



“Fortis Healthcare Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY '23 Post-results 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 star then zero on your touchtone phone. I now hand the conference over to Mr. Anurag Kalra, Senior Vice President, Investor Relations, at Fortis Healthcare Limited. Thank you. And over to you, Mr. Kalra.

Anurag Kalra: Thank you, Inba. A very good afternoon and good morning, ladies and gentlemen, and thank you for taking the time to be with us on our quarter 2 FY '23 earnings call. The call is being led by our MD and CEO, Dr. Ashutosh Raghuvanshi. With him, we have our Chief Financial Officer, Mr. Vivek Goyal; from SRL, Mr. Anand, who is the CEO there; and Mangesh Shirodkar, the CFO of SRL. Along with me, I also have Gaurav.

I hope all of you have got a chance to go through the results deck and the press release that we had circulated on Friday evening. We will begin with some opening comments by Dr. Raghuvanshi, following which Anand will take you through certain key highlights of the diagnostics business. And then we can open the floor for questions and answers.

I now hand over to Dr. Raghuvanshi.

Ashutosh Raghuvanshi: Thank you, Anurag. Good morning and good afternoon, everyone. Thank you for joining us on our Q2 financial year '23 earnings call. I hope all of you have had a great time with your family and friends during the festival season. I would like to straightaway talk on the performance of company for the quarter. And then Anand will take you through the highlights for the diagnostic business.

We have witnessed a strong set of earnings for the quarter, our consolidated revenues have increased 10% versus Q2 of financial year '22 to INR 1,607 crores. I'm very pleased with the way our hospital business has performed. Our hospital business revenues have grown 18% versus Q2 of financial year '22 and 9% versus Q1 of financial year '23. Our diagnostic business, on the other hand, witnessed a revenue decline versus Q2 of financial year '22, which was primarily on account of the significantly lower COVID contribution. However, it is pertinent to note that compared to the trailing quarter, the business witnessed a 6% revenue growth reflecting early but encouraging signs of pickup post the COVID impact seen previously. Just to recall, the diagnostics business had an approximately 22% revenue contribution from COVID and COVID allied tests in Q2 of financial year '22, which stood at a near 5% in Q2 of financial year '23. If we adjust the COVID revenues on a like-to-like basis, the diagnostic business revenues actually grew 5.3% versus Q2 of financial year '22.

On the profitability metrics, our hospital business EBITDA stands at INR 246 crores, an increase of 30% and reflecting margins of 18.9% versus 17.2% in Q2 of financial year '22 and 17.4% in the Q1 of financial year '23.

The improvement in margins has been led by a healthy performance of all the key hospital operating metrics, which I shall speak of in a while. On the diagnostics segment, commensurate with the decline in COVID and COVID allied revenues, EBITDA for the quarter stood at INR 73 crores versus INR 103 crores in Q2 of financial year '22. However, EBITDA was higher versus INR 64 crores in the trailing quarter. This reflects margins basis gross revenue at 20.7% for the quarter versus 25.7% in Q2 of financial year '22 and better than margins of 19.3% in Q1 of financial year '23.

Combining both the hospitals and the diagnostics business, our consolidated EBITDA for the quarter was INR 319 crores compared to INR 292 crores in Q2 of financial year '22 and INR 272 crores in Q1 of financial year '23. Consolidated EBITDA margin was at 19.8% versus 20% in Q2 of financial year '22 and better than 18.2% in Q1 of financial year '23.

To highlight, the contributions of hospital EBITDA increased to 77% in Q2 of financial year '23 versus 65% in Q2 of financial year '22. This significant -- the momentum in our hospital business earnings, enabling us to maintain our consolidated margins, despite the impacts in diagnostic business as a result of lower COVID volumes.

At the PAT level, we reported a profit after tax, prior to exceptional items of INR 167 crores compared to INR 130 crores in Q2 of financial year '22. This is a 28% growth versus the corresponding quarter and 24% growth versus Q1 of financial year '23. I would like to mention there was an exceptional gain of INR 51.6 crores which pertains to reversal of impairments in one of our associate companies.

Let me also briefly touch on the consolidated H1 financial year '23 financial numbers of the company. For H1, our consolidated revenue stood at INR 3,095 crores, a growth of 8% over the corresponding previous period. EBITDA for the quarter was INR 590 crores versus INR 575 crores for H1 of financial year '22, translating into a margin of 19.1% versus 20% in the corresponding previous period. PAT excluding exceptional items for the period stood at INR 301 crore versus INR 255 crore for the H1 of financial year '22, at a growth of 18%.

On the qualitative aspect of the hospital business, we have made significant progress on all fronts. With the strong demand for elective procedures, our surgical revenue contribution to overall revenue was at 59% compared to 56% in Q2 of financial year '22, led by a better speciality mix and robust traction in our international patient revenue.

Our hospital business witnessed an occupancy of 70% versus 65% in Q2 of financial year '22 and 64% in Q1 of financial year '23, while ARPOB grew 5% to INR 1.97 crores from INR 1.87 crores in Q2 financial year '22. ARPOB was similar to Q1 of financial year '23. If you would recall, we had indicated that our aim is to reach 70% by the end of this fiscal. However, given the strong traction, we were able to achieve this rather quickly. I would tend to be cautiously optimistic in Q3, which is generally a festive season across North India and hence occupancy may see some seasonal impacts in Q3.

On the international patient business, we continued to witness strong traction. International patient revenue were at INR 109 crores, a growth of 164% over the corresponding quarter and 23% over the trailing quarter. International patient revenue during Q2 of financial year '23 contributed 8.4% to total hospital revenues versus 3.8% in Q2 of financial year '22.

It is also important to highlight that some of our key underperforming facilities have witnessed higher revenues and better profitability versus both the trailing and corresponding quarters. On our brownfield expansion plans, which we have been discussing with you, our expansion plans are well on track and we are adding capacities across all our major facilities like FMRI and Mulund, BG Road, Shalimar Bagh, Noida and Anandapur.

Currently our teams have been working tirelessly on several digital transformation projects such as implementation of electronic medical records, ERP implementation and improving patient experience through website and apps. We are quite excited with the EMR project specifically, as it would further strengthen our core belief of, Care For Good, for all our patients, enabling quicker access to health care records and faster diagnosis and treatment.

During the quarter, we commissioned several medical programs and further strengthened medical infrastructure at various facilities. These include launch of a state-of-art lung transplant clinic and pulmonary medicine unit at Fortis Jaipur, bone marrow transplant unit at Fortis Mohali and Fortis Faridabad, a new Linac at Fortis Mulund and also robot at Fortis BG Road, a neuro navigation system at Fortis Amritsar and a new Cath lab at Fortis Mohali.

Commensurate with our medical program expansion, we continue to attract high-quality clinical talent. We have onboarded clinicians in the speciality of cardiac, oncology, neurosciences and gastroenterology during this quarter.

On the diagnostics side, though the business was impacted due to decline in COVID volumes, adjusting for the COVID revenues, non-COVID revenues have grown 5.3% versus Q2 of financial year '22 and 5.6% versus quarter 1 of financial year '23. Additionally, if we look at H1 financial year '23, non-COVID revenues grew by 15.5% versus the corresponding previous period.

On SRL, our focus is on strengthening the business' growth drivers by expanding our geographic footprint and channel network with further additions of stat labs and customer touch points. Anand will take you through more of the details in a short while.

On the balance sheet, we remained quite healthy with a net debt-to-EBITDA of 0.44x versus 0.74x for Q2 financial year '22. Our net debt stands at INR 565 crores as of September 30, 2020 and our debt-equity mix allows us the flexibility to leverage our balance sheet to further our growth objectives.

With that, I would like to end my comments, reiterating to all of you that we remain steadfastly committed towards our growth path in order to further our operational performance and create longer-term value for all the shareholders. Thank you.

And with this, I would like to hand over to Anand for his comments on the diagnostics business.

Anand K.:

Thank you, Dr. Raghuvanshi. A very good morning to everyone on the call. Thank you for joining us today. On behalf of SRL Diagnostics, I warmly welcome you all for our Q2 FY '23 Results Conference Call. I hope all of you and your families are safe and in good health.

During the quarter, we reported a revenue of INR 351 crores, with 95% of our revenues coming from non-COVID testing. Our EBITDA stands at INR 73 crores with a margin of 21% for Q2 FY '23. We conducted 10 million tests in the quarter and serviced over 4.3 million patients. While COVID-related testing and volumes have slumped as predicted, we are witnessing an uptick in non-COVID volumes across our network.

SRL's B2C-B2B revenue mix stands at 55 to 45, consistent with our Q1 ratio. Our non-COVID revenue growth stands at 5% in Q2 FY '23 versus Q2 of FY '22 and at 6% versus the trailing quarter Q1 FY '23. Non-COVID revenue grew by 16%, approximately, in H1 FY '23 compared to H1 of FY '22.

In a post-pandemic setting, we are witnessing a heightened wellness consciousness amongst customers and this reflects in our preventive portfolio, which has grown 21% in terms of revenue over Q2 of FY '22. Keeping in line with our network expansion strategy, we have added 207 new customer touch points in Q2 of FY '23. And our customer touch point-per-lab ratio now stands at 18.6 compared to 12.1 in the corresponding Q2 FY 2022.

Our new customer experience initiatives, including WhatsApp chatbots and live phlebotomist tracking feature, have received a good response from our patients we service through our home collection network. On the people front, we completed more than 1,300 man days of training in Q2 FY '23.

In the last few years, SRL has progressed to bring many tailor-made competency enhancement programs. Training, learning and development continues to be one of our priority areas. Over the years, we have built strong learning and development functions at SRL, where we manage more than 90% learning interventions internally.

We use technology for learning enforcement as well as talent assessment through learning management systems and assessment tools. We are working relentlessly on building the organization as a great place to work and we have significantly progressed on our overall NPS score and going ahead strong on being the preferred employer in the diagnostic industry.

Our state-of-the-art reference laboratory at SRL Mumbai has been reaccredited by College of American Pathologists USA. This is a testament to our continued focus and commitment to next-generation diagnostic services. We will continue to focus on expanding our network in priority and expansion cities and focus on continuously improving our customer experience across all our network.

Our NPS score for patients remained consistent at 78. On the scientific side, we will continue our concerted efforts in the chronic diseases category; lifestyle diseases; preventive health care

category; and our specialized portfolio that comprises autoimmune diseases, transplant technologies, infectious diseases and oncology. Our genomics portfolio revenue grew by 27% in Q2 FY '23 compared to Q2 '22. Our sustained focus on genomics and next-generation diagnostics, along with our work in digital technology, will help us differentiate ourselves and also enable us to reach maturity. Thank you very much for your attention. I would like to now hand over the call to Mr. Anurag Kalra, head of our investor relations.

Anurag Kalra: Thank you, Anand. Ladies and gentlemen, we shall now open the floor for question-and-answers. Inba, please moderate that.

Moderator: The first question is from the line of Kunal Randeria from Nuvama.

Kunal Randeria: Just on the hospital business. I still see that 20% of revenue come from CGHS, government, PSUs and ECHS, so I assume the bed contribution will be even higher than this. So now that you have a good 70% type occupancy going forward, do you see this number coming down quite a bit and what we should expect in the coming years.

Vivek Goyal: Yes, I will take this question. Vivek this side. So you are absolutely right. There is opportunity here to change the payer mix in our favor in some of our hospitals where the potency level is quite high, but it will be very selective. It will not be like across the board.

Kunal Randeria: Sure, but your TPA plus, I think, cash is around 70%, 72%-odd, so should we expect it should remain at these levels going forward?

Vivek Kumar Goyal: So the payer will go for TPA care and the international business. And the other business will scheme business will come down.

Kunal Randeria: And one just quick one on diagnostics: The 5% non-COVID year-on-year growth is slightly lower than what some of the players have reported. So just wondering and especially since you've added a lot of touch points in the last few quarters. So just wondering the kind of growth momentum that you expect, especially considering the kind of competition that you are seeing in this industry.

Anand K. So thank you. This is Anand here. Usually the Q2 is the best quarter for the year for diagnostics. And what we see here is primarily because last year, because of COVID, we see a lot of testing happening, especially around hospitals. So what we calculate as COVID and COVID allied tests is just a few tests related to COVID, but as you know, during the second quarter of last year, there's a lot of hospitalization that happened.

And the testing momentum also increased at that time, so maybe it will not be the right comparison between Q2 and Q2 of this year in terms of non-COVID as well, but at the same time, we internally for us we also have a situation where we had Himachal Pradesh PPP project which we were running last year. We've been running it for the last eight years, so we have the contract ended this year, so it was part of Q2, but Q2 of last year, but it's not part of Q2 of this year. So that has also contributed to it. If you adjust for that, our growth will be close to about 9%.

- Moderator:** We'll take a next question from the line of Nitin Agarwal from DAM Capital.
- Nitin Agarwal:** Dr. Raghuvanshi, on the hospital network expansion, we've talked about 300- to 400-bed per-annum addition over the next two to four years. Now two things, one is, a, this entire expansion is going to be brownfield or are we looking at is there any element of greenfields in this expansion?
- Ashutosh Raghuvanshi:** This entire expansion is brownfield. It is within the given hospitals, but at some places we have to construct a fresh tower. And in certain places, we already have the civil construction done and only the interior work needs to be done. So it's a mix of both, but essentially this is all in the category of brownfield.
- Nitin Agarwal:** And this will typically, what, a 50 lakh, 60 lakh per bed sort of expansion cost for further expansion?
- Ashutosh Raghuvanshi:** Yes. So on a blended basis, the entire thing would come to about 80 lakhs per bed.
- Nitin Agarwal:** Despite it being like a brownfield sort of expansion.
- Ashutosh Raghuvanshi:** Yes. But because you see, we will also be enhancing and upgrading equipment and larger diagnostic equipment, then imaging equipment will also be enhanced along with it because, as the capacity of these hospitals will increase, we will need a lot of other medical equipment as well. So compared to kind of a greenfield which would easily be about 1.5 crores, this is definitely much less than that.
- Nitin Agarwal:** And in terms of the expansion that we're undertaking, is it fair to assume that bulk of it will be coming in what you call Tier 1 town and metros?
- Ashutosh Raghuvanshi:** Yes, but majority of this is in NCR and in Bangalore and Mumbai and in Kolkata.
- Nitin Agarwal:** And if I just push that: On the operating facilities which are there that we have right now, beyond this expansion that we will undertake over the next three, four years or adopt, how much more can we add from a brownfield capacities on our existing network? I mean, if you were to hypothetically just stretch it out maximum, how much more can we do on the existing facilities in general?
- Ashutosh Raghuvanshi:** So other than the planned 1,300 beds which we have given a kind of time lines for, another 700 beds more could be added further.
- Nitin Agarwal:** So approximately about 2,000 beds on the current network. And thereon, our expansion would be largely has to be on newer assets, whether we buy something out or we do some greenfield.
- Ashutosh Raghuvanshi:** That's correct.
- Nitin Agarwal:** And sir, in the metrics that we've discussed, on the hospital-wide improvement, if you can probably just shed some light on which have been the more notable movements in this quarter.

There has been some movement in the lower-tier hospitals, lower-profitability hospitals, which have reduced in this quarter.

Vivek Goyal: Yes. So there is improvement, overall improvement, as you have seen, overall improvement, in the profitability of all the hospitals. And the hospital from the lower table has moved to the upper table. Anurag will -- able to explain...

Anurag Kalra: Yes. So Nitin, just to give you some examples. In the highest bracket, we've added BG Road, which was one level lower. We've added Anandapur, which was one level lower. Mohali continues to be in the higher bracket. In the next category, we've added a few more hospitals, like Faridabad and Ludhiana. So those are the ones that have been doing well, but overall, if you were to just look at it in a synopsis basis when you look at FY '22, the topmost bracket added some about 700-odd beds. Today, the topmost brackets have about 1,170-odd beds. So that gives you a very good indication of how we are moving up level to level.

Nitin Agarwal: And Anurag, of the hospitals which are there in the lower two tiers, any sort of outlook on that? There's another 1,000 beds which are there in that less than 10%, 15% bracket; and specifically 700-odd beds in the less than 10% bracket. How are we looking at these assets?

Vivek Goyal: So if I can answer this question. So there are a couple of hospitals which are already showing very good sign of improvement. We have discussed in every call like, FEHI and Jaipur are in this category, which are definitely showing very good sign of improvement. And we have planned how to improve it further. Maybe some more investment may be required. Maybe, some more speciality, we may be able to add to these hospitals.

And those type of plan are work in progress. And with that, these hospitals we may reach to 15%-plus EBITDA margin category, but that will take some time. And the other hospital in this chain are two in yes, Chennai, which we have one is a sort of new hospital. And the ramp-up is taking some time, but the team is working very hard to improve that ramp-up there. And other is Malar, where the progress is improving but at a slow pace.

Nitin Agarwal: And sir, I mean, it's fair to expect that, of the six hospital which are there in this 10 lower than 15% bracket, all goes to plan. Or we should have probably this number should halve as we go forward in the coming quarters. More than it should be probably 2 or 3 hospitals which probably more than 2 or 3 hospitals going forward?.

Vivek Goyal: Not coming quarter but yes. Maybe, in the medium term, we can sort them with a 1 year to 1.5 years time. We can expect that or at least that we have a plan to move to above 15%.

Moderator: Our next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just first, on the guidance for occupancy. Dr. Raghuvanshi, you said that we have touched 70% and we would like to progress toward 75%, so despite some seasonal Q3 may be slower, but just what are the drivers of this, Dr. Raghuvanshi, in terms of is it that you are seeing more and more speciality? Is it international patients? Is it market share gains? If you could help us understand.

And NCR, clearly at least one of the key reasons for you. There is quite a lot of supply also coming, so how do you kind of embed that into your outlook as well?

Ashutosh Raghuvanshi: Yes. Shyam, as I have said many times before that as far as the additional capacity which is coming across in the region and NCR, that will get very easily absorbed. And that is not of concern because there is a little bit of demand-supply gap in this season. It's of a huge internal. So the main driver for us will be volumes coming because of the addition of clinical talents. As I mentioned, we have added quite a bit of talent in last quarter, and as they start getting stabilized, that would be one of the drivers.

And international definitely have been showing continuous improvement. It has come to a good level now. It is in absolute terms, it is a little better than pre-COVID levels, but since our domestic numbers have grown, so as a percentage of overall revenue, it is still at about 8.5%. So that is likely to go about 10%, 12% as well. So that will be another driver for growth as well.

Shyam Srinivasan: That's helpful, Dr. Raghuvanshi. So the second thing I saw was your speciality mix. Surgical revenues have grown 24%, just calculating it from your pie charts, but something like oncology has grown like 50%. So what are we doing here? Maybe there's a base effect. I don't know, but I'm just saying -- which are the speciality mix that you think you will continue to see further traction?

Moderator: Sir, it looks like the management's line is disconnected. Ladies and gentlemen, we request you to please remain connected while we join them back. Please do not disconnect your lines. We'll call the management right away. Mr. Srinivasan, I think you will have to repeat your question.

[Technical Difficulty]

Shyam Srinivasan: My second question was just on the speciality mix. So if I were to just do simple math on using numbers of the speciality mix, onco revenues have grown 50% roughly. And when I look at overall growth, it's 18%, so I just want to understand how we are achieving this. And it can this kind of sustain the kind of growth we are seeing in some of the higher-growing specialities?

Ashutosh Raghuvanshi: Yes. So onco growth specifically. As we had stated about two years back, that onco is a area where we are focusing. And we had acquired some talent. Plus, we had created some facilities. Like, for example, in BG Road, we did not have oncology earlier. We added there two years back and many other infrastructure things we have done in the oncology segment, so we expect that oncology will continue to show higher growth for at least another one year or so. And that would be sort of then stabilized to a much, yes, more regular rate of growth. Other than that, the other core specialities which we have been focusing on, those also have grown significantly, but oncology definitely will remain a focus area.

Shyam Srinivasan: Yes. Just the third question is on margins. You used to call out the losses at Arcot Road, so can you quantify that? And just to Mr. Vivek's question on slower progress in terms of ramp-up, if you could clarify that also, please, in terms of how long we think a breakeven at Arcot Road could happen?

- Vivek Goyal:** Yes. If I can take this question, Shyam. I mean Arcot Road's performance actually has not improved, if we compare with the last quarter. So it is incurring EBITDA negative of around INR 8 crores per quarter, and that is continuing. And that is primarily contributed because we are not able to ramp-up the facility, the occupancy there. And main reason, we have discussed earlier also. There is some construction work going on, some bridges going, just in front of the hospital which is upsetting the patient flow. And that is the main reason. And then I think we are also building the clinical talent there. We are also spending some money on the advertisement and other things. Just to highlight this, this facility is very good facility, state of the art. And all other parameters, it is very good, but I think, just because of the this obstruction, I think the patient flow is affected our team is working. And with regard to your second question by when we expect it to be EBITDA positive -- at least not bleeding, at least, for us, we are expecting in next six-months time, it will be in this range.
- Shyam Srinivasan:** In 12 months, you're saying, Mr. Vivek?
- Vivek Goyal:** Six months, Shyam.
- Shyam Srinivasan:** Six months. Okay. Last question is on SRL, Mr. Anand, just one on you talked about 9% when we, growth for non-COVID if we exclude the government contracts. So if you could also help us understand the split between volume and price for that, sir? Thank you.
- Anand K:** Thank you, Shyam. So in terms of contribution, if you see, it was about 4% of our revenue in Q2 of FY '22, the HP PPP contract. And largely it was more of a, since it was a government contract, the volumes were quite high. And ARPT was quite low.
- Shyam Srinivasan:** No, sir. My question was different. I was saying, excluding that, you talked about your growth in non-COVID for Q2 this quarter versus last year was 9%, so I'm looking for the split of that into volume and price?
- Anand K:** It's about, just a second. Let me look at it. So our ARPT has grown by about 8% on the H1, but it's a sort of a mix of volume and ARPT growth, which a larger contributor on the ARPT side.
- Shyam Srinivasan:** So Anand, safe to assume some low single-digit volume growth, right? So when can this kind of improve, right? And I don't think it's only for you, right? Everybody else is struggling for volume growth, would that be competition, especially in semi-specialized tests driving this? Or you think patient footfalls into even your B2C have been slower than usual?
- Anand K:** So in our case, as I told you, it is primarily because of the HP PPP which was very high in volume. So with that, the volume was very high, but the ARPT was really low. So that is why we are seeing the growth here as higher ARPT and lower volume growth. But as if you're see, separately, if you you're seeing, we are seeing good growth on the B2C segment as well.
- Shyam Srinivasan:** Anand, sorry to persist, but I'm completely removing HP PPP product in both your Q2 last year and Q2 this year, okay? Let's assume, I'm not even talking about that business at all. And you then look at the non, whatever, right, just the business which is non that, and you said it's 9% growth. So that is what I was trying to dissect. I'm not even looking at this project, this

government project. And there, when I, when you do the math, you suggested about low single-digit volume growth for that business, so, and my question is simple, right? What is, why is that growth slower? And it's not only for you, right? Everybody seems to be facing this issue, so that's where the question is coming from more?

Anand K: So I think it is more to do with the higher revenues during the Q2 of FY '22 driven by COVID. Even though we calculate only COVID and COVID allied tests, only four tests of COVID is considered as COVID allied tests, but as you know, during last Q2, there were a lot of drive into hospitals. And a lot of testing happened on multiple parameters, not just IL-6, D-dimer, CRP, those kind of COVID allied tests. A lot of other tests also happened, so that has boosted the volume during that time in a much bigger way. So I think it's too early for us to really look at any trends on this at this point of time. I think we'll have to allow another one or two quarters to settle on how exactly this growth is turning out to be.

Moderator: Our next question is from the line of Abdulkader Puranwala from Elara Capital.

Abdulkader Puranwala: Sorry if this may be a repeat question, but I'm just going through your hospital margin metric. So if I look at the category of EBITDA margin for your hospital which falls in the 10% to 20% bracket, I mean, and occupancy has surged to around 70%, 72%, but I mean it's still remain in this margin bracket itself, so apart from occupancy, we wanted to know. What will be the other factors which you guys are working upon to improve the margin in these hospital beds?

Vivek Goyal: Yes. So it is a good question. So apart from the occupancy, we are very well working in improving our payer mix, which I have covered in my earlier comments, where we are trying to reduce the scheme business to the extent possible and increase the share of TPA, cash and international business which are high-margin business for us. Secondly, we are also trying to improve the speciality mix also in our favor by adding more speciality by investing in infrastructure, in the form of equipment and things like that. So those are the state ones. And thirdly, we are also working on the margins. So we do come out with some margins and cost-optimizing things where we can maximize the productivity and things like that. So all those things will lead to this improvement in the margins.

Moderator: Our next question is from the line of Sanjay Shah from KSA Securities.

Sanjay Shah: Dr. Raghuvanshi, my question is regarding our brand that is our parent's strength. That is IHH worldwide. They are into personalized care ranging from primary to ordinary and even some ancillary offerings. So how in India we compare ourselves with the par treatment to our patients. And is there any scope to add more to our offerings and profiles?

Ashutosh Raghuvanshi: Yes. So Sanjay, we are getting a lot of support, and we are using our, a lot of synergies with IHH, especially regarding the quality. So we participate in that global quality program. Quality benchmarks and metrics are followed on regular monthly basis across the entire IHH network, so the best practices of, on clinical quality and other innovative initiatives is shared across the network, including with Fortis, so that is one big advantage. Another thing which I had briefly mentioned during my statement is about the electronic medical record which we are working

along with the IHH folks to implement across our Fortis network, which will help us to improve the speed with which we can deliver discharges and medical records to our patients. And also it will help during the treatment and diagnostic post the fact.

Sanjay Shah: So sir, over and above these digital, that EMR what we are talking, do we have any surgical side or any other in-patient care which we can offer and which we are right now not offering in India and have a scope to expand that in India?

Ashutosh Raghuvanshi: So generally we have all these areas being offered in India as well. So there are no specific surgical facilities, but however, in oncology, especially on the CAR T cell therapy and proton therapy, we are coordinating with them so that, some of our patients who may be wanting for proton therapy, we can refer them to Singapore for doing that. So that kind of collaborations are also in place.

Sanjay Shah: Sir, my last question was regarding this EMR, what you mentioned, so is there any regulatory binding and regulatory rules which we need to understand on this EMR? Is that EMR only for our hospitals, our records? Or even we come to share with a patient also?

Ashutosh Raghuvanshi: Yes. So the EMRs, of course, are patients' property. The record, medical record, of an individual patient is something which is patient's property. However, we manage it, so there is the national guidelines which are there. And there are certain requirements for keeping it interoperable so that it can be transported from one provider to the other. So it is absolutely compliant to the guidelines which have been issued, yes.

Moderator: Our next question is from the line of Bharat Sheth from Quest Investments.

Bharat Sheth: Sorry. I joined a little later, so this question, if you just answered, can you repeat, please? Sir, like in diagnostics, we have some government business, so do we have any kind of such obligation in our hospital business where we have to provide them at concessional rate and which, over a period, we may reduce so it can help us to improve the profitability?

Vivek Goyal: No. Except, in FEHI, we have 25 beds dedicated for EWS. I don't know, I don't think there is any of this facility where, no. Apart from FEHI, we don't have any obligation at any of our facilities to take government business, government patient provide free service or concession-grade service.

Bharat Sheth: And second question, sir, on these hub-and-spoke several-tier institution. I mean companies are going in hub and spoke more, say, for Tier 2 and Tier 3 cities. So do we have any kind of such aspiration, or is that clearly a profitable business or make a business case?

Ashutosh Raghuvanshi: Yes. So we have stayed away from that because there are challenges in Tier 2, Tier 3 cities on the operations side. Typically these markets are very price sensitive and clinical talent doesn't come by so easily over there, so we have not selectively gone for that, but however, if there is in future something which is very synergistic to our larger cluster in a metro city, we will consider that on case-to-case basis, but not on a standalone basis, we are not looking at that.

Bharat Sheth: And last question, on diagnostics side, sir. How do we really plan to ramp up our facilities as well as, I mean, our geographic diversification?

Anand K: So we are actually adding, as you know, we are probably having the best equitable distribution of our business across all geographies, but we continue to add, expand our network through our focus city expansion plan as well as adding more collection centers. So we have added, even in this quarter, we have added up to 207 customer touch points. So similar, that is a way we are expanding in hub-and-spoke model, where we are adding more reference, adding kind of more regional reference laboratories and then stat labs to complement that as well as collection centers to expand it further.

Bharat Sheth: And sir, recently there is an interview of our parent company where they have suggested that they may change the Fortis name to Parkway because of the kind of, I mean, obligation. I mean this brand belongs to the erstwhile promoter. So will it have any kind of, I mean, what are we doing to promote this new brand or, if at all, that will really can have a kind of a, say, cannibalization or...

Ashutosh Raghuvanshi: Yes. So we had earlier also made it, an announcement that we will consider changing the name to Parkway. So that definitely remains something which we are continuing to evaluate. You are right that brand change always carries a certain amount of risk and expense as well, but there are certain constraints around the brand which is owned by the ex-promoters. But since the area, there are still some clarifications we need to seek from a legal point of view, so this is some time away, but this is definitely our preference, to consider a change in brand, after careful evaluation. But this valuation is to be done further to decide finally as to how to go about it and when to time it. So certainly, the moment those clarities emerge, we will make the proper announcement.

Moderator: We'll take our next question from the line of Dheeresh Pathak from WhiteOak Capital.

Dheeresh Pathak: So I'm not sure if you already answered, but you were explaining the downstream, a potential immediately of 1,300 beds. Have you been searching a patient like Bangalore, Mumbai and Calcutta, but is there a more granular breakup that you have given, like what would be the capex slated in the next few years and which cluster the beds will be?

Vivek Goyal: Yes. So as mentioned earlier, so this bed extension is on our existing hospital only and all are in metro. So major expansion is happening in the NCR region, yes, but followed by Bombay and Calcutta and Bangalore also. Bangalore...

Dheeresh Pathak: Can you give numbers also, sir, if possible? Like how many beds in NCR? How many in Bombay? And how many in Calcutta?

Vivek Goyal: Yes. So 50% of the bed expansion is coming in the NCR region. And Bangalore, we are expanding around 200 beds, and Calcutta around another 200 beds. And Mumbai, we have already completed the construction. We are waiting for the OC. We have partly operationalized the beds. So total expansion of 110 beds. out of that, 45 has already been operationalized. And Kolkata, I've already calls, yes. These are the places where we are doing the major expansion.

- Dheeresh Pathak:** And the 50%, the bigger expansion in NCR, what is the time line for commissioning on those beds?
- Vivek Goyal:** Well, look, these include expanding the capacity in three of our major big hospital in NCR, which include FMRI, Shalimar Bagh and Noida. So there we are expanding bed capacity by almost 170 to 200 beds in each location, plus there is a 60 bed expansion which is underway in Faridabad, yes. So Faridabad expansion is underway, it's may be completed in a year time. However, the other three expansion, we have submitted the drawing to the authorities. For one hospital in Noida, we have already got all the approval and construction work will be started post this NGT inspection has removed.
- Dheeresh Pathak:** So probably like the bigger one will be in NCR, where probably commissioning is probably like 18 to 24 months away, is that a fair assumption...
- Management:** Yes, that's correct, absolutely.
- Dheeresh Pathak:** Sir, second question is in terms of the regulatory from the Supreme court order and other things. Can you just clarify like what all you're allowed to do? Like name change, as per the interview in the media, understanding, name change, you're allowed. Capital structure and shareholding change in the listed entity, is that allowed? What is allowed and what is not allowed?
- Ashutosh Raghuvanshi:** Yes. So as we are still evaluating the legal position, and our lawyers are working on that. Some of the areas are very clear that there is no restriction, like brand, as you mentioned, but as far as the other areas are concerned, those, still some clarity has standby. Regarding open offer, of course, it is a matter which IHH needs to clarify with the authorities. And then based on that, they will be making the necessary steps what they need to take. As far as Fortis is concerned, we definitely don't have much effect of this on our operations. The only areas which we are to wait for is the clarity on the RHT transaction we'll, about the court will take a decision.
- Dheeresh Pathak:** No. What I meant was, let's say for example, if you want to buy an asset, M&A, and issue your shares as currency, will that be allowed, or that also will not be allowed?
- Ashutosh Raghuvanshi:** So share as currency is, we don't think, is allowed at the moment, but we do have capacity to look at some other smaller acquisitions which we will evaluate.
- Dheeresh Pathak:** So change in capital structure and shareholding is not allowed. And the last question is on this, I mean the EBITDA margin profile based on number of beds. So there are five hospitals, with 716 beds, which are less than 10% EBITDA. One obviously is the Arcot Road, which are the other assets? Because they will have been operational for a while. So is there a structural issue that these hospitals, can you identify some of these hospitals? And what is the issue with these hospitals that they are less than 10% EBITDA?
- Vivek Goyal:** Yes. So out of these five, six hospital, Arcot Road and I have explained in detail what is the problem there some sign of improvement, but at the same time, the progress is slightly slow because the fix, they are required some long-term fix in the form of infrastructure improvement and things like that, getting the Fire NOC. All those things are required, which is likely time

consuming, something is in our hands which we are trying to complete and something we have told get it done through the government agencies.

As regards Jaipur and FEHI's, both are progressing quite well in terms of occupancy as well as in the -- and margins. And in both the hospital, we also feel that there is an opportunity to add further state facilities. So that is something which we are in the, on the exploration stage, and once we complete it, I think that will give a further boost to the margin expansion of both these hospitals.

The large hospital in this category is the Vashi hospital, a sizable hospital in this category, which is, again, having its own challenge because of a specific area where there will be some hospital being operated, and there are infrastructure related issue also and it is a government hospital and we are operating it. So that hospital is also slightly slow in improving the progress. So I think...

Dheeresh Pathak: So it will have been operational for a while. So you are saying we don't have the full stack of specialities. That is the reason why it has been slower...

Vivek Goyal: Yes. For example, Onco is not there in Jaipur, and it is at a very good location, there is a bed capacity available to expand. So those type of things, we are exploring.

Moderator: Our next question is from the line of Amit Khetan from Laburnum Capital.

Amit Khetan: So your press release mentioned, talked about portfolio rationalization and inorganic expansion going to be drivers of operational performance. Could you elaborate a little bit on both these aspects, especially in light of the supreme court judgment? Are we ready to press ahead on both these levers?

Vivek Goyal: Yes. So we are moving ahead on both these levers. Brownfield expansion, anyway, the capex requirement is quite less. And as you have seen, the cash flow generation from the business is quite handsome to take care of this brownfield expansion of its own, and as mentioned in Dr. Raghuvanshi's speech also, the leverage ratio is quite comfortable. Our debt level, net debt level, is INR 500 crores-plus level. It is less than half of the one-year EBITDA, so that gives us confidence that we can very well fund it by a little bit leveraging our balance sheet, so we are actively pursuing the acquisition opportunity which makes sense for our overall growth strategy.

Amit Khetan: So should we expect some kind of strategic action over the next six to 12 months?

Vivek Goyal: I mean these deals are very difficult to predict, but yes, our aspiration will be to close that in during this period.

Amit Khetan: And this holds true for both, for portfolio rationalization as well.

Vivek Goyal: Yes.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments.



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Anurag Kalra: Thank you, Inba. Ladies and gentlemen, thank you very much for joining us on the call today. Gaurav and myself are available, in case you have any further clarification or queries, please feel free to reach out to us or e-mail us. Thank you very much. And have a good day.

Moderator: Thank you, members of the management. On behalf of Fortis Healthcare, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.