



“Fortis Healthcare Limited  
Q4 FY 2021 and FY 2021 Post-Results Conference  
Call”

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**Moderator:** Ladies and gentlemen, good day. And welcome to the Q4 FY 2021 and FY 2021 Post-Results Conference Call of Fortis Healthcare Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. I would now like to 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, Janis. A very good afternoon, ladies and gentlemen. And welcome to Fortis Healthcare's quarter four FY 2021 and FY 2021 earnings call. The call is being chaired by our CEO, Dr. Ashutosh Raghuvanshi; with him we have our Mr. Vivek Goyal, our CFO. From SRL, Mr. Anand, the CEO of SRL is there, and Mr. Mangesh, who is the CFO of SRL.

We will start with some opening comments on the performance of the quarter and the year by Dr. Raghuvanshi, following which Anand will talk us through the performance highlights of the Diagnostics business. And then we can open the floor for question-and-answers. Over to you, Dr. Raghuvanshi.

**Ashutosh Raghuvanshi:** Thank you, Anurag. Good afternoon to everyone and thank you for taking the time to be with us today. I would like to start by sharing with all of you how deeply saddened the entire Fortis family, including myself are, by what we have witnessed in the past few months. This perhaps is the worst healthcare crisis in over a decade, and in my entire career span of over 40 years, both as a clinician and in the role of running hospitals. I have never seen anything like this. The loss of lives, the human suffering and the economic hardship of the people has been overwhelming. At the same time, this has brought a clear and unarguable realization that we need to significantly bolster our healthcare infrastructure and capability for medical resources for such unforeseen events in the future, and the regular healthcare needs of this country.

We at Fortis have spared no effort to ensure the availability of beds and medical resources, calibrating the need with the rise in the COVID cases, as we have seen in the past few months. Our clinicians and healthcare workers continue to be in the forefront in the battle against the pandemic, making all efforts to save lives and provide the best possible care for our patients. One must truly appreciate the perils of working in a risk-prone environment that our healthcare workers face every day, and the personal sacrifices that many of them have made and continue to make. I express my deepest gratitude and appreciation to them for having risen to this challenge. We are steadfastly working with both the central and various state governments, and other regulatory medical bodies, providing all support as required.

Given our geographical expanse, we are also taking the necessary steps to accelerate our vaccination program at on-site and off-site locations. While we see an intense second wave fraught with acute shortages of beds and other medical resources, we are now seeing early signs and encouraging signs of COVID cases abating and simultaneously beginning to witness a

traction in elective surgeries and non-COVID occupancy. Our expectation would be that the trend continues, and we see business returning to normal in the short to medium-term. However, this I say with a sense of cautious optimism, as we do not yet fully understand the impact of different strains developing over a period of time. Irrespective, I want to once again reiterate that Fortis has and will continue to do whatever is required in such difficult times in order to help mitigate this unfortunate calamity.

Let me now move on to the company update. I will start with the Supreme Court matter. As you all know, the hearings were due in Supreme Court for quite some time now. These begin in February of 2021. And since then, the court held a number of hearings, right up to middle of May. Hearings have now been concluded, and the order stands reserved by the honorable Supreme Court.

Coming to the performance of the company. Our Q4 financial year 2021 performance, both in the Hospital business and Diagnostics business has been quite robust. With the business returning to normalcy post the first wave of COVID and the results of initiatives we had taken over the last few years, we have seen a significant performance. Also, to highlight, the performance of the quarter is quite absorbing, and reinstatement of voluntary salary reduction form a significant portion of overall cost reduction in the first two quarters.

Quarter four consolidated revenues have grown 12.5% to INR 1,252 crores versus INR 1,113 crores in the previous corresponding quarter, and versus INR 1,177 crores in Q3 of financial year 2021. Our EBITDA has risen 41% to INR 204 crores, representing a margin of 16.3% versus 13% in Q4 of financial year 2020. Profit before tax prior to exceptional items is INR 110 crores versus INR 9 Cr while profit after tax, after minority interest, was at INR 43 Cr versus a loss of INR 45 crores in the corresponding previous quarter.

Coming specifically to the Hospital business in the quarter. We have seen revenue growth of 8% to INR 982 crores as a result of increase in elective surgery. And that has been largely across all specialties. While by over overall occupancy has remained the same in the quarter at about 64%, non-COVID occupancy has risen to 57% from 46% in Q3, also reflecting normalcy in the business. The increase in surgery revenue have led to a healthy ARPOB at INR 1.7 crores, a growth of 8% over the trailing quarter. Revenue from medical tourism in Q4 increased to 28.9% to INR 58.3 crores, versus quarter three of financial year 2021. While reported EBITDA margins are at 14.2% versus 12.5%, if you were to exclude certain one-offs and other income in the quarter, operating margins are 16.6% versus 11.9% in Q4 of financial year 2020, and 13.3% in quarter three of financial year 2021.

The Diagnostics business recorded its second consecutive quarter of INR 300 crores plus revenue, with margins of 22% versus 14.5% in Q4 of financial year 2020 and 23.9% in Q3 of financial year 2020. I am quite encouraged by the way this business has turned around, and it's showing healthy growth both in top-line and margins. The quarter performance was due to a

consistent increase in non-COVID test volumes, with the non-COVID business reaching 109% of pre-COVID levels of the corresponding previous quarter.

The B2C, B2B mix has also improved for us. We announced the completion of acquisition of 50% balance stake in our DDRC SRL joint venture, further consolidating SRL's presence in Kerala and increasing its B2C component. This acquisition in Q1 of financial year 2022 will be part of our full P&L rather than being shown as a share in associates previously. I will let Anand elaborate more on this acquisition and other aspects of business performance in his comments, following mine.

On the performance for the year as a whole, this would actually not be comparable as the first half of financial year 2021 was weak due to pandemic, which impacted the overall performance of financial year 2021. Financial year 2021 consolidated revenues were at INR 4,030 crores versus INR 4,632 crores in financial year 2020. EBITDA margins stood at 11.2% versus 14.3%. While profit after tax after minority interest was a loss of INR 56 crores versus a profit of INR 91 crores in financial year 2020.

The Hospital business revenue for financial year 2021 were at INR 3,124 crores versus INR 3,754 crores in financial year 2020, as a result of our occupancy declining to 55% versus 68% in financial year 2020, primarily due to a weak H1. EBITDA margins in the Hospital business were at 8.1% in financial year 2021 versus 12% in financial year 2020. But if you compare our EBITDA margins for H2 financial year 2021 versus H2 of financial year 2020, they were 15% versus 12.6%, signifying a better second half of financial year 2021, as I stated earlier.

The Diagnostics business has fared relatively better as compared to the Hospital in financial year 2021 as a result of increasing demand for COVID and non-COVID related tests, as also a faster rebound in non-COVID test volumes in the second half of financial year 2021. The business recorded revenue of INR 306 crores, a growth of 32% despite the challenging environment. COVID contribution to business revenue stood at 23% for financial year 2021. More importantly, the non-COVID business revenues have surpassed pre-COVID levels in the quarter.

Margins for financial year 2021 were at 19.3%, similar to the margins in financial year 2020. The business witnessed further expansion in its network, adding 500 collection centers and 2,100 direct clients, and 23.5 million destined for financial year 2021. The number of tests related to COVID, primarily RT PCR tests also increased many fold from mere 1 lakh tests in Q1 to over 6.5 lakh tests in Q4 of financial year 2021. For the year, SRL did over 1.7 million COVID tests.

On our balance sheet, we have managed to navigate successfully the difficult past year, both in terms of maintaining a healthy balance sheet and a comfortable liquidity position. Our net debt over the previous fiscal was down by INR 155 crores to INR 849 crores, representing a healthy net debt to equity ratio of 0.13x. More importantly, our net debt to EBITDA was at a robust 1.04x four Q4 versus 1.52x in financial year 2020. Our finance costs were also lower in financial year 2021 versus financial year 2020.

In addition to the above, the balance sheet was also further strengthened as a result of extension of our agreement with the three private equity investors in SRL. The exit option stated in the agreement was previously being shown as a short-term liability, is now reclassified as a long-term liability. Despite the challenges in financial year 2021, we have made progress on our plan for the growth and expansion, investments for bed expansion and new medical programs have gathered pace over the past two quarters. We remain on track for adding close to 1,300 beds over the next few years.

We launched a 250-bed state of art hospital in Chennai, our second in the city, and expanded our medical program offerings in selected facilities. For example, we launched a new endoscopy unit in BG road Bengaluru and a pediatric solid tumor clinic in FMRI Gurugram. We have also updated our medical equipment and some facilities, including among other things, commissioning of Central Mumbai's first Tesla Advanced Biometric MRI, and a dual energy Somatom Drive CT scanner in Bengaluru. To complement our expansion plans, we have also taken onboard eminent clinicians in a number of specialties, including those related to cardiac sciences, pulmonology and GI and hepatobiliary sciences. The above initiatives will be in tandem with a heightened focus on our digitization initiatives.

The pandemic has seen a significant uptick in tele and video consults, and the Diagnostics business has also witnessed a 2-to-3-fold increase in home collection revenues. We are progressing well on harnessing a number of Information Technology enablers to provide a seamless end to end healthcare value chain experience. Initiatives such as My Fortis and a common HIS across our facilities will provide a better experience to our patients. Internally too, we are utilizing global software such as Oracle Fusion and other business interface tools to enhance efficiency and productivity across the organization.

On the cost side, we have seen a number of measures undertaken in the year, including temporary voluntary salary reductions, deferment of new hiring and reduced G&A and sales and marketing expenses. Some of these, like voluntary salary reductions have been reinstated, beginning of Q3, but the others will continue to be closely monitored and reviewed. Pharmacy, consumables and other procurement metrics will also play a vital role in our cost saving efforts. All in all, cost optimization rather than cost saving will continue to be an important aspect of our performance metrics and business planning going forward.

Just to wrap up, I would like to reiterate that our strategy remains as is and our portfolio rationalization strategy and focus on selected geographies continues. The challenge of the past year have made us more resilient and vary of the need to adapt quickly, and be flexible in our ways of working, something that we have done very successfully in the past year. The pandemic has in fact made visible the deficiency in our healthcare infrastructure and the lack of it, also providing us an opportunity to make further substantial investments, expansion and growth in the future. Q4 has ratified our belief that the building blocks of the business are well in place and the company is aptly poised to capitalize on the opportunities available, both through organic

and inorganic growth engines once the current COVID wave abates, and the environment reaches normalcy.

With that, I would like to conclude my comments. I hope I would have given you a good flavor of our business performance in the quarter and year gone by. Thank you for your time once again. I wish you well and would now hand over to Anand for taking you through the highlights of the Diagnostics business. Anand, over to you.

**Anand K.:**

Thank you, Dr. Raghuvanshi. And a very good afternoon to everyone on the call. Personally, I hope that you are all safe and keeping well. On behalf of SRL Diagnostics, I warmly welcome you all to our Q4 FY 2021 results conference call.

In the year dominated by the pandemic, SRL Diagnostics became one of the first labs to bring critical COVID-19 testing to our country and delivered the maximum number of COVID molecular and serology tests in FY 2021, along with record revenues for the third and fourth quarter. As we close FY 2021, we are fully aware that the unprecedented challenges that none of us could have ever anticipated. However, all of us have risen to the occasion, and demonstrated extreme resilience and adaptability. I am very proud of how we at SRL have overcome every challenge to be there for our customers when they needed us the most. The pandemic has tested our nearly 6,000 employees, and they have responded as heroes by setting up COVID-19 tests, building test capacity, innovating new testing models with retail partners, collecting and transporting samples, delivering results and, of course, supporting our customers.

We finished the year as one of the country's leading providers of COVID-19 testing. During the fourth quarter, our total revenues grew by 32% to INR 305.7 crores as we continued to make progress on our two-point strategy to accelerate growth and drive operational excellence. Our business rebound in FY 2021 despite significant challenges and ongoing uncertainty across the industry. Except for the setback in Q1, for the nine months period from July 2020 to March 2021, SRL registered a revenue growth of 18% and an EBITDA growth of 48%. Our large network, coupled with operational efficiency, has helped us in testing 2.3 million COVID RTPCR samples across India, more than any other provider. This is a testament to our proactiveness and agility, along with the customer confidence we have earned. Our investments in building the strength of our frontline soldiers through regular trainings, along with enhancement of capacity has helped us immensely in our ability to deliver tests during the COVID surge and peaks.

After months of gradual uptick, we have achieved 10% growth in non-COVID revenues in Q4 and FY 2021 against Q4 FY 2020. We have also seen an increase in our non-COVID revenue contribution from 76% in Q3 of 2021 to 83% in Q4 of 2021, despite performing the highest level COVID RT PCR tests in Q4. During the quarter, we also saw growth in our direct-to-consumer services. Our preventive test offerings continue to resonate with our customers. We witnessed a

broad-based recovery and a growth of 28% in our preventive business segment during the Q4, when the pandemic was receding.

After receiving positive feedback from consumers on our smart plus health reports during the last quarter, we added more test packages to our smart portfolio, offering consumers a choice of understanding the reports themselves at a time when doctor consultations were not readily available. Our focus on investments on digital platforms have also begun to yield results. During FY 2021, we saw more and more people booking tests online for home visits. In the last quarter, we saw an acceleration in the number of consumers signing up for our mobile app. Today, roughly 3.3 million patients have an SRL Diagnostics mobile app. In Q4 alone, we saw 2 lakh app downloads.

Understanding the needs of our consumers during these unprecedented times, we also scaled up our home collection services to serve more and more patients through a home visit model considering their safety. As a result, our home collection visits increased by 2.5x compared to Q4 FY 2020. Today, SRL is offering home collection services in 90 cities, districts across the country. In Q4, 70% of our home visits were for non-COVID tests. Furthermore, we are leveraging technologies such as AI tools and chatbot to respond to simple queries like rescheduling, order status, report status, etc., thereby improving the customer experience.

Demand for COVID-19 testing slowed in the quarter, reflecting an industry-wide trend. However, by the end of the quarter, there was a massive surge in testing as a second wave spread across the nation. We conducted 6.5 lakh COVID tests in Q4 versus 5.9 lakh tests in Q3. Our total tests were approximately 7.6 million during Q4 of FY 2021, which is a growth of 13.7% versus Q3 FY 2021. And our average revenue per test increased by 18% versus Q4 of FY 2020, driven largely by COVID related tests.

In the area of capacity and network expansion, we started testing for COVID-19 in two of our reference laboratories in Gurgaon and Mumbai. And over a period of six to nine months, we opened 15 RT PCR labs across the length and breadth of the country. Not only in India, but we are also serving customers internationally for COVID related tests. Our CAP accredited lab in Dubai is now certified to carry out COVID-19 RT PCR tests in the city. With the second day hitting villages in India, we plan to increase accessibility and improve turnaround time in semi-urban and rural areas by adding five more RT PCR labs, along with more drive-through sample collection sites across the country.

We continue to serve close to 20,000 doctors and 11 million patients through our network of 2,257 customer touch points. In FY 2021, we added 498 new collection centers to our network. And we added 128 collection centers in Q4 itself. With our stringent focus on quality and compliance, we have 48 NABL accredited labs in our network, the highest for any lab chain in this country.

On the M&A front, I am happy to announce that our company's shareholders have approved the acquisition of the balance 50% stake in DDRC SRL Diagnostics Private Limited, and the same has been successfully completed in April 2021. This acquisition consolidates SRL's leadership position as the second largest diagnostic player by revenue, and the largest path lab chain with highest number of labs in the country. Earlier, South India was our weakest link. But with this acquisition, we have considerably improved our market share in South India, and we become the largest player in South India and a true pan India player with equitable distribution across all geographies.

Our FY 2021 results confirm the strength and resilience of our people and the confidence and loyalty of our customers towards our brand. We have defined a clear path for profitable growth and we continue to execute our vision, focusing on building deeper strategic relationships with our customers, providing the best quality service, robust partner ecosystem, strategic investments in capabilities, and constantly future-ready talent. And as we enter the next fiscal, we remain optimistic that SRL would exhibit progressively better performance and add value for all our stakeholders.

As the market environment continues to be dynamic with promising news of COVID-19 vaccination drive on one side, and the risks of the resurgence of infection on the other, we are evaluating and responding to it carefully. I am proud of what we have achieved and optimistic about what we can accomplish in FY 2022. I would just like to once again thank all my colleagues at SRL Diagnostics for an incredible effort.

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

**Anurag Kalra:** Thank you, Anand. Ladies and gentlemen, that was quite a detailed perspective on both the Hospitals and the Diagnostics business. We had also sent across the investor presentation day before yesterday, I hope most of you would have got a chance to go through it. We would like to now open the floor for question and answers.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of A Desai from York Capital. Please go ahead.

**A Desai:** Hope everyone's safe. And again, thank the management team for all the work over the last few quarters, both for the healthcare infrastructure of the country and the shareholders. I guess two questions from my side, A, wanted to do get the initial views of how the second COVID wave has impacted our two core businesses, both on the Hospitals and Diagnostics side, in terms of occupancy in both COVID, non-COVID and in terms of sort of pricing, etc. what we have been seeing so far in April and May? And I will ask the second question after.

**Ashutosh Raghuvanshi:** Yes. So, as far as the second wave is concerned, it has been very different from the first, in the sense that overall occupancy figures did not drop that much because the lockdowns were not so



severe. And the second thing is that the hospitals were better prepared, the doctors and the frontline workers are immunized, the protocols are more standardized. And as a result of that, the overall occupancy numbers have remained static. Of course, the elective work was not there. However, that got partly compensated by a higher occupancy on the COVID side.

As far as the pricing is concerned, there were certain price control measures which were put in place by the government authorities in various states during the first wave of pandemic. Most of those are still in force, and that continues as we speak. However, the costs have been aligned over a period of time. And as a result of that, I think there is a kind of a healthy sort of mix of both COVID and non-COVID work. As far as Diagnostics is concerned, I will ask Anand to add to what I said.

**Anand K.:**

So, as far as Diagnostics is concerned, during the second wave, as Dr. Raghuvanshi told, compared to the lockdowns of last year, the lockdowns have been less severe this year. But still, as we all know, when there is a COVID pandemic that's happening when the surge happens, the non-COVID business proportionately drops because more and more people would be concerned about visiting centers and also will be not visiting more doctors. So, naturally, the non-COVID part sort of tends to calm down, but it gets compensated by the increase in COVID and COVID related requirements for testing.

**A Desai:**

Got it. Thank you so much. I guess the second question from me is more on the long-term side. I mean, over the last two plus years since we have had the current management takeover, I think you guys have done an amazing job at stabilizing the business, turning around some of the key hospitals. And now, also financially turning around the company with net debt to EBITDA now almost at 1x, right. So, I just wanted to understand, is it the time that we start refocusing on growth and step up on CAPEX? And if so, what would be our strategy over there when it comes to addition of beds, brownfield CAPEX, greenfield CAPEX, etc.?

**Ashutosh Raghuvanshi:**

So, you are right, the company is well poised for a growth phase. However, we still have certain issues to resolve in terms of our legal cases, etc. Now, we had already highlighted our growth plan within the existing setups. So, this like partly organic kind of growth, and also some capacity enhancement within the existing hospitals, which would be 1,300 beds. So, that is very much on track. There was a delay of about five to six months because of the COVID impact. However, all those plans are very much intact, 250 beds hospital in Chennai is already commissioned out of this. And all other projects are also online. So, we should see that capacity coming online over the next two to two and a half years. Other than that, I think we are well poised for considering inorganic growth as well. So, as our situation becomes clear over the next two to three months, we are going to create a larger expansion plan for the organization.

**Moderator:**

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

**Neha Manpuraia:** My first question is in the Hospital business EBITDA margins; we are already close to about 17%. Sir, you mentioned that, obviously, the cost optimization focus is there, but now, I mean, what are the additional levers that we have to improve this margin from the current level, given rationalization is done, is there any divestment of certain assets that you could look at, is it specialty mix, payor mix, if you could highlight three or four things that will move the margins from the current levels?

**Vivek Goyal:** So, I think we have taken a lot of measures to control the costs, and that are yielding results. But there is a little bit more needs to be done and we are targeting that also in the forthcoming year. Having said that, the payor mix is something which we are working on. So, still, our government business is contributing around 18% to 20% to the total Hospital business, credit business I will say. So, we are trying to convert it into the more cash and TPA business. In the fourth quarter, you might have seen the presentation that TPA business has grown substantially, and we expect this further to grow. And as our international business come online, I think that will further improve the payor mix in favor of higher ARPOB and things like that, and that will lead to the higher margins. So, that is second area we are targeting apart from cost. And third is, of course, what you have touched upon there are certain assets which are underperforming, so we are working on them. They have started showing results. And because of pandemic this is a little bit of delay but it is very much on target, and we are quite hopeful that those assets will also start performing well.

**Neha Manpuraia:** Sir, if I were to look at the hospital maturity table that you have put in your presentation for the fourth quarter and compare it with a similar table I think you had given last year, based on that table, 60% of our revenue is already having margin over 20%. In which case, will the incremental delta be enough from the remaining 40% of the revenues to move margins? Or just trying to understand where will the margin improvement come from, from the current levels?

**Vivek Goyal:** So, Neha, there is a substantial scope if you see that table. In the 15% to 20% there are four hospitals, and those hospitals should be moving towards 20%, 25% EBITDA margin. And if you see, six hospitals are contributing around 10% of revenue, they are below 10%. And some of them are on negative EBITDA margins. So, there is definitely scope in that. And these are the hospitals which I am talking about, where we are focusing to improve the performance by cost cutting and other measures.

**Neha Manpuraia:** Understood. And my second question is on the inorganic growth that we mentioned, what geographies would we be considering for this inorganic growth, a little bit on our strategy there?

**Ashutosh Raghuvanshi:** Neha, our strategy has always been very well defined as far as the geographical expansion is concerned. We want to remain focused in the clusters where we are already present, or we have an ability to become a dominant player, because otherwise the advantages of having a cluster or a network doesn't count. So, we will continue to remain focused in the areas and geographies we are currently operating.

- Moderator:** Thank you. The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.
- Rakesh Jhunjhunwala:** Congrats on a good results. Sir, how many number of operating beds do we have at the moment, including the new hospital in Chennai?
- Ashutosh Raghuvanshi:** 3,900 approximately.
- Rakesh Jhunjhunwala:** No, how many beds, how many number of beds we have.
- Ashutosh Raghuvanshi:** 3,900.
- Rakesh Jhunjhunwala:** And you said you want to do expansion of 1,300 beds organically?
- Ashutosh Raghuvanshi:** So, 1,300 beds within the existing hospitals. This includes the 250 beds of Chennai, which is already commissioned, and the rest of the beds are in Noida, Shalimar Bagh, BG Road, Bangalore and also in FMRI hospital, and Faridabad hospital.
- Rakesh Jhunjhunwala:** So, these will be approximately 50 to 100 beds when you complete the expansion?
- Ashutosh Raghuvanshi:** That's correct.
- Rakesh Jhunjhunwala:** And what is the cost of the expansion approximately?
- Vivek Goyal:** It will be in the range of INR 800 crores to INR 900 crores, because these are all our existing hospitals, so there is no land cost involved.
- Rakesh Jhunjhunwala:** And sir, in the Diagnostics business, this Kerala company which you have taken out, what was the turnover of that company?
- Anand K:** The turnover of the company, last year in 2021 was INR 303 crores.
- Rakesh Jhunjhunwala:** We should add about INR 175 crores to our turnover this year?
- Vivek Goyal:** Not really, because it is 50% joint-venture, so we were not consolidating 50%.
- Mangesh Shirodkar:** And sir, this year was an abnormal year, there has been a lot of COVID. The normal revenues in FY 2020 was INR 160 crores, so INR 160 crores can be a good base.
- Rakesh Jhunjhunwala:** No, sir, I am a little confused. While consolidating the Kerala company in the Diagnostics business, you are only taking the profit or loss?
- Vivek Goyal:** We were not consolidating; it was shown as a share in the joint venture in the P&L only. So, we are not consolidating line by line, because we were only having 50% shareholding there.

- Rakesh Jhunjunwala:** And what is the turnover we envisage in the current year in the Kerala business?
- Anand K:** INR 303 crores for FY 2021.
- Vivek Goyal:** So, what sir is saying, INR 303 crores in the current year, which includes abnormal turnover because of the COVID related revenue of around INR 100-odd crores.
- Rakesh Jhunjunwala:** That means even if your turnover remains at INR 300 crores, your Diagnostics business will still add a turnover of INR 300 crores this year?
- Anand K:** Right.
- Rakesh Jhunjunwala:** Second point I had is, some of the other Diagnostics businesses are having EBITDA margins of between 35% and 40%. Do you think we can go there and in what time period?
- Anand K:** Normalized EBITDA margins for diagnostic companies have been between 24% to 28%. And there were abnormal margins this year, mainly because of high volumes in COVID and COVID related tests. So, we are currently in the quarter four also we have reached 22%. So, we should be able to move into this kind of margins in the next two to three years. But at the same time, we also have to note that we already have a capacity with the largest number of labs in our network. And since we have the capacity, so it's a question of improving our utilization of this capacity, which will help us grow faster, because our fixed costs are already taken care of, and it will add to our margins.
- Rakesh Jhunjunwala:** And are you making special efforts to the B2C business?
- Anand K:** Right, we are doing that. So, we were previously in the last year we were at 42% B2C contribution in your FY 2020. So, we have increased it to 44% this year. So, we are poised to take this to 48% to 50% in FY 2022.
- Rakesh Jhunjunwala:** And what is your salient feature of the agreement with the private equity investors?
- Vivek Goyal:** If I can answer that, sir. So, the private equity investor had come long back, so we have renegotiated the entire thing. So, now what we have agreed is that we have to provide a sort of listing of this instrument in the next few years of time. If we are unable to provide listing of this then they have the right to put on the company. So this is in nutshell.
- Rakesh Jhunjunwala:** And how will you calculate the value of the PUT?
- Vivek Goyal:** So, value of the quote is typically the company valuation we have done which is the market multiple and the DCF value based on the future projection.
- Rakesh Jhunjunwala:** So, there is a definitive provision in the agreement while calculating the values?

- Vivek Goyal:** Yes, fair market value. The agreement says fair market value based on which only.....
- Rakesh Jhunjhunwala:** Sir, I understand fair market value, but do you calculate the fair market value?
- Vivek Goyal:** So, is it based on the fair market valuation calculated by independent third party experts. We have defined experts which is basically Big 4 type of valuers.
- Rakesh Jhunjhunwala:** Okay. Sir, thank you very much. And once again, congratulations on a good performance, hope many more to come I am confident. Thank you, God bless.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs Please go ahead.
- Shyam Srinivasan:** Just the first on the competitive dynamics, and if you can just link it to maybe occupancy for April and May, where are we in terms of occupancy? Some of the peers are talking about 80%, 90% occupancy. So, just want to understand how Fortis network is shaping up.
- Anurag Kalra:** Shyam, in the month of April, obviously, COVID was at its peak. So, if you look at the chart also that we have shown in the presentation, COVID occupancy jumped from almost 12% to about 25%, 30% in the month of April, but at that point in time we saw a marginal dip in the non-COVID occupancy, obviously, because as COVID cases were going up. May was different, this continued till about mid-May, and from mid-May onwards what we have seen is, as Dr. Raghuvanshi was also mentioning in his comments, early but encouraging signs of dip in COVID cases and traction coming in the non-COVID occupancy. So, we do expect that if that trend continues, we should kind of recover well in the short to medium-term. But for the month of April, the numbers that we have is that COVID was at about 30% odd and non-COVID was at about 40%, so overall occupancy in the range was about 68% to 70%.
- Shyam Srinivasan:** Got it. Just a related question on competitive dynamics, and we saw the ARPOB being relatively higher this quarter, I am talking about Q4. But how should we look at it on a fiscal 2022 basis? What are some of the levers on ARPOB that we have? Is it got to do only with mix or do you think there is a scope to increase price?
- Vivek Goyal:** So, ARPOB, we expect continue to show upwards trend. This ARPOB should not be competing quarter four because what happened in COVID generally is the severe cases generally comes to the hospital and which would generally provide higher ARPOB. So, in normal basis, we expect that ARPOB to remain at around INR 1.5 crores type of a number.
- Shyam Srinivasan:** And would this include any element of price increase, or you think I am just referring to what are some of the levers on ARPOB that we have? Is it mix or is it price?

- Vivek Goyal:** It is mix of both actually, so we are targeting certain price increases wherever it is possible. Plus, as I explained earlier, the payer mix will change and also the facility which will lead to higher ARPOB.
- Shyam Srinivasan:** Thank you. Second question is on some of the different hospital assets, and the margin matrix is quite good to see. But I was just looking at FMRI, and even now Y-o-Y, some of the top hospitals are still struggling. Would that be a function of international patients or is there certain other dynamics that are happening in, say, FEHI and FMRI, they still are declining Y-o-Y in the Q4 quarter.
- Vivek Goyal:** FMRI is clearly attributed to the fall in the international patient. They have recovered quite well, actually they are doing much better in the domestic business than they were doing earlier year, pre pandemic level I am saying. So, they are recovering quite well actually. And once the international business comes, they will be showing much better results than even the earlier ones. So, FMRI is clearly that thing. The other hospitals which are main heart center, so where cardiac business and ortho business generally impacted much in the COVID time. And the hospitals who are doing higher volume in these two specialties, they are generally showing lower revenue and margins in the COVID period. So, as things become normal, these hospitals will also start showing better numbers.
- Shyam Srinivasan:** Thank you. And my last question is on the acquisition in Kerala. So, starting first April this is going to come through. So, in 1Q when you report you will have these numbers coming through, right? So, just want to understand the revenue you have given us, some sense of COVID, non-COVID, but where are the margins and how should we look at the margins for fiscal 2022 for that Kerala piece?
- Anand K:** Margins for Kerala will be similar to our SRL margins. Because as you see, in the last year we had a higher ARPT for the COVID test in Kerala because they have not enforced a price cap for a long time. So, that price cap has been enforced from this fiscal year. So, you will find that they are under similar levels like our rest of the business.
- Shyam Srinivasan:** Sir, I was just trying to break it down quarter wise, is it like INR 50 crores to INR 60 crores revenue? And is it like INR 20 crores, INR 25 crores EBITDA, would that be how we should think about? Just ballpark if you can help us understand.
- Anurag Kalra.:** So, Shyam, I think what you should take is about roughly ballpark about INR 200 plus odd crores, with margins that are in tune with SRL margins. SRL did about 20%, 21% margin, so somewhere in that ballpark.
- Moderator:** Sure. So, the next question is from the line of Prateek Mandhana from Nomura. Please go ahead.
- Prateek Mandhana:** Sir, firstly, I would like to understand on the vaccine opportunities that currently we have. So, can you please elaborate a bit on the margins and the kind of capacity that we have?

- Ashutosh Raghuvanshi:** Yes. So, currently we have a capacity of doing about 6 lakh vaccinations per month, and we have a visibility on the supply side. Now, the biggest issue with vaccination is the constraint on supply, and we can easily double then what we are doing currently, which is about we can go up to 12 lakhs a month as well. But we don't have visibility on supply to that level right now. But we have clarity with the three vendors now. We have the Serum Institute vaccine, we also have the Bharat Biotech vaccine and we also have an agreement with the Sputnik vaccine from next month onwards. So, we think the capacity constraint is only on the supply and not on the capacity to inoculate.
- Prateek Mandhana:** And sir, on the margins bit, what kind of margins or what kind of revenues can we make on the vaccine?
- Ashutosh Raghuvanshi:** So, vaccine is a very controlled business, margins you can have is determined by the authorities. So, there is a very limited scope of increasing the price over there at all. So, however, it will reduce some degree of margin. Revenue, of course, is going to be significant, but I don't think this is a business which is going to produce a very large profitability.
- Prateek Mandhana:** Okay, thank you. And on the COVID ARPOB bit, I understand that the COVID ARPOB is lower than the overall company's ARPOB. So, can you please specify how much lower is it? And is this different from last year's ARPOB? Because a lot of more patients were more critical than last year.
- Vivek Goyal:** ARPOB will be similar to the last year, around INR 1 crores is the average number you can take for the COVID.
- Prateek Mandhana:** Okay. And sir, one more bit on the diagnostic bit, we have added around 500 collection centers, right, this year? And then we added around 400 last year. Is there any change in strategy that we have done, because I think in FY 2018, 2019 we did not have much collection centers. So, is there any change in the strategy for SRL?
- Anand K.:** As far as adding collection centers are concerned, that is one of our primary strategies in terms of network expansion and building our hub and spoke model around our labs. And when we are focused on cost optimization, one of the key aspects is improving our capacity utilization in our labs. So, naturally, we are looking at clusters around our existing labs where we can create more number of collection centers so that the capacity at the lab can be utilized. So, with that focus, we are driving more collection centers.
- Prateek Mandhana:** So, what is the right metric to look at, like collection centers for lab, what is the optimal level? Are we there?
- Anand K.:** Yes, we are currently averaging about somewhere around 10 lakhs to 11 lakhs per lab. So, we are hoping to reach somewhere around 15 lakhs to 16 lakhs in the next two years, that's what we

are looking at. Since our network of labs is quite high, so we are looking at reaching that kind of numbers.

**Moderator:** Thank you. The next question is from the line of Shantanu Basu from SMIFS Limited. Please go ahead.

**Shantanu Basu:** Just wanted to clarify with regards to the vaccination revenue. So, it's my understanding correct that the administration charge that you get from the vaccine, I mean, that would be your net revenue and that would also be the total margin or approximate highly to the total margin from this business? So, what is the charge that you levy? And I mean, where is this revenue getting booked, is it getting booked in the diagnostic side or in the hospital side? If you can clarify these nuances, that would help a bit.

**Vivek Goyal:** Yes. So, the revenue will you booked in the Hospital business only, not in Diagnostic. And the revenue will be booked at the price we are charging to the customer, which include the vaccine cost plus the administrative cost. So, administrative cost will be after the expenses we incurred in the net margin. As Dr. Raghuvanshi has mentioned, it is not a business from the profitability perspective we are looking at, this is more of a community connect perspective we are looking at definitely.

**Shantanu Basu:** So, what would be the administrative cost, net administrative cost that is coming to you? I mean, if I can understand that.

**Ashutosh Raghuvanshi:** So, the different administrations have specified as to what that number could be. It ranges from INR 150 to INR 300. And our estimate is that about 25% of that is the actual cost of labour and other infrastructure needs.

**Shantanu Basu:** So, if I take a ballpark figure of INR 200 per dose, approximately 75% of that INR 200 would be accruing to your margins?

**Ashutosh Raghuvanshi:** No, you should consider about INR 200 and not INR300.

**Shantanu Basu:** Yes, that's what I said, INR 200. So, INR 200, and if I consider 75% of INR 200, that would be accruing to your margins, right sir?

**Ashutosh Raghuvanshi:** Yes.

**Shantanu Basu:** And you are planning to do around 6 lakh doses per month, and one can assume this will be there for the next few years, obviously, right, for this whole financial year?

**Ashutosh Raghuvanshi:** We cannot say the whole financial year, but certainly till December it should be like that.



- Shantanu Basu:** Okay, thanks for the clarification. And my second question is with regards to the ARPOB. So, I mean, what would be the total non-COVID ARPOB in Q4 that you last reported and in Q1, that is the ongoing quarter?
- Vivek Goyal:** ARPOB for non-COVID is 1.8 for the non-COVID for this current quarter.
- Shantanu Basu:** And this is for Q4 or Q1?
- Vivek Goyal:** Q4. And 1.7 around for the corresponding quarter last year.
- Moderator:** Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.
- Sanjay Shah:** Doctor, thanks for giving us a flavor of our company performance and prospects. Sir, my question was regarding the payor mix, which we have seen more tilting towards TPA. So, can you help us to know what materially it impacts our revenue, margins and receivables?
- Vivek Goyal:** So, TPA, as you might be aware that are good paymaster. So, generally, the credit period in TPA is below 50 days, as against government channel sometimes it goes beyond 120 days also. So, it is substantially benefited from the cash flow perspective. Their revenue also in terms of the rack rate, the government business is generally 20% to 30% cheaper than the TPA, so that leads to the higher margin to that extent.
- Sanjay Shah:** Sir, we have decided to rebrand name of Fortis to Parkway. So, what is the progress on that side?
- Ashutosh Raghuvanshi:** So, as I said, that depends on the outcome of the Supreme Court case. We expect that by July we should resolve that. So, we are well prepared to make the changeover, but of course, it is subject to the legal approval.
- Sanjay Shah:** Sir, it has been known that we are the leader in this complex tertiary care. So, can you highlight upon how that business is going? I understand about COVID, but how do you see future ahead from that?
- Ashutosh Raghuvanshi:** Yes. So, always we have focused on tertiary care and that remains our focus. So, as soon as the recovery happens over here, there is going to be a recovery on the non-COVID work. We have seen that happening after the first wave, and we expect that this time that will be slightly quicker. But long-term, obviously, our focus is on these specialties like oncology, cardiac, orthopedic, GI and organ transplantation, etc. We have made certain investments in infrastructure in terms of new LINAC machines are being installed in Bombay and also in Bangalore. We last year had commissioned the new radiation oncology suite. We are adding further facilities to FMRI as well and we have sort of upgraded our facilities in Shalimar Bagh oncology center as well. So, these are the areas where we will see growth coming from.

- Moderator:** Thank you. The next question is from the line of Rishabh Parekh from Sunidhi Securities. Please go ahead.
- Rishabh Parekh:** Sorry, I missed the normalized ARPOB number that you all gave earlier in the call. My question was coming from the fact that Q4 FY 2020, the company level ARPOB was about 1.62 versus 1.7 in Q4 this year, despite COVID not being there last year and the surgical and non-surgical mix remaining the same. So, did we take price increases on our non-COVID procedures this year to justify the higher ARPOB?
- Vivek Goyal:** Not really. So, I explained, actually I will again explain this particular point. In COVID period, generally the critical patient generally comes in the hospital, and the volume of critical patients versus non-critical goes up, which results into the higher APROB, that is the main reason. And if you see our specialty mix, the oncology business actually has done better as compared to other mix and where generally the ARPOB is generally higher. So, that is the main reason for the increase in the ARPOB in the non-COVID sapce.
- Ashutosh Raghuvanshi:** So, we did not have any pricing changes in last year.
- Rishabh Parekh:** Okay. INR 1.7 crores, is this run rate sustainable over the next year?
- Vivek Goyal:** Yes, it will be sustainable. As I said, we are expecting to improve the payer mix also, with more international patients and the more TPA business, I think we will be able to sustain this.
- Rishabh Parekh:** And also just want to clarify, on the DDRC bit. Currently, the EBITDA that was reported is INR 61 crores operating EBITDA in the Diagnostics business for this quarter does not include anything from DDDRC, is this understanding correct?
- Anand K:** Right.
- Moderator:** Thank you. The next question is from the line of Ritesh Rathod from Nippon India Mutual Fund. Please go ahead.
- Ritesh Rathod:** You mentioned by July you will receive approval from Supreme Court for the brand change, or is it overall you expect the Supreme Court case to get cleared by July? Can you clarify that sir?
- Ashutosh Raghuvanshi:** Not specifically for brand, we expect the Supreme Court resolution happening in July, because the hearing has been concluded. So, hence, we expect that at some point of time the orders will be passed in the case. Since the court is in vacation right now and it opens in July, so our estimate is that July may be when we would hear from that.
- Ritesh Rathod:** And given you would have access to the arguments from both sides, multiple parties which are there in this case, are you more confident than what you were before the start of the arguments or the start off the hearing in terms of your....?

- Ashutosh Raghuvanshi:** Yes. See, we have always been very confident because that we have a strong case, because these issues are primarily between the ex-promoters of the company and Daiichi. We as an organization have nothing to do with it. And as a matter of fact, we have been kind of a victim in this whole exercise. So, since we have nothing to do with that case, that is why we are pretty sure or confident rather that we will have a favorable outcome. However, that is subject to so many other factors.
- Ritesh Rathod:** And in terms of the legal charges and the expenses which will be there in the P&L specific to this thing, at overall FY 2021 level how much would be that which may not recur once we are over through it? What will be the absolute number?
- Vivek Goyal:** So, we have provided around the INR 15 crores for meeting various contingencies on various legal cases going on for the company. And this is more of a conservative approach we have taken. And you might have noticed the qualification which we were carrying, which was there by auditors relating to these investigations and these various cases, has moved out. So, this is just for that purpose. And in all probability, that provision may not be required, because we feel that the company is victim of all those things and no wrongdoing can be attributed to the company. So, our entire amount may be written-back post the settlement of all these issues.
- Ritesh Rathod:** And the lawyer expenses and all other expenses will be part of this INR 15 crores or that expense will be over, and above which may not recur in coming year?
- Vivek Goyal:** No, that is separate.
- Ritesh Rathod:** What would be that amount which may not recur sometime in FY 2023 or FY 2022, two years hence, assuming we are out on this thing?
- Vivek Goyal:** So, it is different for different cases. In a year, we are incurring around Rs. 15 crores as a lawyer fees because of the various cases. So, that we expect in the current year also a portion will come till these cases are going on. Supreme Court is one of them, but there are some other cases also, like SEBI has shown show cause notice and there are there are other cases also.
- Ritesh Rathod:** And what impact it will have on your ability to raise fund or any other impact which you will have once we are out of this and we have change of brand name? Like, are there any constraints in terms of fundraising or the rate at which we are raising funds, credit rating, anything else where it will benefit us?
- Vivek Goyal:** Yes, definitely. Because right now our rating is constrained because of this Supreme Court thing. And once the Supreme Court thing is settled, we expect our financials to get much better rating what we are getting currently. At present, we are paying interest rate of around 7.5%. We expect this would come down by 50 basis point towards this thing.



*Fortis Healthcare Limited  
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**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the Fortis management for closing comments.

**Anurag Kalra:** Thanks, Janice. Thank you everyone for being on the call with us today. In case of any follow-up queries or questions, my colleagues and I are available to take them. Please stay safe and we wish you well. Thank you and have a good day.

**Moderator:** Thank you. On behalf of Fortis Healthcare, that concludes this conference. Thank you all for joining. You may now disconnect your lines.