"Fortis Healthcare Limited Q3 FY2021 Post-Results Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to the Q3 FY 2021 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 '*' and then '0' on your touchtone phone. 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 very much. A very good morning and good morning, ladies and gentlemen. And thank you for joining us on Fortis Healthcare's quarter three FY 2021 Earnings Call. The call is being chaired by our MD & CEO – Dr. Ashutosh Raghuvanshi; with him we have our Chief Financial Officer, Mr. Vivek Goyal; we also have Mr. Anand K – as CEO of SRL, and with him is Mr. Mangesh Shirodkar – Chief Financial Officer of SRL.

We will start with some opening comments by Dr. Raghuvanshi, followed by Anand who will talk on the diagnostics business. And then we can open the floor for question-and-answers. Over to you, Dr. Raghuvanshi.

Ashutosh Raghuvanshi: Thank you, Anurag. Good evening, everyone. And thank you for your time today. This is our first interaction in 2021, and I want to start by wishing all of you the very best of the New Year. I do hope all of you are safe and things for you and that things are progressing towards normality. Like us, you would have seen the pandemic recede significantly, and that is something that bodes well for all of us. It is also reflected in our Q3 results, which I presume you would have had a chance to look by now.

While I do believe that the worst is behind us, I tend to look at the current environment with a sense of cautious optimism. I only say that because in some countries lockdowns are still ongoing as a result of emergence of different strains of viruses, and hence, the need for us to continue to be observant. At the same time, it is pertinent to highlight that the adversity witnessed in the past year has made us more resilient to face and overcome any such challenges in the future. Our agility and flexibility in adapting to the changing needs of the business and environment are stronger than before, which I believe would augur well for us as we go forward.

I will summarize the performance for the quarter now:

We have consolidated revenues of INR 1,177 crore versus INR 1,169 crore in the corresponding previous quarter. While this is similar to the corresponding quarter, it is an increase of 18% versus quarter two of financial year 2021. The hospital business revenues have, in fact, grown 22% versus the trailing quarter, while the diagnostic business revenues have increased 9%. Similarly, our consolidated EBITDA at INR 201 crore has increased 24% versus the corresponding previous quarter and about 38% versus the trailing quarter, resulting in a healthy margin expansion.

In line with what I had mentioned in our last interaction that we would see a gradual move towards full normalization by the start of financial year 2022, our Q3 results reflect the trend we had envisaged. Our performance, both versus the corresponding and trailing quarter, has been quite healthy. Our balance sheet remained strong with a net debt-to-equity of 0.15x as of December 31, 2020, as compared to 0.16x as on September 30, 2020; and 0.14x as on March 31, 2020. Our net debt stood at INR 1,041 crore versus INR 1,113 crore as on September 30, 2020, and INR 1,004 crores on March 31, 2020. With a progressively better performance resulting in stronger cash flows, we think the time is right to reinitiate and accelerate our CAPEX investment in augmenting our bed capacity and expanding our medical programs, at the same time, further building on our clinical talent.

Coming to the hospital business:

Overall occupancy increases to 64% from 57% in the trailing quarter and compares to 68% in the corresponding previous quarter. More importantly, when you compare to the trailing quarter, our non-COVID occupancy has increased to 46% versus 38% in Q2 of financial year 2021. Most of our key hospitals have done quite well and have actually achieved 90% to 100% of their pre-COVID revenues when we compare them to Q3 of financial year 2020.

The non-COVID occupancy rise has led to a growth in surgical volumes, which is also reflected in the higher ARPOB, which stood at INR 1.58 crores for the quarter, an increase of 6% versus the trailing quarter. Our hospital business EBITDA margins were at 15.3% for the quarter as against 14% in the corresponding quarter and 11.3% in the trailing quarter. If we were to exclude the start-up losses of Arcot Road hospital, which was commissioned in October 2020, margins were higher at 16.2%. In addition, as we expand our investment in medical programs and beds, we implemented these by onboarding eminent clinicians in selected specialties, such as cardiology, urology and gastroenterology. While early days, the medical tourism business is also seeing a traction and is approaching almost 50% of its pre-COVID levels on a month-to-month basis.

On the diagnostic business:

Before a brief on the business, I wanted to share with you some high-level thoughts on the SRL Board decision to acquire the balance 50% stake in the DDRC-SRL joint venture. This would be for a total purchase consideration of INR 350 crores, inclusive of the ownership of DDRC brand, and is subject to FHL shareholder approval and other approvals as may be required. The JV has over 200 laboratories in the state of Kerala and has a market leadership position in the organized diagnostic segment in the state. This acquisition clearly provides SRL an opportunity to consolidate its leadership position in Kerala and also a platform to enhance and grow its presence in other states in South India. It further complements its strategy of growing the B2C segment and expanding the product portfolio comprising lifestyle disease tests, specialized tests and preventive packages. I will let Anand detail this transaction a bit further and I am sure many of you may also have questions on this.

On the performance of our diagnostics business, our strategy, both on channel optimization and product portfolio, is playing out well, resulting in our margins expanding to 23.9% versus 16% in Q3 of financial year 2020. SRL has played a major part in the pandemic and has seen increased volume of RT-PCR tests as compared to Q2 of financial year 2021. SRL did a total of 5.9 lakh tests in the quarter versus about 3.8 lakhs in Q2. However, as you are also aware that prices of such tests have been on a decline resulting in the COVID contribution to overall revenues declining from 28% in Q2 to 24% in Q3. Not accounting for COVID revenues, the business has reached approximately 93.5% of pre-COVID levels in the quarter as compared to 73% in Q2.

The B2B-B2C business mix is also increasingly tending towards B2C side, which is relatively higher margin. The B2C segment of the business grew 35% and contributed 46% to the total revenues as against a contribution of 42% in the corresponding previous quarter. Looking ahead, as we end this challenging year, we are confident of further accelerating our growth momentum as business normalizes. Our bed expansion plans are being undertaken, and as I had shared with you last time, we have a concrete plan for adding about 1,300 beds to our network in the course of next three to four years.

On the digitization front:

Instead of three different HIS systems being used earlier, all Fortis hospitals are now using a single platform with uniform processes and data definitions, enabling a seamless experience for patients, employees, vendors and other stakeholders. We are working expeditiously on a new and updated version of myFortis app. With that, we expect to roll out shortly. We expect this to significantly improve our patient connect as also accessibility and convenience in a one-stop solution to all the digital interface we are going to have with the patients.

On the cost side, as I have always mentioned, I remain a big believer that cost metrics needs to constantly be evaluated, not only externally, but internally as well. And we have the advantage to leverage the learnings and best practices on cost optimization successes from facilities within the network. We continue to evaluate costs, both direct and indirect, compromising amongst other things, costs related to pharmacy, implants and other consumables. And efforts are also on to enhance efficiency in consumption optimization via back-end services and the like. All other costs across the network, whether they be sales, marketing, legal, corporate overheads, vendor contracts or outsourcing services and other costs continue to be evaluated for further efficiencies. Cost optimization and productivity improvement would continue to play an important part in our overall performance metrics.

I will conclude with some parting thoughts:

We have come through a difficult phase in the last few quarters but have done so successfully and with each and every employee of the organization contributing to it. Our medical fraternity admirably has and will continue to provide the best possible care in the pandemic for as long as it is required. The business is gaining momentum with both hospitals and diagnostics performing well. We perhaps are the only company that has the opportunity to work for value creation in both the hospitals and the diagnostics business, and we expect both these segments to showcase an improved performance going forward.

Thank you for your time. And I would now like to hand over to Anand to take you through his thoughts on the diagnostic business.

Anand K.: Thank you, Dr. Raghuvanshi. And a very good evening to everyone on the call. SRL Diagnostics had a very strong third quarter, benefiting from continued demand from COVID-19 testing as well as rapid recovery in the non-COVID side of the business. In addition to that, the Board has also approved the acquisition of our JV company in Kerala that makes us a leading diagnostics path lab chain in South India and consolidate our position as the second largest diagnostics path lab chain in the country.

In the calendar year 2020, we have performed over 2 million COVID-19 molecular serology tests, more than any other providers. Along the way, we have also developed and introduced several innovations that are contributing to enabling the country's ability to return to work and travel across the country. I am extremely proud of all that SRL Diagnostics has accomplished during the course of the COVID-19 pandemic. And I can say that, in Q3, all the hard work and dedication of our 6,000-plus employees have started paying off.

In the third quarter, our revenue grew by 23% to achieve the INR 300 crores-plus mark, which was a record revenue, highest ever in our industry and SRL. Our EBITDA increased 83.3% to INR 73 crores, which is the highest ever quarterly EBITDA result versus INR 40 crores in Q3 FY 2020. The EBITDA for Q2 FY 2021 stood at INR 70.5 crores. In Q3, we conducted 6.7 million tests, a growth of 12.7% versus the trailing quarter. Our average revenue per test increased by 37%, primarily driven by specialized tests. These results reflect continued demand for COVID-19 testing and a continued recovery in our B2B and B2C testing volumes as healthcare systems resume preventive care and elective surgeries. We registered a recovery of 93.5% in our non-COVID business in the quarter compared with Q3 of FY 2020.

To increase our market share in the diagnostics space, especially in the southern part of the country, we have decided to acquire the balance 50% stake in DDRC-SRL Diagnostics Pvt. Ltd, the JV between SRL and DDRC Group in Kerala. The confirmation of the transaction will be subject to the company's shareholder approval and other regulatory approvals as required. DDRC-SRL currently is the largest organized chain of diagnostic centers in Kerala with eight regional reference labs and 194 sat labs, and this acquisition consolidates SRL's leadership position in Kerala and enhances its presence in South India. The acquisition is in line with our strategy to improve our B2C salience as DDRC-SRL has 70% of its revenues coming from the B2C segment with 7,000-plus daily walk-in customers.

The SRL's acquisition of the balance 50% stake in this JV would be for a total purchase consideration of INR 350 crores, inclusive of the ownership of the DDRC brand. The JV recorded revenues of INR 160 crores in FY 2020 and the revenue of INR 205 crores for the nine months of FY 2021. With this acquisition, SRL becomes the largest stat lab chain with highest number of labs across the country.

The pandemic has highlighted the need for expansive RT-PCR testing to tackle the virus. To cater to the growing demand, we made significant investments to expand our existing capacity. We recently launched our 15th RT-PCR labs in Pune. And also, we have launched seven new labs and added 167 collection centers to our network across India. In the third quarter, our COVID test numbers also saw an increase from 5.2 lakh tests in Q2 of fiscal year 2021 to 8.4 lakhs in Q3 FY 2021. Our collection center and home collection business are also growing, propelled by a change in consumer mindset. Our home collection visits nearly doubled compared to Q3 of FY 2020 with a broad-based recovery in our preventive business segment. We increased our logistics to support customers with a strong focus on customer experience, develop COVID-19 allied tests and infection recovery panels to address demand by hospitals and also set up a digital pathology network in Mumbai, Gurgaon and Bangalore. Our business continues to focus on improving the B2C-B2B revenue mix and executing on its channel and product strategy to further accelerate business momentum.

While our corporate market revenue was affected in Q3, we reduced hiring and shifting work culture. As the travel and tourism industry opened up, we started reaching out to them to create new synergies to help make travel safer for our customers. We partnered with companies like OYO, MakeMyTrip and Pure Health, to name a few, in the third quarter. We also made progress on the digital front this quarter. We are using AI tools like chat-bots to improve customer experience. This has even helped us in maintaining rapid proactive communication with our customers. Also, we made remarkable progress in the surge of sign-ups to our SRL mobile app and website. Till date, roughly 2.5 million patients have used our mobile app to make appointments or receive the results through their smartphone.

More and more patients are opting for digital services. Currently, about 75% of our reports are being digitally accessed directly by the patients. This is much more than the rate we have experienced before the pandemic. In addition to this, our digital pathology allow our lab doctors to read images remotely, enabling real-time virtual collaboration between their multidisciplinary care teams. Remote reviewing of pathology results is also essential to prevent delay in typical patient diagnostics and care, particularly during a crises. And our association with Microsoft will also pave the way to this transformation progress.

We have made progress in our next-generation sequencing solution that enables individuals to access useful genetic testing insight about diseases. We launched a few tests in Q3 and are also in the process of integrating microarray platform into our network to enhance our prenatal testing capabilities. We have also signed up an end MoU with a U.S. based healthcare giant, Mayo Clinic Laboratories, to further enhance our association with them and to collaborate for research, training, cohosting seminars, consensus and symposia around esoteric testing. The collaboration aims to facilitate joint academic and research initiatives between the two organizations in order to help physicians maintain lifelong knowledge and skills for safe clinical practice.

We also saw growth in our direct-to-consumer services in this quarter. Our current test offerings continue to resonate with customers. Our newly launched SRL Smart + Health Report, which is run from machine learning-driven recommendation engines, has been well received by doctors and consumers. In the quarter, we also launched our new panels and packages, offering consumers the choice of viewing at-home care or getting their specimen collected through driving collection centers. And as we approach the next fiscal, we remain optimistic that SRL would exhibit positively better performance and add value for all our stakeholders.

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

Anurag Kalra: Thanks, Anand. That was quite a comprehensive view for the quarter gone by. Can I please request the moderator to open the line for questions and please?

Moderator: Thank you. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just first one is on the margin performance in the hospital business. We have seen it improve to 16% if I exclude the start-up costs. So, what is driving this improvement in margin? We were probably at around about, whatever, 10%, 11% kind of margins, we have seen it improve here. So, if you could disaggregate it into what is coming from better occupancy and what are the cost measures. And going forward, if I look at Q4, how should we look at this particular, both the outlook for revenue as well as margin for Q4?

Vivek Goyal: Yes. Good afternoon. So, I will take this question. So, margin improvement is basically coming from the various cost-cutting initiatives company has taken, and that has actually ended very well. Although in the current quarter, as you know, we have mentioned in the last call, we have rolled back the salary cut and other cost-cutting, which were directly impacting the customer, which was voluntary in nature. But other cost-cutting measures like administrative cost, reduction in sales and marketing costs, those type of measures, plus the selective hiring, wherever we can postpone we have postponed. So, all those things have yielded the results in the margins of the company.

Shyam Srinivasan: Sir, so what is sustainable? So, you talked about rollback of certain this one, right, so that should see the full impact in Q4, you think?

Vivek Goyal: Yes. So, that we will be seeing full impact because partial rollback happened in the month of October and full rollback happened in the month of November. So, the personnel cost side, which is cost reduction by voluntary reduction of salary has fully been factored in. However, as I mentioned, the other things like judicial expenditure on the sales and marketing cost, administrative costs and the selective hiring, so all those things are helping us in improving the margins.

Shyam Srinivasan: Got it. Helpful, sir. Sir, if I look at the occupancy now, it's a chart that's showing that things are coming off from October to December. So, how has, let's say, January progressed in terms of the hospital occupancy?

Vivek Goyal: So, January, it is slightly down and a major reason is basically the high winter and this farmer agitation also has impacted because of the people from other states are finding it difficult to leave the metro. So, January was slightly down. COVID occupancy is continuing to seeing a declining trend.

Shyam Srinivasan: Got it, sir. And last question is on the acquisition of the JV. So, just want to understand the reason for us looking at this now. This has been a JV for us with quite some time, so just trying to understand the timing. And how is the funding for this, sort of INR 350 crores, how are you going to fund it?

Anand K.: Okay. This is Anand here. So, this clearly has been with us for the last 10 years. But what we have seen is that a sufficient network has been created and we see an opportunity for us to consolidate this and grow the margins further as well as use this capacity that has been built, not only in Kerala but also across South India. So, because if you see in our business salience, the south was the lowest. So, even though we are one of the companies which are having an equitable distribution of business revenues across the country, out of this, the lowest percentage is coming from south. So, once we do that, we can consolidate our position in south where we will have a good revenue stream from south, which is actually we will become a number one player in South India, as well as we will be able to drive a lot of synergies because of this unit being there in south across all the states in South India.

Vivek Goyal: Yes. So, funding part is basically, this acquisition is done by SRL, they have the cash balance lying. Plus, there will be around INR 100 crore debt, which is a refund that we will be doing. So, total allocation as we disclosed is of INR 350 crores in total for 50% stake. And it is partly funded through debt, and the rest is all cash.

Shyam Srinivasan: So, when we consolidate this in, let's say, whatever, fiscal 2022 let's assume, right, we should look at the fiscal 2020 run rate of growth? Or should we look at the nine months seems to be much higher, right, whatever, INR 250 crores, I thought? So, how should we look at the profitability of this business post, let's say, in fiscal 22? I am talking about the acquisition.

Anand K.: So, I think in the fiscal 2022, it's much higher. So, we don't have to look at the FY 2020 numbers, because in fiscal 2021 itself, apart from the contribution from COVID, 99% to 100% of the business has been recovered on the non-COVID side as well in the DDRC. So, that gives us a good hope. And also, we have also seen that many of the centers which were opened in the last two years which were contributing to lowering the profits in the FY 2020, have broken even this year. So, that means we can look at much different margins and higher revenues in FY 2022.

Shyam Srinivasan: Anand, just to clarify, off this INR 205 crores, how much is COVID?

Anand K.: INR 205 crores?

Shyam Srinivasan: The nine-month number for the JV, how much is covered revenues?

Anand K.: Okay. For the nine months, maybe about 45% to 50% is for COVID revenues.

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

Nitin Agarwal: Just continuing on SRL. I mean, when we look at the data, our ex-COVID business has still shown a decline in this quarter, while most of our peers seem to have grown on the business as of the non-COVID business. So, any particular reason why we have still not really caught up on growth in this business on the non-COVID part?

Anand K.: As a whole, as a quarter, we have recovered about 94% of our non-COVID business. Having said that, if you actually look at our North and East as a performance, Northeast and Central regions, so we have actually grown overall by about 38%. And we have seen a growth of about 10% to 12% on the non-COVID revenues as well. But since we also have components of hospital business and the international business and corporates, which were also significant contributors last year, so those revenues have not recovered to the full extent. So, that is the reason, overall, we are not able to show any growth in this, but a recovery of only 94%.

Nitin Agarwal: Got it. And sir, with the trends that you are seeing in the quarter, I mean, is it fair to assume that we should be able to get back to normalcy on FY 2020 numbers by the time we get into FY 2022?

Anand K.: Very much.

Nitin Agarwal: Okay. And sir, on the DDRC transaction, does it operationally also add, I mean, is there a possibility for operational improvement in the combined business once we have taken over about 50% stake? Or really nothing much changes on that account?

Anand K.: No. Much changes will happen because, operationally, we will be putting our systems there and there will be a lot of integration happening in terms of operating, in the sense of how the lab is being operated. So, whether it is standardization of equipment, standardizing procedures and also optimizing the cost and bringing test menu on par with SRL and trying to rationalize and synergize between these two entities. So, that will lead to better operational efficiencies.

Nitin Agarwal: Okay, sir. And sir, just last bit on the realizations on the non-COVID business. There we have seen an improvement coming through over the last couple of quarters, and that's been for across the industry peers also. Some of it has probably been attributable to higher component of home collections. But sir, is there anything else that you are seeing in the environment which is leading to a delta in the revenue for the non-COVID revenue realization per sample? And is it sustainable? And does it have an impact? Does it have a flow-through even on your profitability for the industry?

Anand K.: Yes. Even we have seen a growth in the non-COVID average revenue per test, which was 333 in Q3 FY 2020, whereas 382 in Q3 FY 2021, which means the growth of about 15%. So, this is, I think, primarily driven by, one, our B2C salience has improved from what it was 42% last year Q3 compared to 46% this Q3. And our home collection revenues numbers have doubled, so naturally we get a higher ticket size on home collection. And we also see that from the hospitals and from our regular clients the number of tests, the test mix has changed to specialized to some extent. And we have also seen an off-take of preventive health packages during this quarter, which was probably not there during the previous two, three quarters. So, that also helped us to improve this average revenue per test.

Nitin Agarwal: Sir, is it fair to assume this 380-odd now, as you mentioned, this becomes a new base for us to grow on? Is it fair to assume that?

Anand K.: I think the trend will continue because we have seen in the Q2 of FY 2021 it was 352, and it has become 382 in Q3 of FY 2021. So, we will have to see how we progress it.

Nitin Agarwal: Okay. And lastly, sir, on the hospital business, if I can squeeze in the last one there. You talked about reinitiating the CAPEX expansion plans. So, any specific area that you have in mind when you take a three year view of businesses where we are looking to reinvest, start our CAPEX investments?

Vivek Goyal: Yes. So, hospital business CAPEX is well as per our plan, so we are not deviating from that. We have just slowed down in the first quarter of the current year because of the pandemic, and post that we have initiated that. So, we are well on target of that 1,300 beds in next four financial years.

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

Neha Manpuria: On the hospital cost, if I remember correctly, at the beginning of the pandemic our cost per quarter was roughly about INR 380 crores to INR 340 crores. And if I look at the cost in this quarter, including ARPOB, you are still at above INR 770 crores. So, how much of this will come back? Will we go back to that INR 830 crores, INR 840 crores number? Or now that we have the higher cost of Arcot Road, will we be at a much lower level once we enter into the next year?

Vivek Goyal: Yes. So, the cost will largely have settled apart from certain cost which I mentioned like sales and marketing costs and a little bit saving in the administrative cost. But having said that, in the current financial year, there is zero incremental which has been taken in the financial. So, next year there will be some incremental cost. And the cost-cutting initiative which we have taken, a part of that will nullify by this increment.

Neha Manpuria: So, essentially, next year, the cost should go back to what we were at pre-COVID levels plus the Arcot Road cost?

Vivek Goyal: Yes. And Arcot Road, next year the revenue should also go up.

Ashutosh Raghuvanshi: Not 100% of the cost will come back, but majority of it will come back. So, we can expect at least 3% to 5% getting shaved off.

Neha Manpuria: Okay. Understood. And Arcot Road, by when should we expect breakeven for that facility, sir?

Vivek Goyal: Breakeven, it will be year following next year.

Neha Manpuria: FY 2023?

Vivek Goyal: Yes.

Neha Manpuria: Understood. And for DDRC, we were talking about 18% margins in FY 2020. You already have 200 labs there; I know you mentioned synergies and expansion of test numbers. But how should we look at revenue growth there? I mean, is there scope to add more lab collection centers to the network? And by when do you think it can get to SRL level margins?

Anand K.: So, basically, this network has been created in the last two, three years. So, what we are seeing is that there is a lot of untapped potential left in that. And with a network of 200 labs, so we can have hub-and-spoke model of multiple more collection centers, which can be linked to that. And most important thing is, in the DDRC business what we found is 70% of the business is routine and coming through walk-in patients. So, there is a scope for increasing specialized business there. So, that will help us to improve the average revenue per test as well as getting businesses through other hospitals and labs, which has not been currently serviced by DDRC. So, that will help us to improve those numbers as well.

Neha Manpuria: And from an M&A perspective, given the market conditions for SRL and for the hospital business, do you think there are areas where you could possibly explore acquiring or buying more assets along with our 1,300 beds of the network expansion that we have planned for SRL?

Ashutosh Raghuvanshi: Yes. I think, opportunistically, we will look for projects. But one thing we are very clear is that it has to be within the geographies where we have a good presence and it has to be a metro kind of a market, I believe, A kind of market. However, what we believe is that our capital will be best spent on brownfield expansion of our existing facilities because that will give the quickest returns as well.

Neha Manpuria: And for SRL?

Anand K.: I think the same applies for SRL as well. So, we are looking at opportunities in territories where we are present. Currently, we have equitable presence across all the regions of India. So, wherever we are looking at assets which are more retail, which have higher B2C salience and which are driven by walk-in customers, and we look to that as an opportunity to launch ourselves in those markets. So, we are looking at Tier 2 cities as well apart from Tier 1 and metro cities. And all high-growth markets we will be keen to see if there is an opportunity to acquire any assets with SRL.

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

Pratik Mandhane: Sir, I had a question on the number of COVID beds reserved. So, we had like 1,250 beds reserved during September quarter, right? So, what is the kind of number of beds reserved as of now in January? So, what cases have been coming down and the occupancy for COVID beds has also been coming down.

Ashutosh Raghuvanshi: Yes. So, originally, as we said, 1,300 beds were dedicated for COVID patients. Now those restrictions have come down, both in Delhi NCR as well as in other states. And we currently have designated about 600 beds. The occupancy has come down dramatically on the COVID beds. So, over the next few months, I guess, we will de-escalate these beds also and get them into the normal stream. But currently, approximately 600 beds have been kept for COVID patients.

Pratik Mandhane: Okay. And sir, what kind of ARPOB, if you can say what kind of ARPOB are you making on the non-COVID business, out of the 1.58?

Vivek Goyal: Yes, ARPOB for non-COVID is above INR 1.75 crores per year.

Pratik Mandhane: It is about INR 1.75 crores.

Vivek Goyal: Yes. So, it has exceeded the ARPOB of the previous year actually, because this time the patient mix is who require higher end of care where the ARPOB is higher.

Pratik Mandhane: Okay. So, sir, partially, it's because of the mix change. And then what kind of price increases, I mean, how is it driven, is it also because of some price increase that we have taken, the non-COVID ARPOB? Or is it kind of entirely because of the mix change?

Vivek Goyal: Mix change.

Pratik Mandhane: Okay. And sir, I have one question on SRL as well. So, you mentioned that the business has recovered about 93.5%, 94% for the quarter. Any trend for the December or January, if you can just mention, how are the volumes shaping up in December and January Y-o-Y?

Anand K.: In December and January, also, we are continuing on the same trend. So, we have 95% in January.

Pratik Mandhane: Okay. So, it's not much different, it's similar to 95%. Okay.

Anand K.: Yes.

Moderator: Thank you. The next question is from the line of Shantanu Basu from SMIFS Limited. Please go ahead.

Shantanu Basu: Right. I have one question with respect to SRL. So, SRL has been gradually moving towards or getting more contribution from the B2C business, which has been your focus area. So, can you please throw some more light on it as to what steps are you taking to increase the B2C proportion of SRL's business, what's your strategy like? Thank you.

Anand K.: So, on the B2C front, what we are trying to do is to improve our salience directly with the customers. So, we are doing two important things, one is on the digital transformation, so we are looking at how we can use the web leads and to make more people use our services through our mobile app. That is one way by which it is coupled with home collection services as well as our network, which currently stands about 1,800 centers across the country. So, we are also looking at improving it on a monthly basis by adding more centers. So, we have a network which can complete the last-mile connectivity in terms of leading on to the patient. And we have accessibility in the form of web-based and mobile-based platforms where patients can request tests, where they can order for packages. So, all these opportunities we are creating for the patients on both these fronts as well. And apart from that, we are also conducting society camps and awareness programs so that we are able to penetrate in terms of providing preventive care services to these patients.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, my first question is for SRL. Anand, sir, can you tell us what is the opportunity lying us for this antibody test opportunity you see ahead? Is there any big business we can look into? And do we include any new test in our portfolio?

Ashutosh Raghuvanshi: So, on the first question on the antibody test, in the current immunization program, which is started by the government, they have not looked at antibody test at this point of time. But I am sure when the vaccination program is expanded to the general public, the requirement for antibody test will also be there because with the kind of herd immunity setting in across in various markets, it may be important for people to find out their antibody levels prior to vaccination, and post vaccination efficacy also needs to be checked. So, I feel that there will be a requirement for these sets. And going forward, in the second and third quarters of FY 2022, we will see more traction on these sets.

Sanjay Shah: And so about any new test we are adding to our portfolio for this diagnostic to increase our business?

Ashutosh Raghuvanshi: Yes. So, we are adding a lot of tests on the next-generation diagnostics platform, which are related to the NDS platforms that we have, which will be on reproductive health, pre-natal testing, as well as on Oncogenomics.

Sanjay Shah: That's great, sir. And congrats for a good number, sir. Sir, my second question is for Dr. Raghuvanshi. Sir, can you say something about this vaccination drive? Do we see any opportunity for private hospitals for giving this vaccination whereby we can have a good business out of that?

Ashutosh Raghuvanshi: Yes. So, right now, it is completely controlled by the government sector. And I think my estimation is that only by March end we will have clarity about the availability of vaccines for private sector. Once it is available, I think there may be an opportunity there. However, the prices still will be controlled by the authorities. So, I don't see this as a big opportunity, but it is one of our responsibility. So, we are all prepared to deliver the vaccines as and when it is available.

Sanjay Shah: So, what opportunity do you see for this medical tourism after this vaccination card and all is available? What's your view on that, sir? How Fortis, in particular, can encash on it?

Ashutosh Raghuvanshi: Yes. So, 50% of the original business has already come back and we expect that trend to gradually improve. Many of the GCC countries, etc., also because of their economy is getting impacted, I think the demand for medical tourism to India would, in general, be high. And we expect that it should recover completely within next couple of quarters and maybe even exceed what it used to be earlier. So, definitely, this is an area of opportunity for us just like all other players.

Moderator: Thank you. The next question is from the line of Siddharth, a retail investor. Please go ahead.

Siddharth: Sir, any update on the open offer for IHH, open offer thing, we have a case with Supreme Court? I heard like this is getting postponed up to 15, right? That's my first question.

Ashutosh Raghuvanshi: So, 10th end of February we have a hearing next, on Wednesday.

Siddharth: Okay. So, next one, sir. So, if everything goes fine, let's say, again it's an assumption, right. So, is it like IHH will do a new open offer price? The reason I ask that is, when they did it, actually the risk is very minimum, right, very high because there are a lot of unknowns. So, that time IHH came up with INR 170, right? So, now all other things have started, and Fortis is in a very good shape now, so I am saying that a lot of good work, hard work has gone into this, will IHH be like going with higher number for the open offer?

Ashutosh Raghuvanshi: I am sorry. I will not be able to comment on behalf of IHH.

Siddharth: Okay. So, are we confident, sir, like on the Supreme Court thing? Again, rough guess, sir, any rough estimation that we know like that before when the case will be over?

Ashutosh Raghuvanshi: Difficult to judge, but we have good legal representation, and we have full hope in the courts giving us a correct decision.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Congrats on the good set of numbers. I wanted to know how do you see the profitability of the hospital segment going forward as the cost controls start increasing. And also, where do you see the diagnostic business because the contributions from COVID will come down going forward.

Vivek Goyal: Yes. So, I think the overall profitability will go up, if I can say because of the COVID businesses started coming down and non-COVID business has started picking up. And as Dr. Raghuvanshi mentioned earlier, the international business is also supposed to be coming back when things normalize. So, all this will be having a positive impact and we will be able to do some structural cost-saving initiatives, which will give us some sort of saving that will help us improving the profitability further.

Charulata Gaidhani: Okay. And what is the position on elective surgeries currently? Have they come back, I mean, in proportion to pre-COVID levels?

Vivek Goyal: Not yet. It is still around 70% to pre-COVID levels.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Fortis management for their closing comments.

Anurag Kalra: Thanks, Lizzan. Thank you, ladies and gentlemen, for joining us on the call. Gaurav, my colleague, and I are available to take any clarifications or queries you may have. Thank you and have a good day.

Moderator: Thank you. Ladies and gentlemen, on behalf of Fortis Healthcare, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.