



“Fortis Healthcare Limited
Q4 FY '20 and FY '20 Post-Results Conference Call”

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Moderator: Ladies and gentlemen, good day. And welcome to the Fortis Healthcare Limited Q4 FY '20 and FY '20 Post-Results Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anurag Kalra – Senior Vice President, Investor Relations at Fortis Healthcare Limited. Thank you and over to you, sir.

Anurag Kalra: Thank you, Aman. A very good morning and good afternoon, ladies and gentlemen. And welcome to Fortis Healthcare's Q4 FY '20 and FY '20 Earnings Call. The call is being chaired by our MD and CEO, Dr. Ashutosh Raghuvanshi. With him we have Mr. Vivek Goyal, our Chief Financial Officer. From SRL, we have Arindam Haldar, the CEO of SRL. And with him is Mangesh, the CFO of the Diagnostics business.

I hope you would have got our press release and presentation and the results that we had released last night. So we are going to start with some opening comments by Dr. Raghuvanshi on the year's performance. Arindam will then take us through briefly the highlights of the diagnostics business. And we can then open the floor for question and answers. Over to Dr. Raghuvanshi.

Ashutosh Raghuvanshi: Thank you, Anurag. Good afternoon, everyone. And thank you for taking time to be with us on our Financial Year 2020 and Q4 Results Call. Let me begin by hoping that all of you and your family are safe and well. COVID is an unprecedented situation that none of us had foreseen, and I hope we never see in future. Before I begin, I would like to express my sincere appreciation to our healthcare workforce, their grit and determination in these challenging times fills me with a sense of pride. Being at the forefront and risking their lives daily, and serving patients day in and day out calls for resilience and strength of the highest order. And for that I express my gratitude to them.

Before I go into the results, I just wanted to take a minute to provide you with an update on the open offer. As you know, we had a judgment in November 2019 on this by the Supreme Court. Following the honorable court's order, in December 2018, as a result of this the open offer continues to be on hold. We filed our detailed responses in January on this, and the matter was scheduled for listing in March of this year. However, with the COVID pandemic and the resultant lockdown, there was no hearing that was done in March. We did file an urgent listing application for hearing on June 9th, 2020. But unfortunately, that was not accepted. Again, on June 12, 2020, we submitted a written application to the registry of Apex Court, requesting them to reconsider for urgent hearing. The response of which is still awaited. In parallel, the Supreme Court has tentatively listed this in its case list, as mentioned on its website, for July 6, 2020. So we hope that things will move now forward. Having said that, I want to assure you that all legal options are being reviewed in this matter.

Coming to the results. I will break up my comments in two part, one, of the year gone by and the quarter performance; and two, on what we are witnessing in our business currently and how are we navigating this environment. Let me actually begin with the current environment.

Clearly, like for everybody else in the industry, the ongoing impact of COVID is quite significant for us as well, in both the hospitals as well as diagnostic space. The impact actually began in February 2020 with an impact to the tourism business. And then as the pandemic became more widespread, leading into the nationwide lockdown towards end of March, things virtually came to a standstill. Except for emergency surgeries, all other elective surgeries were postponed. Regulatory and infrastructure challenges and associated costs continue to impact the business. We did speak to all of you sometime towards the end of March as well to explain the COVID situation. And today, I think it has more or less turned out as per our expectations. April occupancy, which was at 29% has now improved to 35% in May as lockdown restrictions have eased.

And for the month-to-date in June, the occupancy is around 45%. This up move is also led by the increase in admissions of COVID patients in our facilities. Today, we have almost 1,000 beds earmarked for COVID, with the potential to further scale up, if required. Our diagnostic business volumes saw a sharp drop up to 75% in April, this is also now seeing initial signs of recovery with a drop of 60% in May versus the corresponding previous period. Having said that, I would also want to highlight that the impact of this will continue not only through Q1 but also beyond till we see a sustainable and visible sign of business recovery and normalization. Hence, I think we all have to understand the short-term implications of this on our performance.

At the same time, while the situation is what it is, we had in March and April itself initiated a number of measures to manage and tide over this situation. This included undertaking significant cost-cutting measures like voluntary salary reduction, both for medical and nonmedical personnel, postponing the launch of our ready-to-commission Arcot Road, Chennai, selective recruitment and judicious CAPEX commitments. We have been able to reduce our fixed costs in the hospitals by 55%. This is quite significant, but a large part of this cost saving is temporary in nature. We also continued tighten our belts across costs related to G&A, marketing and sales and other areas. All this, with a strict control on working capital management, better collections and availability of bank funding, have helped us to manage effectively our liquidity situation. We will have to see how the situation evolves but are working internally under a basic set of conservative assumptions with the fundamental principle of conserving cash and ensuring liquidity.

In addition to this, our immediate priority is to ensure that the relaxations are eased, business requirements are back on track as soon as possible. We also see this situation as an opportunity to fast pace some of our initiatives as related to digitization, information technology. We have already began a slew of fresh actions to ensure operational continuity with as less as disruption as possible. And these would become important and consistent elements of our business environment for the foreseeable future. My belief is that the way health care services are

provided, the interface between doctors, patients and administrators, and the reach out mechanism for marketing, sales and branding will undergo significant shifts from the physical to the digital space. To cite some examples in our case, tele and video consultants with the patients, virtual CMEs, etc., for doctors; home health care, digital electronic medical records, and integrated telemedicine network, all woven in a seamless technology platform across our network will result in enhancing patient trust and transparency and also make our systems and processes more robust for achieving higher operational efficiencies.

I will now move on to the second part related to the year gone back. This has indeed been an eventful year for us with many transformational and significant accomplishments. While I will detail this in a bit, just to put in perspective, we have indeed traversed a long journey to bring the business back to its growth trajectory. And with the actions initiated in financial year 2020 on all fronts, including investment and CAPEX, clinical programs and the review of our entire portfolio, we are well positioned for future growth once the situation normalizes. Our consolidated revenue for the year stood at 3.6% to INR 4,632 crores while EBITDA margins have doubled to 14.3% from 7.1% in financial year 2019. At the PATMI level, we have recorded a profit of INR 58 crores for the year versus a loss of INR 299 crores.

Performance for the year was largely due to the turnaround witnessed in the hospital business, which has come into the black for the first time ever. Our hospital business revenues have grown 6.4% to INR 3,752 crores, and EBITDA margins have expanded to 12.7%. Led by an overall improvement in performance and saving in the hospital services fee post the acquisition of hospital assets in mid-January last year, our hospital operating metrics reflected a healthy uptick with an INR 1.59 crore versus an INR 1.52 crore in financial year 2019. The occupancy level were up at 68% from 67%, and this is because of the lower occupancy of 65% in the fourth quarter. But we still managed to have a yearly closure at 68% occupancy, slightly higher than the last year. The performance in the hospital business is despite the impact that we saw in quarter four.

Our diagnostic business has recorded similar revenues compared to the last year at INR 1,016 crores versus INR 1,010 crores. But we have been able to improve margins from 18.4% to 19.4% in financial year '20. This business too was significantly impacted due to COVID in quarter four, which further dragged down the performance for the year. For the quarter, consolidated revenues were lower by 6% to INR 1,113 crores while margins expanded to 13% from 10.6% in the corresponding previous quarter. Hospital business revenues witnessed a marginal decline of 0.6% in the quarter to INR 913 crores while diagnostic business revenues were lower by 7.6% to INR 232 crores. On a like-for-like basis, consolidated operating margins declined from 13.7% in financial year 2019 to 11.4% in financial year 2020 as a result of the muted performance in both the hospitals and the diagnostic business in the quarter.

Let me also share with you some of the firsts we have undertaken in our hospital business. Our portfolio assessment is an important element to calibrate not only our expansion plans but also to look at profitability rather than size and scale. It is in that respect that we aim to consolidate

our geographic presence in order to drive higher synergies across our network. We are evaluating our assets with the objective to invest further in high-performing units, transforming and scaling up high potential units and evaluating existing or underperforming or low potential facilities. We do have our sight set on deepening our presence in focus markets, such as Delhi NCR, Mumbai, Bengaluru and Kolkata in a cluster-based approach model. This, we feel will help us optimize our resource allocation strategy and sweat our core assets more meaningfully.

On the CAPEX side, from a time where we were constrained to invest in the business, we have in the year gone by spent or committed CAPEX of approximately INR 280 crores to refurbishment, medical technologies and equipment upgrade and for growth and expansion. The BG Road oncology block has been launched, our Noida block has been operationalized and we have a plan to expand, as we had stated earlier, about 1,200 to 1,300 beds over the next four to five years. We have also added a host of medical equipment, including Cath labs, MRIs, CT scan equipment and other medical technologies in the area of nephrology and pulmonology. In addition, we have also added ICU beds in selected facilities. All this would help us drive future performance and enable us to offer a wide range of clinical offerings and advanced medical treatments to our patients.

On the cost side, this is now going to be an ongoing thing irrespective of the current situation. For the leadership team and my other colleagues, this is the new norm of imbuing a cost-conscious culture across functions, departments and future resources allocation plans. We have, in the wake of the pandemic, become more aware of the need to lean in cost. I have been speaking on costs in all our communications and can assure you that we have and continued to take cost efficiency measures in all aspects, be it in manpower optimization or productivity, both in medical and nonmedical areas, supply chain, procurement, general maintenance, etc., and sales and marketing.

During the year, we streamlined our organizational structure, reduced corporate office expenses, renegotiated contracts, including those related to physician engagements, centralized selected services and rationalized our power and fuel expenses. All this can be witnessed in the percentage to revenue lines which are mostly flat or marginally up after absorbing inflationary costs, but have resulted in higher revenue growth, signifying cost containment and a higher operating leverage. In addition, we have been successful in maintaining a healthy balance sheet with a net debt-to-equity ratio of 0.14x, similar to last year.

Our finance cost has seen a significant reduction of almost 40%, and we have been able to see a strong uptick in our credit rating by 4 notches from BBB- to A. We have also been successful in making our working capital management more efficient by streamlining the billing process and have seen higher collections and better inventory management. Our non-core asset is well identified. And during the year, we were successful in divesting our 28.9% equity stake in MSCL, Mauritius Hospital. We do have other non-core assets that we plan to divest, and we will pursue this once the COVID situation stabilizes.

I will also share a few of my thoughts on the diagnostic business. This business, we feel has been suboptimal relative to industry, and many of you have also shared your thoughts on this with us. We have initiated a number of value levers in this with a clear-cut direction for network expansion in both B2C and B2B network and taking up the channel engagement strategy in both these segments with renewed rigor and some fresh plans. Simultaneously, the product portfolio is also being calibrated to ensure higher contribution from value-accretive tests and from specialized lifestyle disease segment. These have resulted in early successes in January and February, but were impacted again in March; hence, results of these initiatives are not really apparent in quarter four. I do remain confident that we will see a better and stronger performance as these measures are rolled out. I would later request Arindam to add on diagnostic performance.

As I sum up my comments, it has been a long and challenging last year. But I am happy that with the support of our Board and our strong association with IHH, we have emerged as a new company with a defined aspiration to be the most structured health care organization in the country. I remain optimistic that this is the beginning of a new journey and over the last year our transformational endeavors have positioned us well to drive higher operational performance and bring value to all our stakeholders. I wish you well in these challenging times, and please stay safe. With that, Arindam, over to you.

Arindam Haldar:

Thank you, Dr. Raghuvanshi. And a very good morning to everyone. And thank you for joining us on the call today. I will break down my speech into necessarily three parts. I will talk about the quarter that has gone by, and in that I will split it between what happened in January, February and what happened in March. Then I will talk about the situation that we are currently in as well as what we are doing to make sure that we are better prepared for the future. And third, I will also touch upon a few thoughts around the longer-term strategy. So if I take you back to a quarter back when we had come on the same forum, we had discussed about the longer-term growth construct that we have drawn for SRL, primarily basis improving our B2C growth to double-digit over the next two quarters, that's what we have said a quarter back. And this was to be done via expansion in focus markets, integrated portfolio approach and cluster marketing. I can comment with satisfaction that we have started faring well on those strategic revenue pillars and are seeing some very early green shoots.

So let me now break down the revenue performance of quarter four into two buckets: pre-COVID, which is January and February, and March. So if I start with January and February, actually, quarter four started as being quite a promising one for the B2C revenue growth before we were engulfed with the global pandemic forcing us to ramp down our operation for a brief period. In January and February, our overall revenue growth was 5.2%, which is an improvement over the past few quarters. In the same period, our B2C business, comprising of 43% of overall revenue, grew by 9%. And we believe that the seeds that we had sowed in previous quarters have started reaping results, and will lead SRL to double-digit growth post-market normalcy and business stability. The significant drivers of growth in the B2C segment have been our franchisee collection centers, which registered a growth of 20% in January and February versus the same

period last year. However, during the same period, our B2B segment showed a temporary reduction in revenue growth and could grow only by 2%, which we believe is a short-term phenomenon and should recover in a couple of quarters. But that's only January, February.

In March, we had a serious impact, which Dr. Raghuvanshi spoke about, mainly due to decrease in patient flow in the second half of March due to nationwide lockdown to contain the spread of COVID-19. In the month of March specifically, we saw a decline of 29% in revenue, primarily linked to reduced patient flow. Overall, for the quarter we did 6.8 million tests, which is a decline of around 8.5% over the same quarter previous year. Our gross operating revenue stood at INR 232 crore, which is, again, a decline of 7.7% over quarter four last year, primarily due to the negative impact in March. This also impacted our operating margin, which stood at 14.5% for the quarter, down from 18.9% in the same period the previous year. Despite the significant impact, the EBITDA margin basis gross revenue for the full year improved by 100 basis points and stood at 19.4% compared to 18.4% in FY '19.

If I now talk about the current situation and what we are living through in the past few months. So let's talk about COVID testing. SRL was one of the first few private labs to start COVID-19 testing. And to date, we have conducted more than 80,000 tests in Mumbai and NCR, partnering with government and private hospitals and servicing customers. Currently, three of our labs perform COVID-19 test, and we are expanding performing locations to other parts of the country. While COVID-19 impacted us deeply, and our revenue fell to 25% of the going rate in early April, we are also seeing a sharp recovery in terms of our operation. During the second week of June, we are trending close to 80% of pre-lockdown, that is February revenues, including the COVID test. And we expect this to improve to 90% of February level by July end. Our losses in April 2020 have been reduced to close to breakeven in May 200, and we expect a positive EBITDA in June 2020. We are working closely with industry and government bodies and are deeply engaged with them as we jointly navigate this difficult period for the country.

Let me also take you through some of the initiatives that we have undertaken during this lockdown phase, which we believe will hold us to good stead post normalcy. There are essentially four areas that I will speak about. First is the people initiative. We have actually utilized the lockdown period by upgrading the skill sets of our sales force, medical experts and front office staff by doing a series of new initiatives. We have created an in-house medical training platform called eMed Gurukul virtually. And we have conducted more than 1,200 man hours of medical training during the lockdown period. We also formulated a curated training module for upgrading technical knowledge of our sales force, because we believe that execution capabilities of our frontline sales was less than satisfactory. With this, we believe that they are better equipped once the lockdown gets over, when they go back to the doctor's clinic, that they will be able to do a better, more productive job. We have also done training on softer skills and customer service for our frontline staff.

Apart from that, to ensure safety of the workplace, we have taken various initiatives to safeguard our employees, from ensuring social distancing across all workstations to educating employees

on how to ensure productivity and work using technology in this new normal. We have also done aggressive cost containment measures, and we have put in place a few measures to curtail our fixed cost. In quarter one, our fixed cost have been reduced by about 15%. And we are, in this regard, also thankful for having an excellent set of business partners and associates who have understood our problem, and we are working with them to ensure that we get this cost saving.

Using technology where possible has given us increased productivity at a fraction of earlier cost, training being an excellent example. Optimizations have been planned and put in place to have better productivity from our lab network and, of course, to reduce logistics and other costs where possible. We have also augmented our marketing execution strategy to suit the current scenario, keeping the longer-term strategy intact. In the coming year, there will be a significant focus on digital connect and initiatives that we have put in place like online chatbot, eMaitri Meets to connect with clinicians for medical conference, local market activations to drive home collections as a major revenue channel. We have also done some work on our test portfolio. Keeping a healthy immune system we know can help or prevent and reduce risk of infections or diseases. Understanding the current need of people to assess their immunity level better, we have launched tests such as IL-6 and also an immunity check package that helps individual to keep a check on our immunity levels against existing infections.

Talking about our longer-term viewpoint on the business. Our long-term strategy to offer market accessibility and an integrated test portfolio remain intact, which will drive the organization to double-digit revenue growth, though delayed by a few months due to the current pandemic. We did robust retail expansion in the second half of FY '20, which we believe will deliver growth post normalcy, because we saw that coming to fore even in the month of January and February. And we will continue with this expansion spree across the 25 focus markets. Our focus continues to be on enhancing customer accessibility through retail expansion, both on B2B and B2C business segments, maintaining knowledge leadership through technology and innovation focus through artificial intelligence, upgradation and automation of existing technology and consumer analytics.

In summary, given the current situation and the nature of the business we are in, we hold tremendous potential and we believe that we are moving in the right direction. The recovery would be at a faster pace and in an extremely efficient manner. In the post COVID normal, there will be several new trends with respect to consumers, company spending and even the involvement of the government. We believe all this will only bode good news for organizations like ours.

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

Anurag Kalra:

Thank you, Arindam. Ladies and gentlemen, in the interest of time, we would now begin the question-and-answer session. Can I require the moderator to begin the session, please?

Moderator: Thank you very much, sir. The first question is from the line of Kunal Shah from Carnelian Asset Management. It seems there is no response from the line of Kunal. We will move to the next question that is from the line of Sanjay Shah from Alphaline Advisors. Please go ahead.

Sanjay Shah: Doctor, I appreciate for running us through a detailed presentation. And appreciate and are thankful to the team Fortis for preparing such a nice detailed presentation to make us understand company very clean and clear which has resolved many of our queries at a glance. Sir, I have two questions. One is, in this COVID situation we have understood the government interference on the pricing factor of our hospital business as well as SRL business.

And we would like to even understand from you how it will pan out for our company on the profitability side. And even I would like to understand the insurance sector, insurance bill, the bill raised to the patients, how it is settled and how insurance companies are taking over that? Do you see any dispute on the billing portion from the insurance side over settling the amount? And what is the portion of our cash settlement and settlement by institutions, that is insurance?

And my second question is, do we require any additional fund or do we have any plan to raise fund for our future growth program? And because of this COVID, do we face any cash crunch and need any cash? And are we going for any capital raising program over and above that Rs. 300 crore which you have already announced? Thank you.

Ashutosh Raghuvanshi: Yes. Thank you, Sanjay, for your questions. I think insurance companies, we are not having any issues per se with the transaction. The rest of your question, I would request my colleague, our CFO, Mr. Vivek to take.

Vivek Goyal: Yes. Thank you. So there is no plan as such for any fund raising. So we have already got some additional working capital lines in the current year which is actually undrawn. And as the situation improves, based on our projections and other things, I don't see any fundraising to happen in the current financial year. Because of the COVID situation, we have put on hold our expansion program for the time being and that will result into saving in the cash flow for the company. I hope I answered your question.

Ashutosh Raghuvanshi: Yes. And regarding the normalization of situation, we expect that quarter three situation should start getting towards normal. And by the end of quarter three, it should be somewhere close to the pre-COVID time.

Sanjay Shah: Doctor, do we have any change in our strategy of operation after post COVID?

Ashutosh Raghuvanshi: So, some of the measures which we outlined earlier regarding the telemedicine, etc., those things are important. Other than that, I think the focus of ours, which was on tertiary care, procedural based care, I think that remains relevant, so we would not have a major change in that. Of course, there are going to be some operational level adjustments in terms of how we deliver our care, etc.

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

Adi Desai: And again, congrats on finally getting a Supreme Court date, hopefully we get heard this time. I guess going to my two questions. One was on sort of we gave the breakdown of occupancy per month and sort of growth for the diagnostics business per month across this year. I was just curious, if we can have a sense on the EBITDA per month, so I am trying to work out what was the normalized EBITDA we were doing before the negative impact of March? I know Arindam kind of gave us some numbers around that for diagnostics, but I just want to get a sense on what the EBITDA was for January, February on a monthly basis.

Vivek Goyal: Yes. So Adi, we generally don't give monthly EBITDA number, but for hospital business it was in the range of Rs. 45 crore to Rs. 60 crore, depending upon how the month goes. And for diagnostic business, it is around Rs. 20 crore to Rs. 25 crore. So that is to give you specific month-wise data.

Adi Desai: I guess I am going into my second question over here was around the cost base, right. So again, we have done fantastically well in managing our cost base with the total cost base ex-G&A has come down about almost 8% for this quarter Y-o-Y. This seems to be led by employees cost, which you have kind of talked about and other expenses which have come down 15%. I just want to understand what we have been doing over here, if you can kind of get a bit more granular as to where these kind of cost reductions have been coming from? And what we are doing, say, for 1Q FY '20 as well? I know you have kind of given some numbers around that, I just want to understand that a bit more.

Vivek Goyal: So Adi, as you rightly said, there is a greater focus on reduction of the cost side. And because our personnel cost is the major chunk of the cost, so the major contribution is coming from the personnel cost. And in that personnel cost, if we further go down in certain details, it will be more of the corporate office expense, for example, which is we try to attack the cost where the service level is not affected. So for example, we rationalized cost at our corporate office. And there we were able to substantially reduce the cost by almost 25%. And similarly for the non-medical staff, wherever the rationalization is possible, we have done that. So because of all that effort, the cost is looking at the level it is looking right now, I am talking for the March. And for the current quarter we have further gone ahead where all the clinicians and the senior staff has taken voluntary salary reduction. And we have also reduced the cost which we can contain on the fixed side. For example, the travel and conveyance automatically has come down. But for example, further on the corporate office side, we are trying to reduce our cost by letting go one of the floor in the corporate office and things like that. So just without going to detail, as Dr. Raghuvanshi mentioned in his speech, the fixed cost we were able to reduce by 25%, and which has negated to some extent the COVID impact, because as you are aware, the occupancy has come down drastically.

Adi Desai: And sorry, just a follow-up question on that. What was the fixed cost as a total percentage of total cost?

Vivek Goyal: So fixed cost is almost 50%, which is around Rs. 450 crores roughly, Rs. 400 crores to Rs. 450 crores, depending on other things.

Moderator: Thank you. The next question is from the line of Neeraj Prakash from Nathan Capital. Please go ahead.

Neeraj Prakash: I just had an inquiry on the diagnostics business. Your performance I guess has been not as great as your other listed competitors. So can you just give us a little color on what your sort of positioning is compared to them?

Arindam Haldar: Sure. Neeraj, hi. This is Arindam. I will take your question. You are absolutely right that the performance of our diagnostic business has lagged that of the industry peers. And primarily, our revenue growth has been an issue. We identified a series of program to first of all pinpoint where our issue was and we are trying to make recovery on each of those areas. So if you look at our business segment between B2C and B2B, which middle of last year was about 40:60, 40 being B2C, our primary issue was our B2C revenue growth, which was at a negative. So we have done starting from last year's second half and which has continued. And most of it has just about started showing some good results, but still very, very early days. Only for January and February, those two months alone, my B2C business grew by 9% and it was actually ahead of our expectation. We had thought that we can take two quarters to take the B2C business to a double-digit. We started seeing very close to double-digit in January, February itself. However, some part of that additional growth got negated by some few of one-time hit that we took on the B2B part of our business. Some of our B2B businesses closed down. So B2B business grew only by 2%, which have been growing at a much faster pace. And that's the reason, in January, February, we could grow at 5.2%, which was higher than the earlier level of 3% that we were till December. So yes, we are on the way to recovery. And obviously, COVID came after that, delayed the growth plan. But we are very confident of the direction that we are going and the focused manner in which we are targeting it. We believe that we will be back on the growth path, delayed by a few months.

Neeraj Prakash: Sure. And just on the growth path, a follow-up. In this environment, where I am guessing the unorganized and the smaller players are sort of facing a great amount of difficulty, are you seeing opportunity for M&A? And if so, is that something that you all are considering to boost your growth going forward?

Arindam Haldar: Sure. So as of now, of course, like as we said, we are living through the pandemic, and we are making all the effort to make sure that our business comes back on stability. As I told earlier during my speech, we have come close to breakeven in May, and we are confident of turning positive profit in June. Now that we are a lot more stable and we are sort of coming back, we will be looking at it. But of course, the first priority for us is conservation of cash, that is what we are currently doing. And at a point when we see a little bit more normalcy on our revenues and our margins, probably that's the right time to look at M&A opportunities.

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

Neha Manpuria: My first question is on cost. So just before the 25% COVID reduction that you talked about, last year we were talking about Rs. 80 crores to Rs. 90 crores of cost savings that we will see. How much of that did we actually achieve, let's say, through February? And post normalization, given the 25% will come back, how should we look at cost? Is there scope for further reduction from the Rs. 80 crores, Rs. 90 crores that we had indicated previously?

Vivek Goyal: Yes, Neha. Vivek here. So last year what we were targeting, Rs. 85 crore to Rs. 90 crore for the full year cost reduction, we achieved that target. And for the current year also, as Dr. Raghuvanshi mentioned in his speech and now it is becoming more and more essential also because of the COVID situation. So we are working on the cost reduction for the current year also.

Neha Manpuria: And is there any number that we are looking at post-COVID of cost reduction?

Vivek Goyal: A number will be difficult to give because situation is evolving every day. But there is a conscious effort to reduce the cost. And as I mentioned in my earlier comment, our focus will be to reduce cost without affecting the service level. And with that aim, wherever we feel there is an opportunity to reduce the cost, we are going ahead with that. Like I mentioned in the corporate office side, one floor we are vacating. So those type of things we are focusing more than on the clinician side.

Neha Manpuria: Understood. And on the recovery in occupancy, I think, sir, you mentioned in your opening comments that part of this recovery is also driven by the inflow of COVID patients. Is it fair to assume that a large part of the recovery would be COVID patients and therefore probably the normalcy in occupancies would be more in the second half rather than in the September quarter, is that the right way to look at it?

Ashutosh Raghuvanshi: No, Neha. I think what we have done is to understand this situation, we have split the occupancy levels of the beds which are committed for COVID. So in that segment, the occupancy levels are also about 60%. So the recovery is happening on both sides, non-COVID as well as the COVID is contributing to occupancy. But the recovery is on the non-COVID side.

Neha Manpuria: Okay. So the non-COVID bed occupancy is also seeing an improvement?

Ashutosh Raghuvanshi: That is correct.

Neha Manpuria: Understood. And my last question is on the SRL business. Now given we had a lot of change in sort of expansion, etc., strategy implemented in FY '20 before the COVID lockdown, is it fair to assume that the recovery in diagnostics would probably be slower and therefore the double-digit growth aspiration is likely in FY '22 rather than in second half FY '21?

- Arindam Haldar:** Neha, Arindam here. I think that is a fair assumption. It will be very difficult to give an exact estimate as of now because we are living through it, we don't really know how long the pandemic will last and what shape it will take. But yes, it is a fact that it will get delayed. From a management team, we are, of course, trying for a double-digit growth by the end of this current fiscal year. But it's very difficult to give an exact estimate.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** Just the first one on this hospital margin metrics that you have shared on your slide 32. If you can just give us a refresh, I think I saw a line which says, "Significant potential to further move over 30% of revenue greater than 15% EBITDA margin". If you can just walk us through this metrics again. I think it's a good disclosure, I think we did it two quarters back. But if you can just walk us through what has happened for us in terms of specific assets?
- Ashutosh Raghuvanshi:** Shyam, just give us a minute, please. So Shyam, what's your next question? We will just give you the answer as we move to the next bucket. So let's go to the next question, we will come back to this later.
- Shyam Srinivasan:** Okay. No problem. My second question is on the revenue mix, and this is linked to the previous question as well around occupancy. Yes, occupancy is improving. I think 40% on non-COVID beds, if I did the math right, and 60% on COVID beds, which is about 45% now. But the mix is inferior, in the sense we don't have international patients today, we don't have elective procedures today. I am just trying to see, so when things normalize, then let's assume international patients don't come or come in the last, so how does the differential revenue mix? And if you can link it back to the margins as well because don't you think the journey will be a lot more difficult given the inferior mix?
- Ashutosh Raghuvanshi:** Actually, you are absolutely right regarding the different channels of business coming back. And definitely, the international business is going to be the last one to recover. Having said that, I think this is also an opportunity for us to focus on building high-value business from the local channels. And at the same time, when we look at just the profitability from different segments, the cost of acquisition of revenue and business in the international segment is relatively higher. So what happens is when you really look at the segment wise, profitability is not that different in a cash-paying patient versus an international patients. So yes, that segment will recover later. But at the same time, I think it is an opportunity for us to rebuild the business from the local communities, kind of cash business, not the credit business. So we are looking at the positive of this and focusing our efforts towards that.
- Shyam Srinivasan:** My next question, Dr. Ashutosh, is just the experience and interacting with regulators, health authorities during this pandemic. And can you just walk us through what is the mindset now towards building out healthcare infrastructure in the country? And the fact that maybe regulation should not be so overbearing in terms of either price control or the kind of norms that they try

and implement. Have you seen some kind of a change in the mindset from a government health authority perspective? I think the Prime Minister yesterday talked about health infrastructure. So if you can just share us what could be the new approach given that this industry is so regulated, is there something that you're seeing on the regulatory front which could help the industry further?

Ashutosh Raghuvanshi: No, I think this has brought in a lot of realizations, both on the side of the industry, on the side of the public and on the side of authorities as well. So during this whole period of interaction, there has been lot of ambiguity, and there have been times when contradictory instructions and regulation and orders have come from local authorities, sometimes the state authorities and sometimes the central authorities. But I think this was an unprecedented situation, and I think there was a lack of preparedness from the authorities which came out very, very clearly. So as this situation starts getting settled, there are going to be very, very visible changes. As you said, there are a lot of regulation but hardly any control and that is what has been giving the industry also a bad name. So I think that needs to change and I think there is a realization, because we have been getting opportunities to interact with the authorities much more than what we did earlier and that is a realization. Currently, I think the authorities are also grappling just with the magnitude of problem. And hence, some of the regulation or some of the measures on price control, etc., are a little bit they seem very abrupt, and they are not well thought of. But I think that situation has settled.

Now what will happen probably post-COVID is that, in a country like India, I think the public health care needs to do what public health care needs to do for majority of our population. And I believe that the final outcome of this would be something which is going to be beneficial for both public health as well as private health. The public sector will have more investment coming in from the government in terms of infrastructure, etc., and even manpower. And that will make the pressure on the private health care a little easier. Because right now the private health care is being focused as some segment which is not fulfilling a responsibility, which is not private sector's responsibility, it is public sector's responsibility. So, I think that distinction between private and public will emerge very clearly post this COVID situation. And I think that will be a positive thing for private health care.

Anurag Kalra: Shyam, Anurag here. Shyam, in terms of that margin metrics, our intention was to show you the potential that we have. And like I had said last time also, this is more of a semi-annual or an annual thing, because then the right comparisons are drawn. So if you look at it from FY '19 onwards, there have been five, six significant facilities that have moved to the next level, I can give you the details off-line. But we have got Faridabad that were in the lowest end of the bucket and hence, as their margins have moved up they have gone up to the next bucket. You have got Noida step up; you have got BG Road, our facility in Bengaluru, that's moved one step ahead; and then you have also got FMRI, right? So these are five, six facilities that have moved up the next step. I would also like to say that we have got about 24 facilities, so while five have gone up, there will obviously be situations where one or two may come down. So Shalimar Bagh, for example, has come down by a notch because the margins have changed just minutely, because

these are exact numbers so if even there is a margin drop by about 0.5% then it will just go to the next level. But on the whole, it is very heavily weighted in terms of the facilities that have shown a good improvement in margins and hence the jump. Shalimar Bagh being the only one that's probably come down because of a marginal change in the EBITDA.

Shyam Srinivasan: Anurag, and the comment around the potential. So you see this trend can continue going forward, right, in a normalized environment?

Anurag Kalra: Yes, absolutely, Shyam. Our intention is that if you have got almost one-third of your beds in the less than 10% margin category, our intention is to actually move up that scale. And this is what Dr. Raghuvanshi was also alluding to in the portfolio assessment that invest in your existing high-performing facilities, try and transform your underperforming ones.

Vivek Goyal: Yes, I just want to add what Anurag has said. If you have seen the metric, 67% of the facility revenue is now generating 15% plus EBITDA, which is a very healthy sign. And we know the 10% revenue where the problem is.

Moderator: Thank you. The next question is from the line of Huang Joanne from Tokio Marine. It seems we have lost the line, we will move to the next question that is from the line of Anuj Jain from Dhruv Capital Market. Please go ahead.

Anuj Jain: I just want to understand, there is a lot of noise going on the e-healthcare segment. So I just want to know that how we can develop the synergies or how it will impact the already established business, the e-healthcare one? So can you give us some light on that?

Ashutosh Raghuvanshi: Yes. So it has come to focus, you see these technologies have been around for quite some time, but I think they didn't get there earlier because people are not really comfortable on those platforms. However, now this has become kind of a focal point and hospitals such as ours also this is an opportunity. Now it is easy to create those platforms with a large patient base such as ours with all those patient data of all our previous patients. I think it will be easy for us to establish. And the trend in the last three months has also indicated the same. We did create a kind of a temporary platform very hastily as this lockdown happened on using the regular platforms like Teams and things like that. And we were able to provide service to almost 10% of our pre-COVID OPD attendance through these mediums. So we are pretty confident that this is going to be an important channel for the outpatient consultations. And it is imperative on us to provide a channel of our own rather than depending on these other aggregator kind of channel. So that is how we are looking at it. That is some part of business which cannot be ignored. And it is very, very important for us to participate in that. But we are not averse to collaborating with the existing platforms as well. So we do participate in some of those programs as well.

Anuj Jain: So, can you please give us some color on the margin side on this online consulting business vis-a-vis the physical OPD side, I mean, which has a better margin metrics?

Ashutosh Raghuvanshi: Yes. It's too early to comment on that because this business is sort of a little short duration at the moment. But if I have to just give you a very kind of a 30,000 feet view, the consultation charges in external as well as internal are almost same, or in some cases even higher. And the cost of delivery, obviously, is lower because you don't have physical space and people taking care of the patient. So that way, instinctively it sounds like a better option. Now having said that, you have to keep in mind that it's like a footfall in a mall. You see, if a person physically accesses a hospital, they may use your pharmacy, they may use your laboratory and they may use your diagnostic. Whereas, in case they are consulting you remotely, then there is a small possibility that they may access those services elsewhere. So hence, it is something which needs to be weighed on, and we have to make sure that we provide some kind of a seamless solution to the patient. So we have an advantage that we have a diagnostic business, so we can provide home collection, etc., in association with our colleagues at SRL. And many, many, many such initiatives. So it's too early to say how this business will evolve, but this will be a major part of delivery as far as the total health care delivery from us is concerned.

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

Saion Mukherjee: Sir, just if you can take us through the EBITDA trend for the hospital business, just like you did for the diagnostic business. Now see, sir there are a lot of moving parts here, like 1,000 beds now dedicated to COVID, that would have taken out some capacity from the system, you have reduced the cost, ARPOB mix would have changed. So I am just wondering how should we model EBITDA given the volatility? And like what would be the EBITDA, like 45% you mentioned in June, what would that correspond to in terms of EBITDA margin after you consider all the changes which have taken place?

Vivek Goyal: So, if I can take this question. The EBITDA in the first two months is on negative side because of the lower occupancy. And in one of my earlier call, I have mentioned about 55% breakeven point, just to give you a sense where the company gets breakeven. So because of the cost saving initiatives, we were able to bring that breakeven point to 47%. So that is where we stand.

Saion Mukherjee: So which means in June, our hospital business would be more or less breakeven because we are at like 45%, almost.

Vivek Goyal: Yes.

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

Sarvesh Gupta: So first is on the open offer. I think you mentioned that the court hearing date is set for 6th of July. However, is there any change in the stance or any additions in the court from our side? So if you can just give us some color on what the stance of various parties is right now. And secondly, I will ask the second question after you answer the first.

Ashutosh Raghuvanshi: Yes. So 6th is an advance listing on this one, so we hope that the hearing will happen. As I said earlier, we saw that we have a proper and adequate, the best possible representation, we are doing that. At the same time, the only other change is that IHH has also impleaded in the case, so they are also being well represented. And that is the status right now. Nothing else has really changed so far. SEBI has also impleaded in the case and it has urged the court to consider the completion of open offer.

Sarvesh Gupta: Understood. So that is my first question. Now, the second question, sir, there are two, three items which I could not understand fully. One, if I see your performance on a Q-o-Q basis, for hospitals, our operating revenue has fallen by around Rs. 40 crores, but our operating EBITDA has fallen by Rs. 25 crores. Now, given that we were already on a Rs. 25 crores quarterly run rate of cost savings; I would have expected your operating EBITDA to stay at the same level despite a Rs. 40 crore operating revenue fall from Q3 to Q4. So this I could not understand why our operating EBITDA dropped despite cost-saving measures this year?

And related question was, this Rs. 450 crores fixed cost that you mentioned, that I could not understand. This is for the full year? Or you also mentioned that fixed cost is half of the total operating cost, but our operating costs are much more than Rs. 900 crores. So is it for full year, or is it just for hospital business? So what is it, I could not understand fully.

Vivek Goyal: Yes. So if I can take this question. So first of all, when you are comparing with the last quarter with the current quarter, there are two, three abnormal, per se, I would say, items are there. One is the CSR expenditure. The current quarter, we have incurred Rs. 7 crores CSR expenditure and that's why the expenditure is looking slightly higher side. Then there is one external development charges we have paid for one of our units, so that also has sort of hit this quarter only. And third is, I would say, the legal expenses were slightly on higher side because of this court case. So that is the reason it is not exactly comparable with the quarter three. And plus, there is a COVID impact in this quarter because the international business has affected greatly, to a great extent. And in the last month, the normal operation was also getting affected because of the lockdown and other reasons prevailing. So this is on the quarterly EBITDA. The other question about the fixed cost, that I was talking about the hospital business fixed cost, not the total fixed cost. And in the hospital business, it is roughly in the range of Rs. 400 crores to Rs. 425 crores, and some quarter it goes to Rs. 450 crores. So that is why it is quarterly number, total cost.

Sarvesh Gupta: And what is the number then for the diagnostic fixed cost?

Vivek Goyal: So total diagnostic fixed cost should be around Rs. 140 crores.

Sarvesh Gupta: Understood, sir. And since you mentioned that your monthly run rate for EBITDA for hospital is between Rs. 45 crores to Rs. 60 crores, and Rs. 20 crores to Rs. 25 crores is the monthly run rate for the diagnostic business. So if I just take your normalized number, you will end up with around Rs. 840 sort of crores for the overall business is your normalized run rate of operating EBITDA. Is my understanding right?

- Vivek Goyal:** No. I think you need to normalize the EBITDA for the seasonality impact. So when I say Rs. 40 crores to Rs. 60 crores, some quarter it is very high and some quarter, because of season it is low. So if you see our hospital business, the EBITDA run rate is of Rs. 500 crores to Rs. 600 crores one can say, depending upon the occupancy and the seasonal impact. And our diagnostic business should give us Rs. 200 crores to Rs. 250 crores.
- Sarvesh Gupta:** Yes. So if I take total of this as an average number, we are at around Rs. 775 crores, versus that we have reported...?
- Vivek Goyal:** Yes, that is what the sustainable EBITDA, if one can use the term.
- Sarvesh Gupta:** So against that Rs. 775 crores, we are at Rs. 625-odd crores number that we have reported for this year?
- Vivek Goyal:** Yes, to some extent, you are right because you have to take out the COVID impact. As I said, in this quarter, there is little bit COVID impact.
- Moderator:** Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.
- V.P. Rajesh:** Could you just share the current debt number that we had? Because on the last call you had talked about raising some more debt. So just wanted to get that number.
- Vivek Goyal:** So currently for the year-end, the debt number is Rs. 1,000 crores, net debt I am talking about, out of the cash balance available with the group. And in the last call before the COVID, I mentioned that we had arranged a working capital line of Rs. 150 crores. We have not fully drawn that line, and almost Rs. 125 crore is lying undrawn at present.
- V.P. Rajesh:** So debt number is practically the same today as it was on March 31st?
- Vivek Goyal:** The net debt number has gone up by Rs. 100 crore.
- V.P. Rajesh:** Okay. Understood. Alright. My second question was just, if I heard earlier there was a comment that by Q3 your hospital business will come back to normality. So I was just trying to understand that what does the normality mean? Because as you were saying in another comment that international business, for example, may take longer. So just trying to understand, is it fair to assume that this financial year is going to be abnormal for most part? Or do you think that by Q3 or Q4 your expectation is that, let's say, we will again report a Rs. 650 crore EBITDA or at least the run rate will reach that particular point?
- Vivek Goyal:** Okay. So when we say normalization we mean to say from second half onward, we expect our business to be normal. So that means first half whatever hit we have absorbed of COVID, that will impact the overall year. So that is what we mean by normalization.

- V.P. Rajesh:** Okay. So if I understood you correctly, if you compare, let's say, second half of this financial year to the second half of financial year 2020, you are saying that they will be pretty comparable. Is that the way to look at it?
- Vivek Goyal:** Yes. To the extent, you need to take out the COVID impact for this thing. So it's a little bit more than that.
- V.P. Rajesh:** Yes, of course, because your March month got impacted by COVID, that I understand. But at minimum, it will be at the same level, if not higher. That's what I was trying to make sure.
- Vivek Goyal:** Yes.
- V.P. Rajesh:** Alright. Okay. And if, let's say, again just pushing that point a little further, as people talk about a second wave until the vaccine comes out for COVID things are not going to be normal. So this estimate or expectation you have, does that include that or this may change based on if there is more COVID beds are required, let's say, in the coming quarters? How should one think about it?
- Ashutosh Raghuvanshi:** Yes. So I mean, obviously, it is difficult for us to be absolutely sure whether there is going to be a research or not and there is theoretically always a possibility of that happening now. As far as additional beds are concerned, in most geographies, the government has asked to create additional beds within the existing infrastructure. So what we believe is going to happen is that this work will go on. That situation is not likely to normalize in a short-term. But the chronic work of elective procedures, etc., is steadily going to increase. And that is what will drive the business and not necessarily the COVID business. But we are going to have enhanced beds for that, temporary beds rather, I should say, in order to take that segment of work. But our dependence is going to be only on the non-COVID work.
- V.P. Rajesh:** Understood. That's very helpful. And lastly, like Delhi has announced that there is going to be a cap on the COVID test. And similarly, let's say, if other states also come out and start capping the test expense, how do you guys think about that? What is the impact of that on the hospital?
- Arindam Haldar:** Rajesh, this is Arindam. I will take that question of yours. Yes, as you rightly said that in Maharashtra to start with, and a few other states are relooking at the initial cap that ICMR had asked for the RT-PCR test. So with the revised price that is there, we believe that it covers all our direct cost. So the variable cost gets covered, so it's not that we make a loss. But of course, the overall margin structure goes down if the current cost remains as is. So we are doing both, we are both engaging with the authorities to understand that is there any further benefit possible on the input cost. Because while the test price has been capped, the input prices remain as is, and the inputs also have GST on the same which we cannot pass on because we don't have GST on our output. So on one hand, we are obviously trying to engage as an industry body to see is there anything that's possible to bring that cost down. On the other side, at our own end, we are trying to see what else can we do to negotiate with all the vendors and get our costs down much more

than where we are today. So just to repeat, we don't make a loss at the revised price, but our margin goes down significantly. And we are engaging both with the authorities as well as internally with our vendors to see how we can bring down the cost further to make this a little more sustainable than what it is today.

Moderator: Thank you. The next question is from the line of Huang Joanne from Tokio Marine. Please go ahead. Please go ahead.

Joanne Huang: Sorry, I got cut off earlier. Can you give more detail on the B2C diagnostics? There was a comment earlier on the January, February 9% growth. Can you give a bit more color on the turnaround in terms of how the high growth was achieved?

Arindam Haldar: So Huang, I think you are talking to the January-February growth. So just to restate, our overall January and February revenue growth at SRL level was 5.2%. Within our business, our B2C segment, which was salience of 43%, grew at 9%. And the primary driver of that 9% was our collection centers, most of which are franchisee-owned. We are doing a series of effort over the last year or so in ensuring how do we really sort of segregate the collection centers depending on which locations they are and then custom making marketing programs. So a collection center in a medical hub will see a different kind of support versus a collection center in a residential area. As well as we have worked with each of those collection centers to make sure that their productivity increase. And thirdly, we have been able to improve our expansion, the network expansion of addition of collection centers. We could, on a net, add 420 collection centers for the year. Just to give you further color, we actually added more than 500. We also pruned down certain collection centers which are not making sense for us, so that 400-plus number is a net number. Most of that has happened in the second half of the year. So we believe the January and February, we got to see the early signs of the effect of it. And if it was not for COVID, probably that part of the business could have been improved further. However, while there is a short-term impact, and it will take some time before we come out of it, fundamentally once the normalcy comes in, the expansion of the network will still help us in getting us to growth.

Joanne Huang: And what is the utilization rate at the moment?

Arindam Haldar: So as far as the collection centers are concerned, these are non-performing centers. And this doesn't come with any investment from the company, so we don't really track utilization for collection center, it comes at a zero capital expenditure for us. These are small businessmen who open those collection center. And the test gets performed in our existing labs.

Joanne Huang: Okay. In terms of the equipment, is there a utilization that you can share with us?

Arindam Haldar: No. So it will be a little difficult to talk about at a global level utilization of the lab because it defers from platform to platform as well as whether we run a single shift or a double shift. So it will be difficult to give a single number.

- Joanne Huang:** Okay. And just last question on the occupancy breakeven that you commented on, this 47% after the cost cutting. Is that a number that we can extrapolate out? Or is that just for the next one or two quarters and when the costs normalizes the breakeven will revert back to the 55% that you mentioned?
- Vivek Goyal:** Yes, your understanding is correct. This is for the COVID period only because this was a temporary salary reduction people have taken.
- Moderator:** Thank you. The next question is from the line of Rishindra Goswami from Locus Investment. Please go ahead.
- Rishindra Goswami:** Just a quick question overall on the diagnostic business. Just wanted to understand how are you guys thinking about it from a mid-term to long-term perspective in terms of the minority shareholding that Fortis holds there? I mean, is there a plan to either buy out, consolidate it or whatever is the current plan, could you please share it with us?
- Anurag Kalra:** Yes. So as we had shared in last time's call also, there is an ongoing process by which the private equity players currently are looking to exit their stake holding. That process is currently ongoing. So we will probably get to know what happens there in a short time. Related to that, there is a put option liability in our books that we have already accounted for, so that is where things are currently.
- Rishindra Goswami:** Right. But private equity guys looking to exit, are we interested in buying it over? Or is it third party, somebody else would buy it over?
- Anurag Kalra:** No, no, it is third party. It's third party.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that would be the last question for today. I now hand the conference over to Mr. Anurag Kalra for closing comments. Thank you, and over to you sir.
- Anurag Kalra:** Thanks, Aman. Ladies and gentlemen, thank you for taking the time to be on the call with us. I hope we have been able to answer as best possible all your queries. If there are further queries, Gaurav and I are available to address those. Have a good day. Please stay safe. And we will speak soon again. Thank you and goodbye.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Fortis Healthcare Limited, that concludes today's call. Thank you for joining us. And you may now disconnect your lines.