



“Fortis Healthcare Limited's  
Q2 FY'22 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY'22 Post Results Conference Call of Fortis Healthcare Limited. As a reminder, all participant lines will be in 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 star then zero 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, Aman. A Very Good Afternoon and Good Evening, Ladies and Gentlemen, and welcome to Fortis Healthcare Q2 FY'22 Earnings Call. The call is being led by our Managing Director and CEO -- Dr. Ashutosh Raghuvanshi; we have Mr. Vivek Goyal -- our Chief Financial Officer. From SRL side, Mr. Anand, the CEO joins us, along with Mangesh who's the Chief Financial Officer.

We shall begin the call by some "Opening Comments by Dr. Raghuvanshi" post which "Mr. Anand will take you through certain Key Highlights of the Diagnostics business and then we would welcome "Questions-answers from the audience." Over to Dr. Raghuvanshi.

**Dr. A Raghuvanshi:** Thank you, Anurag. Good afternoon, everyone and welcome to our Q2 Financial Year '22 Earnings Call. Thank you for joining us on the call today. I hope you and your families have had a good festival season and are safe and well.

I would like to straightaway move to the performance for the quarter. We have had a good quarter, led by strong recovery in non-COVID business and a significant decline in COVID cases. I'm quite pleased with the way we have been able to capitalize on the bounce, which reflects our successful efforts ensuring continuity and sustainability in business in the challenging past year.

Both the Hospital and the Diagnostics business continue their upward trajectory, clocking top line growth in excess of 40% over Q2 of financial year '21. The Hospital business revenues have grown 47.2% to INR1,098.5 crores, while the diagnostics business revenues grew 42.6% to INR402.7 crores. At the consolidated level, revenues were up 47% to INR1,463 crores and were also better versus Q1 of financial year '22.

Important to note that the COVID business has been significantly less with the Hospital business revenue, contribution from COVID is a mere 3%, while for the Diagnostics business COVID contributes 18% to the revenues. This compared to Q2 of FY'21 when COVID revenues contributed 21% and 28% to Hospital and Diagnostics business revenues respectively.

A healthy top line growth has enabled us to gain higher operating leverage and register robust margins for the quarter. Hospital business EBITDA margins were at 17.2% versus 10.5% in Q2 of financial year '21 versus 14.9% in Q1 of financial year '22.

The Diagnostics business EBITDA margins were at 25.7% for the quarter versus 25% and 30.6% in the corresponding and trailing quarters respectively. At the consolidated level, EBITDA margins were approximately 20% as against 14.6% in Q2 of financial year '21. At the PBT level before exceptional items, we recorded profits of INR181.7 crores in Q2 FY'22 versus INR 37.4 crores in Q2 FY'21, while PAT was at INR130.6 crores in Q2 FY'22 versus INR15.5 crores in Q2 FY'21.

We also continue to have a healthy balance sheet with the net debt-to-EBITDA at 0.74x for Q2 of the financial year '22 versus 1.04x for Q4 of financial year '21. This was post the acquisition of the balance 50% stake in the DDRC-SRL joint venture in April 2021, which was funded entirely through internal accruals. Our net debt was at Rs.869 crores as on September 30, 2021, reflecting a net debt-to-equity of 0.13x. With the strong balance sheet, we remain well positioned to evaluate opportunities of growth and consolidation for value enhancement for all our stakeholders.

I now briefly take you through some aspects in both our Hospitals and Diagnostics business. For the Hospital business, overall occupancy for the quarter was 64% versus 57% in Q2 of financial year '21. More importantly, our non-COVID occupancy improved to 62% in Q2 of financial year '22 versus 39% in Q1 of financial year 22. Higher complex surgical procedure volumes across key specialties contributed to the highest ever quarterly ARPOB at INR1.87 crores, a growth of 26% over Q2 financial year '21 and 15% over Q1 of financial year '22.

Surgical revenues contributed 56% to overall Hospital business revenues versus 44% in Q2 of financial year '21, and 41% in Q1 of financial year '22. This was as a result of pent up demand for such complex procedures which was long overdue along with new demand in the normal course of our business. The pent up demand to my mind may gradually taper off over the next few months.

We are also moving rapidly to expand and further invest in our medical infrastructure and technologies. State-of-the-art advanced equipment such as MR LINAC, GammaKnife, Cath Labs, PET CT, and Bone Marrow Transplant Units are in the process of being commissioned in select facilities such as FMRI, Mohali, Mulund, Shalimar Bagh, Noida and Jaipur.

Commensurate with our plans to expand and upgrade medical infrastructure and programs, we have further augmented our clinical test with eminent clinicians in specialties of Cardiology, Medical Oncology, Surgical Oncology and Radiation Oncology, as well as in the areas of Neurosciences, Gastroenterology and Orthopedic across our key facilities. We continue to review our portfolio of facilities and our effort to turn around underperforming, but high potential facilities such as Fortis Escorts are seeing encouraging results.

Investment for Brownfield expansion should augment our existing operational bed capacity of close to 3,900 beds by another approximately 250-to-300 beds in this financial year. Of course, our plans for adding accumulative 1,200-to-1,300 beds remains well within our visibility.

We continue to leverage various digital mediums to increase our patient footfall for the quarter. OPD footfalls through digital channels more than doubled as compared to Q2 of financial year '21, an increase of 21% versus the first quarter of this year. OPD footfalls garnered through digital channels contributed 13% of the overall OPD footfalls versus 11% in Q2 of financial year '21.

In addition, utilizing information technology in the form of myFortis App, ERP System, Advanced Business Intelligent Tool and Medical Process Digitalization would go a long way in ensuring a smooth and seamless experience for all our patients.

I will take you through some highlights of the Diagnostics business and leave it to Anand for more detail after I conclude. The Diagnostics business continues its upward trajectory. SRL has successfully integrated its acquisition of DDRC-SRL joint venture. Post acquisition of the balance 50% stake in the set joint venture in Q1 of financial year '22, the business recorded revenues of INR83 crores in the quarter, a growth of approximately 20% over Q1 of financial year '21. Aided by its collections and the expansion and acquisition of DDRC-SRL joint venture, SRL B2C and B2B revenue mix strengthened to 54 versus 46 in the quarter versus a mix of 45 to 55 in Q2 of financial year '21.

On the network expansion side, the company added 107 new collection centers to its network in Q2, taking the total number of collection centers to 1,948. Home collection revenue from preventive health packages and specialized tests or other areas that are seeing good growth potential in the business,

My last comment would be on the cost. As you would know, we have always maintained that cost optimization is an inherent part of our efforts to better our performance. We continue to rigorously look at our drugs, consumables, and reagent procurement and aspects related to substitution and consumption optimization. In addition, as a group, we are also looking to bring in economies of scale with respect to medical equipment procurement. We are constantly pushing ourselves to try and be more efficient in our indirect expense line items such as house-keeping and other. All-in-all, costs across functions and facilities have and will continue to be monitored closely.

Just some concluding thoughts. We have weathered the difficult past few quarters well, and I do believe that as COVID has abated significantly, the probability of an impactful third wave now seems lower.

We are investing rapidly on infrastructure, both medical and in beds, hiring quality talent, driving focus sales and marketing efforts, and effectively leveraging IT enablers both internally and externally for better efficiencies. I do believe that all these would play a key part in our future growth and progressively strengthen our business performance.

I would now like to hand over to Anand to take you through the Specifics of Diagnostics Business. Thank you.

**Anand K.:**

Thank you, Dr. Raghuvanshi. A very good afternoon everyone on the call. Thank you for joining us today. On behalf of SRL Diagnostics, I warmly welcome you all to our Q2 FY'22 Results Conference Call.

It's really good to be able to speak to you again this quarter. I wanted to start off by thanking our employees, customers and partners for the trust and loyalty, which led to our continued strong revenue growth alongside highest ever non-COVID revenue and network expansion.

Looking at our Q2 numbers, I can only say that we are coming off a very strong quarter, where our revenues grew by 43% versus the same quarter last year to reach Rs.403 crores. At the same time, we conducted approximately 12 million tests in Q2 FY'22, which is a growth of 95% versus Q2 FY'21. We have maintained a healthy EBITDA margin at 25% for the quarter.

I'm particularly happy to let you know that we recorded our highest ever non-COVID revenues of INR331 crores in this quarter. This is the growth of 65% versus the corresponding quarter of the previous year. COVID contribution to the overall revenue was 18% versus 28% in Q2 FY'21. With the pandemic receding, we expect our non-COVID business to grow steadily.

The pandemic has no doubt changed the way businesses were running. The digital trends have brought a paradigm shift in the buying journey of our customers. This has pressurized companies to innovate continuously to converge the online and physical channels so that they can deliver superior customer experience. We understand that the brands of today need to make their online and offline retail strategies work together and the buzz word of for brick-and-mortar stores is now experienced. That's the reason why even at SRL, we are investing both on our physical presence as well as digital experience of customers.

In the second quarter, we continue to expand our customer touch points across India to be more accessible to patients. At the same time, we also launched our new Mobile App with exciting features like Live Phlebotomist Tracking, Real Time Booking Slots Availability Checking among others. With this, we want to achieve a close integration between our digital and offline channels.

With our new features like easy sharing of our lab location map link, we want our digital channel to complement the offline experience by making it easy for customers to see the benefits of visiting the physical lab.

Our efforts towards improving our customer experience has also resulted in significant growth in Home Collection. As a result, our Home Collection revenues grew 40% versus Q2 FY'21. Currently, we are providing home collection services at 150-plus cities across the country.

COVID pandemic also 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 our highest ever quarterly revenue in the Preventive Care portfolio, with a growth of more than 50% versus Q2 FY'21.

Aided by our network expansion, and acquisition of DDRC-SRL, our B2C-B2B ratio of revenue mix significantly strengthened to 54-46 in the quarter versus 45-55 in Q2 FY'21.

To support our government in the national COVID vaccination program, we started vaccinations for general public in four of our centers. SRL vaccinated approximately 12,500 people till end of September. We are also in talks with the government to support the vaccination program as part of our CSR initiative.

Just like we became the Official Lab Diagnostics Partner of the Indian Olympic Association for Tokyo 2020 and Paris 2024 Games, we also conducted Pathology Tests of all the players representing India, coaches, media, and the government officials traveling to Tokyo for the Paralympic Games.

Over the last decade, genomics has acquired a prominent position within clinical medicine. As I mentioned in our last call, we have established an Advanced Center for Genomics at our Mumbai reference laboratory that can provide solutions to clinicians through precision diagnostics in the area of oncology, reproductive health, infectious diseases and inherited disorders. We have also procured Advanced Machines to improve our TAT on some of these specialized tests.

Apart from this, in Q2, we also Launched our In-House Design Developed Third Mutation for Glioma Patients on Pyrosequencing Technology.

To summarize, I would say that the demand environment continues to be strong, and our growth chart over the last few quarters reflect this. It also reflects our improved execution engine. Together with the investments we have made in capabilities and talent over the last few months, I'm confident we'll be able to participate and win at a greater pace.

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

**Anurag Kalra:**

Thanks, Anand. Ladies and gentlemen, we will now open the floor for questions from the audience. I hope all of you have got a chance to go through our "Investor Presentation" that was circulated on Friday evening. Nevertheless, the same has also been uploaded on our website.

**Moderator:**

Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Aashita Jain from Edelweiss Securities. Please go ahead.

**Aashita Jain:** My first question is for Anand. So on the SRL side, if I take say, for example, medium to long term view or say three to five years, how should I see this SRL business growing in the next three to five years? And what are the growth initiatives that you have in your mind currently, maybe in terms of collection centers, or target locations, or your inorganic growth plans, Please, if you could talk briefly on this.

**Anand K.:** So on our plans, we continue to expand both in terms of our network capabilities as well as our lab network across the country. If you see we have expanded our collection centers, and this customer touch point expansion is also going on and it will be accelerated over the next two to three years as well. So while at the same time, we are also looking at the white spaces in the geography in terms of setting up new lab infrastructure, so that plan is also going on and over the next two to three years, we will be working on these aspects of growth as well.

**Aashita Jain:** Any number that you can give us in terms of labs or collection centers that you have planned in the next two to five years?

**Anand K.:** We are currently around approximately 2,000 collection points. So we are basically planning to double this over the next two to three years.

**Aashita Jain:** Lastly, if I look at your QoQ growth for this quarter, it was mere-1%. But excluding D Dimers in IL-6 or maybe COVID allied test, if I remove it from the Q1 of FY'22, what is the like-to-like growth in this quarter sequentially?

**Anand K.:** Even though we don't track this separately, but I'm sure that it was a very significant contributor in Q1 of FY'22 especially the COVID allied test.

**Moderator:** The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

**Ranvir Singh:** Just wanted to understand on OPD side, we have digital channel OPD and then we have on hospital side daily consultant. So that I wanted to understand how these activities actually contribute to our revenue? And for a normal physical OPD and having OPD through digital channels, how's realization differs in that two modes?

**Dr. A Raghuvanshi:** Yeah, Ranvir, what we mean by digital channels is the consultation actually is happening in physical form, but there is another component which is the tele-consultation component, that is not a very significant component. And we do charge similar fee, whether it is a physical consult or a virtual consult. As far as the number of patients who come through various digital channels which means our own app, our website and through other partner apps, so that is the traffic which obviously leads to similar revenue profile as it would be from a walk-in patient.

**Ranvir Singh:** So tele-consult is just a mode to call a person and finally the percent comes for a physical interaction, right?

- Dr. A Raghuvanshi:** There are tele-consultations as well. Those tele-consultations also charge equal. Those are virtual consultations where patient doesn't physically come. The contribution of that segment is very small at the moment. During the peak of the pandemic, it was up, but then as soon as that recover those numbers come down.
- Ranvir Singh:** So for our understanding, mode of channel actually doesn't differentiate in revenue contribution right overall?
- Dr. A Raghuvanshi:** That's correct.
- Ranvir Singh:** Secondly, on our expansion plan, earlier, we indicated that 1,300 beds were likely to add. So if you could give some timeline number of beds would be added year wise?
- Vivek K Goyal:** So this 1,300 beds we are planning to operationalize in next three to four years' time. Out of the 1,300 beds, almost 300 beds we will be commissioning during this financial year.
- Ranvir Singh:** Rest would be roughly equally distributed in next three years?
- Vivek K Goyal:** Almost 300 beds to 400 beds every year we are planning to increase.
- Moderator:** The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** The first one is on the ARPOB of Rs.1.87 crores annualized number. Dr. Ashutosh, you mentioned a little bit about pent up may go away, but this is the highest level So should it ideally now go to a more normalized level or do you think it will be between the Rs.1.6 crores versus Rs.1.9 crores let's assume, how should we look at it going forward? And also what are some of the drivers of this sustaining at higher level versus pre-COVID?
- Dr. A Raghuvanshi:** Shyam, I mentioned that 56% of the business came from surgical cases this quarter. So that is one of the drivers of the higher ARPOB. As you're aware, we haven't taken any pricing correction in last one a half, two years. So, we do have some possibility of doing that as well. Though we are not planning it immediately, but we would do that. My estimate is that this might get slightly moderated over the next quarters as the medical business picks up, but the numbers should definitely be higher than what the previous baseline was. So, it would get moderated to some extent, but more or less, this could be the trend going onwards.
- Shyam Srinivasan:** So Dr. Ashutosh, 1.75, 1.8 number you think is sustainable on a go-forward basis, once all this normalization and pent up demand goes away?
- Dr. A Raghuvanshi:** That's correct.



- Shyam Srinivasan:** And what are the levers for it to go further up from here -- is it the international patients today? I think your disclosure says 3.8%. Would they be also accretive to ARPOBs or you think no, they come at the same similar level, so that wouldn't be a driver?
- Dr. A Raghuvanshi:** They do come at a slightly higher ARPOB level, but overall, from a profitability point of view, it works out the same. So you're right that with those patients, likely to see coming back to normal volumes over the next one or two quarters depending on travel restrictions. So yes, that definitely will contribute to maintaining the ARPOB at a higher level. One more lever here is that the GIPSA rates have been revised in quite a few of our units from this month. So we would see some impact of that coming over the next two, three months.
- Shyam Srinivasan:** Revised upwards, downwards and the percentage there?
- Dr. A Raghuvanshi:** Revised upwards to the tune of about 10% to 15%.
- Shyam Srinivasan:** In terms of the margins now, about 17% if I remove the startup cost at Chennai, eight, nine crores for the quarter, it's an 18% like your presentation says. So this is something that we were aspiring to. Is there an element of one-off in this margins or do you think we can build on these margins from here?
- Vivek K Goyal:** There is no one-off, Shyam, on these margins. So these are more sustainable margin. And as Dr. Raghuvanshi mentioned, with the international business coming up and GIPSA rate revision and continuous focus on cost optimization, I think this margin should go up only from this level.
- Shyam Srinivasan:** Sir, we had a goal of reaching 18%. Now we have reached 18%. And so what do we do now -- do we go to 20%? Just looking at your peers. If you can outline what are some of the cost structures, we are still different or inferior versus some of the peers where we think the levers are still existing, maybe that's the other way to ask the question?
- Vivek K Goyal:** As I said the margins would only go up. In last call, we mentioned about 18% target and we were lucky enough in this quarter itself we achieved 18%. So, I think 20% is the immediate target for us. And in terms of levers, there are certain cost items which are on our radar, certain cost which are in our system, which we are bringing back into system which will result into reduction in the cost. So like OP pharma and things like that. We are working on that and the result you will be seeing in the forthcoming quarter.
- Shyam Srinivasan:** Last question is on SRL. Just again an industry question. Anand, we have seen two of your largest competitors announced acquisitions. I know we have done a DDRC JV but that was a JV which we have now assumed. So just how should we look at M&A for you as we look forward? Just looking at your geographical mix, seems to be the one where we have the least exposure to or lower exposure relative exposure. So how should we look at M&A -- do you think there is appetite for us, do you think that is the way forward or do you think organically we still can grow higher than the industry?

**Anand K.:** Shyam, we continue to explore both options. We have organic as well inorganic expansion plans and we are evaluating opportunities for M&A in the geographies where we have a lighter presence. But at this point of time, as you know, SRL has a much more equitable distribution across geographies in India. So, we are looking at options in some of the white spaces as well as to consolidate our leadership, especially we are the top player in the east. So, we would like to look how we can consolidate our position there, as well as strengthen our presence in other locations where in most of the places we are a contender and we have a strong presence. We are exploring all options.

**Shyam Srinivasan:** Last two data points on the SRL. What is the home collection revenue as a percentage to total revenue and preventive packages grew 50%, can you also give us the relative contribution? In the old disclosure, I think there's some 2%, 3%. So just some color.

**Anand K.:** The home collection revenue is about 7-8% of the overall revenue. That's what I should say. notice. And on preventive, we don't have a separate number. We will get back to you.

**Moderator:** Next question is from the line of Shantanu Basu from SMIFS Limited. Please go ahead.

**Shantanu Basu:** So I have a few questions. The first question is why there has been a drop in EBITDA margin in SRL from 30% to 25% in Q2 FY'22? In your earlier concall, you stated that 30% EBITDA margin is sustainable. So this 25% is this an aberration? How should we look at it going forward, will it again revert back to 30% going forward? So that's one. And then with regard to your hospitals, why have the revenue contribution increased to 30% of total revenue for hospitals in the below 10% and 10% to 15% EBITDA margin buckets from 16% of total revenue in buckets in Q4 FY'21, although the number of hospitals have remained the same, but the operational beds have gone up, so why this 14% Jump in revenues in the lower EBITDA hospitals? Then I would want two data points. So what would be non-COVID and COVID ARPOBs for the quarter? And what could be the DDRC revenue during the quarter?.

**Anand K.:** On the difference between the two quarters, what I can say is that our expectation on this would be normally in the range of 23% to 25% and that 30% of the previous quarter was driven mainly by the high volumes as well as we had higher pricing on COVID in many other places. As you know, even during July and August, many states have reduced their pricing. So overall, we've seen a drop in average revenue per test both for COVID as well as non-COVID. So what we are seeing in this quarter is more sustainable than what we see as an aberration in the previous quarter.

**Shantanu Basu:** 25% is a sustainable number going forward?

**Anurag Kalra.:** I said 23% to 25%. I think you also asked the breakup of DDRC revenue for the quarter. Q2 FY'22 DDRC revenue was Rs.83 crores versus Rs.69 crores in Q1 of FY'22. The last one you had also requested for the ARPOBV of COVID versus non-COVID. COVID ARPOB in Q2 has been about Rs.1.29 crores while non-COVID has been about Rs.1.89 crores. COVID has been a

very small portion of the overall hospital business. Out of the total revenue, only 3% revenue contribution from COVID.

**Shantanu Basu:** Yes, you've disclosed that. What about the question with respect to the buckets of revenue in the lower EBITDA margin compared to Q4?

**Anurag Kalra.:** To that question, we'll have to see what is the movement in terms of the facilities that move either up or down in the range of the EBITDA margin that we mentioned. If you compare it with Q4, there are a couple of hospitals that have moved up the ladder, while one or two hospitals have come down, I think our intention of showing this margin metrics is to just give a flavor of how our various facilities are doing and what is the potential of these facilities to go to that peak which is margin between 20% to 25%. And I think there's a whole lot of detail behind this. So I don't know how to explain that. But if you look at the contribution, there are certain facilities that have moved up. For example, as Dr. Raghuvanshi was also mentioning, this is a real example, Fortis Escorts was one of the facilities that was in the below 10% range in Q4 of FY'21 which has now moved up to the 10% to 15% range. So that's an improvement. So, there will be at various points in time various facilities that would kind of move up, but our overall intention will be to ensure that facilities that are towards the latter or 1/3 half below, then eventually move up. That's the way we want to show this.

**Shantanu Basu:** But then the operation backup also in the below 10%. While the number of facilities have remained the same, the number of operational beds have also gone up. So any thoughts on that?

**Anand K.:** Shantanu, that would depend on facility-to-facility, right? If you have a certain facility that is 200, 250, for some reason in the quarter come down with a negative 10% one, because it's a larger number of beds, the number of beds will go up. Proportionately if you have a smaller facility, that margins are doing very well, that will then go to the next level. Each facility will be looked at in terms of the number of beds and our facilities range as low as 50 beds will be higher by about 350 beds.

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

**Amit Khetan:** So, you have a Brownfield expansion plan of increasing the beds. Just wanted to understand like is the Supreme Court judgment in any way impeding your growth aspiration in terms of inorganic growth or a Greenfield expansion?

**Dr. A Raghuvanshi:** So, as far as all the organic growth and Brownfield expansion is concerned, that has no constraints from the legal issues, those are totally unrelated. And all the plans which we have highlighted in terms of number of beds of 1,300 over a period of next three years or so are not contingent on what happens on the legal side. So, we have a very comfortable operational position to be able to deliver on this growth what we have stated.

**Amit Khetan:** But what about acquisitions, you're not looking at them right now?

- Dr. A Raghuvanshi:** As I mentioned earlier that we are looking for all kinds of growth. So, if there is a larger acquisition which is available, we would definitely consider this, but at the moment, we are exploring a few smaller options which may be available, but we would stick to our stated strategy of expanding in the given clusters where we have a good presence and then it has to be attractive valuation at which the asset comes. But there are no constraints as far as the growth is concerned be it organic or inorganic.
- Amit Khetan:** How have occupancies trended in the quarter, so if you could give figures for July, August, September and October?
- Vivek K Goyal:** For non-COVID was 58%, 64% and 65% and COVID was 3.3%, 2.8%, 2%.
- Amit Khetan:** And what will be the trigger for October overall?
- Vivek K Goyal:** It is almost at similar levels around, 65%-odd in October for non-COVID.
- Amit Khetan:** This is a sustainable number or October number have some element of pent up demand?
- Vivek K Goyal:** Very little pent up demand in October and all, but as the COVID situation is getting better, the occupancy is going to go up only from here and we expect to settle around 70%, 72%.
- Moderator:** The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.
- Sanjay Shah:** Dr., my question was regarding our focus on medical tourism. After things getting normalized and border gets opened up, what are the targets and what are we doing that to increase that business?
- Dr. A Raghuvanshi:** So, medical tourism, as you know, is contingent upon, Sanjay, the travel restrictions. So a lot of that is not in our hands. But our focus continuously remain, we have to remain engaged with all these geographies where we are present, some of our teams have also visited even during this period. So we would aim to bring it back to our normal level within next two quarters or so and then we take it further from there.
- Sanjay Shah:** Now, going through our growth trajectory and increasing our foothold, are we planning to enter any tier-2 cities or do we have any major plans to ramp up our business?
- Dr. A Raghuvanshi:** As I was speaking to the earlier question, that our strategy is very clear that we will remain focused on the geographies where we are present and have a meaningful cluster. The only exception to that would be another geography where we could create a meaningful cluster either through some acquisition or some other possibilities. So some large cities where we may not have presence today are attractive markets, then we would definitely consider those.

- Sanjay Shah:** Dr., continuing my same question regarding our growth. How do you see our business coming - do we see any patient coming from unorganized single hospital to institutions or businesses coming because of incremental growth on our new surgical, other therapies and other businesses, do you see that visible change on the patients preferences?
- Dr. A Raghuvanshi:** There are certain segments which are moving more towards larger hospitals and there are certain segments which are moving towards boutique facilities, like for example, obstetrics work is moving in the opposite direction, whereas all other major surgical, specialties that critical care areas are moving more towards organized hospitals. So that is a trend across the industry we are hearing and that's the same thing what we are seeing as well. So it is not that there is some gross consolidation towards the organized players. Smaller hospitals still continue to serve a large population, especially in tier-two, tier-three cities. But they're developing more formal relationships with the larger hospitals for spending their complex work.
- Sanjay Shah:** My last question was regarding Supreme Court verdict. Any update on that side?
- Dr. A Raghuvanshi:** We don't have anything new to add except that we are waiting anxiously just like you.
- Moderator:** The next question is from the line of Nagendra from Growthx Capital. Please go ahead.
- Nagendra:** Sir, on the expansion side, you mentioned the number of beds is 3,900. Is it current beds or it would be after '22 end?
- Dr. A Raghuvanshi:** It is a current number and as we said earlier that about 200 beds will get added to this within this financial year.
- Nagendra:** So, post FY'22 end that will be roughly 4,100?
- Dr. A Raghuvanshi:** That's right.
- Nagendra:** On the new bed additions, what is the expected occupancy level in this financial year or any time when you add new beds within the year?
- Dr. A Raghuvanshi:** So, we do add beds when we see that there is occupancy level in the existing hospital is high. And we expect the occupancy level to remain at the similar levels at which they are there. So, some of these hospitals where expansion is happening are generally having occupancy of about 70%-plus. So, we expect it to remain within that range. But you would appreciate that when new capacity is just added, at that time, there may be a little lag before it comes to a normal occupancy level which is about 70%.
- Nagendra:** There was a news in September by Economic Times that SRL is suddenly going to allocate Rs.300 crores to Rs.500 crores for the expansion by FY'23 end and the news also stated that company is going to add 25 labs to 30 labs during this period. Can you give some color on this?

- Anand K.:** As I was telling earlier also, we are looking at opportunities for expansion in both inorganic way as well as organic way to add more labs. So we are exploring options. So we have some opportunities in hand and some we are considering. We are focusing on that. So we'll let you know once something happens there.
- Nagendra:** So there is no current plan finalized, right?
- Anand K.:** Plans are on but there is nothing that we can officially declare now.
- Nagendra:** Just one data point question. Can you give the number of COVID test during the quarter?
- Anand K.:** That's about 1.3 million tests.
- Moderator:** Thank you. Next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Anand, on the diagnostics business, there are again a post-COVID reemergence of a lot of small niche franchises in various parts of the country. Have you seen it translating into increased competitive pressure especially in the pricing front in certain parts of the country?
- Anand K.:** We don't see any pressure on pricing or competition like that. The only thing is we are seeing more and more people coming out for doing preventive packages as well as approaching diagnostics through various fronts, including digital channels. But I don't see the specific competition that is probably pushing the prices.
- Nitin Agarwal:** Since you mentioned the digital channels, are the digital channel based sales which are happening, is there accelerating the pricing competition in the market or you don't think there is a pressure on pricing because of the increased aggression of the digital channel?
- Anand K.:** Pure digital players focus on wellness segments, where there is a price competition, but in our case, we focus more on acute and chronic illnesses. So that is why we don't feel that difference in prices.
- Moderator:** The next question is from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.
- Bhagwan Chaudhary:** Sir, can you please share what was the vaccines revenue in this quarter?
- Vivek K Goyal:** Very small number; Rs.20 crores.
- Bhagwan Chaudhary:** Secondly, on your diagnostics business, now I think there was some confusion from the COVID in the current quarter as well. If we look in the longer-term, how should one look at the margin side because pre-COVID, it was around 20% to 22%, now still hovering at 25% given the fact

that there is integration of DDRC as well. So just a longer term view, where the margin would be and what kind of trajectory in the revenue maybe?

**Anand K.:** On the longer term, margins will be in the range of 23% to 25%. So, the COVID contribution is coming down as we see at 18% now of our overall revenue. With that, we will continue to be in this kind of margins in future.

**Bhagwan Chaudhary:** This 25% is the base in the current quarter?

**Anand K.:** That's more on a sustainable basis, yes.

**Bhagwan Chaudhary:** Secondly, if I may ask him this way what has led to improvement in the margin from the earlier 20% to the current 25% scenario?

**Anand K.:** Most of our capabilities that we had set up over the last two years, we have started having better utilization on the facilities. As soon as we have taken some cost optimization measures over various factors, including revenue link cost as well as direct cost like materials, we have been constantly tracking this and this has led to some improvements in the margin.

**Bhagwan Chaudhary:** Just final on the same, in the current scenario, the COVID business margins are same as non-COVID or it's a bit higher or lower?

**Anand K.:** COVID margins are lower.

**Moderator:** Our next question is from the line of Sumit Chaudhary from Saba. Please go ahead.

**Sumit Chaudhary:** Couple of questions from my side. Just on the hospital side to be clear, between now and the yearend we are expecting to add another 200 beds, yet the occupancies should remain in the mid-60s, in fact, I thought I heard we should expect it to stabilize closer to 70%. Is that the right understanding?

**Dr. A Raghuvanshi:** That's correct.

**Sumit Chaudhary:** In terms of the ARPOB, of course, there was a change in mix away from the COVID patients leading to the number which we reported. But when I listen to some of the other hospital players out there, it seems most players expect it to be sustainable considering the offset from the international patient side and the case mix is expected to remain strong. So is there anything which benefited Fortis disproportionately in the quarter gone by far, that not to be the case for us versus the industry?

**Dr. A Raghuvanshi:** No, not really, it is just a marginal difference in the number of surgical versus medical cases. So the trend is sustainable, but the same number I think may not be there, it might get moderated a little bit as the medical number of cases increases. So that is our estimation at the moment. Of

course, it needs to be seen. But earlier on, as I was mentioning that there are certain pricing interventions which are happening parallelly, which would also have their independent impact, and net-net eventually, we may end up sustaining ARPOB at these levels which we have achieved.

**Sumit Chaudhary:** You mentioned some of the cost cut measures that you are undertaking, including pharmaceutical procurements, etc., I guess, even on the investment side, you did mention how you're looking to add more complex surgical machinery along with hiring experienced clinical technicians at all of your hospitals. So I imagine the ARPOB should benefit from the latter as well. And coming to the point of the cost out, if you could help us quantify how much exactly the cost outs either in margin percentage points or rupees that you're looking to take out?

**Vivek K Goyal:** The cost rider in cities I have enumerated that. It is very difficult to find out the number on that. So we will not be able to quantify the number. But having said that, this is a continuous effort and you can witness from the last half year with the same fixed cost we are able to achieve higher revenue which itself give a better margin.

**Sumit Chaudhary:** I guess put it another way, you've mentioned I think earlier on the call about 20% margins are achievable. Over what timeframe would you kind of expect to get there for the hospital business?

**Vivek K Goyal:** We aspire to go to 20% in couple of years' time.

**Dr. A Raghuvanshi:** Sooner the better, Sumit.

**Moderator:** Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for the closing comments. Thank you and over to you.

**Anurag Kalra:** Ladies and gentlemen, thank you very much for taking the time to be with us on the call today. In case there are any further queries, clarifications, Gaurav and my colleague are there to address those. Thank you for your time again and have a good day.

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