"Fortis Healthcare Limited Q3 FY20 Post-Results Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to the Q3 FY20 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 the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anurag Kalra – Senior Vice President, Investor Relations at Fortis Healthcare Limited. Thank you and over to you, sir.

Anurag Kalra: Thank you so much. A very good morning and good afternoon, ladies and gentlemen. And thank you for taking the time to join us on our quarter three FY20 earnings call. We have on the call with us Dr. Ashutosh Raghuvanshi, our Managing Director and CEO; Mr. Vivek Goyal, our Chief Financial Officer; from the SRL we have Mr. Arindam Haldar, SRL CEO; along with SRL CFO, Mr. Mangesh Shirodkar.

We will start this call with some opening thoughts, comments by Dr. Raghuvanshi, followed by Arindam giving you his insights into the quarter gone by. And then we can open the floor for question-and-answers. Over to Dr. Raghuvanshi.

Ashutosh Raghuvanshi: Hi, good morning everyone. And thank you for taking the time to join us on our Q3 Financial Year 2020 investor call. I hope by now you would have had a chance to go through our results and the presentation which we released on Friday. I am pleased to share with you that we have registered as the performance in the quarter, and this continues for the third consecutive quarter.

Before I get into our business, many of you have spoken to us and have regularly followed up on the open offer status matters. Just to provide an update, there was a hearing on February 3rd, in which the honorable court asked all parties concerned to file their replies. And the honorable court has now scheduled the matter for hearing on the 16th of March. We would like to assure all of you that we are making all efforts and spending considerable amount of resources to ensure that we resolve this matter at the earliest. We remain confident of a favorable outcome in due course.

Coming to the results for the quarter. At the consolidated level, our revenues have grown 6% to INR 1,169 crores, and our operating EBITDA stood at INR 167 crores. This on a like-to-like basis has grown 22% to reach a margin of 14.3%, versus 12.4% in the corresponding previous quarter. Our PBT from operations stood at INR 45 Crores versus the PBT loss of INR 103 crores in Q3 financial year 2019, reflecting the significant improvement in business performance coupled with the benefits of elimination of the RHTP.

Our reported PAT is a loss of INR 76 crores versus a loss of INR of 197 crores in the corresponding previous quarter. This is as a result of the derecognition of deferred tax assets in certain entities. This is non-cash tax charge which has impacted net profits for the quarter but would be reassessed at each time period.

Our Hospital business has registered the growth of 7.3% and continues to show traction on the bottom line, which is quite encouraging. It now constitutes more than three-fourths of both our consolidated revenues and operating EBITDA. For the quarter, the hospital business EBITDA stood at INR 126.5 crores, recording a growth of 27% and representing 13.3% margin better than 11.2% in the corresponding previous quarter. This was similar to margins in Q2 financial year 2020, despite the seasonality in the business in the third quarter. It is also important to highlight that for the nine months ended 31st December 2019, Hospital business revenues grew approximately 9%, while operating EBITDA grew 52% to reach INR 348 crores.

The Diagnostic business revenue for the quarter was muted with a 2.8% revenue growth. This was impacted by the seasonality aspect and also a pronounced and senior winter which was more prominent in North India, specifically in the month of December. However, margins in the business stood as 19.6% versus 17.6% in the corresponding previous quarter. Arindam will take you through further details post my comments.

Our consolidated balance sheet remains healthy with our cost of boring stable at around 10% level and our net debt at INR 1,237 crores for the quarter. The net debt represents a debt equity ratio of 0.17x.

Specifically, on our Hospital business, this is now on a steady growth trajectory. Our occupancy rates are encouraging and stand at 68%, which is similar to what we have reported for the same period last year. Our ARPOB for the quarter is at INR 1.62 crores, an increase of 6%. Key facilities such as FMRI, Anandpur, Faridabad and Noida have shown a healthy uptick in revenues, recording top-line growth of anywhere between 8% to 9%, to 14% to 15%. We are also making efforts towards course correcting certain other key facilities, which we believe have a stronger potential going forward. We have also in parallel began the initial discussions and review on our entire hospital portfolio with a view to ensure that the investment resources and efforts are done in a focused manner to enable optimal returns.

On the cost side, there continues to be focus on optimizing a number of cost elements both in our hospitals and at the corporate office. These ongoing initiatives include personnel costs comprising medical and non-medical manpower costs, including looking to optimize our doctor engagement models. In addition to these cost efficiencies in procurement costs, and including renegotiation of business contracts to cover various aspects such as housekeeping, food and beverages, sales and marketing, general and administration, and outsourced processes are also being implemented with rigor. Power and fuel costs at unit level have also come down through renewable resources and energy efficient improvements. All these and more have begun to show results in our P&L. But as I have explained when we spoke last, the results of these are cost optimization efforts have to be seen in light of the nominal growth vis-à-vis top-line growth, and as such, from a percentage to revenue basis.

Most cost lines are relatively lower. This is well reflected in the margin expansion in current quarter as well as what we had seen in quarter two. Our plans for upgradation and expansion remain on track; required investments are being made in the business to further scale up and simultaneously optimize current operations. To elaborate, we have initiated CAPEX of approximately Rs. 180 crores already in the system, which is for both routine and growth CAPEX and primarily towards medical equipment and for the new facilities such as BG Road and Arcot Road.

In fact, the CAPEX of INR 2 crores I have mentioned previously could now be in the order of INR 250 crores, which is quite significant. Along with this, we have also formulated a clear calibrated path for expansion which will see 1,200 to 1,300 beds coming on stream over the next four to five years. This will include those in our facilities of FMRI, Noida, BG Road Arcot Road and Shalimar Bagh, as well as Anantpur, and some smaller additions in other facilities. Those in the near future will include the commissioning of Arcot Road facility and followed by a bed expansion in Shalimar Bagh and Noida.

Keeping both our current operations and future expansion plans above in mind, we are also in the process of collectively chalking out a long-term plan for the business. These comprise key elements related to our focus on select clinical specialty and clinical talent management. Emphasis on expanding new medical technologies and programs and enhancing our patient safety and experience. In addition, leveraging digitalization initiatives to drive our Human Resources capabilities and information technology platforms across our network of hospitals in order to streamline business functions and draw better alignment is also being looked at. Each of these options are further being drilled down in terms of detail action plan with relevant themes and timelines with roles and responsibilities are being earmarked. We do expect these to further strengthen our business as they are finalized and rolled out.

A few parting thoughts from my side. With the current fiscal drawing to a close, I remain optimistic of the path forward and expect to end the year with the same momentum that we witnessed in the past three quarters. I believe, as an organization we have immense talent, a high quality portfolio of assets, and all the building blocks in place to drive sustainable returns for all our stakeholders. I look forward to engaging with all of you again in the near future. And with that, I hand over to Arindam to take you through the Diagnostic business. Over to you.

Arindam Haldar: Thank you, Dr. Raghuvanshi. And a very good morning to everyone on the call. Quarter three has admittedly been a bit disappointing for the Diagnostic business, and performance hasn't been up to our satisfaction. We did nearly 7.5 million tests last quarter, which is a growth of around 3% over the same quarter previous year, while our revenue also grew at the same rate. The dip in the quarter's performance was mainly due to a decrease in patient flow in December, barring which our patient growth was 5% YTD in November, which is also in line with what we have seen this fiscal year.

The operational EBITDA basis net revenues stood at 19.6% for the quarter, compared to 17.6% in the same quarter last year. For the nine months ending December 31, 2019, the operational EBITDA was at Rs. 160 crores, a growth of 22% over the corresponding quarter. EBITDA margin for the nine months stood at 23.5% compared to 19.9% in the corresponding period last year.

Saying that, I must comment that the longer term growth constructs that we grew for ourselves, primarily basis rapid network expansion, and getting B2C business back on growth, especially the patient facing phlebotomy centers have fared exceedingly well. Our B2C business quarter three growth over the same period last year has improved vis-à-vis decline seen over the previous four quarters. And we believe we have planted the seeds which will take SRL to near double-digit growth in the next two to three quarters.

Let me talk a little more detail about the same. In retail expansion, we have transformed the way we are looking at network point management and have improved both same store growth and significantly increased our network points, primarily the franchise centers. As you know, we have been stagnant in network expansion in the past two fiscal years. And as compared to that, we added about 250 net centers in the past nine months, 150 of which has happened in the past three months, and 75 of those 150 has happened in the last 40 days of the quarter.

In the same period, we have carved out low performing inactive centers, and the numbers that I spoke about are net of those proactive pruning. As you will know typically a collection center takes about six to nine months to stabilize. And we believe the seeds that we have sowed in the past few months, and continue to do so in the current quarter will bear us fruits in two to three quarters from now. I also believe very strongly that this will be one of our primary drivers for growth in the next couple of years.

We are also taking a fundamental relook at the way we go to market for both our B2C and B2B segments and have formulated a robust plan which will get executed over the next quarter. As a starter, we have already put in place our Channel Strategy Team at our head office and they are working overtime in conjunction with our teams in the field to execute flawlessly. Our B2C segment has seen significant improvement in quarter three and we hope it will continue to grow with the help of retail expansion in focused cities.

Saying that, in our B2B business we have seen a temporary reduction in growth, which has in a way negated the strides achieved in the B2C segments. The primary reasons are reduced footfall and traffic in many of our labs and hospitals in December, mainly due to the impact of severe cold in northern and central region of India, and closure of few client businesses. We are confident that this is a short term phenomenon and the same will bounce back in a couple of months.

We are also enhancing our presence and engagement with our consumers digitally. As some of our new initiatives of digital channel and CRM have shown very high growth, though on a very small base. We are continually improving the digital experience of our customers and we still hold the highest number of ad downloads amongst our peers.

We have managed to reduce our general expenses by Rs. 2 crores, beating inflationary pressures, and gained some efficiencies in workforce optimization. This holistic margin management measures have helped us in hold our EBITDA levels for the quarter, despite low revenue growth and a marginal increase in personal expenses due to annual increment.

As far as our labs are concerned, in both our reference labs in Mumbai and Gurgaon, we have taken a slew of measures to improve automation via integrated platform across basic biochemistry and immunoassay. Our cytogenetics department at Mumbai Reference Lab has automated pre-processing. We also have been able to reengineer some of our lab processes to see marked improvement in turnaround time, a critical service factor.

We have introduced automation in NIPS in the gyne portfolio, which has helped and improved turnaround time in the same. The addition of new micro test in the prenatal and postnatal category has helped us to expand the product basket in the gyne portfolio. We have also strengthen the transplant portfolio by adding high resolution HLA by next gen sequencing method.

Overall, we are cognizant of industry margins. And like our stakeholders, we do believe that the business has tremendous potential and we are moving in the right direction. I see the glass as half empty versus half full, and feel more confident today of our team's ability to lead SRL in that direction to be competitive amongst your peers in a few quarters from now.

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

Anurag Kalra: Thank you, Arindam. Ladies and gentlemen, we will now open the floor for questions please.

Moderator: Thank you. Ladies and gentlemen, we will now begin with a question and answer session. The first question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Thank you for taking my question. If I were to see our hospital performance, despite the reduction occupancy, our margins have been pretty flat quarter-on-quarter. Is it fair to assume a large part of this improvement is because of cost optimization initiatives that we have taken earlier in this fiscal? And if we could just give some color on how much we have achieved out of the set target?

Vivek Goyal: You are right. This is partly I will say from the cost cutting initiative, which company has taken and that has started yielding results, which were harping in the previous calls also. But this quarter there is a Rs. 12 crores income also, which is whatever export lending company is doing, so it is eligible for some certificates which can be freely sold, SES as we call it. So, generally we book this income in the fourth quarter in the previous year. But this year, auditor insisted that we should be doing on an accrual basis. So that has given us Rs. 12 crores for the nine months and this Rs. 12 crores is booked for the entire nine months. So only Rs. 4 crores pertained to this quarter and Rs. 8 crores pertain to the previous quarters. So these two facts has helped an improvement of the margin.

Anurag Kalra: Neha, a couple of more points. One, on the service income, this is a result of the direct foreign exchange that the company on through its medical tourism, you know, the international tourists that come through for medical treatments. So it is kind of operating in nature.

Secondly, Neha, to your answer on the cost side of things, as we had also explained on the call in the previous quarter, a lot of initiatives and cost optimization efforts are going through all the P&L lines, whether it be a housekeeping, laundry, food and beverages, contract renegotiations, or relooking at doctor engagement models, etc., etc. So when you actually go through the P&L, the cost line items as a percentage to revenue have actually come down, which means that the expense lines are not increasing at the same pace as the top-line. Which has and will also going forward keep on impacting our margins positively. So, that is an absolute number we would, like last time we would urge, that margin expansion be the focus, and that's what… Because you are becoming cost efficient on one side, but you are also adding expenses to get that top-line. So, net, net, it will be margin expansion, which will be a result of the cost initiatives.

Neha Manpuria: The EBITDA margin metric that we give out, right, if I compare the first half versus the nine month number, from what I remember, a third of our hospitals were in the 20% plus margin range as of the first half. But the number of hospitals seems to have slipped very sharply in the nine month period. Am I missing something? Have certain hospitals' profitability come up very sharply in the third quarter?

Anurag Kalra: So, Neha, this is also reflected in the overall margins of the company. However, bear in mind that this metric is something that has to be seen over a period of time, from a quarterly basis there will be slippages and upside where hospitals will move from one group to the other. Our intention of starting to share this metric was just to show you that eventually what we would ideally like is that we will have the maximum number of hospitals in the top end of the margin category. So, yes, in the less than 10% margin last quarter there were about 1,000, now there about 1,300 to 1,400 beds. And those slippages will keep on happening from quarter to quarter. But what we believe is that over the long-term, this metric should actually go towards the upside.

Neha Manpuria: So, looking at it quarter-on-quarters is not the right way, hospitals do tend to move that much on a quarter-on-quarter basis?

Anurag Kalra: Yes. Neha, for example, if a certain hospital is doing 11% margins, earlier 11% for whatever even goes to about 9.9%, then from our calculation it drops into the next category, right? Though that may just be temporary because of certain things that have happened. So that's why I say that this is better to look at from a longer term perspective.

Neha Manpuria: Fair enough. And my last question is on SRL. It's been two years since we have been trying to inch up the growth in SRL. While a lot of the long-term initiatives that we are taking are understood, realistically, given competition is increasing, our player which are already established in the market are gaining share, is it fair to assume that it becomes increasingly more difficult for SRL to gain back lost market share as time passes?

Arindam Haldar: Yes, Neha, so your point on the segment in which the organized players play, the competition is increasing in the segment, that's a fair thing to say that it has increased. And to that extent, for players like SRL and all players in organized segment, the going forward will be competitive. So, there is no shying away from the same. So yes, it is taking longer than what as a group we hope it can take. Saying that, some of the longer term measures that we are taking, and as I said that our B2C growth is our longer-term objective, we have made some very positive strides over there. Unfortunately, none of that is being visible in the quarter three's growth number, which has more or less come back at the same level as what we saw in the previous period is because of a few specific reasons that I explained, which has been more on the B2B side, which otherwise has been growing for us. So, we are quite confident that the B2B slowness is more of a temporary phenomenon. And work that we are doing on the collection center and the B2C side, while it may take a few more quarters, those are more sustainable in the long run. So it will not be easy, but saying that, we are confident that in a few quarters' time we should be able to improve the growth potential from where it is today.

Moderator: Thank you. We will move on to the next question, that is from the line of Adi Desai from York Capital. Please go ahead.

Adi Desai: My first question is on SRL. So I just want to understand the B2B weakness. Was it because we have lost some client contracts or is it just reduced footfall at our existing hospital clients? I guess, just a couple of follow up questions on that, just wanted to get a sense of B2B versus B2C revenues as a percentage of total SRL revenues. And I guess finally on SRL itself, just want to get a sense on, I guess, what our target is for B2C growth? At what point do we expect to be B2C revenues growing and what about targets over there?

Arindam Haldar: Adi, I will take that question. So your first part of the question is the B2B business slowdown that we have seen. The primary reason is the decline we saw in December, till November it was holding pretty well. It decline by a large chunk in December, most of it is linked to the reduced footfall that we saw in many of our hospitals and labs. One of the main reason being both the cold wave as well as a few days of political disturbances and the business that we lost due to the same. So that is the primary reason.

Secondary reason is smaller business loss, but the primary reason for the B2B business slowdown has been the seasonal impact. Our business or B2B, B2C is roughly 60:40. And our B2C businesses, what was dragging us down over the quite a few quarters from now, and we have done around the quarter from being negative growth for quite a few quarters, this is the first quarter, despite it being an overall soft quarter our B2C business has come back into the positive territory. And we feel very confident that this is the area that in the next two to three quarters will get into double digit.

Our B2B business was always growing at a high single-digit to low double-digit, it has become flat in the current quarter. But again, we again strongly believe that this is a temporary phenomenon. And that part of the business will also go back to the same growth rate that we have been seeing earlier.

Adi Desai: Perfect. I guess the second question; I guess is more of the financials, just want to understand the context for the tax expense, which this quarter was about Rs. 170 crores. So just want to know like what is the reason for it?

Vivek Goyal: Yes. So I think just to answer this question, this is a more of a timing type of issue. Because one of our subsidiaries is having carry forward losses. And on a very conservative approach, because as per the current projection this company is going in profit for four, five years from now. So, based on four, five years' going forward projection, creating deferred asset, management feels that it is not a right approach. And we have derecognized the deferred tax asset. But having said that, there may be acceleration in this the profitability, because it is because as a performance of the company is going up, we are coming nearer to this profitability metric, we will again recognize this profitability. So, it is a non-cash item, just on a conservative basis we have created this, derecognized it.

Adi Desai: If I could see the balance sheet this quarter as well, our deferred tax assets will have reduced this quarter?

Vivek Goyal: Yes. So, this is a corresponding impact of that.

Moderator: Thank you. The next question is from line of Shyam Shrinivasan from Goldman Sachs. Please go ahead.

Shyam Shrinivasan: The first one on ARPOB. It's growing now 6%, 6.5%. So can you help us understand how the pricing environment is? And is pricing power back? You are basically still lower than, say, some of your peers, but are we able to do a combination of price increases plus mix change? If you can help us understand the ARPOB dynamics please. Thanks.

Vivek Goyal: So the pricing in general, we are seeing an upward trend and we are able to increase the prices wherever possible. But this particular quarter there is a normal effect which I covered in the initial comment, where because of this the SES income, the export earning income, this year revenue has gone up by Rs. 12 crores, and that has also improved the ARPOB. So the 6% you may say 2% may be attributed to our debt.

Shyam Shrinivasan: Sure. So you are saying the like-for-like numbers is more 4%, but of the Rs. 12 crores there is Rs. 4 crores which is still coming for this quarter, right? So, you are saying that takes out 1%?

Vivek Goyal: Yes.

Shyam Shrinivasan: Now, I am just trying to look rather than just the numbers, just the environment. Maybe Dr. Ashutosh can just add. I remember we said we will take 3% to 4% price increases in select specialties, revenue mix, so anything on those would be also qualitatively helpful.

Ashutosh Raghuvanshi: Yes. So there is definitely a scope for doing some correction in cash pricing. But we have to be mindful that the percentage of business, which is credit, where we do not have the ability to increase prices often is also increasing steadily. The impact on the growth rate of ARPOB may not be that high but definitely we have timed February and July, the months where we take a kind of a regular price hike or price corrections depending on the ability in different markets. So, we will have that ability even this year and we would be planning that.

And the second part is the case mix per se, the payer mix. That is also we are actively working on, because even within the credit segment, the price points are different in different payers. So, we are trying to make the mix favorable towards a higher kind of receivable or a higher kind of net billing amount for a patient.

Shyam Shrinivasan: Got it. Second question is on the hospital assets. You know, when you disclosed the margin metric last quarter, we called out some of the underperforming ones, so something like FEHI. Any of those hospitals are we seeing some kind of a change? I know this could be slow, or Jaipur for example, right. So, are we taking a call quarter-by-quarter? And if not, let's assume three, four quarters nothing happens then is there a potential for divestment in some of these assets?

Ashutosh Raghuvanshi: Yes, as we have repeatedly said that we will be very objective about an individual asset and what kind of value it brings for our stakeholders and what it does to the network. So, I would put them in two buckets, one is where we are sure that because of operational reasons the performance has been lagging, and there are very obvious correctable factors such as FEHI where all possible efforts, though the process, as you said, maybe slower, it may take two, three, four quarters, we will persist with that because these are flagship hospitals and they hold a huge future potential, not only for the existing business but there is the potential of phenomenal growth there and they are creating more infrastructure and assets there for future.

So, that is how we would look at FEHI. We are doing some very focused efforts, we are using external consultant and we are making a lot of modifications in the kind of contracts we have with individuals, with physicians, with staff, suppliers, service vendors like housekeeping etc. And we are trying to sort of collaborate with all those partners and we are pretty confident that that will become a very efficient practice.

Now the other assets which you mentioned, and which I have pointed out earlier also, which being Jaipur and Malar facility, these hospitals have been underperforming for quite some time. There have been external and internal reasons for underperformance, and we will perform the evaluation at the right time, we will keep you informed as to what our thinking is developing. But we are critically evaluating these things.

Shyam Shrinivasan: Got it. And my last question is on the CAPEX. Dr. Ashutosh, you mentioned in the start, I couldn't understand the two numbers. One you said Rs. 180 crores is already in the works and then you talked about Rs. 250 crores. So, if you can just explain those numbers please. Thank you.

Ashutosh Raghuvanshi: Sure. I will explain. So, in the beginning of the year where we said that Rs. 200 crore is the CAPEX for the year, so for the nine months we have already spent Rs. 180 crores. However, during the course of the years, we realized that we could do certain other things which would give us rapid results in a short-term. And if we could do a little more CAPEX than Rs. 200 crores, we could see quick results happening out of that. So we decided to enhance that and end up spending Rs. 250 crores, where majority of that will come in the fourth quarter of this year. So, instead of Rs. 200 crores we may spend Rs. 250 crores, Rs. 180 crores has already been incurred.

Shyam Shrinivasan: Got it. And you said most of it is that medical equipment for BG Road and Arcot road, that could be the Rs. 50 crores?

Ashutosh Raghuvanshi: Yes, most of it is medical equipment.

Moderator: Thank you. The next question is from the line of Rishabh Parekh from Sunidhi Security. Please go ahead.

Rishabh Parekh: I just had a couple of questions. One was the Hospital business growth this year was primarily led by ARPOB increases and not occupancy, when you compare it on a year-on-year basis. So, going forward, what is the sustainability of this growth? And what will be the mix of ARPOB led growth and occupancy led growth? That is one.

And second is our put option on SRL. So, in the earlier call you had mentioned that this will be sorted out by the current fiscal year. Now, that is quite close, so just wanted to see what the progress is. Thanks.

Anurag Kalra: So, on SRL put option, as you know, Fortis SRL are facilitating a process through an I-banker to try and find a third-party buyer for the three private equity investors already in SRL. The put option is already a part of our accounts. So, the only thing is, as when the transaction goes through, and you understand you appreciate that these transactions take a certain amount of time, given how those things work. So it is where it is. We are moving ahead. We want to also expedite this. But these things take time. As and when we reach a conclusion subject to all approvals, we will come and share that with you.

Ashutosh Raghuvanshi: As far as the other part of your question of occupancy is concerned, we have been seeing a steady occupancy. Of course, the third quarter is seasonally slightly lower. If you would recall, the second quarter occupancy levels were about 72% which has come down to 68% in this quarter, and we again see a ramp up happening in that occupancy levels. So, we believe that the occupancy levels consistently should be above 70% during the next couple of quarters, and then steadily increase from there. But the growth will always be a combination of multiple factors, occupancy being one, and definitely growth will also come from ARPOB and the case mix as well. We are more confident about the consistent occupancy level now.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, the first question was that, I think you have mentioned in one of the previous calls that you will have a Rs. 100 crores sort of a cost reduction during this financial year. So, what has been the performance on that account, how much have we been able to cut? That's my first question.

Ashutosh Raghuvanshi: Yes. So we are very much on target as far as that is concerned. And right in the beginning, as Anurag had explained, we can see that impact on our profitability. Line wise if you see the various cost heads, you will realize that none of the costs have increased beyond the percentage point where they were. But it's an ongoing effort and we expect that we might be able to maintain this momentum and rather increase the momentum as we go further. So, this will be measured best by looking at the profitability metric.

Sarvesh Gupta: Understood. The second question was on the occupancy, as the previous caller had also mentioned that the occupancy even on a Y-o-Y basis has stayed flat. And one thing that I was looking at was the payee mix, thinking that we may be biased more towards the cash market and hence, we are choosing more profitable times. But even that has deteriorated Y-o-Y. So, that is looking a bit worrisome that occupancy is not increasing and the payee mix is also deteriorating. So, any comments on what is happening on that front?

Ashutosh Raghuvanshi: Yes. So, we have to look at the cash and TPA as one segment, that is one part. Because increasingly lot of people who would be cash patients are coming under the cover of private insurances which people take as individuals. So, a mix of TPA and cash is to be looked at as together. But you are absolutely right that we have to be very mindful of where the other businesses are coming from. And as I said during my comments earlier also, we will be always consciously trying to reduce the scheme business and focus would be towards the cash and TPA. So CGHS, ECHS, these segments we are looking to reduce as we go further. But some of our units have a very high population base around those facilities which is covered by these schemes, and as a result of that, this ratio sometimes gets slightly unfavorable for us. But we are putting in measures in place to ensure that our growth on those segments does not happen and it happens only through a cash and TPA segment.

Occupancy levels, you are right, that they have been more or less flat. But you have to be mindful that the quarter three of last year the occupancy levels had fallen further. So, there was a gradual recovery which happened and now, as I said earlier, is that we are pretty confident have a consistent occupancy. And that is a starting point to start having growth.

Sarvesh Gupta: Understood. And finally on the diagnostic side that has been now granular consolidated performance as well. And, even the rate of revenue growth has been quite discouraging for many, many quarters and now the profitability is also getting impacted. So, is there a timeline by which we will take a hard call on what is happening on our diagnostic business? Because, I think this has been going on for many, many years, and we have been looking at the rate of growth for 2%, 3% for so many quarters. So, is there a timeline by which we will say that, okay, this is when we find take a final call on what we need to do with this business?

Arindam Haldar: Good question. And this is one area that the entire management team has spent quite a bit of time, obviously, under the leadership of Dr. Raghuvanshi looking at the diagnostic segment, and looking at the industry. And we have done a lot of analysis of where we are really going wrong. And some of the discussions that we did earlier, I will just reiterate. We believe that the longer term sustenance is in the B2C part of the segment. Traditionally, this is the segment which has declined in quite a few quarters. We identified and have started taking some measures on ground. And this is the first quarter where the B2C business came back into positive. And we believe that this is basis a design and not by default. And the work that we are currently engaged in and the guys on the ground are engaged in, we are confident that in two to three quarters' time the B2C part of the business will be into double digit. We are also looking at in the current quarter our go-to-market model and how we can improve our execution in the market in B2C and B2B. So that's something that we have taken a very hard call as well as looking at it, what needs to be done. And that's the kind of timeline that we are looking at to get our B2C business back to growth.

Sarvesh Gupta: Understood, sir. Sir, while focus on segments are fine, my only limited comment is that, as investors we will look at the overall revenue growth and overall EBITDA growth. And unless those metrics move in tandem with the market, in tandem with your competitors, I think that would be dragging down the overall profitability and revenue growth for the group.

Arindam Haldar: Fair point, Sarvesh. And we are cognizant of the industry margin. If you have seen our quarterly performance, typically, at a YTD level, our margins are still growing, specifically in quarter three, and that happens every year. As you know, quarter three is the softest of the quarter and there is a flow through of the lower revenue which goes down into the margins as well. So specifically for quarter three, the margins are lower, which is in line with last year as well, it's still growing versus last year. At a YTD level, our margins are improving, despite a very low growth. Our revenue growth is the primary area of concern for all of us, including you as stakeholder as well. And we are confident that once we can turnaround the revenue growth, the margin delivery in terms of operating leverage will happen. Because even in the same phase where our revenue growth hasn't been satisfactory, we have been continuously been able to improve our cost profile and margin profile.

Moderator: Thank you. The next question is from the line of Jayesh Shah from Alpha Line Wealth Advisors. Please go ahead.

Jayesh Shah: Good morning, sir. And thanks for opportunity. Doctor, how do you evaluate the budget for the healthcare sector? What is the effect of 5% health cess on the import of medical equipments? And we need to be able to understand this 5% is additional to the already existing duty or it is over and above that, that we need to understand?

Ashutosh Raghuvanshi: Yes, our understanding is that it is over and above the existing duties. So this definitely will have an impact. However, the detail orders and lists have not yet come. So we are yet to evaluate what exactly impact might be there. But then it will become a pass-through kind of cost, except for the major equipment where we will have to look at the pricing in general.

Jayesh Shah: Sir, now that we are focusing more on daycare procedures and all, do not you think instead of ARPOB, a better metric would be something like average revenue per patient?

Ashutosh Raghuvanshi: Yes, that's a good suggestion. But so far because the industry has been measuring like this so we continue to do this. But are tracking several other parameters such as average realization and other things as well, and the number of procedures, realization per procedure, etc., as part of our business intelligence program. So as and when these metric become more and more acceptable and comparable and others start disclosing, we would be happy to change the metrics as well.

Jayesh Shah: Sir, my last question is, which subsidiary had the deferred tax asset written off? And any more DTA write-off to be expected in the future?

Vivek Goyal: Not really. So the subsidiary is Fortis Hospitals Limited, where majority of the operations are sitting. So that is that subsidiary. So because of the past BTCs and all, the losses have accumulated.

Moderator: Thank you. The next question is from the line of Sanjay Parekh from Nippon India. Please go ahead.

Sanjay Parekh: Thank you very much. So, I just wanted to ask that once this litigation is behind us, and let's say we get through it, what is IHH's view in terms of the structure. Would it remain this way? Or is it similar to such a prevalent this way of holding a 57% stake in a domestic company? Or would you all consider a vertical split?

Ashutosh Raghuvanshi: Mr., Parekh. I would not like to comment on behalf of IHH, as you know that currently we are independent company. However, I think it would be prudent for any organization to consider the kind of options you are suggesting. And definitely, both IHS and Fortis will be very, very positively inclined to ensure that all the shareholders get the best possible solution.

Moderator: Thank you. The next question is from the line of Adi Desai from York Capital. Please go ahead.

Adi Desai: Just a follow-up question on a couple of regulatory, I guess, movements over last couple of weeks. One was the discussion paper from SEBI which talked about the interest payment and delay for cases similar to ours, where there is delays due to judicial or litigation issues. Do you have any initial views, as there are lot of other views on, A, that applies to us and what will be the impact on sort of the shareholders of the company vis-a-vis the open offer, assuming the litigation is away? And I guess second question was on the serious fraud Investigation office investigating the IHH part of the capital injection as well. If you can just get some colors as to what exactly they are investigating over here as well, and how you are helping them?

Ashutosh Raghuvanshi: Yes, so as far as the sub-judice matter is concerned, I don't think we will be able to comment on that. But as I said, we are using all best possible legal resources to represent ourselves and we are pretty hopeful that the court's ask gets properly addressed.

As far as the investigative matters are concerned the investigative agency obviously will look into all the elements which were part of their queries other than that I think we cannot comment on what the investigative agencies are doing. However, we are as a company very confident that we will be able to address satisfactorily most of the queries being made, by either the investigative authorities or any other agencies, which may come.

Adi Desai: Got it. I will just stop you, just to clarify my first question, to give the context. SEBI came out with a discussion paper where basically they contemplated interest payments should be paid to shareholders of companies under takeover offers or under partial takeover offer, which we have over here. Yes, the delay was due to judicial litigation issues at the rate of 10% per annum. I mean, is that something that we have studied over, obviously, as it impacts the shareholders of the company?

Ashutosh Raghuvanshi: Yes. You see, this is an issue between IHH and the individual shareholders. However, we as a company will be very supportive of whatever direction it takes, and make sure that it gets facilitated.

Moderator: Thank you. The next question is from the line of Shashank Balan from Rocksterd Capital. Please go ahead.

Shashank Balan: Thank you for giving the opportunity. I wanted some highlight on the diagnostic business part, whereby you have mentioned that there was an issue in the B2B part of the business. Can you please highlight that what consists of how much percentage is like corporate or how much is through hospitals? And also wanted to understand that what is the percentage share of online app based test and how is that faring for us?

Arindam Haldar: So, as I said earlier, our overall B2B business is about 60% odd, and primary reason for the slowdown there is what we saw in month of December, broadly attributable to the lower footfalls and the lower patient flow that we saw across many of our segments. Talking about your online sales or the app sales, so SRL app has close to 2 million downloads. And the app business on a very, very small base is growing at upwards of 40%. So 43%, to be exact, it's obviously pretty small, but it's doing extremely well for us. The corporate business is again counted as, obviously, the app business is a consumer business part of the B2C segment. You also spoke about corporate, corporate is part of the overall B2B piece. The corporate business also has seen a slowdown due to multiple, multiple reasons, including some bit of competition as well.

Shashank Balan: How much is percentage of corporate of the total diagnostic business?

Ashutosh Raghuvanshi: Of the total diagnostic business?

Shashank Balan: Yes.

Ashutosh Raghuvanshi: About 4%.

Shashank Balan: Okay. So other B2B consist of what kind of businesses, like that would amount to 60%?

Ashutosh Raghuvanshi: So, we have hospital, we have direct lines, we have corporate, we have some bit of PPP business, the government businesses that we have. So those are the broad components of the same.

Shashank Balan: And online would be less than 1% of the overall pie?

Ashutosh Raghuvanshi: Yes, pure online business will be pretty small, around 2%.

Shashank Balan: Thank you. And my next question is regarding, I wanted to understand what is the impact has been of Aayushman Bharat, like how many hospitals have now been registered of Fortis, and what amount of revenue of Fortis Hospital has come from that and how has been the collections, like revenues coming out from government and all?

Ashutosh Raghuvanshi: Yes, we have not been electively getting enrolled for these programs. However, in state of Rajasthan, the state government program which was called Bhamashah has been subsumed into the Aayushman Bharath, and as a result of that our Jaipur facility has got this business. But the percentage terms it is very small still, about maybe about 5% of the business of that unit. So the overall network level it doesn't really contribute. And the payment cycle so far have been reasonably good.

Shashank Balan: Okay. And we do not expect any more hospitals to fall into Aayushman Bharat?

Ashutosh Raghuvanshi: No, we do not. We proactively are not seeking that business.

Shashank Balan: Okay. Just one more part, I think it was already explained, but just wanted to confirm that the put option, does it expire on 31st March 2020, and Fortis will have to buy it? Is this the deadline or is this extendable?

Anurag Kalra: It is extendable subject to further discussions with existing private equity. As we know, there is an ongoing process that is currently going on. And as that process goes through, and these things take a little bit of time, so we are in discussion with that right now.

Vivek Goyal: And in past they are cooperating enough to extend this put option deadline.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now have the conference over the management for the closing comments.

Anurag Kalra: Ladies and gentlemen, thank you very much for being with us on the call today. Gaurav, my colleague, and I are available for any further clarifications questions you might have. Thank you once again. And we look forward to speaking with you soon. Have a good day.

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