



“Fortis Healthcare Limited Q1FY16 Results Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q1FY16 Results Conference Call of Fortis Healthcare Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anurag Kalra — Vice President, Investor Relations at Fortis Healthcare Limited. Thank you, and over to you, Mr. Kalra.

Anurag Kalra: A Very Good Evening and Good Afternoon Ladies and Gentleman and Welcome to Fortis Healthcare's Q1 FY16 Earnings Call. We have in the call today our Executive Vice Chairman — Mr. Shivinder Singh. I also have the pleasure in introducing you to our new CEO — Mr. Bhavdeep Singh who has joined us recently. On the call with us today we have the CEO of our Diagnostics business Mr. Sanjeev Vashishta and our Chief Financial Officer — Mr. Gagandeep Bedi. We will start the call with some opening comments by Mr. Singh, post which I shall take you through the Financial Presentation and then we will open the floor for Question-and-Answers. Over to you sir.

Shivinder M. Singh: Thank you, Anurag. A Very Good Evening to all of you and thank you very much for joining us today. This quarterly call is very-very significant from a company's perspective as also personally. Firstly, I want to start with welcoming Bhavdeep back into Fortis into the family. He joins us back after a 4.5-year hiatus where he had to go back to the US for personal reasons and not only personally very excited to have my old colleague back but also the fact that I am finding kind of this interim CEO job that has taken the life out of my black hair, if I can say that.

On the company perspective, this quarter continued the trend that we have been talking about for last few quarters, whether it is from a balance sheet perspective, whether it is from a P&L perspective, whether it is from the international sales and we talked about focusing on India, setting out our focus on clinical care quality and improved performance and some other significant decisions that we have made that I will be talking about. But just a quickly jump into give the highlights after which I will request Anurag to give the presentation.

Firstly, on the balance sheet with the international sale and redeeming our FCCB that we had outstanding that is due on May 2015 our debt-equity ratio now stands at 0.13 with Rs.621 odd crores debt which stands against the FCCB that we have outstanding of \$100-odd million dollars which is clearly in the money and therefore from our perspective we see it largely as equity and therefore we are a zero debt company from that context as of the end of this quarter which I think is a fantastic position for us coming from the last couple of years.

On the performance matrix, we have improved 220 basis points quarter-on-quarter. We have had 26% growth in our EBITDA from last year which is all going the same momentum we will be talking about adding profitability to our business, getting out of unprofitable businesses, unprofitable channels, unprofitable markets and cleaning up our act so to speak so that we run a strong healthy company going forward. So the balance sheet... the P&L is looking good. On our

operating matrix our ARPOB has increased 14% to a very healthy Rs.140 lakhs. Our length of stay continues to shrink; it shrunk by 5-6% from last year from 3.72 days to 3.53 days and FHL continues to shine in its margins and profitability; it has gone to a quarterly margin of 23% this quarter which is clearly its historic best but also continues to show on a quarterly basis significant improvement going forward.

One other significant highlight which has been very pleasing to us this quarter is the fact that we have actually launched the first “Fortis Brand Campaign” but also the first brand campaign probably on television for any healthcare major in the country and it has received very-very positive responses, in fact, on the social media it has been a pretty big hit; we had over 70 lakh followers on Twitter on this and we have had over a million hits on YouTube on our ads and it seems to be continue gaining momentum as we have gone on television last week. That is something that will be taking away a lot of pride not just because of the fact that it is the first time somebody is doing that but also the fact that it is based on a true story that talks about how a patient goes through challenges that they have such debilitating diseases and how organization like us can actually come and not only give them some clinical support but also give them hope to a better future going forward tomorrow.

On the financial front, largely speaking at a group level — thanks to the international sales — we have had a profit of Rs.87 crores Vs loss of Rs.(-46) crores; Rs.87 crores is also the profit we made in the two international sales. On the India level we have had a loss of Rs.(-6) crores vis-à-vis Rs.37 crores last quarter; this Rs.6 crores of loss includes a profit of Rs.11 odd crores of FOREX and therefore netting it off we are at about Rs.17 odd crores of loss for the quarter and our aim as we mentioned before is to get to profitability by the end of this year for the India business. I believe we are well on the track to deliver that.

Basically, it is the opening comments. We look forward to an engaging Q&A with myself and my old colleague Bhavdeep back. Over to you Anurag for the Presentation.

Anurag Kalra:

Ladies and Gentlemen I shall take you through the India consolidated financials. In the India piece, our Hospital business recorded revenues of Rs.839 crores Vs Rs.787 crores in Q1 FY15, our operating EBITDAC what is the EBITDA before the net business trust cost witnessed a robust growth of 26% to reach Rs.124 crores representing a margin of 14.7% Vs a margin of 12.5% in the corresponding quarter. Our Diagnostics business continues to show a good momentum. We recorded net revenues of Rs.189 crores during the quarter, this compares to Rs.177 crores in revenues in Q1FY15. The margins in this business touched an all-time high of 23% Vs 20.9% in the corresponding quarter. Overall, combining both the Hospitals and Diagnostics business our India consolidated business recorded revenues of Rs.1,028 crores Vs Rs.964 crores in the corresponding quarter. Our combined operating EBITDAC grew a strong 23% to Rs.167 crores and this represents a margin of 16.2% Vs 14% in the corresponding quarter. After accounting for our businesses trust cost and other income EBITDA for the India business was at Rs.65 crores, a growth of 29%. Our finance cost further declined to Rs.31.7 crores in the quarter, this compares to Rs.36 crores in the previous quarter. On the depreciation

and amortization, we witnessed a marginal decline with D&A at Rs.51.7 crores Vs Rs.53.1 crores in the corresponding quarter. Our profit before tax has shown a significant improvement with the loss reducing from Rs.46.1 crores in Q1 of FY15 to a loss of mere Rs.7.2 crores in the current quarter, and reflecting the same our PAT after minority interest and share in associates has also reduced its loss significantly to a negative Rs.(-6) crores Vs negative Rs.(-36.8) crores in Q1 of FY15. So a healthy and improving performance by the India business.

At the Group level which also includes International business for a part of the quarter since we have divested those in the quarter which is RadLink and Fortis Surgical Hospital, both assets in Singapore, our revenues at the group level were at Rs.1,049 crores Vs Rs.1,020.7 crores; operating EBITDAC margins were at 15.8% for the quarter Vs 13% in the corresponding quarter; our profit after tax after minority interest and share in associates stands at a positive of Rs.87.3 crores Vs a loss of Rs.45.8 crores in the corresponding quarter. I would like to highlight that this is largely due to the exceptional gain with respect to our asset divestments in Singapore of approximately Rs.87 crores that we have booked in this quarter.

I shall now come to brief snapshot of our balance sheet as it stands on June 30th 2015. Our shareholders equity inclusive of minority interest is at Rs.4,972 crores. We have an FCCB of Rs.541 crores and I may add that this FCCB is significantly in the money currently. We have a debt of Rs.601 crores hence bringing the total capital employed on our balance sheet to Rs.6,114 crores. This is employed in net fixed assets which includes CVAC of Rs.233 crores, our net fixed assets stand at Rs.1,793 crores. We have a goodwill which is now largely related to our India business only of about Rs.2,072 crores. Our investments stand at Rs.1075 crores. We have cash and cash equivalents in the balance sheet of Rs.520 crores and our net current assets stand at Rs.654 crores. This brings our total asset base to Rs.6,114 crores. As of 30th June 2015 our net debt-to-equity ratio stands at 0.13x, this compares to 0.21x in the balance sheet date of as June 30th 2014 and is also better than 0.25x as of 31st March 2015. Like as it was mentioned before, if you were to count FCCB and equity since most of them are in the money, we today are practically a debt-free company.

With that I come to the end of the Financial Presentation and open the floor for Questions-and-Answers.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question is in the Hospitals revenue growth. It seems to have sort of moderated versus what you were expecting. I understand that FMRI now become a larger base, plus based on the facility breakup that you have given of revenue, a few facilities like Shalimar Bagh and Mulund have shown on a year-over-year decline, could you give us some color on the growth — are we seeing competition, has something changed?

Bhavdeep Singh: When you look at any growth story for any organization over time we had a 7% growth on last year for our Enterprise and we have had prior quarters certainly with a stronger growth, but the reality is that in any growth story you are going to have quarters where you do slightly better and slightly less better and I think this is just part of the growth story. We continue to use the opportunities that we have in each facility whether FMRI a new facility in Gurgaon or Fortis Escorts at Punjab or Shalimar Bagh or any other hospital so it on an ongoing basis it is an opportunities whether it is in a clinical perspective or whether it is in a patient care perspective but we continue to be extremely optimistic about what is happening. We continue to believe very strongly in the growth story that is going on and I think that you will continue to see good numbers as we go forward. That is the way we see it from here.

Anurag Kalra: Also remember, as we had mentioned over the last couple of quarters we were in the process of exiting our non-core and low performing facilities. So this quarter vis-à-vis the last quarter you do not have facilities of Mysore, Moradabad and Agra which were contributing to the revenues in the last quarter as well.

Neha Manpuria: What about the decline in Shalimar Bagh...9% decline seems a little too much. is this also some sort of exiting some part of the businesses there, etc., or this is just a one-off decline?

Bhavdeep Singh: In the absence of it we will see what happens in the coming quarter but we see it as a one-off thing. There is a lot of good things happening in Shalimar Bagh and the facility is approximately four years old and we were very pleased with what is happening there and I think we will keep bounce back fairly quickly.

Neha Manpuria: Secondly, on Mulund, are we seeing any sort of doctor churn, etc., how should you look at that facility given we are expecting competition come in a neighboring catchment area if not the same basket?

Bhavdeep Singh: We have not had any issue in terms of churn when it comes to doctors. In fact Mulund is the Home of our First Heart Transplant that had taken place in Bombay in many years and there is a lot of excitement in Mulund right now, there is lots and lots of optimism around the Clinical Programs and we are going to continue to invest in it. No concern at all. Mulund continues to be a flagship facility for us and we will continue to drive great numbers.

Neha Manpuria: My second question is on SRL. Now, again, margins took a step up. Is there some one-off, is this the sustainable levels, should we expect some quarterly volatility, is this a new base, what drove this improvement?

Sanjeev Vashishtha: It is not a one-off thing, if you remember, if you see the last 16-17 quarters year-on-year basis we are rather growing at a very steady pace; 250 basis points every year. This is for real. And I also mentioned when the Lifeline got snapped that while everybody is trying to eat into the same cake we are trying to create more and more cakes here which is in the form of creating new adjacencies, we are also trying to get into new businesses which makes sense to us. Opportunity

in the Diagnostics field is really amazing and very clearly it can be seen from the fact that it has become a sweet spot in overall healthcare arena. This growth is sustainable, a short answer to your question.

Neha Manpuria: What about the revenue growth? That does not seem to be really coming back as we would have expected given the steps that we have taken over the last few...I understand we are exiting certain collection centers, but longer-term, what should be sort of the growth that we should be seeing in the Diagnostics business?

Sanjeev Vashishtha: Last five quarters we have been trying to move out the non-accretive businesses and we are going about doing it very ruthlessly. We clearly do not want some of the centers to be eating away on our margins while the others are performing well. So we have taken certain hard calls in this quarter as well. Next two quarters I see this trend is going to continue, but I think this in the long term or in the mid-term and when I say mid-term you can look at about 1-1.5 years from now. The growth we are expecting is at least 20% on the revenue side which is a sustainable growth. Add to that the new businesses which we want to get into. That will further give us a boost may be by a couple of percentage points.

Moderator: Thank you. The next question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Just again on the slowdown part, you had mentioned of course this was more of a one-off but what is basically impacting the occupancy if you look at consolidated level occupancy has come down to 70% from 72% last quarter?

Shivinder M. Singh: This is Shivinder here. As we have been talking about earlier the idea really is to not just grow but grow profitably and grow with a cleaner set of business and as we have done in the international space about exiting some of our non-core assets and focusing in India we were also focusing on India to look at only growing in our core segments. We have walked away from many channels, we have walked away from many contracts either not profitable or not paying up the cash flows in the right time. Really for the last year or so our focus has not really been on revenue growth, but on mix of the quality of the business we retain is good. Therefore, the stark contrast. I do not think in the history of the company you have ever seen a 7% revenue growth and a 26% EBITDAC growth. The fact that is happening is coming on the back of a lot of focus on cleaning up the quality of the business so to speak. If you look at it we have gotten out of some of the hospitals, we have walked out of some of the channels, we have improved the clinical quality of our business, we are making the systems more tighter and more efficient which is showing up in a 14% growth in ARPOB. If you look at ARPOB historically in the last year or two ARPOB has been growing in a much faster pace than they have grown before. Our efficiencies at an ALOS are happening in a much quicker pace than happened before and commensurate to that the revenue slowed up, the EBITDA is growing. It is a package story and in our Q2 as this comes to an end and the cleaning up gets behind us, the revenue growth will automatically start kicking in as well. I am not concerned about the revenue growth today, but as long as we are getting into healthier margins and making a more profitable organization we

will get to that as well. In the Indian market we do not have to worry about getting volumes really honestly in any business, let alone ours.

Girish Bakhr: So you are saying Q2 would be the last quarter where this cleaning exercise will continue to, right?

Shivinder M. Singh: I would guess probably two more quarters for a tepid revenue growth if that is the specific question.

Girish Bakhr: If I just have to correlate this to the margin part, Hospital margin if I have excluded the BT cost also come down, cooled off a bit probably from last quarter, is that also because of this cleaning of exercise or what does that led to?

Shivinder M. Singh: The difference in the margins from the last quarter to this quarter is partially to do with the case mix that we have. Ours is a seasonal business. Orthopedics is a low Q4, high Q1 business; Cardiac is a high Q4, low Q1 business. We have a bit of a case mix issue there which has impacted our EBITDA margins as also our gross margins. I would not make much of it. The trajectory of our margins is upward and from a current 14.7% odd we would inch closer and closer with our eventual target in three to four years going to 20%.

Girish Bakhr: On FMRI, I was worried on the front that one, of course, the base is increasing at the same time growth is settling to this Rs.95-96 crores level. Is that concerning or where do you think that is basically coming from – do we see a sharp escalation after sometime or would that be a gradual pickup again from here?

Shivinder M. Singh: I did not get the base coming down, meaning, I did not understand what the base...?

Girish Bakhr: No, I am saying, base is increasing, growth of course on the last corresponding quarter would be difficult to maintain.

Shivinder M. Singh: From a year-on-year basis. If you look at the 90s that FMRI is in, it clearly has more scope to grow. I would assume FMRI to get to closer to Rs.600 crores in the next two to three years from the current mid Rs.300 crores and so on and so forth. So, there is enough room to grow. This is basically a function of how some of the new programs that we have put into place almost in a quarter or second quarter basis how much time to take to settle down and grow up, and also in this particular quarter we have had a significant amount of management change at the FMRI level and that has a lot of impact in our business as well. We have had an exit of the personnel set up and ran FMRI till date. We have a new person coming in, some team changes that have happened consequent to that. Those in some ways kind of change the focus on performance to some of these emotive issues but on a holistic level, we are very confident of FMRI growth. It is just the tip of the iceberg that is done as yet. It has got a couple more years to grow.

Girish Bakhr: On a very strategic level, the initiative on the Mother and Child side, I was reading on the Mamma Mia and things on the similar lines, Apollo is also trying to do something on the Cradle side. What is basically the market if one has to look at? I understand this probably space is very unorganized and the newer quality care is more on the side of giving the old birthing experience a different level altogether, but is it per se a high margin business, how do you see this business as such unfolding for you in the long-term?

Shivinder M. Singh: The Mother and Child business has a slight departure from the existing as we see the Healthcare business per se. It is very much healthcare but it also has certain amount of hospitality and retail aspects to it as well. #1, there were huge opportunities, you are absolutely right, it is a reasonably untapped market. The organized players are now coming in, in a bigger way. What we started 10 years ago in terms of the first women hospital it is pretty much still the only women's hospital. We are setting up a second one in Bangalore. But nobody has taken this space of women's center. People are largely looking at it as a birthing center. For us it is a much larger program than a birthing center. That is a space that we uniquely occupy. We are hopeful that we will grow this on a disproportion level to the organization going forward and we have many different programs in this including Mamma Mia that you talked about, that adds a lot of value and quality to go up to what we do as an organization. Per se the market is huge, largely untapped, I think there is a huge opportunity to grow out here.

Girish Bakhr: This will be margin accretive, right?

Shivinder M. Singh: Very high margin vertical.

Moderator: Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Actually, if I look at your operating EBITDA which you are right which grew by 26% and what is even more encouraging at least is that the net BT cost is basically up only 6% YoY. So, finally, we are seeing some spread getting made on the Hospital business post the BT cost and going forward, from the current Beds that we have and whatever efficiency gains that you are talking of to bring it out, do we see this further accelerating as we speak?

Gagandeep S Bedi: Per se are going to be pretty much fixed and only increasing as we said 7.5% revenue of the year there. So, you will see more leverage coming as and when our volumes go up.

Kashyap Pujara: So if I were to say that what would be the Bed addition that we would see in the next three years, how many Beds would we be operationalizing each year?

Shivinder M. Singh: Let me just add to what Gagan has said. We had said it earlier as well the fact that last year was a big year for us because we added the BT fields for Gurgaon as well. So, now onwards, the BT cost growth would be normalized. Clearly, the business will add more EBIT that we are in at BT field. So clearly, the gap will keep on increasing and will come into the right proportion. As we

mentioned before, we are also looking at growing those hospitals with the BT and as we grow them, I think that percentage and the fix will also start to happen. So, we are looking at a couple of projects to start off where we are going to adding Beds in the BT Hospitals. So, over the next course of 3-4-6-8 quarters, those will start getting operationalized and we will start seeing the benefit around those. So, a couple of them are new wins, a couple of them are new flows in existing hospitals, but it will take the share of infrastructure time to get going.

Kashyap Pujara:

My question was pertaining to that itself; when I was asking operational Beds, how many Beds you would get operationalized. Basically, what I wanted to understand is that as long as we are getting incrementally more Beds, coming out from the BT network itself, and my BT cost will remain in the same normalized zone. So we will have that leverage coming through. So, one is that our growth is a bit tepid of late, but with the new Beds coming out from the same system, typically, over the next 3-years we can see a huge opportunity leverage pan out over the BT cost that we are looking at right now?

Shivinder M. Singh:

Absolutely, right.

Kashyap Pujara:

Could you just give us some sense on SRL? We are seeing phenomenally high margins over the last 4-years. So in the last 4-years, you have seen revenues virtually double, you have seen margins going consistently upwards. So, are these trends really sustainable and where is the sustainable margin going to be, where would you see this margins normalize at, at some point in time?

Sanjeev Vashista:

Sanjeev here. As I was mentioning to Neha also, you have to see the growth for the last 3-3.5-years, it is a good growth that we are achieving. I always have maintained that this business is a very good business to be in. I will just tell you what we have actually done. While most of the players at the national level, they were investing the monies into creating the hoardings and signages, we were doing something very-very meaningful – one was that we were creating a very good team; second, we were investing huge amounts on the infrastructure, we were training our people, we created the training ground, which is a very-very good training academy in a place Beas, we were also trying to get new technologies, creating new champions to woo in these technologies. Now, also, if you remember 5-years back we had acquired this asset by the name of Piramal Diagnostics, certainly, at some stage operational leverage had to come in and this is the result of that operating leverage now you see and they are kind of whatever the seeds that we sowed about 4-5-years back, these are now bearing fruits. My sense is that this is a good space to be in and every year we are growing by about 250 basis points. I think easily in next 2-3-years' time, we look at reaching out to about 28-29% EBITDA margins which to my mind is a possible thing.

Kashyap Pujara:

So basically, what you are saying is that in the next 3-4-years we can have a situation and revenues keep growing at mid-teens closer to that and margins continuously move up by 200 bps?

- Sanjeev Vashishta:** More certainly.
- Kashyap Pujara:** Along with that, the leverage of the hospitals over the BT cost would also start to flow in and in which way the balance sheet is pretty clean. So basically over the next 3-years we should see some very good cash generation?
- Shivinder M. Singh:** If you look at it at a consol level, we are expecting the India business to be PAT-positive, in the next year we expect it to be free cash flow and over a 3-4-year timeframe, at a combined Diagnostics and Hospital level, we should be in the (+20%) EBITDA range.
- Moderator:** Thank you. The next question is from the line of Praveen Sahay from B&K Securities. Please go ahead.
- Praveen Sahay:** Just on the new facilities, like FMRI or the Ludhiana, continuously, we are seeing phenomenal growth from these two facilities and also the ARPOB level for the FMRI is quite high. So, would you please give some informational light on what we are focusing on that, which type of facilities more in so that these facilities are getting more attraction?
- Shivinder M. Singh:** Firstly, there are two facilities have completed different expectations, I will answer each of them individually. I think a case of FMRI, firstly, this is basically a flagship hospital from a perspective that we do some of the most complex high-end clinical work here. Our objective continuously is that almost on a regular basis, we continue to improve and upgrade our clinical facilities here. So, we can do more and more complex and difficult procedures. Along with that, we try to make it much more efficient. So, I was talking about FMRI saying that we are looking at growth here, one, from improving the clinical capabilities, secondly, from improving the service standards, thirdly from the efficiency perspective and fourthly getting higher end clientele from international. Each of these will help us improve our margins and hopefully improve our occupancy going forward. So, that is how we believe the ARPOBs will be high and stay high. In the context of Ludhiana, the idea really is to fill up the hospital a good quality business and we are trying to stay away from the mistakes that we have made in the past of getting low hanging business and therefore then I have got stuck in collections and outstandings so on and so forth. So, we have been very picky in terms of the kind of corporate clientele and other clientele that we picked up. In spite of that, the business that we have is largely cash and very little of TPA and it is going at a very healthy rate. In the future, we expect some tie-ups will come through that will give us the impetus and basically there it is having a very large multispecialty portfolio and being able to do clinical work that has possibly not happened before in Ludhiana and doing at a better standard and a better clinical quality. So, Ludhiana, we are looking at becoming a large multispecialty for the region whereas FMRI is intended to be a national and hopefully start Middle Eastern focus area to become flagship facility for this part of the country and probably Southeast Asia.
- Praveen Sahay:** It is more on the operational efficiency and the services rather on the specialization mix change, right?

- Shivinder M. Singh:** A bit of both, yes.
- Praveen Sahay:** Another thing like the overall ARPOB increased quite significantly for this quarter and it is continuously improving. So, it is also due to not on the case mix, it is more on the operational efficiency, am I right on this?
- Shivinder M. Singh:** I think the ARPOBs are largely a combination of multiple factors. It is a combination of the kind of clinical care program that we are doing, the kind of pricing that we are able to extract, the kind of room mix that you have and how quickly you set a patient back home from a length of stay perspective. So, it is a combination of all four and these are all important aspects for us, so we are continuously working on all of these. I think there are all four wheels and motion, some will impact more at a particular quarter and so on, but on an overall 14% ARPOB growth over the quarter from last year is actually a very healthy growth and actually I would say it surpassed the expectation at some sense. Because we keep pushing each of these channels independently and the outcome of this is the kitchady called accounts that we get to see at the end of the quarter.
- Praveen Sahay:** Just on the SRL Diagnostics business, I am just seeing that is the Imaging and the Lab Medicine, percentage share is also changing. So, can I get the margin differential in these two segments of the Diagnostics business?
- Shivinder M. Singh:** Pathalogy, Radiology?
- Praveen Sahay:** Yes.
- Sanjeev Vashishtha:** If you look at Radiology, we have cleaned out the practices which were not doing too well and that is the reason why we have been able to improve the Radiology, the margins in Radiology are about 12-12.5% and on the Pathology it is upwards of 23-24%, the mix of Radiology and Pathology are just two, Pathology accounts for about 90% of the total business and Radiology is only 10%.
- Praveen Sahay:** Just on the book-keeping question, we have some minority interest this quarter. That is on account of what?
- Gagandeep S Bedi:** Minority interest is mostly payout to SRL.
- Moderator:** Thank you. The next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.
- Amit Goela:** I was going through your presentation; you have given an update on SRL value unlocking. Can you give us some color on that, like this is at what stage, you said SRL management in consultation with the investors will proceed with the next step, so has it been decided like anything has been ...?

Shivinder M. Singh: A couple of broad comments I tell you and then if anything is specific on that. So basically when we got a private equity in 2011, we had agreed on a timeframe that give them an exit.; exit could either be because of the IPO or from a secondary sale, we have taken a while to kind of discuss and dialogue what is the best future for SRL and we have chosen the secondary sale option to give them an exit. SRL is going to lead the process and give an opportunity for any of the investors who choose to exit to take that depending on what price and so on and so forth. So they have the option for a partial exit should they choose to and that is a process it is going to be lent by SRL because it is for all four private equity investors.

Amit Goela: So, when you do this, you provide them with an exit, can it lead to some kind of a value unlocking for us also?

Shivinder M. Singh: Honestly, it is a very difficult place to be because we are at 53% shareholding, we certainly want to amalgamate the P&L in our books, so we have 2-3% to play with, it is not really much to talk about value unlocking, in that sense from a Fortis standpoint.

Moderator: Thank you. The next question is from the line of Prashant Nair from Citigroup. Please go ahead.

Prashant Nair: Just wanted an update on your efforts to improve the operations at the Escorts Delhi Hospital, we have seen some improvement last year. How are these progressing currently?

Shivinder M. Singh: If you look at Escorts over the last 5-quarters, it has gone from a (-10%) EBITDA to (+12%) in this quarter, it has moved 22% of the needle in the last 5-quarters. I think the idea really is that we were grappling with in Escorts last year, was instead of doing cosmetic changes and get the business back to do fundamental changes and actually start fix ticket from the ground. So the last couple actually have gone in almost fundamental redirection in terms of the way Escorts is functioning, whether it was adding new medical programs or almost entirely gain with the management team at that level, looking at putting new systems in place which were largely the older Escorts systems, putting a back-end ERP system in place and so on and so forth because the inventory management that was happening that was not up to the mark. So, we have actually gone in some ways a very fundamental level to redirect the way Escorts is, so that when the growth comes in a time around it is in a much more stable and a much more organized fashion. We have also walked away from many businesses. In fact, we were doing an analysis recently in Escorts, that showed that we have actually reduced some of our government business to the tune of Rs.40 crores which is about 20% of its historical business. That we have taken away which is about 15-16% occupancy impact. So whereas the occupancies are looking tepid and the revenue maybe looking lower and before the facility was down that business was not really giving us cash back into the business, it is becoming an outstanding and we are writing it off down the line. So, we kind of make the business healthy and generates own fee rather just look at outstanding and so on and so forth. So, I would imagine over the course of the year, you will continue to see improvement in Escorts in a more graduated, in a more solid manner, but in a gradual step-by-step manner rather anything radical happening in one quarter.

Prashant Nair: Would this get to say a similar level of margins as you would expect from one of your other large hospitals over the next say a couple of years or will it take a bit longer than that?

Shivinder M. Singh: The interesting thing about Escorts by the virtue of the fact that it is a single specialty business, margins that we get in some of the other multispecialties range between 26% and 27%, actually come about because you have a lot of other specialty some maybe high revenue, some maybe high margin. In the case of single specialty only have that specialty margin and cardiac gross margins and all are not that high. So, it is basically a function of how you control the mid-line and then the doctor cost becomes a variable. So, I would imagine a 20% EBITDAC in Escorts a good number to get to. It will take us a couple of years but we are very determined to get that.

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

Saion Mukherjee: Just one clarification; you mentioned about the slowdown in revenue growth on account of closure of some facilities and also some of the government channels that you are exiting. I just wanted to get a sense as to what is contributing more to this slowdown because some of these facilities that you mentioned like Mysore, Moradabad or Agra, I understand these are managed hospitals, right, so they were not part of the hospital revenues, they were part of other operating income. And if I look at the top-10 hospitals revenues that is given out there, they have grown at the same rate as the overall Hospital revenue, so which means that outside of the top-10 also the growth has been around 6-7%. So, can you just throw some light there?

Shivinder M. Singh: Firstly, the hospital that we have shut down are all P&L that were owned by the company, the hospital is not owned by us, but the P&Ls are owned by us, they were lease rental hospitals. So therefore, that change is not significant but the P&L was ours which is now not ours. I am not too sure I am quoting somebody else, but I do not think anybody has said that the growth has been tepid because of the shutdown of these facilities or exit of these facilities. It is largely to do with the fact that our focus as an organization has been on getting good quality business. As one of our senior team members mentioned in a couple of quarters ago to me, he said, Shivinder, "Thank god! The company is finally looking at the sanity business and vanity business." So, I think the focus has been to get sanity business, not chase the top line. So the message to the last person is "Do good clinical work and do not go for the top line which is not going to give you cash back in the business." So honestly speaking, we are not looking at the top line, we are looking at making sure we get business from the right channel, we are tweaking in the right way, in the right sets of things for the patients in a very efficient and hopefully in an emphathetic manner. That is the focus for the organization for the last year and therefore it will result in a 6% growth, rather than 9% growth, that is an outcome. What it is definitely focusing on is riding on a more profitable growth and I think you can see that in a quarterly basis for many quarters now that on a quarter-on-quarter basis the EBITDAC margins of the company are improving and I think that focus will continue for the next couple of quarters. Bhavdeep is here with us who has rejoined us back... I will actually ask him to give a comment on how he sees going forward because honestly it is him driving the ship from here.

Bhavdeep Singh: I will just add on to what Shivinder just mentioned. We are looking at the business I think holistically and very intelligently in terms of what do we want to do going forward so that we can tap into the medical specialties we have, the wonderful clinicians we have. So when you start looking at things like Oncology, Cardiac Sciences, we have had some extensive expertise and we have a lot of expansion, but across the board, looking at specialties expanding on them we have a Liver Transplant Program today that 5-years ago did not exist that what it is today, we have 3 or 4 hospitals where we are conducting transplants, our Heart Transplant Program is among the largest in Asia. So, I think that we are looking at the business moving forward in an intelligent way, continuing to tap into the expertise we have, we have hospitals where we have capacity to add additional beds we will be doing that as well as we go forward. So, the picture going forward should anvil lead to sustainable growth that I think we can count on quarter-after-quarter.

Saion Mukherjee: Just you mentioned there would be like in terms of your cleaning up process it is two more quarters, right, then we will be through with that and then you think the existing base of hospitals on back of ARPOB growth should be able to deliver mid-teen growth from thereon?

Bhavdeep Singh: Absolutely. The growth numbers that we are starting to see, every hospital is in different stages of evolution and as Shivinder has mentioned, we do have a one or two more quarters I think we continue to clean up our enterprise, but beyond that mid-teen growth and eventually moving to the 18-19% approaching 20% is what we are working towards and I think that is exactly what will.

Moderator: Thank you. The next question is from the line of Ruchi Vora from CLSA. Please go ahead.

Ruchi Vora: My first question is on your Hospitals which you are planning to expand in Bengaluru and Chennai. Could you touch upon how is the local competitive intensity in those markets and what is the level of ARPOB that you are looking at?

Shivinder M. Singh: Honestly, if you ask the top-10 cities, every single city has a very good quality high end hospitals; however, there is no market that is exasperated of fully furnished simply because most of these markets actually cater to a very large region. So, if you look at the overall India Average Number of Beds and you look at the Delhi NCR Average, I think Delhi NCR average is 7 or 8x the India Average, 2.5x what Delhi needs for its own citizens, but it feeds a much larger geography. I do not think we look at market from a saturation point of view per se. For the facilities in question, I think, again like I mentioned earlier, the Bengaluru Hospital last time Mother and Child facility, that is the first time a woman's dedicated hospital is there in the country and coming in Bengaluru. Therefore, I expect the traction to be reasonably good and the margins to be reasonably high...the ARPOB should be closing into the 2 crores number in the first 12-14 months of that Hospital starting. Margin should be good, it is a rented facility, so if the EBITDAC or EBITDA margin they should be in a good range but that will take a few years to get to. Chennai: Our existing facility which is Malar which is unfortunately not the jazziest of

the facilities, on 1.2 crores ARPOB. So the first year once Arcot is stabilized, I would certainly said it to be equal to higher than that, and margins like any other facility of ours.

Ruchi Vora: Can you also touch upon Chennai, how is the market like because Hospitals are remarkably local business, right, your ARPOBs, etc., driven by the local market?

Shivinder M. Singh: I think firstly, South India per se, all the four states, private healthcare is far more deeper into that market per se, more penetrated, better quality physicians, there are more medical colleges in those markets and so on and so forth. So, all the four southern states have a much greater availability of talent doctors, talent nurses, talent technicians, their price points in terms of salary, then others are probably lower in some cases, example, the exceptionally senior and high end talent and therefore the price points of the Hospitals are also probably in the similar range. I think from a margin perspective, it does not matter, because it equalizes. But the penetration of private healthcare in those markets are far greater, it is the most developed market success. Within that Tamil Nadu is probably the best organized Healthcare market from a public health and a private health perspective in the country, Gujarat probably follows the second. So, we are in probably one of the best states in terms of overall Healthcare market. Within that Chennai is the hot spot.

Ruchi Vora: My last question is on the Specialty mix. Just wanted to hear your thoughts at a strategic level, where are the gaps and how could our specialty mix evolve over the next few years?

Shivinder M. Singh: I will ask Bhavdeep to make a comment on that and probably add a little bit.

Bhavdeep Singh: I will try to summarize; when our focus when it comes to Clinical Specialty, if you think that 14-years ago, when we opened our first hospital in Mohali, we had a focus on Cardiac Sciences and we continue to be a major hub when it comes to Cardiac disease. Subsequent to that, as we open more and more hospitals, we have continued to build our expertise, and we invested quite a bit when it comes to Cardiac, whether it is cath labs or there is doctors, or there is nurses, and we are renowned in the Cardiac space as one of the leading if not 'the leading' player when it comes to this. In addition to that, 5-years ago, we did not have Oncology specialization and we opened of course a center in Noida in 2010, today, we have half a dozen hospitals where we have very good solid cancer programs where there are surgery or otherwise. In addition, as the country changes, the disease burden continues to grow. We all know what is happening in the field of Diabetes. We continue to grow there as well. So, I would tell you in a very-very summarized fashion that our focus on clinical specialties would be dictated by the need of our population. Cardiac is a huge need, Cancer continues to be a huge need, there are a number of knee surgery and joint surgery that we are doing continues to grow every day, the number of transplants, we had our First Heart Transplant in 2009, today, we are the leading heart transplant provider in all of the ages. So I think as the country continues to evolve, as the challenges that we face, I think we will continue to invest, whether it is in doctors, whether it is in nurses, whether it is in technology, whether it is in medical equipment, ultimately, what we need to be

doing and the focus is that we need to meet all of the Healthcare needs of the population of our country and our investment in clinical specialties would be driven by that as well.

Ruchi Vora: Are you sharing any near-term guidance on the revenue acceleration over the next few quarters? And also what is the near-term margin outlook on EBITDA?

Shivinder M. Singh: I think we mentioned earlier in terms of how we see the revenue flowing. I think the outlook that we have given in the last couple of quarters as well is the fact that we expect to be PAT-profitable in India business this year. I think Gagan mentioned earlier if you look at the India business they are Rs.(-6) crores with Rs.(+11) crores positive benefit from FOREX, it makes us Rs.(-17) crores and therefore we hope that by the end of the year we will have probably covered that has also become positive for the company and over the medium-term in the next 3-4-years we should expect to get 20% margin as a combined business for the India business.

Moderator: Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Just a few questions: If you could explain slightly more in terms of after we have exited RadLink Singapore and some of these 170-Beds from the other three, what would be the number of Operational Beds?

Shivinder M. Singh: Total including the managed ones would be close to about 4,500 Beds.

Jigar Walia: Just to understand on this ARPOB growth, while 14% is quite overwhelming and congratulations for that, but would it be fair to assume a double-digit growth is sustainable?

Shivinder M. Singh: I think in the near-term, double-digit growth is probably a doable task, probably two-three caveats I will add to that; I think one is the fact that in the Q2-Q3 coming forward, there is a seasonality change by virtue of the festivities coming in one quarter or the other and therefore maybe in the last quarter, Q3 would have been better, Q2 would have been might be other way round. So, barring some odd seasonalities, I think that is one area that we probably want to just caveat that. Second is also is a function of what kind of clinical mix that we have. So, in this quarter, we have a very high mix of say gastro and ortho and that could have a change in a length of stay which would make an impact on the ARPOB, but if I look at a medium-term, it is the range rather than quarter-on-quarter. I would say that we are still on double-digits for a couple of years.

Jigar Walia: This actually leads to the next question which is on seasonality you mentioned about it but from a quarterly perspective, can you give some sense in terms of seasonality while looking at occupancy at 70% versus higher, and fair to say while the occupancy may increase, the ARPOB may actually be lower because of the mix, one can look at the absolute EBITDA in that case?

Shivinder M. Singh: I probably would not make a guesstimate on the seasonality literally for the next 2-quarters and stuff like that. I think what has been proven beyond doubt is the fact that the winter is a very

strong quarter for Cardiac because the kind of elements that all the Cardiac disease land up of winter, but with all these El Nino that is happening, our own predictability on seasonality is actually changed. Typically, in the past Q1 has been a very high infectious disease in the quarter which is coming largely now in Q2 vis-a-vis Q1, last year the winter came delayed, so the impact on Q3 actually came only in Q4 and so on and so forth. It is a little difficult because a lot of this is to do with stuff there is a lot not really controllable. Orthopaedics always comes higher in Q1 because it finishes the exams, in particular the elective surgery is after that, it is very low in the winter because people do not want to do orthopaedic ailments because the bones kind of heal as well in winter. So, there are some that are completely weather-related, some are literally date-related by virtue of orthopaedic. So, it is probably a little difficult to talk about that in this. Sanjeev, Bhavdeep, do you have any comment you want to add, because it is very difficult to...

Bhavdeep Singh:

Absolutely fine. As you rightly mentioned, those are the best months.

Shivinder M. Singh:

In the typical path, April-May-June were high for H1N1, these H1N1 last year came September-October-November, this year it is really kind of whether it is coming or not. So I think there are a lot of pattern changes happening in the environment overall to determine very conclusively. I think if you ask me four years ago, I would have almost told you which quarter what is going to be happen. I do not think we have that kind of visibility today.

Jigar Walia:

On FEHI, do we have any one-off write-off that we are doing on receivables or anything and that is continuing in this quarter if anything has impacted the numbers on any one-off related to FEHI?

Shivinder M. Singh:

Nothing that has come positively or negatively for this quarter.

Moderator:

Thank you. The next question is from the line of Rohan Pandya from B&K Securities. Please go ahead.

Rohan Pandya:

Just wanted to know if you could segregate the Operating Beds based on the maturities, like less than 5-years or things like that, so if you could give us some clarity on that?

Anurag Kalra:

In terms of maturity, if you look at our beds between the 0-to-3-years, 16% of our operations would fall within that timeline, between 3-5-years, we have about 13% of our operational beds, 5-10-years is 29% and 10-years and above is 43%.

Moderator:

Thank you. The next question is a follow up from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria:

Just wanted to understand, what is the return on our business in SRL given these margins? And when we look at expansion, given that we are now even shutting down certain labs and collection centers, are there any pockets where we are particularly weak and therefore we need to expand significantly or probably acquire a set of centers that run there?

Sanjeev Vashishtha: We are going about doing this exercise in a very sagacious manner. So, what we have done is we have mapped up country, test certain pockets where really need to expand our businesses, which we are doing. Given the fact that the infrastructure is in place, we have the capacities which need to be filled. I think the easiest cost for us to really ramp up the collection centers. Whatever collection centers also we are doing this in a very-very judicious manner. It is not about just taking anybody and make them the collection center. Idea is to do some meaningful business with the quality which SRL is known for. So, yes, the scope is there, we are expanding. Now, on the inorganic growth side, if that is also your question, that is certainly not a strategy because the capacity is there which needs to be filled. Yes, opportunistically, we will be quite open to the idea of taking an asset which comes through a fair value.

Neha Manpuria: What would be the ROCE of our SRL business if you can give me a rough number if not exact?

Management: Again, there is a large amount of goodwill which is sitting into the company which is about Rs.411 crores, kind of ignore that ROCE is today about 11.5%,...I am saying after tax, a slightly more, if you look at ROE it is close to about 14.5% if we ignore the goodwill which is a legacy. Now, without that the numbers are little subdued; 6.9% is the ROCE and ROE is about 7.5% odd.

Neha Manpuria: Second, a book-keeping question; interest cost... I would have assumed that it would have declined significantly post the \$100 million redemption. Any specific reason why we have not seen the reduction in this quarter?

Gagandeep Singh: It is 45-days in the quarter because on 18th of May we repaid.

Neha Manpuria: So then this should significantly go down from the next quarter?

Shivinder M. Singh: Yes.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to the management for closing comments.

Shivinder M. Singh: I want to thank all of you for the keen interest in participation on each of our quarterly calls. We continue to be bullish on our India strategy, we have done a lot of work in the last 2-years to get to an Indian strategy to cleaning up our act in terms of focusing on the right and important stuff and getting back to a core of clinical excellence and patient centricity. As a promoter, I am very confident on the next couple of years that we are going to continue and grow this business in the right way, in a very healthy profitable manner and you will start beginning to see many of the fruits of the last 14-years come into play in a significant manner. I think a lot of the activities we are doing even the clinical size...if we do not get to talk about on the investor calls, are significantly new for not only Fortis but also India and Asia and they are and they will continue pay rich dividends for us not just in terms of the business and economic metrics but also from a patient-centric point of view which is eventually what we are here for. I think we will all gain



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from that, not only financial point of view but business per se. So, as I hand over this quarter to Bhavdeep and probably not going to be on the call next quarter for the financial results, I just want to thank all of you for taking the interest, for the involvement for getting involved in investor day and I request that you continue to stay focused on the Fortis only because I think it has just begun, there is a lot more excitement on this field, or I say the games are on. Thank you very much and look forward to having the management catch up with you in the next quarter as well.

Moderator:

Thank you. On behalf of Fortis Healthcare that concludes this conference. Thank you for joining us and you may now disconnect your lines.