



“Fortis Healthcare Limited
9MFY18, Q3FY18 & Q2FY18 Earnings Conference Call”

March 1, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the Investor conference call of Fortis Healthcare Limited. As a reminder, all participant lines will be in the listen-only mode. 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 ‘*’ followed by ‘0’ on your touchtone phone.

I now hand the conference over to Mr. Anurag Kalra – Senior Vice President (Investor Relations) at Fortis Healthcare Limited. Thank you and over to you, Mr. Kalra.

Anurag Kalra: Very good afternoon, ladies and gentlemen and thank you for joining us on Fortis Healthcare’s earnings call. The earnings call today is to discuss our Quarter 3 FY18 and Nine Months FY18 numbers. I have the pleasure of introducing you the management on the call today. We have our CEO – Mr. Bhavdeep Singh accompanying him is Mr. Gagandeep Bedi – our CFO. We have also been joined by Mr. Arindam Haldar – our CEO of the Diagnostics Business, SRL and with him is President (Commercial) – Mr. Srivatsan.

The format of the call will be as follows. I would request Mr. Bhavdeep Singh to make some opening remarks on recent developments and the earnings of the business. He will then hand it over to Arindam for a brief on how the diagnostics business is going on. Post which I will run you through the financial presentation and then we will open the line for participants to ask question answers. Over to Bhavdeep.

Bhavdeep Singh: Thank you very much, Anurag and good afternoon to everybody. We have a full house this afternoon. Welcome to the Fortis call and I am pleased to be able to spend a little bit of time talking about where we are. I want to just step back for a second because quite honestly it has been a little bit of time since we all connected and it has been a very interesting few months for the organization.

To be very candid we have a quite journey, it has been on some days very challenging, some good days, some not so great days. But here we are standing tall and standing very firmly with our seat planted with a strong push to go forward. With that said, some of the challenges that I have talked about we have had external challenges clearly by what is happening in the industry, what is happening with the regulatory environment in the country today. We have had some group challenges within the broader group that the erstwhile Group that had controlling interest in Fortis and then we have had certainly some Fortis issues as well and we will talk as transparently as we can about everything that I am mentioning.

With that said, let me just track first about the broad health environment and you are all aware obviously that our country India is changing every day, literally every day with respect to how we look at business, how we look at our controls and checks and balances and that is a good thing. I think for all of us I think that is a good thing. With that said the healthcare industry has gone through a lot of changes. If you think about years the Indian healthcare industry was 20

years ago the days of operations walking into a hospital and touching the doctor's feet and thanking him or her for taking care of them had long gone.

We are now at a time where information transparencies available and patient has gone online to check and see how is the doctor, they check their ratings and they decide where they have dinner and what restaurant they go to. I think it will be the same thing with doctors and hospitals as well now. So obviously a lot changed.

I will tell you what has been troubling from a private healthcare operations perspective is the disparaging manners in which the private healthcare sector has been portrayed in multiple forums whether it is the general public or whether it is the media, whether it any intellectual discussions debates that are taking place. To put it very bluntly and very simply the industry is just gotten its butts kicked in the last six to eight months. I would say it is very often that we are once most maligned industries in the country as a matter of fact quite honestly quite an irony because I saw a survey that was done in the US very recently were the most noble profession in the country was that of a nurse and I think third or fourth are the doctors. In India, the least trusted professions in the country one of the least trusted is the doctors which is quite interesting.

Especially since many of the doctors that are considered the best doctors in the US is Indian. So it is quite irony that the same doctors here who are being called crooks and God knows what else in US they enjoy celebrity status because they are considered so good in what they do. So that has put the industry in quite a challenging position we been no different and the industry is as I said we have gotten ahead hand it us. So as an industry as an organization we are working together to make sure that we do a better job communicating and hearing what happens in the industry, what is the cost of good healthcare and just exactly how do we see the future going forward.

Now just to dig in a bit further what has happened from a business perspective and how these things have impacted us. Around November you will recall that several hospitals including one of ours had some challenging incidents that took place that put the entire private healthcare discussion after a public debate.

Max as a hospital there was the twin babies and you are all familiar with that at Fortis we had the Baby Aadya case and that certainly have impact we had Medanta had a case with a young boy with a very large bill. So many, many hospitals have some more challenges and that is certainly have impact. So I will tell you that as an industry we are working on doing a better job. Communicating the value proposition inside Fortis Healthcare, we opt for making sure that from an internal perspective that our processes are being absolutely run in a manner that should be consistent with the best practices around the world. So that is a big, big focus for us.

If you look at the business, quarter 2 was a strong quarter. We have good numbers and we will go through them in a few minutes. Quarter 3 which is bit of a hit as did much of the industry as is much of the competitive landscape as well and again that is something that is widely reported.

The whole private public sector debate has been on. And quite honestly actually there are so many inconsistency is there because very often some of the things that had happened in the private healthcare space where people you have whether it is Twitter or whether it is Facebook or whether it is multiple social media channels, whether it is the television stations we have a huge uproar around them. Very often that happens. But then similar things happens in public hospitals and you do not hear very much about it.

So what our view from an industry perspective and as a private operator is that let us have a level playing field for the healthcare industry, let us have some level parameters. We believe self-regulation is good and from the Fortis perspective we have a very strong self-checks which is called for. So we try to ensure that we are taking the best care of every single patient, every single day in our hospitals.

Having said that Fortis Healthcare environment is now witnessing signs of stabilization. We did quarter 3 was a weaker than expected quarter driven by this and to be very honest we have had the whole noise factor that has been related to our group has been quite significant and that is why we have been a bit of a distraction as well. With that said the bigger issue is broader healthcare environment. January started to come back a little bit. The month of February with three lesser days was actually stronger than January and we expect March to be a good solid month and I am expecting a very, very strong 2018-19 going forward.

The other thing that you are well aware and some of the things that have been happening within the group level you are obviously aware that our promoter shareholding which a year ago was 60% plus range came down to the low 30%, 33%, 34% range and now is marginal at less than 1% of what have been happening with times.

In addition you are well aware that the promoters resigned from the board this is a decision they made and that is a matter and a fact have been well publicized in all media circles. So you are aware that post the IT decisions we made the decision to do so. And on a broad view that they were going to disengage with the company and now the company will move forward.

With that we have a non-promoter headed board today. We have a management committee that consists of three broad members who are now functioning as an operating committee and we have a management team that we feel is a very, very strong team and we believe that company certainly in good hand as we go forward.

The other thing that I should mention is you are obviously aware of some of the other things that the news about loans that were given. We have on a company level through the audit committee have an investigation going on that again it is company initiative investigation is going on. There is also as you all aware there is the SEBI investigation as well and that we have certainly cooperating with in every shape and form.

I will tell you one thing. Look I do not think anybody not me, not you, no one, I do not think anybody wants to be investigated. Having said that my view on this and it is a very simple and fairly clear view is that we want to make sure that we are running a good business. We want to make sure we are running an ethical business and we want to make sure that we are providing the best possible care to every single patient and every single hospital, every single day.

So we are looking forward to whether it is external or whether it is internal and completing these investigations successfully making sure that whatever if there is something that is not right decision that we fix it but extremely important that as we go forward that we are running an absolutely tiptop organizations on every single way possible.

I will also tell you that from an organization perspective and from a leadership perspective the last six months it has been one heck of a rise. It has been a heck of rise I can tell you and I said it for the great deal of humility and pride we have not lost one member of senior management in this entire time. We have not lost one senior clinical, one doctor. We have a tremendous amount of faith. I think the people in this organization have a tremendous amount of loyalty to the brand, a tremendous amount of loyalty to each other, loyalty to patients to make sure that we continue to do what we are doing.

What I am extremely excited about is by virtue of the fact that we have retained so much talent that there is so much the passion level if you came to any one of our hospitals or meetings or anything you would think you are talking about company that is \$50 billion of business because the energy level is very high. These challenges have been challenges nothing less than that. I do not want to dismiss them, I do not want to make them sound minimal or light in anyway shape and form.

Having said that look I think Fortis has come out this very, very strong and I think that learning for any organization if you look at the maturity of an organization if you look at what great organizations companies like GE have gone through in their history as an example. All good companies go through challenges. We have our challenges. I have been extremely transparent. Many of you may have received communications from us since the time in November when these things started happening. We have been extremely transparent. We were sharing information. We are upfront about what is happening and at the end of the day whatever we do our focus is on moving forward in a manner that is good for the organization. The 17,000 employees we have in the organization and the hundreds and thousands of patients we take care of every day.

So I can tell you that we look forward to completing the investigations, we look forward to get an audit as you are aware that was signed off yesterday. There are two, three issues that have been pointed out I want to just say upfront because I want to clarify this upfront as well that the audit points out three, four issues. The function of the audits basically concluding statement is that they cannot comment on the financial statements because of the impacts that these two, three items might have on them.

Having said that again, once again we have an investigation that's going on. We look forward to that and beyond that we look forward to moving forward and taking Fortis continuing the great life the journey that Fortis has been on and we look forward to going forward. So one of the things that I would like to mention from a business perspective is you are all also aware about RHT the health trust and we have completed and signed final and formal documents around that and we look forward to that transaction being completed.

So if you look at two, three things that are happening and at that point I will hand the mike over to Arindam. There are two, three things that are happening. One is that the broader industry is changing and I think there is a lot of change I think for all these thinking that is exactly what is the healthcare transaction value proposition look like, number one.

Number two, from a Fortis perspective the health trust the RSTPs is going to have a significant almost a Rs. 300 crores impact on our EBITDA which is significant and I do not want to short change or anyway shape a form on this fact that while the last six months have been painful as hell it is going to make it that much stronger. Because I firmly believe in one does not tell you makes it stronger and god knows we are alive and well and we will be much stronger going forward.

And third is I think that Fortis has done a lot in the past and I think that going forward I think post this we will be able to continue that journey and I look forward and I firmly believe that in the very, very near future Fortis will be mentioned among the better healthcare providers in the continent.

With that I will hand it over to Arindam.

Arindam Haldar:

Thank you, Bhavdeep. Arindam here. Pleased to share my thoughts on the diagnostics part of the business. So if I may state back honestly the way I look at the last nine months the diagnostics space in India has been quite interesting and exciting at the same time. Quite a few developments I would say. There have been entry of few new players in some of the geographies. There have been much increased competition amongst the larger diagnostics network players in larger metros and incidentally that is where maximum fight for margin and growth is always is.

There is also bit of a trend towards self-medication as one see you notice you are seeing a little bit of that trend coming in the consumer awareness part of it in diagnostics as well. A lot of self-awareness which is leading to the B2C part of the business growing at a faster rate. That is what one is seeing. And also a lot more focus on wellness and preventive check. So that is at a very broad levels is what one is seeing in the diagnostics space.

Coming to the SRL again are pretty interesting time about 10 odd months back we restructured our organization to be far more nimble and closer to the market. So all of that got done. The organization is quite stable happy to say that our attrition rates are at an all time low over the last five years. So it is a pretty stable organization we have been able to hold on to the growth

numbers despite all the external challenges. And we still remain the most geographically diversified diagnostic network with no over dependence on any specific region.

So pretty good and pretty well poised as we see and looking forward to better times ahead. Thank you.

Anurag Kalra:

Thank you, Arindam. Ladies and gentlemen, I shall take you through the nine months FY18 numbers and then FY18. Our nine months FY18 numbers are as follows. The hospital business in the period ended nine months of FY18 recorded net revenues of Rs. 4,815 crores versus Rs. 2,700 crores in the corresponding previous period. Our operating EBITDA was at Rs. 395 crores, a 14% margin versus a 15.5% margin in the corresponding previous period obviously the impact of quarter 3 has actually also impacted the nine months numbers.

Our net BT cost, our net costs that we catered to the business trust were down 34% this came down from Rs. 308 crores for the nine months period to Rs. 202 crores for nine months of FY18. So substantial decline there. Our operating EBITDA was up 52% to Rs. 192 crores. This all was for the hospital business.

On the diagnostic business for the nine months period the net revenues grew 8% to reach Rs. 642 crores. Our operating EBITDA represented a 20% margin versus a 22.7% margins in the corresponding previous period which was nine months of FY17. On a group consolidated business the group consolidated is largely the hospitals and the diagnostics business, our net revenues stood at Rs. 3,474 crores for the quarter versus Rs. 3,450 crores. Our consolidated operating EBITDA was at Rs. 516 crores versus a number of Rs. 586 crores.

Our EBITDA BT cost grew 13% to reach Rs. 313 crores versus a number of Rs. 278 crores in the nine months of FY17. Going forward for the P&L post the other income our EBITDA for the group consolidated basis was at Rs. 420 crores after other income which was a growth of about 10%. We saw a marginal increase in our finance cost Rs. 193.6 crores versus Rs. 162.8 crores in the corresponding previous period.

Our depreciation and amortization was at Rs. 178.7 crores versus Rs. 159.2 crores. Our Profit Before Tax before Forex for the nine months ended FY18 stood at Rs. 48.5 crores versus a number of Rs. 59.4 crores. After accounting for foreign exchange gains and losses our Profit Before Tax before exceptional items was at Rs. 13.3 crores versus a number of Rs. 85.9 crores in the corresponding nine months period of FY17.

Our Profit After Tax after minority interest and share in the associates stood at a negative Rs. 77.2 crores versus a positive Rs. 489.9 crores. Just wanted to highlight that the negative Rs. 77.4 crores also includes an exceptional loss of about Rs. 49 crores related to the closure of certain operations of the company so that is one time.

Correspondingly in the nine months FY17 period we had huge gain in our share of associates which was largely related to the profit of the FHDL transaction that we had which we had consummated at that time. So this is the nine months FY18 number. I shall also now take you in a similar format through quarter 3 FY18 numbers.

For quarter 3 FY18 our hospital business net revenues were at Rs. 909 crores versus Rs. 917 crores in quarter 3 of FY17. Our operating EBITDA was at Rs. 118 crores versus Rs. 131 crores in quarter 3 of FY17. Net BT cost were down 5.5% they stood at about Rs. 67 crores in quarter 3 FY18. Our operating EBITDA was also lower. It was Rs. 51 crores compared to Rs. 60 crores in the corresponding previous quarter. And our EBITDA margins were at 5.6% versus 6.6% in quarter 3 FY17.

On the diagnostic side our net revenues were at Rs. 206 crores a 10% growth over quarter 3 of FY17. In the presentation that some of you might have all of you would have received the number stands at 21.6% but our apologies that is a typographical error. It is a 10% growth versus quarter 3 FY17. EBITDA for SRL was at Rs. 37.5 crores versus a similar number of about Rs. 37.4 crores in the corresponding quarter. And the diagnostics business represented a margin of 18.2% versus a margin of 19.9% in quarter 3 FY17. Again there is a typographical error. We have inadvertently mentioned 22.6%. The numbers you can actually verify in slide 33 where SRL's finances have given. So just wanted to clarify that portion.

For quarter 3 FY18 on a group consolidated business our net revenues were at Rs. 1,121 crores versus Rs. 1,133 crores in quarter 3 FY17. Our consolidated operating EBITDA stood at Rs. 153 crores representing a margin of 13.6% versus a margin of 16.5% in quarter 3 of FY17. Our consolidated operating EBITDA margin was at 7.6% versus 10.2% in the corresponding previous period.

I will just take you through the rest of P&L. After accounting for other income our EBITDA stood at Rs. 118.2 crores in quarter 3 FY18 versus a number of Rs. 150 crores in the corresponding previous period. Our Profit Before Tax before Forex accounting after accounting for finance cost and depreciation and amortization was a marginal negative of Rs. 4.1 crores versus a positive of about Rs. 16 crores. After accounting for certain foreign exchange gains and losses in exceptional items the minority interest and share in associates was a negative of Rs. 30.8 crores versus a number of Rs. 16 crores in quarter 3 of FY17.

And finally Profit After Tax after minority interest and share in associates for Quarter 3 FY18 stood at a negative Rs. 36.8 crores versus a positive Rs. 442.3 crores in quarter 3 FY17 and again this is not like-to-like this is quarter 3 FY17 had those one off gains that I had mentioned because of the FXDL transaction.

Let me take you in brief through the balance sheet before we conclude the financial presentation. Our shareholder's equity as of 31 December stood at Rs. 6,225 crores. Our debt stood at Rs. 1,099 crores and the total capital employed in the business was Rs. 8,024 crores. Our net fixed

assets including Capital work in Progress stood at Rs. 3,229 crores. We have a good will on books of Rs. 2,281 crores.

Our investments stand at Rs. 1,454 crores. We have a cash and cash equivalence of Rs. 460 crores and net current assets of about Rs. 600 odd crores. Hence the total asset base is Rs. 8,024 crores. We consistently have been maintaining a strong debt equity position. Our net debt to equity as of December 31, 2017 stood at 0.22x. This is similar or lower compared to 0.27x as on September 30, 2017 and a number of about 0.2x on June 30, 2017.

With that I would like to bring the financial presentation to conclusion and we would like to welcome question answers from the participants. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question on the operational results. Our topline for the hospital seems very tepid both for the September quarter and for the December quarter. December I can understand there was one off related to FMRI etcetera which is now normalizing. But our growth for some time has been muted. How should we look at the hospital growth and therefore margins going forward, a little more two or three year perspective?

Bhavdeep Singh: I think that the Quarter 2 numbers, I do not have the numbers of that. There is always a little bit of a seasonal component and you always have some one-off things that happen from time to time. I think that as you rightly said we certainly had the whole industry noise. I think we had the challenges in the marketplace, I think the whole buzzer on public, private etcetera. We had our challenges in FMRI as you rightly mentioned. We did have an impact there.

I think the most important part to your question quite honestly is what do we think about going forward and that is a good question I would like to address. Look, the reality is that the industry is changing. And I would say to you very clearly it is not only changing, it is changing very quickly and every single day. I think that the typical Indian patient is far more educated, far more sophisticated than we have ever given him credit for and so we are rethinking many, many things towards investing good bit of time thinking about pricing and what does pricing mean and that does not necessarily mean compromising on margin.

I just think we have to think about what does entry level pricing look like versus what you might be charging for procedures and other such things. I think that based on what we are doing from a clinical program you have heard me said it before we continue to have one of the largest transplant programs in Asia which continues to get stronger. As I just mentioned we have managed to retain all of our doctors, we have two to three big new programs that are starting with some new doctors as well. I think that if you combine the two, three things that see we noise

which is not substantial and significant. Two is we have had some trailing wins and demonetization has continued in the early part of the year Q1 and early Q2 as well.

And then quite honestly look we have had organizational noise. I mean I cannot get away from the fact that the organization noise has been significant and it has been a distraction good bad or otherwise. That is an element of human nature that we all have to deal with. So back to your question I think that going forward I absolutely believe than what we are starting to see as I just mentioned a few minutes ago the month of February with three less days were stronger than the month of January. So immediately you have a 10% growth here which is certainly more than we would have expected number 1.

Our occupancy rates which had dipped are now approaching the numbers that we were expecting, is coming back even stronger and I think come April I think we would have recycled everything and I think all that noise will be behind us as well. I think some of the new medical programs that we are starting, some of the new strategies that we have entry level and we are focusing very, very big on entry level. We have a huge initiative around digital and how do we get online patients. So our digital revenue so revenue that is coming from digital sources has now crossed three digit for the first time which is a significant point of inflection for us that online is driving over a Rs. 100 crores in revenue which is a significant number.

The international business continues to be a very, very big business we are on the verge of signing a partnership with somebody who we think a significant amount of patients will be coming from a place that we have not got before North America and we are very excited about that as well so we think that is going to be adding value. So Neha look I firmly believe that high single digit growth, double digit growth is around the corner. The fact that we have had some challenges I think if anything just leave this pent up demand and pent up opportunity for us as we go forward.

But I can tell you very clearly that it is not business as usual at Fortis. It should not be as usual at any hospital operating in the country today because I think the model is going to change quite substantially, quite dramatically going forward and I think this year going forward our focus is going to be filling that. We are going to fill that this year and I think we are going to have a fantastic year in 2018-19.

Neha Manpuria:

And sir, if I look at margins, we have had a little bit of issue this year because of stent pricing and all of these noises that you were talking about. There has been enough news flow about how the NPPS mentioned self-regulation around consumable pricing. I understand that is not a very large portion of your revenue probably but could that be one of the headwinds for us to improve margins even with the step that we are taking to reduce cost and improve our clinical program?

Bhavdeep Singh:

Look I think all these things have an impact. They all have a role to play but Neha if you look at any industry, look I come from the retail industry and I can tell you that every year you have to reinvent yourself, so whether stent pricing which is always a big business whether it is something

else that comes up that is going to have an impact in your price. I think you have to keep reinventing yourself and thinking about two or three things you can do. One is you can squeeze the sponge, that means you take out more cost out of the system.

I believe that looking at our P&L today there are 300, 400 points in cost that can come out of our system and we have started to do that. Our Head Office two years ago was over 300 people now we are sitting today at under 200 people and I believe we are giving better support to our hospitals than we have ever done in the past. So that is an example. Right, we are looking at ways to bring technology as a resolution.

So if I want to squeeze this sponge which means if we have a billing department of 20 people can we do with 18, reinvention and looking at our systems and process and technology talks about how do you go from 20 to 18 to 8. How do you actually start reduce cost and then find meaningful things for these people to do inside the system, because our focus is the model has to be on patient care. Everything has to be about patient care and taking care of the patients so yes do I think these things are going to impact the P&L yes of course they will.

But I think we have to whether through volume, whether through additional cost opportunities within the system that you find, or whether it is further adding in the complexity of medical procedures that we are doing we make up for it. But if you and I were having this call ten years from now Neha you will be asking me the exact same question. Right that is the nature of any industry going forward. I will tell you anecdotally one cannot forget in the US, when handicapped laws were being packed, and we had told that we had to expand the entry at every door, we had to make sure that every store had a handicap basin so we thought the world was coming to an end.

We said oh my God how we are going to accommodate this. Three months in, it was in our run rate and you lose on. So I think that these conversations you will ask me this exact same question next year I hope and probably ten years from now if you and I both are here, because this is steady state business and you continue to look to reinvent, improve and you keep moving and you keep growing and you keep thinking about how do you continue to thrive in the new environment.

Neha Manpuria:

Fair enough, sir. And there has been a lot of noise about the promoter's shares coming down and new potential strategic buyers looking at the Fortis assets. Given that there is an equity portion required for funding the RHT deal, any comments there in terms of what we are thinking about however you would like to comment on this?

Bhavdeep Singh:

So Neha, right now nothing has been finalized. So at the time of the RHT announcement we had mentioned that the funding will be done through equity quasi equity and/or debt. So I think this is a conversation for the later stage, because as we have already discussed with all of you that while you sign the debt talks for acquisition of the RHT portfolio the consummation of the

transaction is subject to some approvals which is sometime away. So I think this is something that as and when we firm up we will come back to you on.

Neha Manpuria: And the promoter holding that you mentioned is less than 1%, this is the invoked portion right not necessarily what has been sold. So there could be still banks holding some shares of the promoters. Is my understanding correct?

Bhavdeep Singh: That is correct. Just purely from a shareholding perspective the promoters currently hold 0.77%.

Neha Manpuria: And my last question is on the Rs. 50 crores exceptional that we have. What is this regarding to, you have mentioned lots of closure of facility, I am not aware of any facility that got closed. So what is this related to?

Gagandeep Bedi: Neha, this is Gagan here. This is related to we had closed down Raipur as a hospital and this is the goodwill that relates to that portion of Raipur. So that is the one time that is basically impaired.

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

Shyam Srinivasan: My first question is on the balance sheet the disclosure that we have actually given in the presentation. Given the linkages that some of the line items have with the Singh brothers can you just give us an update of what other linkages that are pending so for example like the related party loan. I think there is some disclosure that something has been paid back. Can you just give us clarity on the two, three items on your balance sheet per se to see what has been done and then as we go forward which of the items that needs to be un-mount on the balance sheet? That is my first question.

Bhavdeep Singh: So Shyam the balance sheet primarily has two items that we have already mentioned about one is what is also being mentioned as result is the loans and advances that have been given. So that loans and advances in our balance sheet will be as a part of our net current assets as of September 30, 2017. The other again we mentioned is the recovery from certain vendors related for business purposes which is an amount of about Rs. 56 crores. So I think these two are the items that are there as a part of our balance sheet.

Shyam Srinivasan: Both these items are related to in some form or shape the Singh brothers?

Bhavdeep Singh: No, again the related party is basically the loans and advances or the ICDs. The others are purely from a business perspective to third parties.

Shyam Srinivasan: The brothers have been having trouble paying some of their other loans what gives us the confidence if we see the statement from the Board of Directors says that you are confident of

the recoverability of that loan but circumstantial evidence does not seem to suggest. So what gives the Board the confidence that we can recover this loan?

Bhavdeep Singh:

As you are aware we have made a statement and this is based on assurances that we received that it will be paid by the end of Quarter 1 and in this case there is nothing further that we can say on that. Obviously there is lots of you know one of the challenging things right now is that there is so much noise, so much speculation is going on but based on what we have been told we expect that it will be fully paid by the end of Quarter 1.

Shyam Srinivasan:

Thank you for that. Just persisting last point on the balance sheet before I move on is on your cash balances. Rs. 460 crores is what shows up in your December number. I remove that Rs. 390 crores of whatever investments that one has which is in that global fund. That leaves us about Rs. 70 crores or so. Do you think that that is an adequate level of cash for you to run your operations? Is there a liquidity risk for the operations per se?

Gagandeep Bedi:

So Shyam, I think you are right, there is Rs. 70 crores or less there. I think currently despite the external environment we continue to maintain reasonable liquidity. Of course the group issues have impacted us and you have seen credit rating falling and downgrades. But on the other side we have been able to we have paid all our interest and principal payments, there has been no default perse and we have also been able to reduce our debt by around Rs. 400 crores in the last few quarters. So yes, basically it is tough but we have been able to get loans but at a pricing that is probably a little higher than normal.

Bhavdeep Singh:

I think the other thing that is worth mentioning is that the good bad or otherwise the Group issues that have been out there, lending facilities have linked us to them. The banks have linked us to them. So as Gagan has just mentioned we have reduced our debts from 14, 15 months they were sitting at Rs. 2,300 crores, Rs. 2,400 crores we are down to Rs. 1,500 crores, Rs. 1,600 crores. So we paid off somewhere between Rs. 600 crores to Rs. 800 crores and we paid off Rs. 600 crores to Rs. 800 crores in debt.

Out of our standard revenue operating cash flows which is a significant amount and quite honestly we are having some challenges with banks because we have been linked to them. Now we have never defaulted on our own and we are getting linked by virtue of the fact that formerly part of the SR Group. Having said that things are changing now, the fact that they are no longer on the Board, their shareholding is negligible at this stage and as you are well aware, we are very, very close on talks with the deal which we hope will consummate soon and I think that will signify a big change as well.

So organizationally, I do not want to sound like a broken record but we have watched happenings what is the changes coming as well, and I think all of that bodes well. Had there been challenging time and has liquidity been a challenge. We can always have more. But we are standing and we are taking care of our patients every day.

Shyam Srinivasan: Just for the record can you also clarify what is the number of bed count that you currently have operational and is there any of those hospitals or beds which are the plant from the promoter per se ex promoter I am saying. Is there that kind of a linkage as well still on any of your assets?

Bhavdeep Singh: No Shyam, not at all. Absolutely not. Our bed count is in the range of 3,700, 3,800.

Shyam Srinivasan: Okay this you are including O&M and everything I am just saying the operational beds the ones that you own?

Bhavdeep Singh: Operational beds are close to about 3,700, 3,800. The O&M beds are close to about another 500, 600 but either which way this is purely from a Fortis perspective.

Moderator: Thank you. We have the next question from the line of Harith Ahmed from Spark Capital. Please go ahead.

Harith Ahmed: So can you talk a bit about the timelines for closing the RHT transaction? Can we expect this to get closed in FY19 and a bit more about the next steps on the same?

Anurag Kalra: Sure Harit. So we have just recently signed the definitive documentation of RHT. Now the process is as best of our understanding will be that you will have to take not permission in a way, but there would be a circular that is prepared which will be perhaps be submitted to the SGX and it has to pass master there. Post that you will from a regulatory perspective take a unit holder approval the unit holders of RHT. We will also have to take since this is an RPT and it is an RPT because Fortis holds 30% as a sponsor in RHT.

The Fortis shareholders will also have to give their approval to the transaction. To the best of our understanding and from whatever we have discussed with the trustee managers of the RHT, this is at least a four to six months process and we also draw an example from the FHTL where we had acquired 51% of two assets and that had also taken similar timeline for consummation of the transaction. So that is what we are envisaging currently.

Harith Ahmed: And as of now, there is no update on the financing of the transaction?

Anurag Kalra: No, we will obviously update you as and when we form up something so nothing right now.

Harith Ahmed: And secondly on your reported EBITDAC for the quarter it was around Rs. 150 crores and then there was a net EBIT cost of Rs. 67 crores. So that is EBITDA of Rs. 85 crores and there is a mismatch with the EBITDA in the P&L which is around Rs. 50 crores and I am looking at the EBITDA excluding the other income. So can you help us understand the difference?

Anurag Kalra: So the P&L you are talking about the SEBI P&L?

Harith Ahmed: Yes, SEBI P&L.

Anurag Kalra: So that is a line item classification because this SEBI P&L also includes the Forex element of it and in our investor presentation we exclude that so what you guys see is purely from an operational perspective. We can sort of relate to that and let you know the details.

Harith Ahmed: And lastly on your operational beds. You mentioned it is around 3700 to 3800 and this has been kind of flat for the last three four years. Whereas in the same timeframe your peers like Apollo and all the other larger listed peers have invested significantly in bed additions and there is a serious disconnect with your philosophy in terms of capital deployment where you are investing you parked your money in instruments like ICDs whereas your peers have gone ahead and invested and scaled up their beds substantially. So can you talk a bit about this disconnect between your peers' view on the opportunity in term of bed additions versus yours?

Bhavdeep Singh: There is two different issues here. Let us talk about growth strategy for a minute. If we were having this conversation four years ago or three years ago you may have asked why you are investing so much in growing your bed while everybody else is stabilizing and trying to maximize what they have. We did that, you know the reality is what you are describing with the strategy today we have done that in the past, we did that overseas, we did that in India, we opened up hospitals in places like Kangra and Agra, in places quite honestly where we did not have such a good experience. I would tell you that in multiple ways we are much wiser from the learnings that we have had but we focused on is filling our beds.

So when you talk about our competitors for example, some of the larger competitors have occupancy on a run rate steady basis in the range of 62% to 63% where our run rate is if you look over the last 18, 24 months is in the 73%, 74% range. We dipped with all the external noise and some of the challenges internal noise all the things that have been happening to 62%, 63% for a few weeks and we thought the sky was falling. 62%, 63% is game over for us, but I can tell you that some of the competitors you are referencing their 62%, 63% 52 weeks a year. So I think their strategy is to maximize beds, but I am less concerned about getting our bed count to 5,000 and more concerned about having an occupancy of 80% and having a more profitable business and making sure that our model is continuously get better and we continue to give the best possible care.

So you are right, the views are a bit different but anyway the functional asset, I do not think big makes you good, I think good might make you big, and our focus is let us become good at what we do. I think on the other piece of it, now there is a lot that has been said about it. These ICDs these loans and advances etcetera this is something that companies do not just Fortis companies all over the world do this from time to time. One is an opportunity from an interest perspective to do that, beyond that with respect to where we are now, the audit call is out as well. There is an investigation management investigation has been requested by management through the audit committee is on, SEBI is also investigating it.

I am sure that the conclusion that perhaps there will be some other learnings or understandings that will come out from there. But as a strategy I am very clear about what we are doing. I would

tell you that I will be much, much happier with a 4,000, 5,000 bed operations sitting at 80% occupancy than having a 10,000 bed operation and a 50% occupancy. Thank you.

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

Adi Desai: I need to have a question I guess. We are looking at raising equity or some equity or debt to fund the RHT transaction. Will that be conditional or will the timing of this be conditional on the investigations that either us as management are doing or whether SEBI is doing that and is that in a way independent of the end of the timing? This is my question number one.

Bhavdeep Singh: No, I do not see any linkage there at all. These are the investigation is his, they will take its natural course and I have said enough about that. I think in terms of what we are doing from a business perspective, and going forward I think the one thing that I want to mention and in response to your question but a general statement as well is I talked earlier about the fact that we have not we have managed to retain talent at a doctor level and an administration management level but beyond that I can tell you what is our partners the people that we do business with, our vendor partners are people who in anyway shape and form partner in helping us give patient care or health care delivery to our patients. What people think about is inside our hospitals.

We have a zero time patient feedback system so if you ask me today as of 1:00 pm today what is the feedback on nursing around the company I can tell you by hospital what type of feedback we are getting. So when we monitor our feedback with respect to what patients are saying I can tell you very clearly that how people look at us as an operator is just as good or if they thought we could be better we think that as well, but I can tell you that while these issues are going on and the noise is going on it has not changed who we are.

We are still Fortis, we are still a patient care provider, we still have doctors who work seven days a week, we have nurses who come in at all hours of the night when a patient needs them. That has not changed. So I think that whether it is the investigation piece of it or whether it is anything else we continue to do what we do every single day, over the last three months we had a ten day period where we did eight heart transplants in a ten day period, never been done anywhere else.

So clinical, healthcare, patient care, clinical outcome it has not changed who we are, and I think whether it is RHT and the transaction that we need to do or if it is saving a patient whether it is a doctor who has to come in on a Sunday at midnight to help a patient all these things continue and we continue to be who we are, and RHT is no different, just a clearing license are not either.

Adi Desai: Got it and I guess my further question is would the equity raising that you will be looking to do to fund RHT would that have any correlate relation to the banks stake sale like of it especially Yes Bank I think I saw you mentioning in the interview that Yes Bank might be looking to sell?

- Anurag Kalra:** I think we would not be able to comment on this at this point in time.
- Moderator:** Thank you. The next question is from the line of Kumar Sourav from Motilal Oswal Securities. Please go ahead.
- Kumar Saurabh:** Now given the fact that promoter holding has come down to less than 1% now if we go for a deal with a potential third party and if there is an equity fund raising which is required do you still need to go to the court to get approval, this is purely from that Daiichi case perspective, I am asking. What is our understanding?
- Gagandeep Bedi:** Hi Saurabh, Gagan here. I think in this current situation we do not believe so that we need to go to the court. It is actually opened up basically as out for a deal.
- Kumar Saurabh:** Okay so we can do a fundraising and with the shareholder's approval and required regulatory approvals Daiichi we do not think that should have a role to play in this?
- Gagandeep Bedi:** Yes, we do not.
- Kumar Sourav:** And secondly on this the qualifications which the auditors have given and the last line of the auditor's report say that based on the last line basically, has the auditors signed the report or not signed the report the financial statement?
- Bhavdeep Singh:** They have definitely signed off on the report very clearly they have signed off on the report. If you look at the summary comment what they said basically is that they have pointed to three items. The first item is the company initiated investigation. It also includes the SEBI investigation and it references the fact that a lawsuit came in over the last two, three days which we do not think is material at all. But they are only because it happened to come in during this time and we shared that. The second point to trace will be ICDCs that we just discussed a minute ago and the third was these vendor loans that have been given.
- So the conclusion so the conclusive statement is that because of these items and the significance of them by virtue of that and how they may impact the statement, they cannot comment on the statement very specifically and if you read it I am sure you have that is exactly what it says. But having said that the accounts were signed, absolutely signed and the qualifying statement is what I have just referenced now.
- Moderator:** Thank you. The next question is from the line of Avinash Vazirani from Jupiter Asset Management. Please go ahead.
- Avinash Vazirani:** I just want to get some color on this Rs. 390 crores that you have sitting in the balance sheet Global Dynamic Fund. Pretty cool if the manager of this fund what is it and since you are in so much short of cash why have you not liquidated this holding or is it something to do with the promoters? Does the management control it or does the promoters do control this?

- Gagandeep Bedi:** So this is an investment in fund of funds. It is invested in debt securities completely. It is also basically linked to a debt retirement which we have a debt basically linked to that. We are in the process of redemption of this fund, we have initiated that process. We believe that it will take a few weeks and so that is what this fund is about.
- Bhavdeep Singh:** Let me make one more comment on that. So Gagan has referenced the fund. Having said that there is an investigation a company initiated investigation and this fund is within the scope of that investigation as well. It is within the scope of investigation as well so just an FYI it is there.
- Avinash Vazirani:** So you tell me who is the manager of this fund and when you say it is linked to repayment of a debt I assume it is to do with would it be a fair assumption that it has to do something with the erstwhile promoters?
- Gagandeep Bedi:** No, this is a Fund Global Dynamic Opportunity Fund under IIFL. It is not linked to the promoter. It is linked to a mandatory repayment to a debt that we have taken which is a business debt taken for Fortis.
- Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** My question is for Bhavdeep. Sir, can you briefly discuss about Board structure alignment and members' responsibilities after resignation of promoters and what kind of changes are made at the organization level for projecting a stronger picture of the Fortis Board? So that is my first question.
- Bhavdeep Singh:** I am sorry, the second part I did not hear. If you can just repeat the question?
- Damayanti Kerai:** So my second part of the question was what are the changes made at organization level to project a strong picture of Fortis Board after promoter's resignation?
- Bhavdeep Singh:** Upon the promoters' resignation first of all let me back up for a second. We have our management team here that we believe is a very strong team which is not a reflection of myself at all. It is more of the wonderful people that I am surrounded with whether it is clinically whether it is operationally or any other way. So I think that we have a good platform here. Having said that from a Board perspective, with the resignation of the promoters from the Board, we have a six member Board today which then has what has been done there, there are three member operating committee has been established that consists of Dr. Brian Tempest, Mr. Harpal Singh and General T.S. Shergill.
- So this is a three member operating committee where the responsibilities of the Chairman have been transferred to this three person committee going forward. I will tell you that apart from that I think that there is obviously talks in terms of what a new investor coming in and what implication that might have right now because we are not sure how it will pan but beyond that I

think we have a strong system, we have a strong process and we continue to run the business as we have till now and we do not anticipate any major drill around it.

The other thing that I can tell you and again that this is not about no reflection of me whatsoever it is more about the team and the wonderful people that we have in the organization doctors, nurses, administrators is that across the Board when people look at Fortis and they talk to us and generally were given feedback about the patient centric system that we have here and the fact that the entire enterprise is focusing on and built towards taking care of the patient inside our hospital today.

So we continue to reinforce the systems we have something called Fortis Operating System which focuses over a 180 patients facing activities that we track monitor and rank in every single hospital, every single day and I think systems processes like these are the ones that help us going forward. So again I think that any material change will take place post a new investor coming in right now six person board, three person operating committee and a management team that continues to run the business.

Damayanti Kerai:

Okay thank you for that. And one question about this proposed SRL deal merger. It has been a while we have not seen any update there. So what are the major roadblocks there which we are facing?

Bhavdeep Singh:

I said the merger process continues the hearing is coming up in the next few weeks. So it is very much on track. I guess the footnote I would apply to that is that by virtue of any shareholding pattern that takes place, the changes that takes place a new investor coming in there is a different vision and different strategy around SRL that could certainly change it but in absence of that we move forward, and everything is on schedule.

Moderator:

Thank you. As there is no response that was the last question. I now hand the conference over to Mr. Anurag Kalra for closing comments.

Anurag Kalra:

Ladies and gentlemen, thank you very much for being with us on the call. In case of time, Gaurav and I are always available to address your queries, concerns we are available to speak to you, available to respond to you over email. Once again thank you everybody and I would like to thank the management also here for taking the time out and giving us an update on the business.

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.