



“Fortis Healthcare Limited  
Q3 & 9MFY2017  
Post Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY 2017 and Nine Months FY 2017 Post Results Conference Call of Fortis Healthcare Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anurag Kalra -- Senior Vice President, Investor Relations at Fortis Healthcare Limited, thank you and over to you Sir.

**Anurag Kalra:** Thank you Aman. A very good evening and good afternoon ladies and gentlemen and welcome to Fortis Healthcare’s Q3 FY 2017 Earnings Call. The call today is being chaired by Mr. Bhavdeep Singh -- our CEO; we have our CFO Mr. Gagandeep Bedi with him; from SRL we have Mr. Srivatsan -- President Commercials; and I also have the pleasure of introducing Mr. Arindam Halder -- the COO of SRL who is joining us from an offsite location.

We will start the event with certain opening comments by Mr. Bhavdeep Singh on the hospital business, post which Srivatsan shall take you through the key highlights on the diagnostics side of the business and then I shall make small financial presentation followed by question-and-answer. Over to Mr Bhavdeep Singh.

**Bhavdeep Singh:** Hi, good afternoon, good evening. Thank you very much Anurag. As Anurag said, thank you all for joining the Q3 FY 2017 Call.

It has been very interesting quarter for us. We have all been hearing the demonetization impact on the business and we will about that in few minutes. Gagandeep Bedi will walk us through that. But at a net-net at a high level you can all see we are reporting Fortis Healthcare’s group number of revenue of 10.4%. Our EBITDA is up significantly and I would not go into the percentage there Gagan will explain that in a minute.

While certainly, there is a business component that is driving good solid performance. There is a one-time event here as well and again, we will talk about that in a minute.

Our for the nine months’ period year-to-date revenue is up 10%, EBITDA is up as well a significant amount, Gagan will talk about that in a minute. I am very pleased to share that again with demonetization and we have been watching the whole impact of demonetization very-very carefully, we have taken time to understand it, understand what is happening by location, by medical specialty, and it is quite fascinating actually to understand and see parts of the country that has been hit much harder than others and having their understanding, having acknowledges helping us together as we go forward.

So, with all of that said, the hospital business has grown. Srivatsan will talk a bit more about the diagnostics business but the hospital business has grown by almost 9% in revenue. Our EBITDAC has grown by 8%. Good solid performance again, this is same bed we have added a

token number of beds between last year and this year so primarily it is for the same number of beds so identical growth.

I think that our focus on clinical excellence continues to drive what we are doing at the route of all of this is great doctors, great nurses, and a focus on delivering great patient care. The investment in medical from equipment perspective, from a doctor perspective, new medical programs we are becoming very quickly the leading transplant provider in the country, organ transplant, we are doing some significant things in cardiac sciences which have been a mainstay for Fortis quite some time but we continue to evolve and move forward there as well.

The neuro sciences, we have some wonderful neuro sciences programs in our hospitals, oncology is very-very big you all know about the disease burden in India when it comes on oncology at a net-net level we are encouraged by the quarter and we think that the results are certainly consistent on what we expected. We have been doing a lot of planning, a lot of working, I am pleased to tell you that the things that we talked about a year ago, in terms of our plan, in terms of how we saw the business, in terms of the initiative we are going to put in place are starting to manifest themselves and the return on them is starting to show as well.

At a concluding comment, challenge around demonetization but I think we have come out of it in reasonably good shape with almost 9% revenue growth and we have also have some external activity on the FHTL transaction Gagandeep Bedi will talk to that; in a couple of minutes, Anurag will and give you some insight on that as well because the transaction is completed and the last piece the SRL de-merger, you all are aware that the de-merger piece I think the uptick that I can provide is that is very much on track and we expect to bring that to a closure sometime around between July, August, and September around that time period but again, on track approval getting acquired as appropriate and we continue to move that forward.

So, that is a very quick high level summary, I am going to hand it over to Srivatsan, who will give you a quick overview on the SRL business and then we will switch gears and move to the financial presentation and then talk to some of the members. So, Srivatsan.

**Srivatsan:**

Thanks, Bhavdeep. At SRL, the last quarter had an operating revenue growth of about 11%. Obviously, I mean as Bhavdeep mentioned we also did have the impact of demonetization kick-in for about 53 days during the quarter. The operating EBITDA margin stood at about 20%. The lab medicine continued to contribute a little over 85% to the total revenues with about 7% coming from the imaging business and the rest was contributed by the wellness business.

During the quarter under review there were about 13 labs that we had added, we exited 4 labs so that brings the net-net lab number to about 346 labs that we have at the end of the nine months.

During the year under review for the first nine months we added about 32 labs. The finance from a financial position, on a net debt basis we continue to be a zero debt company. We have repaid most of our loans and the business continues to grow well.

In terms of the geographical mix we had about 32% of our revenue is coming from north; with west at about 27%; south and east were a little under 20%. So, that is basically the business in so far as the quarter and the nine months is concerned.

With that, I would hand over the mic to Anurag for the next step.

**Anurag Kalra:**

Thank you, Srivatsan. Ladies and gentlemen, I shall now take you through the financial presentation. We will first discuss the financial for quarter three and nine months FY 2017 for the India consolidated business which comprise of the hospital business and the diagnostics business that we have.

Our India hospital revenue for the quarter stood Rs. 917 crores; this is a growth of 9% which we believe very healthy given that the whole event of demonetization. Our net diagnostic revenues for the quarter stood at Rs. 188 crores versus Rs. 169 crores in the corresponding previous quarter, this is gain a healthy growth of 10.9%. The total India revenues hospitals and diagnostics combined stood at Rs. 1,105 crores, a growth of 9%.

Operating performance EBITDAC stood for the India hospital business at Rs. 131 crores, this represent a margin of 14.3% which is very much similar to the 14.4% margin in the corresponding previous quarter. The diagnostics hospital EBITDA stood at Rs. 37.4 crores in the quarter this is compared to a similar number of approximately Rs. 38 crores in quarter three of FY 2016. Margin in the business were at 19.9% versus 22.6% in quarter three FY 2016.

The total India business EBITDAC stood Rs. 169 crores, this represents a margin of 15.3% versus a margin of 15.7% in the corresponding previous period.

Going lower our net BT cost which were at Rs. 113 crores in quarter three FY 2016 dropped by about 37% to about Rs. 71 crores in quarter three FY 2017. This is clearly the impact of the FHTL acquisition and the resultant consolidation of FHTL in the books of Fortis. This is ongoing thing so, you will see reduction going forward in the ensuing quarter as well because of the consolidation of FHTL. Hence operating EBITDA for the India business was Rs. 98 crores in Q3FY2017, a growth of 108% versus Q3 of FY 2016 so our operating EBITDA has actually doubled led by an improvement in business and the impact of the FHTL transaction.

EBITDA stood at Rs. 130.6 crores versus Rs. 57.7 crores. Our finance costs have gone up to Rs. 74.5 crores versus Rs. 31.5 crores here again there is an impact of the FHTL acquisition because of two elements one is the consolidation of the 49% CCDs that are there and the rest is because of the loans that we have taken for this transaction. So, the difference in interest cost is just because of FHTL primarily.

Our depreciation and amortization is about Rs. 59 crores this compares to a number of about Rs. 51 crores again, there is an element of Rs. 7 crores to Rs. 8 crores impact due to FHTL here.

Our PBT before exceptional items after FOREX is a positive Rs. (+8.5) crores, this compares to a loss of Rs. 21 crores in quarter three of FY 2016 so you can see the turnaround there. Our exceptional item is about Rs. 4.9 crores or negative and this compares to a negative of about Rs. (-31.9) crores. These exceptional items have actually being explained in the notes, if you were to read our presentation.

Our PAT before minority interest and share and associate is at a Rs. (-21.5) crores again an improvement versus a negative Rs. (-42.9) crores in the corresponding previous quarter.

Our share and associates has jumped quite significantly it stands at about Rs. 434.8 crores versus Rs. 16 odd crores in quarter three of FY 2016. The share and associate is primarily due to the exceptional gains that have been booked by RHT on FHTL and this is 30% of our share of the gains as we book, so this is a item there.

Our PAT after minority interest in share and associates hence stands at a reported number of Rs. 401.9 crores versus a loss of Rs. 27.3 crores.

I shall now read out the nine months India consolidated financials to you:

Our India hospital business revenues for nine months stood at Rs. 2,799 crores versus Rs. 2,557 crores versus the corresponding previous period. This is again a healthy growth of 9.5%.

Our diagnostic business revenues were at Rs. 593 crores versus Rs. 539 crores a growth of 10% and the total India business revenues for the nine month FY 2017 were at Rs. 3,392 crores, a growth 9.6%.

On the operating EBITDAC, the hospital business EBITDAC for nine months stood at Rs. 435 crores, a growth of 16%. This also represents a margin of 15.5% much better than the margin of 14.7% in the corresponding previous period.

The India diagnostic business EBITDAC was at Rs. 134 crores a similar number to the corresponding previous period. This represents a margin of 19.3% versus a margin of 20.9%. Hence, hence the total India business EBITDAC hospital and diagnostics was at Rs. 569 crores, a growth of 11.5% and a margin of 16.8%. This is again much better than the 16.5% margin in the nine month period of FY 2016.

Going lower, the net BT cost stood at Rs. 308 crores, again there is an impact of FHTL and this has actually declined by about 11% over the nine month period of FY 2016.

Our operating EBITDA has grown 57% they stand at Rs. 261 crores versus Rs. 166 crores in nine months of FY 2016. Our EBITDA has again shown a healthy growth of about 58%, the number here is Rs. 352 crores versus Rs. 222 crores. Finance cost has gone up again partly due

to the FHTL transaction that we did in quarter three. Finance cost for nine months stood at Rs. 162 crores versus Rs. 95 crores.

Depreciation and amortization was at Rs. 156 crores versus a number of Rs. 147 crores in the corresponding previous period. Our PAT before minority interest and share and associates after accounting for small exceptional times and foreign exchange gain loss stood at a negative Rs. (-11.6) crores versus a negative Rs. (-57.4) crores. After the minority interest and accounting for the share and associates, the share and associates like I had mentioned also includes the one-time gain on the FHTL transaction stood at Rs. 434 crores, a profit of Rs. 434 crores versus negative Rs. (-22.1) crores.

I shall briefly take you through the group consolidated P&L and just go by the major line items there:

Operating revenues at the group level grew 10.4%, to reach a revenue of Rs. 1,133.4 crores. Our EBITDAC margins at the group level were at 16.5%, this is versus 15.4% in quarter three of FY 2016.

Our PBT before FOREX was a positive Rs. 16 crores versus a negative Rs. (-26.7) crores and our PAT after minority interest and share and associates was number of Rs. 442 crores versus a negative of Rs. (-30.6) crores.

For the nine month period again the group consolidated numbers, our revenues grew 9.9% to Rs. 3,450 crores. Our operating EBITDAC margins were at 17%, this compares to a number of 16.1% in the corresponding previous quarter. After accounting for the BT cost, finance cost depreciation and amortization our PBT before FOREX was at Rs. 59.4 crores positive versus a negative of Rs. (-23.5) crores in nine months of FY 2016. And our PAT after minority interest and share and associates was a positive of Rs. 489.9 crores versus a Rs. 118.4 crores in the corresponding previous period. That is the P&L.

I shall now run you briefly through the consolidated balance sheet, which like I mentioned before also takes into account the impact of the FHTL acquisition and the resultant consolidation of the FHTL in our books.

Our shareholders' equity at Rs. 5,864 crores, there is an impact of the FHTL consolidation here as well as the conversion of our \$30 million bonds that we listed on the SGX for which we now allotted equity shares to those FCCB holders.

Our FCCBs, this is the FCCB that are held by IFC of about \$55 million this is about Rs. 373 crores.

Our debt stands at Rs. 2,369 crores. The debt again includes the impact of FHTL, the consolidation of the 49% CCDs and the loan that we have taken to fund the transaction for the time being. With that, the total capital employed in the business stands at Rs. 8,606 crores.

Our net fixed assets including CWIP stands at Rs. 3,429 crores. The net fixed assets addition is also due to the addition of FHTL's asset at fair value. Our goodwill is at Rs. 2,317 crores. Our investments stand at Rs. 1,476 crores. Our cash and equivalents is at about Rs. 963 crores. We have net current assets base of Rs. 421 crores.

With that, the total asset stands at Rs. 8,606 crores. As of 31<sup>st</sup> December our net debt to equity still is at a healthy 0.3x post the FHTL acquisition.

With that, I come to the end of my financial presentation. And now we can open the floor for question-and-answer please. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We have the first question from the line of Neha Manpuria from J.P. Morgan. Please go ahead.

**Neha Manpuria:** Just wanted to understand, is the decline in the margins versus the first-half entirely driven by demonetization and I understand the second quarter is a bit abnormal. But otherwise, is there any other reason for the decline in margins in both hospitals and SRL? And how should we look at this now that we are in February, have things normalized and should we see a recovery in the margins going forward?

**Bhavdeep Singh:** Good question, a couple of things that I would like to share on that. Number one is that this is clearly a function of the revenue impact that we face because of demonetization. Like anybody else there has been an impact resulting from it. And like any business I think as your revenue goes up your cost base as a percentage goes down and the line we have inside the organization is the last mile is the most profitable mile and so by virtue of that we have taken revenue impact that we have had that has brought our margins down if you look in the hospital business it has come down almost 200 points and that is clearly a function of revenue. We are very comfortable with what we are doing from a billing gross margin perspective, there are some good initiatives from the cost perspective, I think we have done a good job. Managing cost, we continue to do that. So, I think we are looking at just a function of volume and revenue and nothing beyond that and I think it is probably very similar for the diagnostic businesses. The other piece is with respect to where we are today, we are not the demonetization impact we are not done with it yet, there is still an impact and as we look at our business, I think long-term this is all going to work out well, I think it makes things much-much simpler for everybody especially the patient. We have adapted as quickly as you can from a payment platform perspective. Typically, we used to take cash, we took cheques rarely just because there is risk against it and then we took credit cards. Today we are taking cheques and quite honestly the experience has been quite good, we have adapted other payments platforms as well whether it is referenced earlier Paytm, Payzapp,

MobiKwik etc., we made every platform available, we put out there for patients to use and we are educating people in terms of how to use because we started talking about rural India and you started about people coming parts of Rajasthan or parts of Punjab people have to make educate shown how to use it. So, we are making natural adjustments a lots of outrage programs to help people, we are improving access wherever possible. So, with all of that said, I think we are still going to feel a bit of impact in Q4. I think it can take a little bit of time but normalization quite honestly in the grander picture while I think we can normalize in Q4, I think there will be an impact. I do think as month on month as we go forward, I think we will start to see an improvement and sometimes in the early part of next year I think we should start to see things normalize, I do not see it happening in Q4, I do see it happening in very early part of 2017, 2018.

**Neha Manpuria:** Okay. But sir, specifically for SRL, if I look at the revenue number there we still manage to grow that business by 10%, 11% which is the growth rate even in the last quarter despite having that Chikungunya, Dengue, impact in that quarter. So, I would have thought that we can probably do better in the SRL margins that seem to have come off pretty sharply between 22% to 23% excluding the September quarter and we are down to 20%. So, in SRL specifically is there anything that has impacted the performance other than demonetization?

**Bhavdeep Singh:** Yes, let me ask Srivatsan to take that question, I think he is the best person to answer that.

**Srivatsan:** So, Neha a couple of things, if you look at the third quarter, we launched something 13 labs were launched in the third quarter. So, obviously, the new lab starting off the ramp-up takes its own time and we also had the demonetization kicking-in at that time. So, obviously, there was some losses in the newer labs. In addition, if you would have seen the results earlier, we continue to invest on the digital platform, we continue to marketing investments. So, those two were reasons that happened on from a new launch or from a new initiative basis. In addition, if you were to look at the product mix then what happens is with the demonetization your walk in customers i.e. the margins in the walk-in is the maximum because you do not have the collection center margins that need to be shared with the trade. Those are the ones that are largely hit. As far as the correction center and the other parts are concerned they are it but not to the same extent and therefore, you see a sharp cliff coming off in terms of the margins. So, that basically is the way SRL's margins have evolved. And again, as far as going forward is concerned pretty much I would like to ditto what Bhavdeep just mentioned in terms of the recovery. The recovery will be slow. We see that happening early part of next year definitely not in Q4.

**Neha Manpuria:** But are we still holding our guidance of improving margin to 25%, 26% on a sustainable basis.

**Srivatsan:** Absolutely.

**Neha Manpuria:** Okay, got it. And one last question, if I were to look at the hospital specific number, while I understand there is demonetization impact but for some reason Jaipur and Shalimar Bagh still seems to be lagging in terms of performance and even for that matter in this quarter if I look at B. G. Road that is also, I understand there is demonetization but what is going on there because



I think this is the second quarter or third quarter where your YOY growth has been low single-digits for these hospitals.

**Gagandeep Bedi:**

Yeah, Neha, this is Gagan here. So, on Shalimar Bagh, if you see there is revenue growth of 7%. Shalimar Bagh is one hospital wherein the mix of the business from the cash business is higher than the others. So, from aspect it is not one size fits all. Shalimar Bagh is one hospital that has a larger impact on the demonetization. And if you see actually Shalimar Bagh has gone from a negative and B. G. Road if you see was a negative basically last quarter has moved to a positive. B. G. Road is actually one hospital from a demonetization perspective has not been impacted, has actually performed better. Third one was Jaipur, I think Jaipur basically does have the rural impact coming from the demonetization wherein really where we see in terms of Punjab as well as in terms of Rajasthan because there is a rural flow of population coming from the rural areas there will be impact of demonetization is higher. Jaipur is another hospital where the cash component of the business is higher than the credit component of the business. From these hospitals, which both Shalimar Bagh and Jaipur have a higher cash component taking measures to offset those rural that Bhavdeep did mention and you will see I think improvement going forward.

**Moderator:**

Thank you. We have the next question from the line of Kumar Sourabh from Motilal Oswal Securities. Please go ahead.

**Kumar Sourabh:**

Sir, if you look at hospital business as you said that there have been very few bed additions to the current base and we have grown at around 10% year-over-year during the nine months. I know that it is not a pure function of volume and price. But from where this growth is mainly coming from? If we look at our occupancies, we are already at industry high levels in terms of occupancy. So, how the historical growth, how do you explain that, how much of that is primary because of increase in footfalls and how much that is because of change in business mix? And how should we look at the base business growing from here onwards?

**Bhavdeep Singh:**

So, a couple of things, one is good news for us is that (a) it is growing; (b) this is really as per plan. A year back, 15 months back we talked about the fact that we will be focusing on clinical excellence and we had our capital plan around that in terms of medical equipment, we have put building on medical programs around that as well. So, I think two or three things are contributing to the growth and whatever growth we are seeing, I very much being sustainable. So, the two or three things are as following, number one is looking at medical equipment technology and investing in the new medical programs. So, we look at for example oncology, we start first oncology block in 2009, 2010 we have five full oncology blocks and as they mature they continue to grow and do exceptionally well and then unfortunately the disease burn in India that is not going to stop anytime soon. So, that is a good example. The other case is transplants. So, we have by far the largest cardiac transplant program in the country with a Malar Hospital with Dr. Bala who is doing 100 heart transplant in a year on a run rate basis and Dr. Mulay in Bombay has done 30 heart transplant, 34 heart transplant. We are one of the largest lever transplant program in the country. So, I think that our focus on organ donation, our focus on organ

transplant is leading to our ability to get good doctors and launch new transplant programs and we believe there is tremendous growth there as well. I think the other piece is that across the board we have had focus areas where we have introduced no medical specialties. So, we look at fairly Fortis Escorts Heart Institute, in Okhla over the last year we have started renal program urology program, we are now doing renal transplants in the hospital we have brought one of the most prolific orthopedic surgeon in the country is now operating out of there so Escorts is having just a fantastic year. The Gurgaon hospital where we also started a new orthopedic program, we just launched a new bone marrow transplant clinic, is also doing exceptionally well. Our Mulund Hospital in Bombay have just had a phenomenal, phenomenal year. This hospital has just a mater piece P&L, you look at the P&L up and don, it is almost perfect. The Mohali hospital in Punjab, it is our first hospital from 2001, is actually recording a record performance this year right up until the demonetization piece hit anyway and is doing exceptionally well.

So, I think three things are happening. Number one is that new medical programs, investing in medical programs. Number two is complex medical procedures driven by great doctors because we continue to bring great doctors on. And number three is that we have individual hospitals, we have good things happening at the local area, that is from a talent perspective, people perspective, communication perspective, branding, community outreach and on the loyalty base are getting stronger and stronger. So, there is nothing fluke there are no surprises here, it is exactly as per plan. And with that same philosophy I can tell you that if we are sitting at 12 months from now I think we will again be talking about the fact that the business has grown at a lower double-digit number. And I think that is foreseeable for quite some time.

**Kumar Sourabh:**

And sir, in terms of new bed additions, how do we should see FY18 panning out? FY17 we had some plans of new bed additions but it does not look like that it is happening. So, how should we look FY18 from here onwards?

**Bhavdeep Singh:**

You are right, we did not had very many beds this past year and I think that is an important comment and call out by the way, because our a 9% revenue growth has come primarily on the same number of beds which is something that I think that when you look across the industry and when you look at reported numbers, are numbers are primarily same, and I think that is significant because a lot of the growth numbers that we read are based on additional beds. So that is one. I think in terms of additional beds going forward, we believe that on an annual basis we will be adding somewhere between 7% and 10% in beds, we are adding some beds in BG road, we are adding incremental beds in our Gurgaon hospital, we have added beds in Fortis Escorts, we are looking to add beds in Jaipur. So we have hospitals across the board. We have no plans for invested new hospital coming up where we are investing money and opening up hospitals. However, the O&M model that we have shared with you before which is a management contract, we have two hospitals that are coming up in Rajasthan, we have a new hospital coming in Mauritius which is again an O&M environment where we are not investing anything. So, these are beds that do not drive revenue for us, so we are not counting them in our bed count but they certainly drive income for us and enhance the bottom-line. So, I think 7% to 10% bed growth,

good solid medical programs, good doctors and going forward we continue to see good solid growth as well.

**Kumar Sourabh:** And sir, looking at the debt number I am assuming that post conversion of remaining FCCB debt should further come down to close to 1,400 by year end now in FY 2018 assuming that SRL get demerged. How should we look at the debt number panning out in FY 2018 given the bed roll out plan which you talked about?

**Bhavdeep Singh:** You are absolutely right with the FCCB going basically the other one going out we would be around 1,500 mark of the net debt position as of March, I think SRL does not have an impact on the debt position because it is as Srivatsan just mentioned really do not have debt. So, primarily.

**Kumar Sourabh:** But I would assume sir, it must have been generating free cash, now that free cash which was supporting our hospital business investing will not be there.

**Bhavdeep Singh:** No, free cash actually you cannot actually pull that cash out for the hospital business. free cash is within SRL itself.

**Kumar Sourabh:** Yeah, you are right, sir, but when we are looking at the console net debt numbers from that perspective I was talking about, so how should we...

**Bhavdeep Singh:** It is not a significant number.

**Kumar Sourabh:** Okay, fair enough. And coming back on what the previous caller was asking so around Rs. 20 crores SRL business there was increase year-over-year in revenue terms but in margins or in absolute EBITDA wise we saw numbers were flat. We mentioned that because of increase in marketing and new lab additions it is the numbers were the way they will look like so should we assume that going forward also this is the new base for EBITDA and that is how we should look at it?

**Bhavdeep Singh:** So, you should not look at from a longer term perspective, that is not the way you look at it. We see our EBITDA margins improving from a 21% to about 25%, 26%. Essentially what has happened in this quarter if you look at it, and I explained that, the walk-in business has gotten substituted by the hospital business or the direct line business where the margins do take a beating due to the sharing with the trade and/or due to sharing of the margins at a lower prices. So, basically if you look at it the mix of the business has changed and that, while it has added numbers in terms of top-line, the EBITDA margin is actually pretty much where it is. In addition to the reasons that you mentioned, in terms of marketing investment, that was also one of the important component but lead to a flat margin profile. As we go forward, new labs would start contributing and therefore over the medium-term to longer-term you should see margins improving.

**Kumar Sourabh:** And this 35% EBITDA margin mark, by when do we plan to reach those levels?

- Bhavdeep Singh:** Well, from a sustainable perspective, we do not give a forward guidance, so I would not be in a position to share that. But medium-term to longer-term, yes we are definitely looking at a 25%, 26%, the margin is going closer to about 25%, 26% margin profile.
- Kumar Sourabh:** Three years is a good estimate you think?
- Bhavdeep Singh:** I will not give a guidance.
- Moderator:** Thank you. We have the next question from the line of Harith Ahamed from Spark Capital. Please go ahead.
- Harith Ahamed:** I am looking at the EBITDA numbers in your India consolidated P&L and the group consolidated P&L for the quarter, and there is a difference of around Rs. 18 crores. Can you help me understand what exactly this difference is?
- Anurag Kalra:** So Harith, on the group side, on the international side, as you know we acquired RHTM which is a trustee manager of the RHT. Because of the FHTL transaction they have got a special performance of I think about Rs. 20-odd crores, so that is the difference that is there on the international side, on the group side and the India consolidated basis.
- Harith Ahamed:** This is a recurring item?
- Anurag Kalra:** No, the recurring fees that we get is about Rs. 7 crores to Rs. 8 crores, they have got a Rs. 20 crores fee only because of the FHTL transaction, the recurring number is about Rs. 7 crores to Rs. 8 crores. So Rs. 7 crores to Rs. 8 crores will continue, this is a one-time of Rs. 20 crores.
- Harith Ahamed:** And on the sequential increase in the net debt numbers, that is around Rs. 1200 crores - Rs. 1300 crores. So, how much of this increase is due to the CCD consolidation and how much is due to the borrowing for the FHTL acquisition?
- Anurag Kalra:** So, for the FHTL borrowing the number is about borrowing the number is about Rs. 700 crores approximately, for the CCD consolidation the number is about Rs. 426 crores. So this is largely because of the FHTL transaction.
- Harith Ahamed:** And this is a one-time dividend that you are expecting from RHT, has that already happened?
- Anurag Kalra:** That has already happened, that has happened within a fortnight of us completing the transaction. And that has happened and that is why direct number is down to about Rs. 700 crores. The Rs. 700 crores is the number after repaying using that Rs. 250 crores of dividend to repay the gross debt number, that has already happened.
- Moderator:** Thank you. We have the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** I think on a broader level, as we mentioned that that all of our growth over the last couple of years has been coming on the back of our existing hospitals where ARPOBs have been going up and we have a pretty good job of growing the business there. So, what explains a 15% - 16% EBITDA margins in mature assets compared to the mid-20 that we see across a lot of other hospitals?

**Bhavdeep Singh:** Sorry, your voice broke, can you please repeat the question?

**Nitin Agarwal:** I was saying, we have been mentioning that most of the growth that has come through over the last couple of years, around 8% - 10% growth or thereabouts that we are doing has been coming in the existing assets. And we have done a pretty good job of increasing occupancy as well as ARPOB over this period. So I am saying why are our EBITDA margins on a group level still around 15% - 16% level when on mature assets across when you look around our peer group typically margin for mature assets are above 25%.

**Bhavdeep Singh:** So, I think you have combination of things. Number one is that when we look at this quarter, if you look at our last quarter performance, our EBITDAC margin was reporting 17%. I think that we have a mixed bag as well, we have a combination of hospitals that do better than others. But as far as the 25% margin that we see, we have a little bit of room and time to get there. Do we see that happening, is that on the cards, absolutely. The biggest driver for that is revenue and the biggest driver for that is these continue to drive revenue while you hold the cost. So that is a journey that we are on. We believe that minus the demonetization piece the 2017 margin could easily have been north of 17%, approaching 18.5% which would have been a record. So I think we are moving in the right direction, I think you have some challenges with some of the smaller hospitals that we are addressing by virtue of our medical programs, capitals. What we need to do and we are starting to see progress in them. So, you take a very, very small hospital in some of our smaller markets, we are starting to see good progress. We have a hospital in Vasant Kunj that only four, five years ago we have rejoiced and celebrated because here is Rs. 10 crores and Hauz Khas doing Rs. 20 crores now. And it is a 155 bedded hospital and doing over Rs. 20 crores revenue. So I think it is a movement in the right direction, I think we are continuing to see more of that as we go forward.

**Nitin Agarwal:** Because see, I guess the issue is not honestly on the revenue side because our ARPOB I guess better than the peer groups or probably comparable. I mean, is there a particular cost items that has actually hurt us in terms of profitability? I mean, is there our doctor pay outs much higher, doctor fees much higher than the peer group and what explains the big gap which is there given the fact that we actually do pretty high revenues?

**Bhavdeep Singh:** I think that doctor pay outs are comparable and in some cases higher and in some cases lower. It is a revenue conversation though, because as I just mentioned our margin dropped from last quarter to now because the revenue dropped. You take a Rs. 300 crores revenue and take it to Rs. 350 crores, at Rs. 50 crores 60% goes back to the bottom-line. So I think it is a function of revenue. And as we go forward, one of the disciplines we have is around continuing to improve

our mix and make sure that we actually start to drive it. And I think the other thing worth mentioning is we do have two or three newer properties, FMRI for example, I am still working on optimising the assets and we continue to do well, the hospitals breaks the all-time revenue records all the time. We have Ludhiana hospital that is relatively new. The FEHI hospital, it is not new it has been around for quite some time. We have actually, how do I say that, we are in a bit of a resurgence there, the hospital is breaking record just about every month, fantastic revenue. And I think the margin there is going to go up 20% - 30% over the next year or so. So, I think it is work-in-progress, I very much believe it is driven by revenue, I think we have a couple of newer assets that still have to be maximized. But I would tell you that we are going to see these numbers continue to get better. Now, again, 25 is going to take a bit longer, but slightly when we look at our two, three, four year forecast we do see 25 being in the cards and I am sure we will get there.

**Nitin Agarwal:** And just a housekeeping question, in the other income is there a larger composition of FOREX gains in the other income?

**Bhavdeep Singh:** Nitin, in the numbers of the investor presentation, the FOREX loss/gain is shown separately.

**Nitin Agarwal:** Okay, I will have a look at that. Thanks very much.

**Moderator:** Thank you. We have the next question from the line of Kumar Sourabh from Motilal Oswal Securities. Please go ahead.

**Kumar Sourabh:** So, some days back media reported about Navi Mumbai asset. I believe that we have got a stay order, so it would be helpful if you can explain what is going on over there, why this issue has peaked up in this time?

**Bhavdeep Singh:** So, as you rightly said we do have a stay order there. Actually, the hospital became operational back in 2009, at the end of 2009 and 2010. Our arrangement at the hospital is with NMMC. NMMC has an arrangement with CIDCO, these are both Bombay agencies. And CIDCO assigned the property to NMMC who then leased it out to us. Quite honestly, and perhaps I visited last week, I was there on Friday, met with the team, the team is doing a fantastic job in keeping things together and making sure that our doctors continue to stay engaged. This is a battle between the CIDCO and NMMC. I am wondering that I can tell you what a great deal of comfort and confidence is that we followed our agreement with the team, one of the element to this agreement is that we have certain patients referred to us by NMMC that we treat for free and we are 100% compliant in that respect as well. And so we are working through the legal system, we have invested a significant amount of money in that hospital, the hospital has won multiple awards locally, externally and internally for delivering great patient care. We have a top five, one of the best legal minds in the country working on the case for us and he certainly feels we have a very strong case, and I mean one of the top, top legal minds in the country. So we have a stay, we believe at the next hearing we believe it will be favorable as well and we do not see anything happening, because some of the initial headlines were hospital being told to

shutdown, etc, etc, we do not see any of that happening. Having said that, we are watching the situation very closely. Again, we believe we are getting stuck in cross fire here. We have not done anything, we have been completely compliant, our relationship with NMMC who was assigned the plot by CIDCO, hopefully we can work through, we are taking appropriate legal action and probably not too much more I can comment on that other than we feel good that we will work our way out of it, that will probably take a bit of time.

**Kumar Sourabh:** So, I hope and wish that the situation goes in our favor. But if let's say the outcome is not favorable, is there a fallback that as we said that you are following your agreement to the team, so is there a fallback on MMR that because of them you have to take certain losses, so can we recover some of it from them? And how much of revenue or profit is exposed over here?

**Bhavdeep Singh:** So, I think first of all, from a legal perspective we are on a very solid footing, I mean, that has been told by the best legal minds in our country. So we do not see that happening. As I said, we believe we are on a very solid footing. The other thing is, from a practical perspective this is a running hospital, taking care of hundreds and thousands of people in the Navi Bombay area, some very, very good doctors. So, I have to tell you that, we have got eventuality that I do not see happening. If in some absolutely bizarre and strange scenario that it does happen we will naturally have legal recourse. At the same time, what we are doing very proactively is we actually have a conversation going with a couple of other hospitals in the area that if need a supplement or a place of hospital we will, that is going to be more in the form of O&M, operate and management contract, so there will be no capital investment or very minimal capital investment and we will continue to do that. So, our number one plan is stick to your guns, do the right thing, be compliant, take care of the patients and let the legal people do their job what they are paid to do. And that is exactly what we are doing, it is working out. Worst case scenario, I think it might, the second scenario is that it becomes a prolonged legal conversation, so I do not think the second scenario will be shut down. The first is that we are able to manage it and we move forward. The second is, it becomes a prolonged legal scenario and I think it is more likely one, it is possible that it could be two. And the third scenario which is very, very unlikely, and not even one that I take very seriously is possibly that we get ours to shut down. In which case I think we have lots and lots of legal recourse, we have NMMC and CIDCO. But at the same time we are in the hospital business and not the legal business, we do have backup plans, we have two different locations we are looking at right now, where in a fairly short period of time and as appropriate we could open up Fortis Hospitals and continue to serve patients in the area.

**Kumar Sourabh:** And when did you say sir the next hearing date is?

**Bhavdeep Singh:** I believe in the next four to six weeks.

**Moderator:** Ladies and Gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for their closing remarks. Thank you and over to you.



*Fortis Healthcare Limited  
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**Bhavdeep Singh:**

Thank you very much. Ladies and Gentlemen, thank you for joining us. Thank you for the provocative questions and the engaging dialog. I can tell you that lots and lots of challenges, but having said that we feel very good about the way we are, we feel very good about our plans and we look forward to talking to all of you soon, but we certainly expect to and will deliver continued growth and progress as we go forward. Thank you very much. Have a good evening.

**Moderator:**

Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Fortis Healthcare Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.