crores compared to a number of Rs.4,853 crores, the increase is largely due to consolidations related to FHTL as well as conversion of about \$85 million of FCCBs that we had as convertibles in our books.

Our debt stood at Rs.2,220 crores versus a number of Rs.961 crores in the previous year FY'16, again, largely as a result of the FHTL transaction, one was because of consolidation of FHTL, there were certain debt that we had to take on our books, and second, we also have to take a loan to complete the FHTL transaction. So the debt increase is largely as a result of FHTL.

Our total capital employed in the business as of 31st March, 2017 was at Rs.8,530 crores compared to a number of Rs.6,373 crores in FY'16. Our net fixed assets stood at Rs.3,361 crores Vs Rs.1,761 crores, the increase again in net fixed assets is due to the addition of FHTL assets

in our balance sheet which is done at fair value. Goodwill was at Rs.2,326 crores versus a number of Rs.2,162 crores. Our investments stood at Rs.1,486 crores versus a number of Rs.883 crores in FY'16, again the increase in investment is largely due to the FHTL acquisition and the adjustments of the share-in associates and the dividend that we have taken on books. Cash and cash equivalent for the year were Rs.938 crores Vs Rs.736 crores in FY'16 and our net current assets stood at Rs.419 crores Vs Rs.887 crores in FY'16 so the total asset size again Rs.8,530 crores Vs Rs.6,373 crores. We continue to maintain a very healthy balance sheet with our net debt-equity ratio at about 0.2x and our net debt are close to about Rs.1,280-odd crores.

With that, I come to the end of my "Financial Presentation" and would like to open the floor for "Question and Answers" please. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.

Kumar Saurabh: So this quarter numbers were quite muted but going into FY'18, how should we look at FY'18 numbers, and if you can help quantify the impact of stent price control during the quarter, and how it could be in FY'18?

Bhavdeep Singh: So, couple of things, right. I think that I would say that I mentioned this early that the demonetization impact was there with us for good portion of Q4. I would tell you that in Q1 and we are almost at the end of the May right now, April has been a good one, May is absolutely better, and actually ahead of what we thought we would be from forecast and budget perspective. So, I am extremely-extremely bullish on what '17-18 is going to bring. I think that we still have a couple of parts for the country where there is still a demonetization lingering impact, it is just a function of the cash economy that was there in the conversion. What has been happening is that volumes around non-cash, whether it is credit card, whether it is debit card, whether it is PayTM Various platforms are out there. They continue to grow and we continue to get a larger and larger portion of our business from there. So I would tell you that I am extremely bullish. I think that the momentum is only going to build. So, I think we have a couple of things -- One is that we are recovering, we have recovered in some cases, and we are recovering in other cases from demonetization. The second is we continue to focus on our clinical programs and I will give you a good example; while we build and I think you heard me alluded a few minutes ago, mainstay from a Cardiac perspective, the neurosciences, orthopedics, etc., new and more recent phenomena's in industry are on transplants for example has become a very-very big piece for our business. Class case and point would be Bone Marrow Transplants. So we have started Bone Marrow Transplant Program in our Gurgaon hospital just five months ago. That business is doing exceptionally well and we started talking about complex procedures like transplants. But I think there is good margin behind it and the best part is that you are helping build a healthier country. Similarly, in Oncology, we were adding to Oncology centers in Bannerghatta Road in Bangalore and in Shalimar Bagh in Delhi. There we expect them to do quite well. So I think a combination of the demonetization piece going away, #1; #2, the focus on clinical programs again, some of

the new specialty, especially Transplants, Oncology, we continue to grow, we continue to bring new doctors on, the expansion of Oncology in a couple of hospitals and we are adding a couple of robots in a couple of our hospitals as well. So we are very bullish. We see it being a good year. I see double-digit growth from a revenue perspective, I see EBITDAC and EBITDA growing in a healthy manner going forward. I think when it comes to the stent piece that you ask specifically. It is little early to quantify just exactly what the impact is? What we do see the shift in volume. We are doing more cardiac procedures because again I think from access perspective, we become a more attractive option for a patient who otherwise may have thought the expenses, will suddenly become more attractive, and I think the volume piece will continue to grow. You might be aware, we are the only healthcare organization in the country that publish in clinical outcome especially when it comes to cardiac. So I think when you look at great outcomes clinically, the best doctors potentially in the world and a leveling from a price perspective, I think that makes us a very-very attractive destination, and I think our volumes will continue to grow. So I see the stent team a net positive for us going forward and it will take a little bit of time because like anything else, it is a bit of a transition here. So net-net, expecting a very strong year, expecting Fortis to continue to grow. Our trajectory going into demonetization was very strong. I see that identical trajectory and then coming as we enter Q at the balance of Q1 and adding it in the rest of the year.

Kumar Saurabh: So revenue growth you said double-digit growth. How should we look at EBITDA and EBITDA margins?

Bhavdeep Singh: I think the EBITDA growth by the way, we will grow into double-digit growth, and that means Q1, Q2, Q3 as we get deeper into the year, I think we you will see double-digit growth...

Kumar Saurabh: I think pace of EBITDAC growth will be faster than top line growth?

Bhavdeep Singh: Yes, absolutely, that goes hand-in-hand. So the EBITDA growth, without quantifying it, we certainly believe that you will see good progress there as well. So I think on an upward trajectory, if you look at Q1, Q2 compared to the prior year, the trajectory was very favorable, very positive, it was happening because of the things we are doing inside the hospital. A little bit of a bump in the road, but I do not see anything stopping us. I think you will see the same trajectory and then some going forward because we are adding the other specialties that I just referenced, we are adding beds, and I think that just spells a very-very positive outcome for the year and beyond, I see solid growth in next two, three years which you probably you may have heard me say six months above as well.

Kumar Saurabh: On the SRL Diagnostics business side, there was a phase where consistently we were doing margins of anywhere between 23 to 25, 26 and even 27%, we have delivered in the past. So how should we look at SRL business margins and what is the normalized SRL business margin for FY'18 if we are looking at?

Arindam Haldar: So if you look at the SRL margin in the last quarter, we did about 21.9% EBITDA margin. If you what I called out as probably we invested a few percentages more in marketing expenses. So going forward, we are trying to build brand SRL and trying to increase our depth in our key geographies. So in the next few quarters also, we do expect a little bit of marketing investment going in. However, we will be able to protect our margin at a similar level as we have seen in the past year as well.

Kumar Saurabh: Do you think there is a lag that the marketing expenditure which is happening, because we are not seeing on top line side but commensurate revenue growth when the marketing expense is going high, do you think there is a lag because of that, we should expect that ramp up in revenue growth in future quarters?

Arindam Haldar: If you actually look at the revenue growth and if you keep in mind the environment as well, we are talking about Q4 growth of little over 12% and this is a quarter where we started off, demonetization was not having gone away, January was pretty soft. So from that angle, I believe our growth rate that we got in Q4 was pretty good by the industry standards. Yes, there is always a little bit of lag between our marketing investment and growth. So while that is true, but despite the competitive pressure, I thought the both that we got in the quarter is pretty healthy.

Kumar Saurabh: This is the kind of growth and margin numbers we should expect in FY'18 also because you have said that this marketing expense may continue for a few quarters?

Arindam Haldar: The growth we expect similar, but obviously as the growth happens, you get the kicker of the leverage, the leverage of volume will kick in and we will get a little better margin as we go forward through the quarters.

Kumar Saurabh: We should look at full year margins, not the third or fourth quarter margins when you are talking about leverage impact?

Arindam Haldar: Yes, absolutely.

Moderator: Thank you. Next question is from the line of Neha Manpuria from J.P. Morgan. Please go ahead.

Neha Manpuria: First on SRL. If I see your collection points, they have dropped significantly in the quarter. Have we rationalized our collection point in the quarter, is there a strategy because you mentioned that you are looking at increasing depth in Geography, so it just did not add up, just wanted to get a sense there?

Srivatsan: Basically, if you look at it, Neha, what has happened is that the connection point is a bunch of some collection centers and some direct lines. Now, at any given point of time, what we were reporting is only the total number of direct lines but not the number of live direct lines. What we have rationalized is to say that, look, only those clients who have given you business in a period of the last 24-36-months would be compared in this number because there is no point in just

telling that I have so many direct clients in my portfolio, many of them who have stopped giving business. So what we have done from that perspective is that we have gotten the numbers to the reel number who were the clients, who will refer business to you. That said, in terms of the total number of labs or in terms of the total number of collection centers, or in terms of the total number of direct clients, we are only increasing the depth. Going forward, what you will see is that we may not open as many labs, but we will keep on adding collection center to further growth. You will have hospitals and direct clients also furthering growth. So those two or three things that will happen. On the back of the marketing investment that have already happened over the last two quarters, you should see improving numbers in the quarters to come. Also, you must note that if you look at everybody else versus us, we did not have a such big impact of the demonetization despite demon being there. Going forward, we do not expect any serious things to really happen, save the regulatory changes that may come about in the business.

Neha Manpuria:

Sir, if I look at the marketing spend comment, what warranted the certain need to increase marketing spend if you believe that you were doing better than the peers particularly after demon quarter, do you think structurally the business is becoming more tough in the Diagnostics space?

Srivatsan:

It is precisely a question of what you want to do versus what are the things that you have been doing. Until now, we have been doing the traditional marketing. But when you were to look at the Digital marketing space, the resident welfare association camps, the concentrated camps in certain places where you will have certain pull. It is in those places that you are investing the higher money in terms of getting the larger business. Obviously, we are still considering this as an investment. In the years to come, you will see the numbers floating.

Arindam Haldar:

If I may add to your question, "Is competition increasing?" which is true, yes, competition is increasing in the Diagnostics space. Our investment in marketing is linked to our strategy. So what we are saying is we are picking our focus geography and trying to increase depth which means you need far more household penetration, lot more awareness in those markets and with growing competition, yes, we are looking at this as a long-term investment for our future growth.

Neha Manpuria:

On the Hospital business, apart from what happened on demonetization or stent pricing, historically we have talked about how some of the initiatives that we are taking on a corpus scale in terms of reducing the overheads. How are we progressing on that, if you could give some color and can we see more improvement in that number?

Bhavdeep Singh:

Absolutely, in fact, I would tell you that that is one of the things, that is one of the reasons that I believe that we have had our margins is that I think we have done a very good job in terms of managing cost and reducing waste in our system. So I am actually very-very pleased with the progress we have made there. We have a central team that works on cost management, cost efficiency. We have actually started the full environment, where hospitals share their ideas, they say, "Have you thought about this?" The best cost management environment is the one that has driven from the ground and from the absolute hospital floor. That is what is happening right now. So whether there is admin head, even our doctors are coming up with idea, suggestion. It is not

about cutting cost. It is about reducing waste. We do not talk about cost management. We talk about reducing waste and becoming more efficient and ultimately being able to give the patient better experience inside the hospital. So I would tell you that those initiatives are very much on track and in fact whatever our target was we beat our target by about 20% last year and we believe we will continue to do that. So this is the way applied for us, this is not about in 2016-17 that we managed cost as a one off, we will be doing this for the next 20-years because I think they keep getting better and better and become more and more efficient and I believe the culture we have now, as we said, will not only allow that, it will actually promote that going forward.

Neha Manpuria:

Sir, when we look at expansion in the hospital business on the Brownfield site, where are we tracking now, which hospitals do you expect to see bed addition come through in the next two years?

Bhavdeep Singh:

I think there are two types of bed additions that we can talk about -- #1 is that I give our hospital teams a lot of credit, they are becoming very creative, one of the initiatives we did was we have gone to a central kitchen and a central laundry in NCR and while we thought that that will create a better product in a more consistent bed sheet or the quality of a meal, one of the things we ended with, we picked up space. So our Escorts Hospital which historically has been 290-300 bedded hospital, is soon going to be 350-bedded hospital. So we are finding space inside the hospital becoming more and patient. I think we have a hospital like Vasant Kunj that I would tell you that for a long time we are sitting at 127 beds, we had almost 170 beds right now. So you have hospitals working independently within the four walls of the hospital and finding space and continue to grow. So that is one kind of growth. I think that will be perpetual and will go on for a very long time. The second is plant additions which is what we are doing now. I can tell you about in Shalimar Bagh, we have added an Oncology block, we are adding beds there. In Jaipur, we have added a couple of floors, we are adding beds. In Bannerghatta Road, we have the ability, we are going to be adding hundreds of beds there as well. Noida, we are opening up a liver block, we are adding beds. I would tell you that in those beds itself, I think in this coming year, we will be adding somewhere between 350-400 incremental beds. The other bonus is Arcot Road which we have built three-four years back has had some issues in getting permission, licenses, etc., they have all been cleared up and that hospital will be getting launched, so that is 160-180-bedded hospitals that will be opening towards end of the year. So when you count that, we are talking about adding an addition of 500 plus beds at a much lower CAPEX than otherwise we would be doing. So that is the second way. The third piece is what we are thinking about going forward, so in the Gurgaon Hospital FMRI, we are looking at adding 100-150 beds in the next year, year and a half, Noida, and we are looking at adding a block as well. So I think three types of growth within the four walls that our hospital heads and our teams are adding beds and I think again that is going to give us for 100-150 beds. Planned additions in the BG Roads of the world and Shalimar Bagh of the world, that will give us another 150-beds and Jaipur as well, and then Arcot Road which is the new hospital which will be getting launched towards the end of the year will give us another couple of hundred beds. I like what we are doing. I like the fact that there are growth in primarily Brownfield, I like the fact that our cost to add a bed is going to be somewhere in the range of 60-80 lakhs versus marketplace, all these Greenfield that are popping up, I think

our competition is going to be adding beds at a clip of 1.1-1.2 crores. So I think the return on investment for us, return on capital deployed, the outcomes are going to be far superior. So, I think we are in a very-very good position. I think that one of the reasons that what we are doing that plus the cost base, the doctor fees, everything else you heard me talk about, puts us in an exceptionally strong position going forward which should give good results as well.

- Moderator:** Thank you. The next question is from the line of Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** Just again on the quarter particularly referring to the hospital margins, if we look at the second half, clearly there were headwinds from demonetization and stent prices in this quarter, but going forward, given that this quarter has seen some significant shaving off, should we take Q2 as a base like margins were not impacted by these two factors, just some directional color on that will be very helpful?
- Bhavdeep Singh:** I think what you should take the H1 FY'17 as the base, that would give a fair kind of a base.
- Girish Bakhru:** I know you said stent price impact you have to get more clarity on. Any particular impact you see from the increase in the minimum wage?
- Gagandeep Bedi:** There is marginal impact, not significant.
- Bhavdeep Singh:** Nothing material as it relates to. If you look at the overall organization, of course, there is an impact. But look at the end of the day you certainly ask about efficiencies reducing with cost management, etc., we believe that would be limiting whatever comes our way.
- Girish Bakhru:** On the SRL front, just wanted to get some sense, is there any pricing pressure in terms of the test pricing coming down, some of the peers had commented that they had faced pressures particularly in Vitamin D and Hepatitis test prices that have kind of seen prices coming down, have you seen something like that?
- Srivatsan:** If you look at our total numbers for the fourth quarter as well as for the full year, if you look at our net operating revenue, we have grown by 12% and the volume growth out there was about 6.5% which means the balance is about pricing and mix growth. So while there may not be a great amount of opportunity in terms of ability to increase prices significantly, we do not see a lot of pricing pressure coming our way which will force us to reduce prices. That said, you must also note that last year the government in the states of Punjab, Delhi had brought down the prices of epidemics like dengue, chikungunya, etc., which is the kind of regulatory price that would come in. So that is something we will wait and watch as and when it comes. C) We will also find out what is GST going to throw up in terms of the pricing, etc., If there is some positive or negative, that needs to be adjusted. We would do it in the way in which the margins are not impacted.
- Girish Bakhru:** Would Vitamin D be among the top-3 test?

- Srivatsan:** Cannot say that Vitamin D would be amongst the top-3 test. But yes it would definitely be in the top-10 test.
- Girish Bakhr:** On Oncology side, you have been adding lot of beds and capacities there. But lot of peers now including Apollo is now pushing towards proton care, even HCC has lately talked about that Are you thinking something like that in the long-term?
- Srivatsan:** No such plans as of now and we do not see that as a major challenge either.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** For the SRL business, what will be the profit after tax?
- Anurag Kalra:** I guess we would not want to give those numbers out as we have not been giving it out in the past.
- Pritesh Chheda:** Is there a shrinkage in gross margins in the SRL part of the business?
- Anurag Kalra:** Flat.
- Pritesh Chheda:** On the Hospital side of business, what kind of cost inflation do you face, and at a single digit revenue growth how do you assess forthcoming years?
- Gagandeep Bedi:** Cost of inflation is around 6-7% and top line like as Bhavdeep said, we are looking forward to top line of double-digit and I think that is going to give us cost efficiencies bringing in, coming in from productivity, etc., So that is going to compensate and lead to margin expansion.
- Pritesh Chheda:** I wanted to know the status of the demerger.
- Anurag Kalra:** Pritesh, we have filed the demerger scheme with the Company Law Tribunal in Chandigarh. They had given us the date towards the end April to hold the shareholders and creditors meeting. We did that; we have got approval from all shareholders and creditors of all the three companies – Fortis Healthcare, Fortis Malar and SRL – the next hearing is due sometime around June end. That is the current status of the demerger.
- Pritesh Chheda:** What is the process after NCLT?
- Anurag Kalra:** We will have to wait and see whether we get the final approval at that time or will it take a few more hearings for the NCLT depending on what they are going to ask us. Post that, there will be some trading and listing approvals we would have to take before we can actually make demerger effective.

Pritesh Chheda: On hospitals, I wanted to ask, for us the margin expansion is not playing out considering the utilization. If you could throw some more light as to what is the strategy there, how should one look at it and what are the milestones that need to be achieved?

Bhavdeep Singh: As just asked a few minutes ago from a margin perspective, Mr. Bedi, our CFO, just referenced the fact that you should look at first half of last year where the EBITDAC margin will sit in somewhere approximately 17%. I think what we point out is that demonetization took a hit. In a business like us, when you drop any amount of revenue, whatever comes off the top, the margin component is significant because your fixed cost is already covered. I think that is what happened here. If I look at the business in the next two-three years, I see this is a 20% business. We are certainly not there yet, but in the first half of last year we were 17% and I see no reason that in the next two-three years why we would not have 20% business. That is the direction we are headed in. So it is not hypothetical or something that is thin air, we have a roadmap for it, and the roadmap consist of three or four things -- #1, is that from a medical, clinical perspective, and from complexity perspective, we continue to invest in great clinical activities or you heard me talk about transplants a couple of times, we are doing a great deal of work on Oncology. Even in something like orthopaedics, we are going to get the first robot, that is going to do orthopedic surgeries in India – the first healthcare organization in India that is going to be doing that. So, I think investing in technology, investing in great doctors, the complexity perspective, I think that is going to be one big piece. Second piece is that we are working on and we have started publishing clinical outcome. I think that when you have the kind of outcomes we do and your published outcomes is substantiated, I think you have certainly the right and the opportunity to be able to drive incremental margin there as well. The third piece is that we will continue to drive revenue. I think by virtue of everything you heard me talk about from a doctor perspective, from a patient perspective, from a nurse perspective, we expect our volumes to grow, we expect that patients more and more relied on Fortis Healthcare as a quality healthcare provider and will come to us if they need everything. So we have multiple initiatives in every area of the business and again I think Q3 towards the end of this year the margins in the second half of this year you are going to see the margin come like that. First half of last year is a good indicator. If I have to think about the next two-three years, we are at 20% business and doing exceptionally well and be recognized as the primary and the premier healthcare provider in India.

Pritesh Chheda: Just want to check one, how will the trust cost move for us from here on?

Anurag Kalra: On the trust cost piece, we have bought back 51% of economic interest in FHTL, that has helped us to reduce our trust cost; however, the full impact of that has not come in FY'17 because the deal was consummated in October last year. Having said that, I think on an annualized basis the reduction in that BT fees as a result of this transaction should be to the tune of about Rs.200-odd crores. We do expect that our trust cost should actually be down by that amount through the course of FY'18 and actuarial representation will probably be Q4 kind of a number with the nominal increase of 3-4% that we envisage.

Pritesh Chheda: Which means about Rs.240-250 crores?

- Anurag Kalra:** Some ballpark.
- Pritesh Chheda:** So that is as of now. How about any incremental scope?
- Anurag Kalra:** Yes, that will probably happen as and when the trust helps us to add more beds because then there will be a fee component that will add to the number that you just mentioned.
- Pritesh Chheda:** The CAPEX cost?
- Gagandeep Bedi:** Somewhere in the range of Rs.200-250-odd crores.
- Pritesh Chheda:** The news keeps on flashing a lot of things reporting, lot of things you want to shed comment on any of it because there are too many permutation, combination going around, do you want to shed light on any of it?
- Bhavdeep Singh:** We agree there is far too many. Our focus is continued to run good hospitals, take care of our patients. At a promoter level, there is a conversation taking place on exploring some investment opportunity that might exist. Having said that, there are lots of talks, there are lots of discussions that may or may not be taking place, but it is all conjecture, there is nothing to comment on right now. I am sure that our promoter will do what is best for the company and best for the organization and best for the employees and most importantly the patients. I think apart from speculation there is really nothing more that I can add to that right now and I certainly would not want to add to the confusion which you just referenced. So, we are focusing on taking care of our patients and driving good profitable, successful growth and that is where the story starts and ends.
- Moderator:** Thank you. The next question is from the line of Rakesh Naidu from Haitong Securities. Please go ahead.
- Rakesh Naidu:** My question is to Bhavdeep. I just wanted to know your thoughts in terms of how do you look at the current arrangement with RHT? I understand that the Hospital business has scaled well over the years and the cost metric has been pretty steady and you have bought back a few assets from the RHT. So going forward, a) what are your plans and how do you look at remaining portion of the assets which has tagged up with RHT? My second question is the balance sheet current structuring. It has definitely got levied up given the restructuring exercise that you have undertaken. How do you look at this debt portion and how should we be understanding in terms of how and when this to normalize?
- Bhavdeep Singh:** When it comes to the RHT, you are aware obviously that we bought back 51% FHTL, we did that obviously because we thought that was a good way to optimize our investment and the vehicle has been created there. Having said that, we have to figure out and we are exploring different opportunities that might exist that ends up in a better outcome for us from a cost perspective, from a financing perspective and a capital perspective. We did 51%. We think that

was a good decision. I do not want to misread or say anything that I cannot substantiate appropriately, I do not have a clear roadmap. I can tell you with the transparency and honesty that we are exploring, we are looking at various scenarios that we can implement when it comes to RHT because ultimately look, at the end of the day it is a debt instrument, and we are exploring it, nothing to comment on right now but again to your point we do need to look at various scenarios and then decide what is the right way to go. So, I am probably not doing your question justice. Unfortunately, it is one of those things that I am being transparent. There is really not much more I can say apart from that because that is the current status.

Rakesh Naidu: So organically, assuming that there are not any further restructuring exercise possible outside what you have with RHT, how do you see the current balance sheet structure – you see a potential threat to calibrate downwards from the current businesses, just wanted to get a sense, you have earlier commented that you see a higher profitability growth over revenues and while the cost structure is pretty optimum, the only thing which is preventing the flow through is the current structure inside. So just wanted to get your thoughts in terms of how this should be looked upon? The sub-part of the question is your current interest payments has an element of payments which goes to FHTL and in a hypothetical situation of the structure getting reversed, how should we be looking at that interest payments – that will go off or that will still remain in the books?

Anurag Kalra: Rakesh, hi, Anurag Kalra here. Two things: One is we can optimize the balance sheet further because as you know we have spoken about this in the past, there are certain non-core assets that are there in the balance sheet that we are in the process of evaluating. If we get the right price given where we are, we would like to hive them off which will also help strengthen the balance sheet. That is one. Your second question is just hypothetical. So we would just like to maintain what Bhavdeep has already said that we are evaluating the current structure. As and when we think that we have something more concrete to share with you, we will come back to you on that. But as of now, will FHTL 51%, this is where the balance sheet is. I have already mentioned in my financial presentation that increase in the books is largely due to the FHTL transaction. This is where we are right now. As soon as we can get some non-core assets, that portion to the extent will come down.

Rakesh Naidu: Just want to understand the principle of the accounting here. Hypothetically the structure gets reversed. The portion which is going to FHTL that will also get reversed, right... the 17.5% which is getting paid to FHTL?

Anurag Kalra: That depends on what structure we would actually be evaluating. So this is a very hypothetical question. We do not want to get into it at this point in time.

Moderator: Thank you. The next question is from the line of Harith Ahmed from Spark Capital. Please go ahead.

Harith Ahmed: At the time of FHTL acquisition, we have talked about this transaction being PAT breakeven in the near to medium-term. So just wanted an update on that because based on what we see in this

quarter, large part of the gains on the net BT costs is more than offset by some of the other below EBITDA line items like high minority share of profits, higher interest. So can you give an update on the net impact of FHTL transaction on the P&L, just trying to understand if there is a change?

Anurag Kalra: There is no change because I think initially what we had envisaged was that FHTL if we could do through equity and this is what has been shared with you that it would probably be PAT breakeven or marginally positive. The idea was that the non-core assets in our books would be used to from that transaction. That plan remains unchanged. We still want to dispose of those non-core assets but we do not want to have a distress sale on our hands. So that is why we had in the interim taken a loan for the transaction. As and when we dispose of those assets, that loan amount through FHTL will come down and then you will have a different financial picture.

Harith Ahmed: On the Arcot Road facility which you said you will be opening by the end of the year, so this comes after delay of at least two years. So some of the issues that was delaying, the commissioning of this facility, have they been resolved?

Bhavdeep Singh: Yes, they are completely and we are very excited actually, but all the issues have been resolved and it puts us in a fantastic position in Chennai, we have the Fortis Malar Hospital and now in addition to that having this hospital and with the wonderful doctors we have the transplants, that is where we are doing most of our cardiac transplants. So we are very-very excited, we are very bullish and I think Chennai is going to see a new face of Fortis and I think we will be doing well. So, all issues resolved and getting ready to open a very exciting hospital there and improve the quality of healthcare in Tamil Nadu.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: The fact that at current level of operation, we seem to be not generating operating free cash and with the debt which is there on the books, how do you propose to fund the incremental CAPEX that sort of we have in mind across different hospitals?

Gagandeep Bedi: So currently the CAPEX funding is basically done through financing and that is in the range of Rs.200-250 crores p.a., that is the range we get. Typically we have got lines available to fund our CAPEX.

Nitin Agarwal: So we presume to be ceased debt further going up from these levels and definitely those non-core transactions happen?

Gagandeep Bedi: Not materially going up because when your margin will expand and thereby that much of offset we will have, so debt is going to remain at similar levels, around Rs.1300 crores net debt.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. With this, I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

Bhavdeep Singh:

So thank you very much for joining the call this evening. I hope we have been able to address your questions appropriately. I would tell you that the common theme certainly that you are asking about is where the business, what is the current state and what can we expect going forward. I can tell you that with a great degree of confidence, with a great deal of detail behind all of our work, we remain very-very bullish for '17-18, demonetization was a challenge, we have had some, we had to get backs that we have and Q1 is off to a very good start and we expect going forward we have a very-very strong year. So we look forward to talking to you all soon. For any follow-ups please certainly feel free to reach out to us as well. Thank you very much and have a good evening.

Moderator:

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