



“Fortis Healthcare Limited Q2 FY16 Post Results  
Conference Call”

**November 04, 2015**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY16 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. Should you need assistance during the conference call please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. I now hand the conference over to Mr. Anurag Kalra – Vice President, Investor Relations at Fortis Healthcare Limited, thank you and over to you sir.

**Anurag Kalra:** A very good evening and good afternoon ladies and gentlemen and welcome to Fortis Healthcare’s Quarter 2 FY16 earnings call. I have the pleasure in introducing you to the management team here. The call today is being Chaired and led by our Chief Executive Officer, Mr. Bhavdeep Singh. Along with him we have Gagandeep Bedi, our Chief Financial Officer and we also have Mr. Sanjeev Vashishta, the CEO of our Diagnostics business, SRL.

The format of the call will be as follows. I will request Mr. Bhavdeep Singh to make some opening comments of the quarter gone by followed by which Sanjeev will give you his view on the Diagnostics business as he sees it. I will then follow it up with a financial presentation and we can then open the floor for questions and answers. Over to Mr. Singh please.

**Bhavdeep Singh:** Anurag, thank you very much and thank you all for joining the call this evening. As you have seen by now you have the numbers there. We are certainly encouraged by the performance that we are reporting today. I think the good news that we would like to share with all of you is that our continued focus on patient care, our continued focus on clinical excellence, our continued focus on exceptional nursing is slowly starting to pay off. We feel very fortunate that we have some of the best doctors, some of the best nurses in India working within the four walls of Fortis and they are the reasons that we are able to do what we do so we continue to be extremely appreciative of their efforts in taking care of our patients.

I think you have looked at our business results. I think the good news here is that if you look at the Fortis Hospital business and if you look at SRL Diagnostic business both businesses have done well. SRL, Sanjeev will talk about had a stellar quarter, just an outstanding performance and we are certainly very pleased and Sanjeev and his team have done an exceptional job.

Looking at the Fortis Hospital business the encouraging part here is that it's not a segment of the business that has done well, it's across the board, whether it's the Gurgaon Hospital, FMRI which has had a record quarter, whether it's the rest of the hospitals in the NCR market area. The Bangalore market has done well, our Fortis Malar Hospital in Chennai has done well, Bombay has done well, Calcutta across the board, so we are encouraged by what is happening. We still have some opportunities that we continue to focus on, that we need to work on where we think we can expect better performance as we go forward but the rigorous, the non-compromising focus on patient care, the non-compromising focus on supporting every single patient every single day in every single hospital every single time is what's keeping us going and we certainly believe that what we are starting to do now is sustainable and we look forward

to more of that. With that I am going to ask my colleague Mr. Sanjeev Vashishta to give you an overview of the SRL.

**Sanjeev Vashishta:**

Thank you Bhavdeep and good evening everybody. First of all many thanks for reposing your trust in the organization whether it is Fortis or SRL, we really get encouraged by your support. First of all I have always maintained that business is all about doing the right things. I think we have got the right kind of ingredients now the building blocks are in place. Some time back we emphasized a lot on the need to create the reach and network, now that we are across the length and breadth of the country we feel that we have made a system network which is highly enabling.

Second bit I would like to talk about the people. I think we are blessed to have an amazing team. People who have stuck with the organization for the last many years and they are the ones who have the ability to create good businesses. Our R&D capability, our logistics powers and our IT strengths are something which we look by. I think these are very nice and in our business which is not just diagnostics, its three in one, we have to be as good in diagnostics, as in logistics and as in retailing, fortunately I think all these three segments are working very nicely for us and becoming quite accretive. We have not deterred from taking certain tough calls at times and you would have seen over the last 2-3 quarters we have pushed out those businesses which were not really accretive to us as a result of which the numbers are looking much better much sweeter.

With this I handover the mike to my colleague Anurag, I think that's from my side, thank you very much.

**Anurag Kalra:**

Thank you Sanjeev. Ladies and gentlemen, I shall now take you through the financial presentation for the quarter gone by. I shall read out the India consolidated financial numbers first which comprises of our hospitals and diagnostics operations.

For the quarter our India Hospital business recorded revenues of Rs. 883 crore. This represents a growth of 11%. Our operating EBITDAC which is EBITDA before the net business trust cost grew 15.4% to reach Rs. 132 crores for the quarter. This Rs. 132 crore represents a margin of 15% versus a margin of 14.4% in the previous corresponding quarter. This is also better than the 14.7% margin we recorded in the quarter ended June 30<sup>th</sup> 2015.

Like Sanjeev was mentioning, our diagnostics business continues to grow from strength to strength. It has recorded revenues of Rs. 203 crore, a growth of 12%. EBITDA for the diagnostics business was at highest to date. We registered an EBITDA of Rs. 58 crores which represents a robust margin of 28.3%. This compares to a 20.7% margin in the corresponding previous quarter and a 23% margin in the trailing quarter, so a really phenomenal performance from the diagnostics business.

At the consolidated level for India revenues combined hospitals and diagnostics stood at Rs. 1087 crore up 11%. Our consolidated EBITDAC grew a robust 25% and reached Rs. 190 crore. This represents a margin of 17.5% versus a 15.6% margin in the corresponding previous quarter. This also again compares favorably to the 16.2% margin that we registered in the trailing quarter. Just to reiterate at a consolidated level we have over the past five quarters improved our margins from about 14% which was there in Quarter 1 FY15 to almost 17.5% in Quarter 2 FY16.

After taking into account the net businesses cost of Rs. 116 crores for the quarter and an Other Income element of 20.5 crores EBITDA grew 57% to Rs. 95 crores versus Rs. 60.4 crores in the corresponding previous quarter, so a very strong growth on the EBITDA front as well.

Our finance cost was at Rs. 27.5 crores for the quarter this compares to Rs. 35.4 crores in Quarter 2 of FY15. You would know that the result was primarily as a result of the decline because of the FCCB redemption of almost \$ 100 million that we did in Quarter 1 FY16.

Our depreciation and amortization was at Rs. 51.4 crores versus Rs. 53.17 crores in the corresponding previous quarter. At the PBT level, Profit Before Tax level before considering the impact of any foreign exchange movements and any exceptionals we recorded a profit of Rs. 15.7 crores versus a loss of Rs. 28.7 crores in the corresponding quarter. After accounting for FOREX gains/losses, our PBT before exceptional items too showed a substantial improvement. From a loss of Rs. 31.4 crores in Quarter 2 FY15 we have turned in a profit of Rs. 21.2 crores in Quarter 2 FY16. So from a pure operational perspective not taking into account FOREX or exceptional items we are near about PAT positive. Our PAT after exceptional items minority interest and share in associates, the share in associates being the 20% share that Fortis has RHT we recorded a (-)10.7 crore number which compares to a (-25.7) crore number in the corresponding previous quarter, this actually again shows an improving trend in our overall profitability for the business as a whole.

At the group level, and I want to mention here that beginning Quarter 2 FY16 purely from an operational perspective there is not too much of difference in fact there is no difference at all between the India consolidated numbers and the group numbers because we have finished almost all our divestments on the international side. We have recorded revenues of Rs. 1097 crore versus Rs. 1031 crores. While this is a growth of about 6.4% but this growth has to be seen in light of the fact that Quarter 2 of FY15 we did have a couple of international businesses namely RadLink and the Fortis Surgical Hospital in Singapore and both these businesses if you recall we had divested in Quarter 1 of FY16, so not really a like-to-like comparison there.

Our EBITDAC at the group level was Rs. 187 crores, a robust growth of 30% versus Quarter 2 of FY15. This again represents a good 17.1% margin versus 14% in the corresponding previous quarter. Our Profit After Tax after minority interest and share in associates was at Rs. 34 crore for the quarter. This compares to a loss of Rs. 58 crores in the corresponding previous quarter. Like I had mentioned to you earlier at the operational level we are near about PAT positive;

however, our PATMI of Rs. 34 crore at the group level is largely driven by some foreign exchange gain which have been netted off with some exceptional losses that we have incurred during the quarter. But clearly a very good operational performance in the quarter and which we expect will continue going forward.

On the Balance Sheet front our Balance Sheet as of September 30<sup>th</sup>, 2015 still remains very strong. Shareholders equity including minority interest is a figure of Rs. 4944 crores. Our FCCBs which are largely in the money are number of Rs. 557 crores. Our debt as of 30<sup>th</sup> September stands at Rs. 549 crores. So total capital employed in the business, combined capital employed in the business is Rs. 6050 crores. Our net fixed assets with including CWIP is Rs. 1792 crore. Our goodwill primarily now related to the India business because international is largely over is Rs. 2065 crore. Our investments is Rs. 1036 crore. We have cash and cash equivalents of Rs. 671 crore and our net current assets stand at Rs. 486 crore, so the total asset base is Rs. 6050 crore.

Just want to end it by saying that clearly from a Balance Sheet perspective our Net Debt stands at about Rs. 435 crores. This also takes into account FCCBs at debt, which like I had mentioned earlier, is in the money. If you were to exclude FCCBs the company today is on a net cash position but assuming FCCBs as debt we are at the mere 0.09 times on a debt equity basis.

With that I come to the end of my financial presentation and we will open the floor for questions and answers please. Thank you.

**Moderator:** We will now begin the question and answer session. The first question is from the line of Neha Manpuria from JPMorgan. Please go ahead.

**Neha Manpuria:** Mr. Vashishta, the first question is for you on SRL. SRL has managed to show quarter after quarter improvement in margin. Now this quarter obviously there has been a pretty sharp improvement. While I understand we are doing a lot in terms of rationalizing and profitable laboratories and our mix, etc., but the quarter-on-quarter jump is surprising. How much of this is sustainable because if I am not wrong in the previous quarter you had mentioned the medium term number that we should look at from margins is between 25% and 26%, so what's changed in the last three months and would you take that medium term number up after this quarter?

**Sanjeev Vashishta:** I think 25-26% EBITDA number is something which is expected in this market. Now as you are aware second quarter invariably is one of the best quarters that we have, second quarter is generally good and so is the fourth quarter. Now, as I say this I must also flag that third quarter is generally a subdued quarter in our business, it's the weakest quarter because of this being a healthy season also lot of festivals and all. Now what has actually happened is that we had taken lot of initiatives sometime back if you are aware. We have moved out non-accretive practices. An the result of which what has happened is first of all while the growth is not really that spectacular on the revenue side it's just about 12% but like-to-like comparison you'll see

the growth is about 17%, so as a result of this I think the numbers are reflecting in the EBITDA. Secondly, sometime back we had started bit of this initiative of building the right kind of building blocks and one more is creating capacities and at times people used to question us why you are spreading so thin in terms of replicating the number of labs. Now it's come on quite handy. All these labs which we created have started showing good numbers. They have come up to a certain level. Secondly, what has also happened is we had got a few contracts on the PPP side. One was HP. Now until about 3-4 months back the numbers had not really hit. Last quarter has been actually very nice on the PPP front as well and the business is accretive actually if you look at the EBITDA numbers the kind of EBITDA which we have been able to generate from the PPPs is rather impressive. Second is now we have also enhanced our efforts on the international business side. We are getting many samples flown into India from our 60 odd collection centers that we have, so all in all if you look at it I can't be putting a finger to what exactly has worked for us, all in all I think it has been a good performance by the team, and there are multiple factors to it. As I told you, business is running, doing all the right things and we have really as a team clicked well. Another thing is the radiology bit has gone down if you look at the quarter-on-quarter same quarter last year, the share of the radiology was close to about 10% it's come down to about 8%. So that's something which has really helped us. So as I told you all in all I think it's been a decent performance and we expect to continue the same spirit though third quarter is generally subdued we are keeping our fingers crossed.

**Neha Manpuria:**

So the 25 to 26 is still a fair assumption to look into on an annualized basis?

**Sanjeev Vashishta:**

A short run. See, I firmly believe Neha that you can't have much of control over the numbers that are in their outcome as far as I am concerned. I think you do the right things and sometimes you yourself get surprised because the traction which comes our way somehow sometimes it exceeds our expectations. So I am saying this is not something which is a one off thing, it will happen and on a sustainable basis we will see that we will be able to do much better than what we had expected sometime back. And my midterm review is still very optimistic around this business.

**Neha Manpuria:**

On the hospital business then, first on the expansion, we have mentioned that the La Femme got commissioned in September. Does the September quarter have any contribution from La Femme at all in terms of cost or revenue or all of this will start flowing through from the third quarter onwards?

**Bhavdeep Singh:**

The La Femme Hospital in Bangalore opened up last month so there is nothing of consequence in Q2. However, we have now operationalized the hospital and I think moving forward it certainly would be embedded in the performance.

**Neha Manpuria:**

Arcot Road, when can we expect that being commissioned?

**Bhavdeep Singh:**

The Arcot Road Hospital, as you know from time to time there are challenges in different municipalities This is a wonderful hospital, it's a beautiful facility, we have put state-of-the-art

equipment there. The commissioning is taking a bit longer than we'd like but we continue to work on it and hopefully would have something report on it soon.

**Neha Manpuria:** My other question on hospitals was on Mohali and Shalimar Bagh. Again those two hospitals seem to have sort of muted revenue trend if I look at it on a year-on-year basis with a similar to what we had in the last quarter. What's going on there? When can we see these starting to improve particularly Mohali given how important it is in terms of our large hospitals?

**Bhavdeep Singh:** In Mohali we had one poor month. Mohali has now come back and the trends continue. We have a very strong cardiac business in Mohali. I just happened to be in Mohali this past Saturday, spent a good bit of time there. The oncology business is doing well. The orthopedic business is very strong, so from time to time you have ups and downs. Mohali Hospital has had a great run and we feel very optimistic about what is happening. We think the oncology business has a lot more that's there. We are now very aggressively looking to get a transplant program started in Mohali. Dr. Mohanth, who is one of the eminent cardiac surgeons in India, we spoke about this with him in fact this past week and we are pushing to get a license, our transparent license, as soon as we do that we will be starting a very strong heart transplant program which I think will bode well from Mohali. In Shalimar Bagh I think it's just the ups and downs that take place from time to time. There is a seasonality component. There are some cyclical pieces of it. Actually in the month of September we had a very strong month, it was a record month in Shalimar Bagh. We crossed 17 crore and a very strong performance. So Shalimar Bagh I think will continue to do well. We are moving forward with our oncology block in Shalimar Bagh as well. So both of these hospitals little bumps in the road but we feel very good about where we are and we can see some great things as we go forward.

**Moderator:** Our next question is from the line of Prashant Nair from Citigroup. Please go ahead.

**Prashant Nair:** I had a similar question on diagnostics so would you have had any spike due to the dengue outbreak this quarter or is that normal and we should not read too much into it?

**Bhavdeep Singh:** Yes I think we should not read too much into it as the paper would answer. But I will tell you, I think I need to elaborate on what I have just mentioned. See, normally the budget for seasonal flu is about 17 odd crore on an annual basis and it's not too different from what we have seen in the last year or year before that. So from dengue, H1N1 in all we have got only about 8 plus crores in the 4-6 months, so that's not too away from what we had projected. And one thing what we have to remember is that in certain geographies government stipulated the prices by virtue of which most of the players they had to sell it below the shelf price. So the bump is not really due to the dengue or H1N1.

**Prashant Nair:** Just a broader question not related to this quarter but how would your revenues be split across say different parts of the country, would you be able to give some broad color on that?

**Bhavdeep Singh:** Most certainly. I think we are the most balanced geographical dispersions so to say. North gives us almost 35%, West gives us almost about 25-26%, East is 22 and residue always comes to around 16% odd from South. Now this is one geography where we are now spreading our wings in a much sharper way and in the coming quarter itself we are opening up for labs, two is AP and Tamil Nadu each.

**Prashant Nair:** One question on the hospital side, this is just a back calculation but your hospitals outside the top 10 where you report your numbers seem to have grown meaningfully both quarter-on-quarter as well as year-on-year and this is back calculated so I don't know whether I have got the calculations wrong. But which hospitals would be creating this delta if this is right?

**Anurag Kalra:** Let me put it other way, if you look at our stable state hospitals, are stable state hospitals have shown a very good growth but more importantly the smaller ones such as Nagarbhavi, La Femme, the Kalyan one, the one FHKI and FMC in Kolkata have also done much better but that is on a smaller base but their growth rates are higher.

**Moderator:** Our next question is from the line of Girish Bakhru from HSBC. Please go ahead.

**Girish Bakhru:** A question on the occupancy, I know there also the jump is significantly high. Partly I would understand this is on the back of exits from certain assets which were giving lower returns. But is there any other phenomenon that has resulted in such high occupancy this quarter?

**Bhavdeep Singh:** As Sanjeev has mentioned before there are some normal seasonal impacts that affect the business. I think that the amount of hospitals where we had record performances, so if you look at our Gurgaon Hospital for example, I referred Shalimar Bagh a couple of minutes ago, the Bangalore hospitals, so some of this is just that our mix of business and the new patients that we are drawing as our oncology departments continue to grow, as our transplant business continues to grow, we are on track this year to do 150 liver transplants in the NCR marketplace which is substantially up 50-60% over last year. So I think there is a normal mix in business that's evolving here that's helping from occupancy. The other piece is there is a dengue component here. It's certainly not lion share with but there is a dengue component that's certainly impacting the occupancy numbers and that's an annual thing that takes place. We note, we expect it, we prepare for it and we also know what happens after that.

**Girish Bakhru:** On the margin side, of course, hospital business also saw some benefit. If you could again throw some color on the Escorts bit if that has moved up in terms of the margins and where it would be right now?

**Bhavdeep Singh:** When you look at the Escorts hospital as you know we have been working our plan on Escorts. We had added a couple of programs there. We have added a gastro program with Dr. Ajay Kumar, we have added an orthopedics program with Dr. Harsh Hedge, so that along with what we are doing in the cardiac space, we did our first heart transplant there in several months and we are investing there as well. So I think when you look at the margins in Escorts they have



done well. They are up over last year by 200 basis points and that's a healthy performance and I think it's a function of again I think the mix in business because the gastro piece and the orthopedics piece is contributing to that as well as some of the other things that we are doing there.

**Girish Bakhr:** In the previous quarters also you had given guidance that Escorts probably in 2-3 years would be in line with the other larger facilities like Mohali or even Mulund. So would that be a fair number to work with?

**Bhavdeep Singh:** With respect to what?

**Girish Bakhr:** With respect to Escorts moving up back in (+20) margin levels, the operating level?

**Bhavdeep Singh:** As you rightly said we didn't anticipate that happened in 3 or 4 weeks or 3 or 4 months. It's going to take a little bit of time. Part of that there is going to be an investment in capital, continue to expand on our medical programs, continue to invest in medical technology so the answer is absolutely we see that type of future for Escorts as we go ahead and that's the direction we are moving in. Again recognizing that, it's the investments that we are making today that are going to pay off then.

**Girish Bakhr:** One directional question on the SRL. Given such a strong performance and the ongoing improvement in the margins would Fortis look to increase stake further in the company?

**Bhavdeep Singh:** That's not the plan. I think we are only looking to the existing shareholders, existing private equity players as per the agreement, so there is no plan as such.

**Girish Bakhr:** Lastly on the FOREX side if you could give clarity on where this significant gain is coming from, the FOREX gain?

**Gagandeep Bedi:** So FOREX gain is coming in our Singapore entities that's more a moment between Singapore Dollars and US Dollars and that's an inter-company position so that's primarily what the FX gain is about.

**Moderator:** Our next question is from the line of Praveen Sahay from B&K Securities. Please go ahead.

**Praveen Sahay:** My question is related to the La Femme. How many of La Femme we have currently? And also is there any differential in their ARPOB from the existing or the other type of facilities?

**Bhavdeep Singh:** We have two La Femmes now. The first one has been in Greater Kailash. We opened that hospital 8 years ago. The second one we just opened in Bangalore and that opened this past month. So there are two La Femmes. Having said that, we believe this is a huge business just waiting to happen. The response has been tremendous. The need, the burden in India with respect to mother and child is just a huge opportunity for us. So we have two or three other

hospitals we are working on but I would tell you that I think as we go forward over the next 3 to 5 years this is going to be a business that is going to have some substantial footprint in India and I think it will do exceptionally well. I think from an ARPOB perspective the typical Fortis hospital ARPOB in a given multi-speciality environment sits anywhere between 1.3 and 1.5 Cr. The La Femme numbers are sitting at about 2.4 Cr ARPOB. So it is substantially higher and again for all the right reasons, the number one reason being that we are able to provide exactly the type of care and nurturing and clinical support that the patients need at that time.

**Praveen Sahay:** So basically the woman and child facilities that's La Femme, so we have also in the other hospitals as well apart from these two La Femme hospitals?

**Bhavdeep Singh:** We have facilities for whether it is birthing, whether it is neo-natal care, we certainly have facilities for that. I think the opportunity here is that because as we go forward there are two different opportunities that we have here, one is, that you have standalone Fortis La Femme hospitals which is what just referenced, but the other opportunity is a shop in shop environment where we actually carve out La Femme inside an existing hospital, so today we are doing birthing, we have neo-natal units, we have that environment. Having said that as we go forward, as we refine the model, it's certainly possible that we carve out spaces and create mini La Femmes inside our hospitals.

**Praveen Sahay:** The existing ones in New Delhi, how is the occupancy there?

**Bhavdeep Singh:** The occupancy in La Femme in Greater Kailash is anywhere between 60-70% and again that is driven by as far as number of births we do about 120 births per month. In different times of the year we go up, it's high as 150-160. But there they are just a function of length of stay that drives some of that occupancy.

**Praveen Sahay:** Coming to an overall ARPOB improvement, as I am seeing in the case mix there is hardly any change in the case mix, so it's more driven from the tariff hike?

**Gagandeep Bedi:** So there is really a case mix change. So if you really see you have got liver transplants as Bhavdeep just mentioned, so there is a change in the case mix going away from cardiology to other profitable businesses and that has driven the margins up and, of course, consequently the ARPOB. Secondly what has happened is within our hospitals the bed mix has moved towards the ICU or a higher end kind of surgeries so that has also led to a higher revenue kind of mix cases coming up, it's a bed mix and a case mix story.

**Praveen Sahay:** And it's across the major hospitals, right?

**Gagandeep Bedi:** Yes for this quarter for sure.

**Praveen Sahay:** Because in the Mumbai region like Mulund and Vashi I have seen exceptionally good growth numbers.

- Gagandeep Bedi:** Yes exactly, Mulund you must have seen lot of heart transplants activity around that so that typically drives occupancy in an ICU much more than let's say the ward beds as an example, so that leads to a higher ARPOB as well as a higher margin.
- Moderator:** Our next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** A couple of questions on the SRL business. On the 6000 odd crores of capital which is employed in the business how much would be the capital on the diagnostics part of the business?
- Sanjeev Vashishta:** Diagnostics is about 1100 odd crores.
- Nitin Agarwal:** What would be the mix of the business across? If you had to split say retail versus B2B?
- Sanjeev Vashishta:** Typically if you look at the B2B, B2B is essentially the hospital business that we are generating is close to about 17% which is coming from the hospitals where we got the implants. Other than that we also have a segment known as business we are generating through the direct clients. It could be the labs; it could be the nursing homes and those larger GPs who are giving the specialized business to us. So to that extent that also becomes an institutional business. That again is about 17%. And about 5% comes from the corporate and others in the form of wellness, so around 40-42% is the one which is coming from the institutional side.
- Nitin Agarwal:** How has this mix changed over the last few years and you have been working on restructuring the business? And are there any major differences in terms of how profitability sort of shapes up across different segments?
- Sanjeev Vashishta:** There's not been any significant change but as I see gradually a change is bound to happen. As people are getting more and more discerning, more and more educated most of these people they come on their own but that change we have seen only in the urban areas. But going forward next 3-5 years' time I don't think it's going to change, anything drastic is going to happen over the next 6 months, 1 year, two years, the trend would pretty much be the same. But as we go forward you will see more and more walk-in business coming our way.
- Nitin Agarwal:** But in general is the walk-in business more profitable than institutional business or it's the other way round?
- Sanjeev Vashishta:** It's bound to be because walk-in business is individual business or individuals walking in the retail business coming into our centers, coming into our labs as opposed to institutional business where you have to give the kind of..... something what we call as a bulk discount because I am getting steady stream of business from their large volumes and there I have to give some price which is really competitive.

**Bhavdeep Singh:** When you are looking at 28% although like 25-26% average margin for our business with walk-ins being about 50% of our business so I guess the walk-ins profitability would be in excess of 35%, north of 35% thereabouts on an average.

**Sanjeev Vashishta:** First of all walk-in is not 50%, it's about 38% and there are other things also which maybe I can dwell on at an appropriate stage, so 38 is walk-in.

**Moderator:** Our next question is from the line of Harit Ahmed from Spark Capital. Please go ahead.

**Harit Ahmed:** I was looking at the EBITDAC margin for the hospital business which has been around 15% for the last 5 or 6 quarters, so is there scope for improvement here or once you consolidate the business further what kind of EBITDAC should we be looking at for the hospital business?

**Bhavdeep Singh:** I think that there is an opportunity to improve the EBITDAC number. The point that I want to make is that there are organizations typically when you get to any mature state you have to 2-3 different ways that you can do that. Our intent is to continue to provide good value and make sure that we are doing the best possible care and we also take care of as many people as possible. So I think our approach is around that because I do think there is an opportunity. I think it's going to come a) in the mix of business that you just heard Gagan talk about with respect to the type of mix and that's going to be driven by clinical programs and bringing in new clinical programs that will improve the quality of the business that we are doing today, so that's an important piece. And everything that you are going to hear me talk about, everything you hear Gagan talk about, everything you hear Sanjeev talk about is going to be on quality and taking care of patients and doing the right thing. So when you do that the byproduct there is that you will have a better mix and better numbers but this is about taking care of more patients. I think the more we invest in clinical programs, I think that's going to help us. The second piece is that we believe there is an opportunity from an efficiency perspective. We are just as modern healthcare systems around the world do, we are taking a very processed and protocol driven approach to healthcare. So whether it's what we do inside the OT, whether it's in how we do our billing, we are making a significant investment right now to upgrade our ERP system and a new platform, so our entire IT program is going to be sitting on a new platform so that everything whether its patient record, whether it's patient information, whether it's data, whether it's treatment whatever it might be, so there is an opportunity in leverage technology ensuring that we have good processes. So the short answer to your question is yes, I believe there is an opportunity for it to get better. The longer part of that answer is that that would be done a) through new improved clinical programs with our doctors and nurses and b) introducing efficiency in the system whether they are IT technology based or otherwise.

**Harit Ahmed:** My second question is there is a line Hospital Service Fees in your P&L. That's related to RHT, right?

**Anurag Kalra:** Yes Harit, that's right, that's the gross fees that we pay to the RHT.

- Harit Ahmed:** What's the difference between the gross and net?
- Anurag Kalra:** There are certain expenses also that the RHT takes over, so if you take a look at our investor presentation the net BT cost that we have set for the quarter is 116 crores, so difference between gross and net is the expenses that they also bear.
- Moderator:** Our next question is from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani:** Coming on the region-wise split what was East and West contribution, if you could repeat that?
- Anurag Kalra:** Mayur, you are checking this for SRL, right?
- Mayur Gathani:** Yes sir.
- Sanjeev Vashishta:** So about 22% is East and about 35% is North.
- Bhavdeep Singh:** I wanted to ask about West.
- Sanjeev Vashishta:** 26 is West.
- Mayur Gathani:** SRL, one of the reasons if I understood correctly you mentioned that there were some B2B contracts signed and hence the revenue was better off and that's why the margins were also good for SRL? Did I hear that correctly?
- Sanjeev Vashishta:** It's a very heterogeneous mix actually, very judicious mix if you look at it, it's not one thing which can be pointed. I think overall it's been a good performance and all the businesses have become accretive. I think the last vestiges of non-accretive businesses have been thrown out as you are aware, so that has given us a solid bump.
- Mayur Gathani:** On the La Femme side what is the opportunity that we are looking at? We have two currently, do we intend to expand or shop in shop kind of a concept? What numbers are we looking at? Can you throw some guidelines there?
- Bhavdeep Singh:** Nothing specific. I would tell you that we do have a hospital being built in Ludhiana right now. I had the opportunity to visit that last week and it's going to be a fantastic hospital again mother-child Centre. We are exploring other locations in NCR. I think just about every major market we are in we think there is an opportunity for the La Femme, so I don't have an exact number on it. I think more to come on that because we have put our team together, we are going to be announcing a CEO of the business. We are looking at investing a significant amount of our resources just to make sure that its moves forward. I don't have a specific number but I think the plan we will be able to share more as we go forward. We certainly think there is an opportunity to many of these in the country.

- Mayur Gathani:** So the one in Ludhiana is a standalone La Femme center or will it be a shop in shop?
- Bhavdeep Singh:** Ludhiana will be a standalone.
- Mayur Gathani:** You provided us revenues of all the top 10 hospitals. Is it possible to give us the EBITDA numbers as well as to how they are doing in the margin side?
- Bhavdeep Singh:** We don't do that. We don't provide that information. I think the information we are providing gives you good insight into the business but beyond that we are not prepared to share this time.
- Moderator:** Our next question is from the line of Rohan Pandya from B&K Securities. Please go ahead.
- Rohan Pandya:** I would like to know the majority profile of the beds, like 0 to 3 years or 3 to 5 or something like that?
- Gagandeep Bedi:** If you take a look from an operational bed perspective almost about 15-20% of our beds are in the 0 to 3 year time frame. About another 15% odd are in 3 to 5 years. Then we have segregated beyond into further two categories, 5 to 10 years is close to about 25% and the balance is 10 years and above so that's the maturity of the beds that we are currently seeing.
- Moderator:** Our next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** On the hospital expansion, can you just remind us in terms of how are we looking at expansion in the hospital part of the business for the next three years?
- Bhavdeep Singh:** As we have said in the past as a function of the new direction we have taken so as you are aware we have decided to exit all of our overseas operations to focus solely on India. Today we are operating about 4100 beds. Our expansion is going to come in the shape of two different activities. One is that we have within the four walls of our existing hospitals organic growth, the opportunity. This 4000 number can become 8000-9000 beds. We are looking at, for example, our FMRI hospital. We are planning on building a tower here that's going to give us certainly a much larger hospital. In Noida we can do something very similar. In Mohali we are looking at building adjacent adding on to the property as well. So there are many examples are up and down the system. But this 4000 can become 8000-9000 so I see a scenario where we can at 400-600 beds for the foreseeable future on an annual basis and I think we will have healthy growth. The other thing that we are looking at is the whole notion of clinical programs. We have just invested as I said before, on our first robotic program which is going to be and FMRI in Gurgaon and that's going to be quite significant. We think that the opportunity and number of robotic surgeries taking place in the world has gone from 200,000 just 5-6 years ago to 700,000-800,000. So it's growing exponentially and there is a huge opportunity there. The transplant environment in India, in the US today 18-19% of all Americans are organ donors. In our country it's some fraction of 1%. We are going to be making a significant push in changing the organ donor culture here and that's going to result in lot of transplant. We are already doing

quite a bit in heart, liver and we are also doing in kidney and renal as well but we think there is a lot more we can do there on the patient front and help patients. Half a million people die every year in India because they don't have body organ that they need. Similarly on quality is a big opportunity. So medical speciality-wise going up and down looking at what we can do expanding our expertise, expanding our investment and technology and then looking at organic growth, brownfield adding on to existing hospitals I think that's going to give us a lot of growth and I think it's going to deliver outstanding performances as a result of that.

**Nitin Agarwal:** A bulk of this incremental expansion is going to be funded through the RHT or how are we looking to fund this expansion over the next 2-3 years?

**Gagandeep Bedi:** The bulk of this exactly is going to come through the RHT as we had said earlier through the bolt-on programs, so an additional block or an additional floor.

**Nitin Agarwal:** On the 4000 odd beds that we have right now, how many full time doctors do we deploy? What's typically a mix between dedicated doctors who work with us? What would the broad numbers be like?

**Bhavdeep Singh:** I don't have a percentage number what I can tell you is that we have a good mix, in some cases have a doctor on roll full time makes a lot of sense. In other parts of the country like Bombay for example, we have a strong empaneled model, so we have a healthy mix, I think in some cases we have head the departments who had made sense to have whether it's in cardiology for example in Mohali and Escorts. We have many doctors that are our employee. In other markets, in other medical specialties where you are just starting or you are just starting to grow the business or you need to invest more or you have an opportunity to use the multiple hospitals, you have an empaneled model. So I think we have good mix around it. I don't have the exact data, we will certainly get back to you but I think it's sufficed to say that it's appropriate and it works well.

**Nitin Agarwal:** Secondly you mentioned about this FOREX gains on account of some sort of translation gains in the Singapore subsidiary, so what is the function of Singapore subsidiary going forward in the current scheme of things?

**Gagandeep Bedi:** The Singapore subsidiary is because we were funding it out of the Indian entity so there is more an inter-company play in there and there are some inter-company positions that are left to be unwound and that's leading to some FOREX movements.

**Nitin Agarwal:** There are all non-cash movements?

**Anurag Kalra:** Nitin, there were two subsidiaries one was reporting in Sing Dollars one was on US Dollars and the loan was given in Sing Dollar so it's primarily related to the movement between Sing Dollars and US Dollars.

- Nitin Agarwal:** Lastly we did buy back partially a stake in SRL during the quarter, so given the way the valuation which you kind of disclosed and the way the business has improved, just curious was this the negotiated price at which we bought out the stake or how does one look at that?
- Sanjeev Vashishta:** We had a ROFR from SABRE which we exercised, so there is nothing which is more than that. The ROFR was exercised by Fortis.
- Nitin Agarwal:** Looks like you got a pretty good deal there with the numbers that you were putting out.
- Sanjeev Vashishta:** I hope so.
- Moderator:** Our next question is from the line of Praveen Sahay from B&K Securities. Please go ahead.
- Praveen Sahay:** At the start of the year as you had mentioned for increase of 400 beds each year for the next 3 years, so its operational bed we talked about? And as you had mentioned from the existing hospitals only we are going to take additions, so it's like 400 beds would come from the existing hospital beds only?
- Anurag Kalra:** Praveen, within that La Femme was a new hospital which we just commissioned in September the other is Arcot Road and then we have BG Road, so these were key ones, so La Femme and Arcot were the new ones otherwise we maintain a 300-400 beds year-on-year.
- Praveen Sahay:** So it would be operational bed?
- Anurag Kalra:** Yes correct.
- Moderator:** Thank you very much. I would now like to hand the floor over to the management for closing comments, over to you sir.
- Bhavdeep Singh:** Thank you very much. I think in conclusion first of all we would like to thank you all for joining the call today. We appreciate your being able to join; we appreciate your interest in what's happening at Fortis. I think we have a really good story building at Fortis. We celebrated 14 years from the time that we opened our first hospital in Mohali back in 2001, so we celebrated 14 years in July. I think as we look forward to the next phase in our journey we are focusing on the patient, on providing quality patient care, we are investing in medical technology, medical equipment and most importantly we continue to partner with our doctors and nurses. So we are encouraged by what we are seeing. We certainly with a high degree of confidence believe that while the numbers may not be identical we certainly believe that good solid performance is what we expect and that's what our teams are doing and we have some fantastic people working in our system and we feel very blessed to have them working on our side. So thank you again very much and look forward to more such conversations in the future.





*Fortis Healthcare Limited  
November 04, 2015*

**Moderator:** Thank you members of the management. On behalf of Fortis Healthcare that concludes the conference call. Thank you for joining us and you may now disconnect your lines.