



“Fortis Healthcare Limited
Q1 FY 2022 Post-Results Conference Call”

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*Fortis Healthcare Limited
August 16, 2021*

Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Q1 FY 2022 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. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anurag Kalra – Senior Vice President, Investor Relations at Fortis Healthcare Limited. Thank you and over to you, Mr. Kalra.

Anurag Kalra: Thank you, Ali. A very good afternoon, ladies and gentlemen. And welcome to Fortis Healthcare's Quarter One FY 2022 earnings call. The call is being chaired by Dr. Ashutosh Raghuvanshi – our MD & CEO; with him we have our Mr. Vivek Goyal – our Chief Financial Officer. From SRL, CEO of SRL – Mr. Anand joins us; and he is accompanied by Mr. Mangesh, who is the Chief Financial Officer of SRL.

I hope everyone has got the press release and investor presentation that we had released on Friday evening. And I am going to request Dr. Raghuvanshi to start with some comments on the business, followed by Anand who will talk you through the highlights of 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 morning, everyone. And welcome to our Q1 financial year 2022 earnings call. Thank you for joining us on the call today. I hope you and your families are safe and well in the aftermath of second wave, which has now significantly declined.

Before I move on to the performance for the quarter, a word again of thanks to the endless service provided by our doctors, medical staff and non-medical staff during the second wave. It has been over a year now and COVID has seen peaks and troughs. This time around, given the intensity of the pandemic, we faced severe challenges in terms of some medical resources like oxygen. Despite these, our workforce made all efforts to ensure that COVID patients were treated and cared for as best as possible. We are also actively supporting the government to accelerate vaccination efforts across the country with 24 of our facilities providing COVID vaccinations. I would also advise a word of caution on a possible third wave, which is currently being seen in some nations globally. While we are relatively better prepared, having augmented our medical resources, the impact, if any, on the third wave would also depend on its intensity and the spread of transmission.

Let me begin by providing you an update on the Supreme Court matter. As you know, all hearings concluded in the first half of May, and the courts were on a summer vacation post that. They have reopened towards the month of July and we eagerly await judgment by the honorable court, which is expected sometime soon, probably before the end of next month.

With this, let me straight away go to the performance for the quarter. I am pleased to state that despite the first half of the quarter witnessing a serious second wave of the pandemic, the later half has witnessed a speedy recovery with the non-COVID revenues showing great traction. This is in contrast to the first wave wherein despite the fall in COVID cases, elective procedures were slow to begin and took a while to catch momentum. The performance for the quarter in both the hospitals and the Diagnostics business has been aided both by the volume of tests and patients related to COVID, as well as the faster bounce back of the non-COVID business.

Coming to the financial performance for the quarter. At a consolidated level, we have recorded healthy revenues of INR 1,410 crores, with 70% coming from Hospital business and 30% from Diagnostics. The revenue for the quarter are significantly higher than Q1 financial year 2021 and also better by 13% versus quarter four of financial year 2021. Our overall EBITDA margins for the quarter are approximately 20% versus negative margin in Q1 financial year 2021 at around 16% margins in quarter four of financial year 2020.

Our profit before tax prior to exceptional item is robust INR 180 crores versus a loss of INR 209 crores in the Q1 of last fiscal. This is also a 64% increase over quarter four of financial year 2020. At the PAT level, we have reported a PAT of INR 431 crores versus a loss of INR 188 crores in the Q1 of last fiscal.

We continue to maintain a healthy balance sheet with a net debt-to-EBITDA ratio of 0.9x versus 1.04x at the end of Q4 of financial year 2021. Our net debt-to-equity ratio is also similar to quarter four of 2021 at around 0.14x.

A few comments on the Hospital business. Revenues were at INR 1,006 crores versus INR 488 crores in Q1 last fiscal, and versus INR 982 crores in quarter four of financial year 2021. EBITDA margins were at 15% at INR 50 crores versus a loss of INR 85 crores in Q1 of financial year 2021. We saw an overall occupancy of 65% as compared to 37% in Q1 financial year 2021, and 64% in quarter four of financial year 2021. More importantly, non-COVID occupancy improved from 30% in May to 47% in June and continues to become stronger in the month of July and the trend continues in this month as well. This shows that business return to normal is rather quick compared to the first wave.

Our ARPOB has also shown a steady improvement with the overall ARPOB at INR 1.62 crores versus INR 1.51 crores in Q1 of financial year 2021 and INR 1.7 crores in Q4 of financial year 2021. Despite the high COVID volumes, the ARPOB has been robust with the non-COVID ARPOB growing 8.5% to INR 1.97 crores versus Q4 of financial year 2021. Our overall COVID revenue contribution to the Hospital revenues stood at 27%. In addition to the above, we have maintained our focus on various cost optimization levers and continue to look at a post of matrix, including amongst other things, pharmacy procurement costs, medical consumables, consumption matrix, and other costs related to general administrative expenses.

Cost has continued to be a perennial area of focus and value addition for the team. With the speedy recovery witnessed in the latter half of the quarter, we have maintained traction on our growth and investment plans. Our bed expansion plans are underway with the current plan to add 1,200 to 1,300 beds over the next couple of years. These would all be Brownfield expansions. We have initiated investments in a host of medical equipment, including Cathlabs, neuro microscopes, new bone marrow transplant unit, oxygen generator plants in selected facilities. In addition to the above, we continue to strengthen our clinical workforce by adding eminent doctors in this specialities of pulmonology, oncology, cardiology and orthopaedics.

I am also quite pleased to share with you that our Diagnostics business is now on a firm footing. The business recorded robust revenues of INR 441 crores, aided by both COVID and non-COVID test volumes, and the consolidation of our SRL DDRC joint venture in which we have now acquired the balance 50% stake of the joint venture. Diagnostics business EBITDA margin for the quarter were at a robust 31% versus negative margin in the corresponding previous quarter, and margins of 22% in the fourth quarter of financial year 2021. While Anand will take you through the performance of the business for Q1, I think our Diagnostics business is now well poised to further accelerate its growth and profitability.

The DDRC SRL JV acquisition has fortified our presence in Kerala as a market leader and also helps SRL consolidate its pan-India position as the second largest diagnostics chain in the country by revenue. With this acquisition, we have also significantly strengthened our B2C business contribution, which is now at a healthy 56% versus 45% in Q4 financial year 2021. More for Anand to elaborate on later.

Just some concluding thoughts before I wrap up. I think we have seen a challenging start the financial year 2022 but have seen the business rebound quickly. And I expect the recovery momentum to continue, allowing us to show progressively better quarters going forward. The industry has further evolved with the new healthcare delivery model, a heightened focus on digitalization and increasing opportunities for growth and consolidation. We remain acutely aware of all these and believe are well placed in terms of our infrastructure and capabilities to partake in these, keeping in mind our long-term strategic direction.

I would now hand over to Anand, to take you through the Diagnostics business. Thank you. Over to you, Anand.

Anand K.:

Thank you. Thank you, Dr. Raghuvanshi. And a very good morning to everyone on the call. Thank you for joining us today. On behalf of SRL Diagnostics, I warmly welcome you all to our Q1 FY 2022 results conference call. Some of you may be experiencing new cases of Coronavirus around you or would be coming out of a very difficult period due to the rising cases in some parts of the country. So, I wish you all well. And with all humility and hope, I believe the future holds better days for everyone around the contrary.



*Fortis Healthcare Limited
August 16, 2021*

Looking at our Q1 numbers, I can only say that we are coming off a very strong first quarter where our revenues grew by 214% versus the same quarter last year to reach INR 441 crores, which is our highest ever recorded quarterly revenue. Our EBITDA stood at INR 135 crores in absolute sum, and in terms of margins at 30.6% for the quarter, which is also the highest ever achieved so far. I am also particularly happy to let you know that we recorded our highest level non-COVID revenues this quarter, these were primarily driven by higher volumes. Pandemic has made the world realize the importance of diagnostics, not just in terms of advances in technology, but more in terms of public perception of diagnostics as a critical vertical in healthcare. This has resulted in a growth spurt in preventive packages. We have seen an increase of 2.5x in our preventive care portfolio versus Q1 of FY 2021.

Being a true pan-India player, with equitable geographical distribution, we were able to serve patients across the country and conducted 1.6 million COVID-19 RT PCR tests, the highest in the private sector. At the same time, SRL recorded the highest ever B2C contribution of 54% in this quarter, driven by digital initiatives and home collections. Throughout the pandemic, SRL also supported their channel partners to grow their businesses by promoting their services via our digital initiatives.

On the M&A and partnership front, in Q1 FY 2022 we completed the acquisition of our balance 50% stake in DDRC SRL Diagnostics Private Limited. This was in line with our strategy to increase our market share in the diagnostics space, especially in the southern part of the country. Operationally, DDRC has been fully integrated into SRL. This acquisition has made SRL a leader in the south amongst national players, and a lab chain with the highest number of pathology labs across the country. We also became the official lab diagnostics partner of the Indian Olympic Association for the Tokyo 2020 and Paris 2024 Games. As a part of our collaboration, we conducted pathology tests of all players representing India, coaches, media and government officials travelling to Tokyo for the Olympics.

The COVID-19 pandemic has no doubt accelerated the adoption of digital efforts industry wide, making it essential for healthcare organizations to adopt new technologies. Technology and innovation, however, is not new for SRL. We have always been early adopters of technology in our category. But now we have seen its adoption has increased significantly across the board and that can be a major growth driver in the coming years. Therefore, to improve our customer experience, we took some digital initiatives which resulted in significant growth in home collection. We generated approximately INR 30 crores of revenue through one collection channel and conducted 2.35 lakhs home visits in Q1 FY 2022, which is also highest our quarterly number. We took multiple initiatives to expand our own collection reach and continue to do so. Currently we are providing home collection services in 140 cities across the country.

Recently, we also revamped our website into an e-commerce site with PWA for a seamless user experience. Our new website comes with features like chatting with experts, searching SRL

centre near you, booking multiple tests, booking home visits, tracking phlebotomists real bank, to name a few. We have enrolled ourselves for National Digital Health Mission and are collaborating with them as a health information partner to collect and verify unique health IDs, link pathology reports with health ID, and digitally share pathology reports with other health information users based on patient's consent. All these initiatives around customer centricity and digital transformation will help us build an organization that is technologically future-ready and able to meet the changing expectations of our patients, clinicians and employees in the post COVID era.

All along, we have also worked on improving and retooling our doctor engagement programs, which have helped us forge stronger ties with clinicians. The pandemic has no doubt highlighted the need for extensive RT PCR testing to contain the virus. And when during the second wave, diagnostic facilities were under severe stress, it only affirmed our confidence that we need to continue our investments in workforce and technology. To cater to the growing demand and prepare ourselves for the third wave, we expanded our existing testing capacity and opened more centers and drive through sites to collect samples across the length and breadth of the country. We have engaged with corporates in the travel and entertainment sector this quarter to support their safe return to work. As of date, we have built a network of 16 RT PCR labs across the country. And in Q1, we commenced 111 new customer touch points across the country. Additionally, to support our government in the National COVID vaccination program, we have now started vaccinations for general public in four of our centers.

Over the last decade, genomics has acquired a prominent position within clinical medicine. We have established an advanced Centre for Genomics at our Mumbai reference laboratory, that can provide solutions to clinicians through precision diagnostics, in the areas of oncology, reproductive health, infectious diseases and inherited disorders. Apart from this, in Q1, we also launched several new tests, like COVINow, gastro panel, muco real, funghi real, clinical exams, gene rearrangement studies, just to name a few.

Looking back at the quarter, I am happy that we continue to deliver on our mission to contribute to the well being of the communities we serve, by ensuring the continuity of our operations during the COVID-19 second wave. I would like to sincerely thank my colleagues at SRL Diagnostics for their incredible efforts and commitment during these tough times. We also continue to make good progress on our strategy execution by enhancing our development pipelines of both routine and specialized segments, launching new tests, making inroads into newer set of markets, driving productivity and accelerating our innovation agenda. We are committed to improve customer experience through data-driven actionable insights, enabling a convenient one-stop-shop for all our customers' diagnostic needs. We are well positioned to continue our momentum delivering profitable and sustainable growth in the coming months.



*Fortis Healthcare Limited
August 16, 2021*

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

Anurag Kalra: Thank you, Anand. Ladies and gentlemen, we will now open the floor for question-and-answers. Moderator, if you could please take that.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Priyank Gupta from Guardian Advisors. Please go ahead.

Priyank Gupta: Congratulations to the team for turning around the business and handling this COVID wave for the whole country, my heartiest congratulations. My short question is regarding the Diagnostics business. If the management can help us understand the diagnostics businesses are getting very good valuations now, so any of the investors or the companies looking at monetizing any of its stake in that business?

Vivek Goyal: So, for us, it remains a very strategic business. Other private equity investors are there, they may be doing their own study. But from the company perspective, Fortis side, this will remain a very strategic asset for us, and there is no plan for divestment.

Moderator: Thank you. The next question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: Can you share a little more granular details on your bed addition plans over the next couple of years? So, how many beds are going to be operational in which facilities? And what is the growth and the maintenance CAPEX for the next couple of years?

Vivek Goyal: So, we have chalked out around 1,300 beds which we will be adding to the facilities but in the next three to four years' time. And most of these beds, majority part of these beds expansion is coming in the NCR region in all of our major facilities in NCR, where the adjustment land parcel is available and the units are operating at 70% plus occupancy, and we are planning to expand it. Apart from that, there will be a couple of other unit like in Mumbai and Kolkata where there are certain building which was under completion which we are getting completed and making the bed operationalize. As regard your other coastal of maintenance CAPEX every year, so we planned around Rs. 150 crores every year as a maintenance CAPEX. It is slightly on higher side because the company was not able to spend much prior to 2019, there is a lot of accumulated maintenance CAPEX and this we are rationalizing based on the priority of the particular unit. I hope I answered your question?

Amit Khetan: Yes. And what is the growth CAPEX for the next two years?

Vivek Goyal.: Growth CAPEX will be in the range of Rs. 200 crores every year.



*Fortis Healthcare Limited
August 16, 2021*

- Amit Khetan:** And can you share the occupancy levels for the month of June and July as well as the non-COVID occupancy for July?
- Vivek Goyal.:** So, the occupancy for the quarter was 65%, for July it is 61% because the COVID occupancy has come down. But we are sure that occupancy level from 61% will go further because of the surgical and non-COVID work has started coming, and we expect a very good growth in that.
- Amit Khetan:** And lastly, your payer mix has improved significantly quarter-on- quarter, which scheme patients contributing only 16% how sustainable is this and would this be the major contributor to the higher non-COVID ARPOB?
- Vivek Goyal:** Our endeavor from beginning was to increase the cash and TPA business, so we are successful to some extent and continue on that line. And mind you, this is after taking into account the decline in the international business which has substantially come down because of the traveler restrictions and flight restrictions in India. And despite that, if we are able to achieve this, so there's no reason to doubt that in future we will not be achieving this.
- Amit Khetan:** Sure. So, the 16% of scheme patients is sustainable?
- Vivek Goyal:** Yes, 15% to 17%, as I said there is a growth plan also to some of the units we are expanding the capability, there initially we may have to take the certain scheme patients.
- Moderator:** Thank you. The next question is from the line of Rushabh Sharedalal from Pravin Ratilal Share & Stock Brokers. Please go ahead.
- Rushabh Sharedalal:** Just one question on this exceptional gain of Rs. 306 crores that you booked in this quarter. So, what is this exactly, if you can explain it in a little bit of detail?
- Vivek Goyal:** So, we can explain this. So, as you might be aware that our subsidiary SRL Limited was having a joint venture in Kerala in the name of DDRC. So, this entity, we were owning 50% and 50% was owned by our JV partner. In April 5, 2021, we have acquired the balance 50% stake from the JV partner. As per accounting standard, we need to reevaluate our investment when we are changing JV to the wholly owned subsidiary. And as a result of which, we have to value our existing 50% investment in DDRC at the fair value, which comes to around Rs. 350 crores fair value, and the difference is the carrying value and the fair value is coming in the P&L.
- Rushabh Sharedalal:** So, it means that the cost of our acquisition for this 50% we have acquired at less than Rs. 300 crores, that difference is that Rs. 300 crores, right?
- Vivek Goyal:** So, what I said, for 50% acquisition we have paid Rs. 350 crores, the existing 50% was carrying in the books at around Rs. 43 crores, which includes the initial investment plus accumulated

reserves. So, that value we need to revalue as per accounting standard and the difference in the value was recorded as exceptional gain in the P&L.

Rushabh Sharedalal: Okay. So, 100% of the revenues of DDRC would now be included in our consolidated financial statement, right?

Vivek Goyal: Yes, this quarter includes the DDRC revenue also.

Rushabh Sharedalal: So, what exactly is that number and what is the PAT number if you can share, for DDRC particularly?

Anurag Kalra: So, the revenues for DDRC in the quarter was about Rs. 69 crores, their margins at the EBITDA level are more or less in tune with the SRL margins.

Moderator: Thank you. The next question is from the line of Ayush Pansari from Allegro Capital. Please go ahead.

Ayush Pansari: I have a question on the same DDRC acquisition, what I understand is 50% was held by Fortis Hospitals and the additional 50% which has been acquired, has this been acquired by SRL or has this been acquired by Fortis?

Vivek Goyal: No, the 50% was owned by the subsidiary of SRL, existing 50% was also owned by the existing subsidiary of SLR D, and that subsidiary only has acquired a balance of 50% stake.

Ayush Pansari: So, the entire DDRC acquisition has been made by SRL?

Vivek Goyal: Yes, the entire DDRC to SRL.

Ayush Pansari: One more question is, what is the additional IndAS 116 impact because of DDRC? Like I understand the total impact was Rs. 50 crores, Rs. 25 crores was hospital and Rs. 25 crores was diagnostic broadly, what would be the additional impact because of DDRC consolidation?

Vivek Goyal: That will be mainly, except for this one-off item which I have explained in detail, there are certain levies which need to be having the 116 impact. Mangesh will be able to comment on this.

Mangesh Shirodkar: So, we are evaluating that, this is a preliminary PPA that we have done right now. And we will be coming up with the exact impact within a few quarters. So, this was a preliminary impact because of the acquisition, as per schedule for the PPA. Estimate we don't have right now, so it will be a very small amount, it won't be a big amount.

Ayush Pansari: Okay. So, no major impact on EBITDA because of DDRC?

- Mangesh Shirodkar:** No.
- Moderator:** Thank you. The next question is from the line of Adi Desai from York Capital. Please go ahead.
- Adi Desai:** Congrats again on excellent quarter and historic highs in EBITDA across both segments. My question is on the SRL, just wanted to get a sense on the organic revenue and EBITDA growth if we exclude the impact of the acquisition, what was the real organic growth we saw both from a year-on-year and quarter-on-quarter basis, excluding the DDRC kind of acquisition over here?
- Anand K:** Without DDRC we have actually grown by about 21%.
- Adi Desai:** Is that on a Q-on-Q or Y-o-Y basis?
- Anand K:** Q-on-Q by 164%. If you compare it, I was saying more like if you compare it with the Q1 of FY 2020, then it will be 21% growth.
- Adi Desai:** Got it. That's useful. And then on that, I mean, one more follow-up question was on the non-COVID volumes, which as you kind of highlighted have increased significantly Q-on-Q. What was the non-COVID volumes excluding DDRC over here? So, non-COVID volumes last quarter was 6.9 million, and non-COVID volumes for this quarter is 9 million. So, if I exclude that the DDRC volumes over the volumes for non-COVID that we saw this quarter. Happy to take this offline as well. I just wanted to get a sense on organic growth and profitability and revenues and volumes.
- Anand K:** Right. It is Rs. 284 crores without DDR.
- Moderator:** Thank you. The next question is from the line of Prateek Mandhana from Nomura. Please go ahead.
- Prateek Mandhana:** Sir, one question on the DDRC bit, you told the revenue is Rs. 69 crores, is that the gross revenue or the net revenue that there is?
- Anand K.:** It's the gross revenue.
- Prateek Mandhana:** So, sir, what would be the net revenue number for DDRC, if you can share that?
- Anand K.:** From the Fortis point of view, there is no specific net revenue there, because it's not part of that revenue generated from Fortis, we only have net and gross only for Fortis Limited revenues.
- Prateek Mandhana:** And what would be the COVID and non-COVID split in the DDRC revenue?

- Anand K.:** 40% of the revenue is from COVID, but specifically if you see the pricing of COVID in Kerala was very high in the month of April, but in May and June it has significantly come down. So, I think going forward also it will be much lesser compared to what it is now in terms of percentage of revenue.
- Prateek Mandhana:** And sir, on the margin bit, what should be like the sustainable margin? Because this quarter we had seen the margin had expanded mainly because of operating leverage, it has gone up by 30% odd, so what should be the sustainable margins for the SRL business?
- Anand K.:** So, the sustainable steady state margins would be somewhere around 22% to 24%.
- Prateek Mandhana:** Okay. And just some of our peers are having margins somewhere between 25% to 30%, so can we reach those kind of margins maybe some years down the line?
- Anand K.:** Yes, we are moving forward to that in that direction. So, I think in the next couple of years, we will be reaching those kind of margins.
- Prateek Mandhana:** Okay, thank you. And sir, one question on the vaccine bit, so how much revenue was generated in the hospital from the vaccination?
- Ashutosh Raghuvanshi:** The total vaccine revenue for this quarter was Rs. 45 crores.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** The first one on the Hospital business, I think in the opening you said that July and August you are starting to see non-COVID come back, more surgical come back. So, what's the outlook in terms of occupancy and revenue mix as we look forward? I know you also cautioned us about a potential third wave, but if you were to look at over the next nine months, what should we be keeping in mind? And a related question on the hospital is on the margins. I think, as per your presentation, if I were to strip out even the Chennai part, margins came off Q-on-Q between 4Q and 1Q 14.7%. So, you called out Rs. 45 crores, but is the EBITDA lower there from a margin perspective? Also, COVID in the mix, has it also diluted margins?
- Ashutosh Raghuvanshi:** Yes. So, as far as the occupancy levels currently are concerned, are in the ranges of between 60% and 70%, fluctuating. So, I expect that to stabilize to 65% plus within this month, and certainly from next month over. Now, as compared to the previous wave, it was very different this time and it is likely to remain different even if there was to be a third wave. And we believe that the occupancy levels should remain generally within those ranges. So, with that in mind, and I think from the numbers we have been able to achieve during this quarter, I believe is that even though they may be a third wave, but it will not have too much impact on our business unless until there is something which is totally unusual, that is regards to the possibility for the

next few months. And also, we should see the gradual resumption of the international business which should also give a upside during the third quarter for sure. And then if there is no third wave, then the fourth quarter should make it even better.

As far as the profitability from COVID is concerned, it's certainly lower because of the fact that there are price controls etc., and ARPOBs typically are lower in the COVID business. However, if we were to take out just the vaccine part of it, then within that the profitability is about to the tune of about 28% to 30%. So, that itself is not a bad business. However, there is a lot of problems in terms of supply of vaccines to the private sector now, and demand in private sector for vaccines has also come down. So, that is why it may not be a significant number going forward both either in terms of top-line or bottom-line as far as the COVID is concerned.

Shyam Srinivasan: Thank you, Dr. Ashutosh. Just want to get one margin outlook on a longer-term basis. I recollect in the past we have talked about it moving towards 16% to 18%. So, can you highlight us whether that trajectory can come through? And what would be some of the drivers for that?

Ashutosh Raghuvanshi: Absolutely, you see, if we compared with the sequential quarter, from quarter four to quarter one, because of the COVID wave we have seen that the other profitability has not grown. However, in spite of the fact that 27%, 28% business came from COVID the profitability has remained more or less in the same range. So, we believe that this is only as the things normalize the profitability profile will only improve from here on. As far as the another triggers for that are concerned One of them was mentioned earlier, which is the favorable patient mix and we have kept our scheme business always limited below 17%. And we aim to keep it between 15% and 17%, except when we are having some hospitals where the new capacities may be created. But at a blended basis, we always like to keep it at that level. So, that is one of the things.

The second thing is, for last one and a half years, because of the uncertainties, there were no pricing levers used at all. So, there would be some bit of pricing initiatives which we will be doing. Other than that, we are working on some of the supply chain initiatives that would bring in some things on the saving side.

Shyam Srinivasan: Just one last question on the SRL piece. So, if you look at you know the COVID contribution, about 25%, 26%, so about Rs. 115 crores I would just back it out. So, how are we seeing this quarter, maybe cases may have come down, testing still continues, so just understand 2Q, 3Q, at least 2Q how should we think about COVID contribution? And when you guide from 50% today to 22% on a longer term or a more sustainable basis, where's the thing that comes off, I am just curious, is it is the COVID revenues are significantly higher margins, and that is where you are trying to now support?

Anand K.: There are two parts to your question, Shyam. So, first is on whether the COVID as a percentage of total revenue contribution will come down. Yes, it's definitely coming down and it will come

down. So, we think that it will be somewhere in the range of 14% to 15% of our total revenues. In terms of, as you rightly said, there is an operating leverage that has taken our EBITDA to higher levels in this quarter. We hope that on a steady state basis we will be able to be somewhere between 20% to 24% for the rest of the month. This is primarily not just driven by COVID related stuff, because what happens in COVID is that it's not that COVID also has operating leverage, the volumes are high so we get a higher EBITDA from there. But we also have to understand that we are overall going back to our original ways of how many centers that we have in all these centers coming up to their optimal performance.

Moderator: Thank you. The next question is from the line of Rakesh Jhunjunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjunwala: Congrats on a fine result. I wanted to ask you that in normalized circumstances, what kind of occupancies do we aim for. Suppose there is no COVID, and foreign travel is allowed, so what kind of occupancy we can target, 75%, 80%, 85%, what would be reasonable?

Ashutosh Raghuvanshi: Absolutely, we are targeting anything around 75% as an optimal occupancy level. Beyond that, I think the hospitals get overcrowded but 75% is what we are targeting in next three quarters.

Rakesh Jhunjunwala: And in your bed addition, you have two main capital expenditures, one is you are adding beds and you are adding equipment,; how many beds expansion have you planned for the next two, three years?

Ashutosh Raghuvanshi: The total bed expansion we have planned is about 1,300 beds which will come over a period of two to three years. Some of that may go into the third year and some of it, if we get any delays on the project site, might go up to the fourth year. But all this should conclude within next three years. Now, this has spread across some of our hospitals, mainly few hospitals where significant capacities are coming, like for example in FMRI Hospital in Gurgaon, we will have about 50 beds added, in our the Noida facility we would have about 160 beds added, we would have in Mulund about 80 beds and about 90 beds in Anandpur in Calcutta. These are some of the larger capacities. And then some of the other hospitals like Shalimar Bagh etc., also there will be better. Now as far as the major equipment is concerned, it is primarily focused towards oncology speciality, we are looking for some newer technologies as well which we intend to do within this year. We want to develop our FMRI centre as a destination oncology center. So, we are looking at focusing on cellular therapies as well as advanced radiation therapies which are relatively new.

Rakesh Jhunjunwala: So, let's say oncology is a very profitable field, but out of 1,300 beds how many beds are going to be in existing premises?

Ashutosh Raghuvanshi: All these are an existing premises.



*Fortis Healthcare Limited
August 16, 2021*

Rakesh Jhunjhunwala: So, that will allow you to expand in lower cost in a faster time?

Ashutosh Raghuvanshi: That is correct.

Rakesh Jhunjhunwala: And how much is the medicine inflation a year? Last quarter asset realization was Rs. 1.62 crores per bed?

Ashutosh Raghuvanshi: Yes, sir.

Rakesh Jhunjhunwala: Is it going by 5?

Ashutosh Raghuvanshi: So, for the non-COVID segment, our ARPOB actually improved by about 8.5%.

Rakesh Jhunjhunwala: No, not COVID, only non-COVID.

Ashutosh Raghuvanshi: Yes, so if COVID is not there, we should expect an ARPOB of about 1.9 approximately.

Rakesh Jhunjhunwala: In what time?

Ashutosh Raghuvanshi: We are already running at that rate.

Rakesh Jhunjhunwala: And one last question I have, how many beds you have as we talk?

Anand K.: 3,800.

Rakesh Jhunjhunwala: You can go do 5,100 in two to three years?

Ashutosh Raghuvanshi: That's right.

Rakesh Jhunjhunwala: And sir, what happened to the Escorts matter?

Ashutosh Raghuvanshi: So, one of the cases there is still under litigation, and we have to wait for the High Court level.

Rakesh Jhunjhunwala: What about the income tax matter?

Ashutosh Raghuvanshi: Yes, that has not been resolved yet. We have won in the lower court; department has gone for an appeal so that's why it is not resolved.

Rakesh Jhunjhunwala: Even if we lose we don't pay anything. And we win we don't get anything, it is all Escorts liability

Vivek Goyal: Yes, for the income tax case, you might be knowing it is disclosed in the balance sheet also. kept the deposit from the consideration paid to Escorts earlier. So, we will not get loss for that



*Fortis Healthcare Limited
August 16, 2021*

- Rakesh Jhunjhunwala:** Escorts have paid back to the department?
- Ashutosh Raghuvanshi:** That's correct, sir. And at the time of transaction, monies were paid from Escorts which have been kept as escrow deposits.
- Rakesh Jhunjhunwala:** If we win the case in the higher courts, Escorts will get the refund?
- Ashutosh Raghuvanshi:** Yes, sir. That's right.
- Rakesh Jhunjhunwala:** Last question, it is my deep wish as a shareholder that you please buy the 43% of the other investors in the Diagnostics business and you demerge it and have an arm's relationship with Fortis and Diagnostics business. And I am also ready, if you buy 43% I can also make a contribution to it. It is my wish; I don't want that IHH buy those shares and then IHH becomes a major partner to the diagnostics business. I as a shareholder would also like to participate. And I can also participate by participating in the buying process, or you buy them out, merge them into the company and demerge it. That's my wish as a shareholder, please convey it to your Board of Directors.
- Ashutosh Raghuvanshi:** Yes, sir. All the possible point of views will be conveyed to our Board, they will evaluate all these issues and certainly we will take the right step for all the stakeholders.
- Rakesh Jhunjhunwala:** I hope it is done with right corporate governance. Thank you. And really congrats on a fine performance. I think you are going to do really, really, really well. I bought Fortis shares for every member of my family.
- Ashutosh Raghuvanshi:** Thank you.
- Rakesh Jhunjhunwala:** And sir, you are not expanding in that Raheja in Bombay.
- Ashutosh Raghuvanshi:** There is no space there. But we are modifying couple of floors and making some deluxe rooms etc. available over there.
- Rakesh Jhunjhunwala:** Because it is very well located and a big hospital. Now once again over there I think we can really I have been treating there for a long time, so I think you can really increase the ARPUs and all there.
- Moderator:** Thank you. The next question is from the line of Ritesh Rathod from Nippon India Mutual Fund. Please go ahead.
- Ritesh Rathod:** First of all, heartfelt thanks for your support in the second COVID wave, most of your team members are available, so a very heartfelt thanks. My question is more on the long-term margin profitability which you spoke about 16% to 18%, and you spoke about payer mix, rising mix,

cost optimization. But surprisingly, you have not spoken about your hospital margin metrics, your 900 beds are below 15% margins with 62% occupancy, and within that 900, 670 beds or below 10% EBITDA margin with 52% occupancy. This is I am talking from your Q4 FY 2021 presentation where you have given your hospital model metrics. Can this be a big lever on a long-term basis and your long-term profitability target can have further upside, because a decent chunk of your hospital beds are at a very low occupancy and at a very low profitability?

Ashutosh Raghuvanshi: Yes, there are two sides of this and you have correctly pointed out that there are certain assets which are underperforming assets at the moment. So, now, they are both an opportunity as well as we need to evaluate continuously, as a portfolio whether those assets make sense for us. And we will always be evaluating every business for its performance and what are the various steps we can take in order to bring it to the desired profitability profile. So, certain assets would go towards that and we can see a lot of progress happening in a few of our hospitals like for example, in Jaipur, where there has been a real turnaround and we have good hope for making it even better. However, our Chennai facility has underperformed consistently for some time and we are taking the necessary steps to improve that. However, we will be open to considering other alternatives in case we do not see a proper progress there.

Ritesh Rathod: So, in that case, is that possibility there that your long-term profitability can have further upside from 16% to 18% range? Because assume you divest those underperforming assets, two or three assets which you are pointing at.

Ashutosh Raghuvanshi: That absolutely would be the assumption at the moment, because the idea is to make the entire portfolio profitable as far as possible. So, every hospital should have a viability on its own, that is extremely important. And other than that important what is important that overall, the group is not dragged by the underperformers. So, certainly that possibility is there.

Ritesh Rathod: And your decision making on this would get accelerated post the Supreme Court verdict which may be out in whatever time period, if you can give more color over there?

Ashutosh Raghuvanshi: Yes, absolutely. Supreme Court verdict, though does not affect us operationally, but many such decisions will become easier for us post the verdict. So, that time we can think of both the growth as well as realigning some of the assets is something which we can consider very actively and in an accelerated manner post Supreme Court verdict.

Ritesh Rathod: Any timeline for Supreme Court verdict?

Ashutosh Raghuvanshi: So, we expect it to, because as I said earlier that it was over in May, the hearings were in the first half of May, so we expect that the verdict should come certainly before the end of this month.



*Fortis Healthcare Limited
August 16, 2021*

Ritesh Rathod: And just one last thing, since you mentioned about the Brownfield expansion of 1,300 beds, I presume those are not happening in this underperforming assets which you have highlighted or in this 900 beds which have a very low occupancy?

Ashutosh Raghuvanshi: No, no, they are not.

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

Saion Mukherjee: Sir, any comments you have on M&A? I think you mentioned some time back you are looking at assets, how is the market looking, possibilities of adding beds inorganically at this point?

Vivek Goyal.: Our balance sheet is very much supportive of any acquisition. But having said that, we have ample opportunity available within our network itself, so we are first one to utilize that. And then if you know some opportunity comes, we are open for that.

Saion Mukherjee: The second question was on the SRL. One question is, on the pricing environment in general now you have some of the e-pharmacy players getting aggressive in that space. What is your sense as to what could be the pricing environment going forward, anything you would like to comment on? And also secondly on the test mix, I mean, you mentioned about certain innovation programs that you are running, so called esoteric tests contribute to your revenues and how should we think about that going forward?

Anand K.: So, on the pricing pressures, what I feel is except for these few tests which have been controlled by government through price capping, other tests don't fall under this. And when you talk about competition from the digital players, so they play mostly in the wellness segment, which is directly consumed by the customer. So, what is being prescribed by the doctor and the specialized tests and other packages, which are not coming under the purview of these players, so we will not be under pressure from those kinds of tests. So, it will be a very limited play on competition from the digital side.

Saion Mukherjee: And the test mix?

Anand K.: On test mix, currently about 26% is from COVID and balance 74% is from non-COVID. Out of this, almost about 50% is from routine and rest is some specialized. So, this specialized non-COVID is primarily you will have the growth which is happening there because of our renewed focus on esoteric testing as well as next generation diagnostics.

Saion Mukherjee: 50%, you said is routine, right?

Anand K.: Yes.



*Fortis Healthcare Limited
August 16, 2021*

Moderator: Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Limited. Please go ahead.

Neelam Punjabi: My question pertains to the Hospital business. So, you mentioned that the non-COVID ARPOB is at around Rs. 1.97 crores. So, how sustainable is this number? And if you can please comment on your long term sustainable ARPOB.

Ashutosh Raghuvanshi: Yes. So, as I said earlier, the ARPOB is approximately Rs. 1.9 crores is what we can expect to be a sustainable number. We have already achieved, in the first quarter is typically higher because maybe the procedures were more complicated during this phase. But this is a sustainable number. Other thing fact, which I mentioned is that there has been no pricing intervention for almost more than a year or so. So, some of that intervention is also likely to happen, so this is a sustainable number.

Moderator: As there are no further questions in queue, I now hand the conference over to Mr. Kalra for closing comments.

Anurag Kalra: Thanks, Ali. Ladies and gentlemen, thank you for taking the time to be with us on the call today. I hope we have been able to provide you all the answers. If there's anything more, Gaurav, my colleague, and myself are available over the phone or by email, so do let us know. Thank you again and have a good day.

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